



# **FORM 10-K**

## **RADISYS CORP - RSYS**

**Filed: March 06, 2009 (period: December 31, 2008)**

Annual report which provides a comprehensive overview of the company for the past year

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

For the fiscal year ended December 31, 2008

Or

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

For the transition period from

to

Commission file number 0-26844

**RADISYS CORPORATION**

(Exact name of registrant as specified in its charter)

**Oregon**  
(State or other jurisdiction of  
incorporation or organization)

**93-0945232**  
(I.R.S. Employer  
Identification Number)

**5445 N.E. Dawson Creek Drive**  
**Hillsboro, OR 97124**  
(Address of principal executive offices, including zip code)

**(503) 615-1100**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

**Common Stock, No Par Value**  
(Title of each Class)

**The NASDAQ Stock Market LLC**  
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates (based upon the closing price of the NASDAQ Global Select Market on June 30, 2008 of \$9.06) of the Registrant at that date was approximately \$162,140,460. For purposes of the calculation executive officers, directors and holders of 10% or more of the outstanding common stock are considered affiliates.

Number of shares of common stock outstanding as of March 3, 2009: 23,288,842

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

RADISYS CORPORATION

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**Item 1. Business**

**General**

RadiSys Corporation is a leading provider of advanced embedded solutions for the communications networking and commercial systems markets. Through innovative product planning, intimate customer collaboration, and the combination of innovative technologies and industry leading architecture, we help original equipment manufacturers (“OEMs”), systems integrators and solution providers bring better products to market faster and more economically. Our products include embedded boards, application enabling platforms and application-ready systems, which are used in today’s complex computing, processing and network intensive applications. Unless context otherwise requires, or as otherwise indicated, “we,” “us,” “our” and similar terms, as well as references to the “Company” and “RadiSys” refer to RadiSys Corporation and include all of our consolidated subsidiaries.

**Our Markets**

We provide application enabling solutions to the following two distinct markets:

- **Communications Networking**—The communications networking market consists primarily of networking infrastructure and applications for deployment within the wireless and IP networking and messaging markets. Applications in these markets include 2, 2.5, 3, and 4G wireless infrastructure products, IP media server platforms, packet-based switches, unified messaging solutions, voice messaging, multimedia messaging, video distribution, network access, security and switching applications.
- **Commercial Systems**—The commercial systems market consists primarily of embedded solutions for the medical imaging, test and measurement, industrial automation and military submarkets. Specific applications include:
  - **Medical Imaging:** X-Ray machines, MRI scanners, CT scan imaging equipment and ultrasound equipment;
  - **Test and Measurement:** network and logic analyzers, network and production test equipment;
  - **Industrial Automation:** distribution automation, electronics assembly and semiconductor manufacturing equipment.

**Market Drivers**

We believe there are a number of fundamental drivers for growth in the embedded solutions market, including:

- Increasing desire by OEMs to utilize standards-based, merchant-supplied modular building blocks and platforms to develop their new systems. We believe OEMs are combining their internal development efforts with merchant-supplied building blocks and platforms, from partners like RadiSys, to deliver a larger number of more valuable new products to market faster at a lower total cost.
- Increasing usage levels of general purpose technologies, such as Ethernet, IP, Linux, media processing and central processing units (“CPUs”), graphics processing units and network processing units (“NPU’s”), to provide programmable, intelligent and networked functionality to a wide variety of applications, including wireless, wireline and data communications, network security, image processing, transaction and monitoring and control.
- Increasing demand for standards-based solutions, such as Advanced Telecommunications Computing Architecture (“ATCA”), IP Multimedia Subsystem (“IMS”), Computer-on-Module Express (“COM Express”), and Session Initiation Protocol, which motivates system makers to take advantage of proven and validated standards-based products.

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- Continued emergence, growth and evolution of applications utilizing long term evolution (“LTE”) and worldwide inter-operability for microwave access (“WiMAX”), both of which are supported by ATCA.

### **Our Solutions**

We provide our customers with standards-based and custom advanced embedded solutions that enable them to focus their resources and development efforts on their key areas of differentiation and allow them to provide higher value systems with a time-to-market advantage and a lower total cost.

Key benefits of our solutions include:

*Leading, high-performance technology.* We have been the first to market with many technological advancements such as the industry’s first 10-Gigabit common managed platform, and we are a leader in areas such as IP conferencing and COM Express new product development. Our design capabilities extend to CPUs, NPUs, digital signal processing and integrated software managed platforms, such as media and application servers, as well as many other areas.

*Deep pool of technical resources.* Our research and development staff has extensive experience in designing embedded hardware and software solutions. Our customers benefit from the broad array of standards-based solutions that our research and development staff continues to develop and support, as well as our staff’s experience in designing perfect fit solutions for our customers.

*Reduced time to market.* We offer standards-based, ready-made solutions such as ATCA-based solutions for the communications networking market and COM Express solutions for the commercial market. These standards-based solutions combined with our strong technical resources provide our OEM customers with more flexibility and reduced time-to-market than if they developed these solutions internally.

*Broad portfolio of embedded solution products.* Our product lines include a large portfolio of embedded solutions, integrated platforms and application-ready systems. Our product portfolio allows us to address a range of customer requirements and applications. We believe that over time many of our customers will increasingly rely on a smaller set of vendors who can address a broader set of their embedded solution needs.

### **Our Strategy**

*Build market leadership in standards-based advanced embedded solutions in our target markets.* We believe this strategy enables our customers to focus their resources and development efforts on their key areas of competency allowing them to provide higher value systems with a time-to-market advantage and a lower total cost. We are currently one of the leading vendors in ATCA, IP Media Servers as well as COM Express embedded solutions. We intend to continue to invest significant research and development and sales and marketing resources to build our presence in these market segments.

*Develop our offering of higher value platform solutions.* Historically, the majority of our revenues have been from the sale of stand-alone boards or blades. While we will continue to focus on these products, we have spent considerable resources developing application-ready platform solutions that incorporate complete hardware systems as well as embedded software developed by us or third parties. These platforms provide an additional revenue opportunity for us, and we believe revenues from these products have the potential to generate higher average selling prices and higher gross margins than those provided from the sale of boards or blades alone.

*Expand our global customer base.* We continue to expand the number of customers that we work with, particularly as more customers become aware of the benefits of standards-based embedded solutions. Our global reach allows us to market our solutions to most leading system vendors in our target markets. In addition, our acquisitions of Convedia Corporation (“Convedia”) and certain assets of the Modular Communications Platform Division (“MCPD”) business from Intel Corporation (“Intel”) provide us access to additional customers to whom we intend to market our full product line.

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*Explore new partnerships and strategic acquisitions as a means to build leadership in our target markets.* We continue to investigate partnerships and strategic relationships which can expand the number of solutions we offer and increase our market reach. We also continue to evaluate potential acquisition opportunities to acquire new capabilities, which can help us achieve our strategic goals. For example, in the last two years, we acquired Convedia, a closely-held vendor of IP media servers, and certain assets of the Intel MCPD business, which included ATCA and compact peripheral component interconnect (“PCI”) product lines.

## **Products**

We design and manufacture a broad range of products at different levels of integration:

- complete application-ready platforms for communications networking such as 10G (Gigabit) ATCA platforms and carrier grade media servers (“Media Servers”);
- embedded subsystems and functional platforms using ATCA, COM Express and customer-specific proprietary platforms;
- compute, input/output (“I/O”), storage, inter-networking media processing and packet processing solutions; and
- software and firmware specific to the aforementioned hardware that includes intelligent platform management interface (“IPMI”) and hardware platform interface (“HPI”) for platform management. We also make all the necessary modifications to 3rd party software, including basic input output system (“BIOS”), embedded operating systems, protocol stacks and other requisite software, to provide a platform for our customer’s use.

We have specific technical expertise in the following areas:

- system architecture, design and integration;
- software, hardware and platform development;
- embedded operating systems;
- microprocessor-based design;
- network processor-based design;
- media processing;
- fault-tolerant design;
- digital signal processor-based design; and
- signaling protocols.

Our products fall into two different categories: standards-based solutions and perfect fit (custom) solutions.

*Standards-based Solutions.* As a Premier Member of the Intel® Embedded and Communications Alliance, and as a long-time member of the PCI Industrial Computer Manufacturers Group (“PICMG”), SCOPE Alliance and the Service Availability (“SA”) Forum standards bodies, we believe that we continue to play a leading role in the development and deployment of system architectural standards that are most relevant to our markets. In the IP communications market we believe that we continue to play a leading role in the development and deployment of media server and Multimedia Resource Function (“MRF”) standards through our membership in the Third-Generation Partnership Project (“3GPP”) and our long-term contributions to the Internet Engineering Task Force (“IETF”).

Beginning in 2004 we shifted our product development investment from predominantly one-off custom-designed products (“perfect fit solutions”) to standards-based, re-usable platforms and systems (“standards-based solutions”). We believe standards-based solutions provide our customers a number of fundamental benefits. First,

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by using ready-made solutions rather than ground-start custom-designs, our customers can achieve significantly shorter product development intervals and faster time-to-market. Second, we believe our customers can achieve a lower total cost by using solutions that are leveraged across multiple applications rather than a single-use proprietary solution. The benefit to RadiSys is that by offering standards-based solutions, we believe we have the opportunity to address a wider range of new market opportunities than with one-off, custom-designs. We believe this ability to reuse designs gives us more leverage and makes our business and investment model more scalable. Finally, we believe this standards-based model will allow us to provide more integrated and higher value solutions to our customers than we have typically delivered under a custom-design model. In many cases RadiSys will optimize its standard products to best suite the needs of a particular customer or application. This has the dual benefit of giving customers a higher value solution as well as making RadiSys a better choice for the application over the longer term. These higher value solutions should provide more product content and drive higher average selling prices and therefore more total revenue opportunity for our products.

We intend to increasingly focus our development efforts on moving further up the software stack, positioning us to provide more complete application-ready platforms and more value for our customers. We believe that application-ready modular solutions such as ATCA platforms and Media Servers will grow to become an attractive market to RadiSys. The success of our new ATCA projects is tied to future deployment of wireless voice, wireless data and Voice over Internet Protocol (“VoIP”) applications by our customers. Likewise the success of our Media Servers is tied to the future deployment of IP Multimedia Subsystems (“IMS”) and IP networks.

We believe that ATCA and Media Servers will continue to become more prevalent in implementing network equipment. However, history has shown us that rates of adoption in these markets can be slower than projected. For RadiSys, this is predominately a new market opportunity that had not existed in a meaningful way for us prior to 2007, and only a limited number of equipment makers had used merchant-supplied, standards-based modular platforms. Based on our interactions with customers and recent results, we believe this model will become more widely adopted as network equipment makers strive to bring more products to market faster and with lower design and product costs.

We have introduced or announced the following standards-based solutions products:

*Promentum*<sup>®</sup>. Our *Promentum*<sup>®</sup> ATCA family includes a fully integrated application ready platform as well as a set of modular building blocks all configurable for a wide variety of applications. Going beyond simple building blocks, our ATCA strategy delivers a common managed platform for network element and dataplane applications, which offers a significant benefit to our customers. Utilizing the same managed platform for a variety of applications, Telecom Equipment Manufactures (“TEMs”) can reduce overall development time and significantly reduce development, lifecycle and equipment costs.

The *Promentum*<sup>®</sup> SYS-6010 is the industry’s first ATCA 10G managed platform. The SYS-6010 is a fully integrated and validated managed platform designed to address high speed I/O and bandwidth intensive traffic-bearing applications. This platform is designed to be implemented in a flexible and reliable architecture complete with comprehensive system management. The *Promentum*<sup>®</sup> ATCA building blocks are implemented in a modular fashion with seamless interoperability.

During the first half of 2008, we introduced two new products in our *Promentum*<sup>®</sup> ATCA product portfolio. First was the *Promentum*<sup>®</sup> ATCA-4310, a 10G ATCA single-slot processor blade. We believe this product provides enhanced features for compute-intensive applications where transaction and subscriber load can increase dramatically in short intervals, such as IMS, Internet Protocol Television (“IPTV”) and Wireless Control Plan based applications. The second was the *Promentum*<sup>®</sup> ATCA-7220 Dual OCTEON™ PLUS Packet Processing Module, the industry’s first blade to enable highest density of Gigabit Ethernet interfaces in a single slot with significantly higher processing power and bandwidth access when compared to other platforms available today.

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During the second quarter of 2008, we received the 2007 Communications Solutions Product of the Year Award for the Promentum ATCA MCPBL0050 CPU blade and the Promentum ATCA 7220 CPU blade with smart front-end architecture. The Communications Solutions Product of the Year Awards recognize the most innovative products that facilitate voice, data and video communications, or combinations thereof.

During the third quarter of 2008, we announced two new application ready platforms. The first is the SYS-6016 platform, which is a fully integrated high-capacity 16-slot solution that provides the maximum number of billable application slots in an ATCA carrier-grade platform, and delivers industry-leading 10-Gigabit switching, packet processing, and media processing capabilities. The second is the SYS-6002, which is a low-profile 2-slot integrated platform that provides a compact cost-effective solution ideally suited for an array of specialized appliances such as sophisticated security and traffic handling applications. The SYS-6016 increases payload capacity for maximum subscriber density while the SYS-6002 addresses lower-density subscriber areas. In addition, RadiSys launched a lab for use by global ecosystem partners and customers so that they may remotely perform validation, testing, and demonstrations of their unique solutions on our ATCA systems.

*Convedia*<sup>®</sup> *Media Servers* (“CMS”). Our line of market leading IP media server products enables service innovation and differentiation by providing powerful, reusable and highly scalable multimedia processing platforms for the VoIP and IMS telecommunication and enterprise markets. Together with products by our solution partners, the CMS family supports the next generation of feature rich, application-ready, high-value services that combine the best of the Internet and telecommunications worlds.

The CMS family consolidates the functions of traditional announcement servers, interactive voice response units, audio and video conference bridges, messaging platforms and speech platforms into a single, multi-service, open standards-compliant solution for network and enhanced services media processing. Our CMS share identical control interfaces, media processing features and management capabilities. The many features and benefits of our CMS allow our customers to increase revenues through delivery of new and innovative services, while reducing capital and ongoing operational costs. Our CMS-1000 and CMS-6000 media servers have been successfully deployed around the world. During 2008 we began deployment of the next generation of media servers, the CMS-3000 and CMS-9000.

In the second quarter of 2008, we announced the addition of continuous presence (“CP”) capabilities in our CMS family. More specifically, our new CP video conferencing mode will support multiple real-time video streams within a unified multi-pane display and deliver an “immersive” video experience for desktop conferencing users. This new capability will benefit our customers who wish to add feature-rich video conferencing capabilities to their communications solutions.

In addition, in the second quarter of 2008 we announced that our CMS family now supports automatic speech recognition (“ASR”), or converting human speech to computer data, and text-to-speech (“TTS”) capabilities in multiple languages for IP contact center application developers and service providers. This new capability will not only allow our customers to accelerate the introduction of new services, but will also competitively differentiate their products in next-generation IP contact centers.

During the third quarter of 2008, we announced a rich feature set targeted to the contact centers with the RadiSys market-leading IP media server platform. The Convedia product family has real-time audio, video, and new embedded fax media processing capabilities that provide a common, feature-rich platform that fulfills next-generation contact center business requirements.

*Procelerant*<sup>™</sup>. Our Procelerant<sup>™</sup> CE blades and boards are designed for embedded applications that require a standard processor and memory subsystem, but also modular flexibility to retain key design level IP on a separate carrier board. Procelerant<sup>™</sup> CE products are based on modular computing solutions. COM Express is a standard that provides a bridge from legacy interfaces such as PCI and integrated drive electronics (“IDE”) to new serial differential signaling technologies such as PCI Express, Serial ATA, USB 2.0, LVDS, and Serial

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DVO. Because they are modular and standards-based, our COM Express products help equipment manufacturers shorten their time to market and reduce development costs. By making processor, chipset and memory modular and independent of the rest of the system design, manufacturers can focus engineering resources on developing differentiating features and avoid the design churn that comes with implementing new processor generations.

Also in the Procelerant™ product family are our embedded servers that specialize in meeting the needs of specific applications that are designed to be the brains of a larger integrated system. Examples of systems that incorporate embedded servers include medical imaging systems, high performance test and measurement instruments, automated industrial equipment, telecommunications “appliances,” military imaging and signal processing systems, and casino gaming machines.

During the first half of 2008, we introduced two new products in our Procelerant™ portfolio. First was the Procelerant™ Quad-core server, the industry’s first embedded server to incorporate the latest Intel® Quad-core Xeon® processors. Intended for medical and other imaging, test and measurement, and other digital signal processing applications, the Procelerant™ RMS420-5000XSL Quad-core server supports superior image processing at a higher resolution and with greater speed compared to previous embedded servers. Second was the Procelerant™ CE945GM2A COM Express module that targets value-priced industrial automation, gaming and test and measurement applications. The Procelerant™ CE945GM2A replaces older ETX technology at a comparable price point, enabling high-speed serial interface options such as PCI Express, Serial ATA (SATA) and gigabit ethernet.

During the second quarter of 2008, we introduced CEGM45, with the Intel® Core™ 2 Duo processor T9400 for high-performance portable implementations in medical and machine imaging, test and measurement, and communications. This product is early to market and brings lower power and increased processing capability.

During the third quarter of 2008, we announced the availability of four new COM Express modules all powered by Intel Core 2 Duo Processor technology and the Mobile Intel GS45/GM45 Express chipsets. The new compact COMs are ideal for developers designing portable devices for such applications as medical and machine imaging that mandate processing performance, large file transfers, high-throughput communications and low power.

During the fourth quarter of 2008, the Procelerant™ RMS420 image processing server began shipping in production to two of our “Tier 1” medical imaging customers. The Procelerant™ RMS420 embedded server combines very high compute performance with dual PCI-Express (PCIe) x16 slots (x8 electrical) for high performance graphics and/or co-processor cards. This combination is ideally suited for applications such as medical and military imaging, signal processing, 3D and 4D graphics display and test and measurement systems.

During the fourth quarter of 2008, we also announced that we developed, with industry consortium Embedded4You, a powerful multi-core, application-ready platform for industrial automation. The demonstration of the platform showcases the integration of general purpose Microsoft® Windows® and RadiSys’ Microware® OS-9® real time operating system running concurrently on a RadiSys COM Express module. This hybrid approach allows individual systems to merge onto a single platform to reduce hardware cost, reuse available software and improve system performance. This approach also allows OS-9 to guarantee high real-time reliability, stability and system response time with zero impact on other applications running on the system.

*Perfect Fit Solutions.* Our perfect fit solutions are products tailored or customized to meet specific customer or application requirements. These solutions range from modifications of standard or existing products to complete development and supply of customized solutions. We draw on our experience and large design library to create products with varying degrees of customization. We will continue to invest a portion of our resources in perfect fit solutions as these opportunities are an integral part of our business model and leverage our existing know-how. We also believe that our customers will continue to require and value some degree of customization of our standards-based platforms for some of their specific applications.

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### Segments

RadiSys is one operating segment as determined by the way that management makes operating decisions and assesses RadiSys' financial performance. See Note 20 of the Notes to the Consolidated Financial Statements for segment information.

### Competition

We have three different types of competitors:

- *Our target customers*—Our most significant competition is from our own customers and potential customers who choose to remain vertically integrated and continue to fully design and supply all or most of their own platforms, modules and/or sub-systems. However, we believe system makers are moving away from this proprietary mode of system development and supply.
- *Platform Providers*—Our competitors in the platform product space include Emerson Network Power, HP, IBM, and Sun Microsystems. In addition, we face competition in the media server market from AudioCodes, Dialogic and Movius.
- *Board providers*—Our competitors in the board product space include ADLink Technologies, Advantech Co., Continuous Computing, Emerson Network Power and Kontron AG.

We believe that our system level architecture and design expertise, coupled with our broad technology portfolio and flexibility in working intimately with system makers, will enable us to differentiate our products against our competition. We believe our rapid design cycles and standards-based solutions coupled with our global presence will provide customers with a time to market advantage at a lower total cost.

### Customers

Our customers include many leading system makers in a variety of end markets. Examples of these customers include: Agilent Technologies, Alcatel Lucent, Arrow Electronics, Aspect Telecom, Avaya, Bigband Networks, British Telecom, Cisco Systems, Comverse Network Systems ("Comverse")- a division of Comverse Technology, Danaher, Fujitsu, G.E. Healthcare, Huawei Technologies Co., IBM, IP Access, Italtel, Kineto Wireless, Miltope, Mindray, NEC, Nokia Siemens Networks, Nortel Networks ("Nortel"), Philips Healthcare, Siemens Medical, and Universal Instruments, West Corporation, and ZTE.

Our five largest customers, accounting for approximately 59.7% of revenues in 2008 are listed below with an example of the type of application which incorporates RadiSys products:

<u>Customer</u>	<u>Application</u>
Agilent	Network and logic analyzers along with other test and measurement equipment
Danaher	Scopes, logic analyzers, network probes and monitoring equipment
Fujitsu	3G wireless infrastructure equipment
Nokia Siemens Network	2, 2.5, and 3G wireless infrastructure equipment
Philips Healthcare	Cardiovascular, surgical, and medical imaging equipment

Nokia Siemens Networks was our largest customer in 2008 accounting for 43.5% of total 2008 revenues.

### Technology, Research, Development and Engineering

We believe that our technology, research, development and engineering ("R&D") expertise represents an important competitive advantage. Our R&D staff consisted of 281 engineers and technicians as of January 30, 2009. We currently have design centers located in the U.S, Canada, China and Malaysia.

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A majority of our R&D efforts are focused on the development of sophisticated standards-based products targeted at a wide variety of applications. This is an important part of our strategy to provide a broader set of products and building blocks, which allows deployment of flexible solutions leveraged off of reusable designs and commercially available components. We believe this will result in significant savings in development time and investment for our customers and will increase the number of applications into which RadiSys solutions can be incorporated. In addition, we are increasingly combining our standards-based products to create more integrated and more complex hardware and software based systems.

We also focus on the development of custom solutions for our customers, where existing functional building blocks are tailored to meet the customer's specific needs. For these programs, our engineering team works closely with the customer's engineering team to architect, develop and deliver solutions that meet their specific requirements using RadiSys' functional building blocks. We engage in close and frequent communications during the design and supply process, allowing us to operate as a "virtual division" within a customer's organization. We believe our in-depth understanding of embedded systems and technology provides customers with specialized competitive solutions, earning RadiSys a strong incumbent position for future system development projects.

We believe that we have developed a unique and valuable portfolio of technology and intellectual property associated with our standards-based and other solutions that provides us a competitive advantage. Our objective is to retain the rights to technology developed during the design process. In some cases, we agree to share technology rights, manufacturing rights, or both, with the customer. However, we generally retain nonexclusive rights to use any shared technology.

## **Sales, Marketing, and Service**

Our products are sold through a variety of channels, including direct sales, distributors and sales representatives. The total direct sales and marketing headcount was 101 as of January 30, 2009. We use our dedicated cross-functional teams to develop long-term relationships with our customers. Our cross-functional teams include sales, application engineering, marketing, program management, supply chain management and design engineering. Our teams collaborate with our customers to combine their development efforts in key areas of competency with our standards-based or perfect-fit solutions to achieve higher quality, lower development and product cost and faster time to market for their products.

We market and sell our products in North America, the Europe, Middle East and Africa ("EMEA") region, and the Asia Pacific region. In each of these geographies, products are sold principally through a direct sales force with our sales resources located in the U.S., Canada, Europe, Israel, China and Japan. In addition, in each of these geographies we make use of an indirect distribution model and sales representatives to access additional customers. In 2008, global revenues were comprised geographically of 32.5% from North America, 37.0% from EMEA and 30.5% from Asia Pacific. See Note 20 of the Notes to the Consolidated Financial Statements for financial information by geographic area.

We believe that along with providing our customers competitive time to market, low-cost and high-quality products, our global services organization's detailed involvement, beginning early in the product life-cycle, reduces our customers' product risks. Service areas include warranty, repair, integration, training as well as product upgrades and enhancements in some our next-generation ATCA products.

## **Manufacturing Operations**

We utilize a combination of internal and outsourced manufacturing. Total manufacturing operations headcount was 309 as of January 30, 2009. We currently manufacture approximately 15% of our own products and intend to continue to shift manufacturing to third party contract manufacturers located in low cost regions.

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We have an automated ISO9001 certified plant in Hillsboro, Oregon that provides board and systems assembly and testing. This plant includes an automated Surface Mount Technology (“SMT”) line which allows double-sided board assembly. Because many of our products typically have long life reliability requirements, they must undergo particularly rigorous stress testing.

We also have an integration facility in Burnaby, British Columbia, which is responsible for the final integration, testing and delivery of Media Server systems. This organization works closely with our contract manufacturer to oversee the manufacturing process and functionally test all hardware components of an end system.

In addition to the facilities where we manufacture, integrate and test our products, we also utilize our offices in Shenzhen, China and Penang, Malaysia to oversee the manufacturing conducted by our contract manufacturing partners in these regions. The oversight includes supply chain management as well as quality control.

Although many of the raw materials used in our internal and outsourced manufacturing operations are available from a number of alternative sources, some of these are obtained from a single supplier or a limited number of suppliers. We and our outsourced manufacturing partners contract with third parties for a continuing supply of the components used in the manufacture of our products. We currently rely solely on Intel for the supply of some microprocessors and other components. Alternative sources of components that are procured from one supplier or a limited number of suppliers would be difficult to locate and/or it would require a significant amount of time and resources to establish and accommodate.

We increasingly rely on contract manufacturers for certain RadiSys products. Alternative sources of manufacturing services for the RadiSys products, including transitioning the products, could require significant time and resources to establish. In addition, any decline in the quality of components supplied by our vendors or products produced by our contracting manufacturing partners could adversely impact our reputation and business performance.

## **Backlog**

As of December 31, 2008, our backlog was approximately \$34.4 million, compared to \$33.8 million as of December 31, 2007. We include in our backlog statistic all purchase orders scheduled for delivery within 12 months.

## **Intellectual Property**

We hold 32 U.S. and 28 foreign utility patents, two U.S. design patents and have five U.S. and 13 foreign patent applications pending. We also rely on trade secrets, know how and rapid time to market for protection and leverage of our intellectual property. We have, from time to time, been made aware of others in the industry who assert exclusive rights to certain technologies, usually in the form of an offer to license certain rights for fees or royalties. Our policy is to evaluate such claims on a case-by-case basis. We may seek to enter into licensing agreements with companies having or asserting rights to technologies if we conclude that such licensing arrangements are necessary or desirable in developing specific products.

## **Employees**

As of January 30, 2009, we had 826 employees, of which 669 were regular employees and 157 were agency temporary employees or contractors. We are not subject to any collective bargaining agreement, have never been subject to a work stoppage, and believe that we have maintained good relationships with our employees.

## **Corporate History**

RadiSys Corporation was incorporated in March 1987 under the laws of the State of Oregon. Our principal offices are located at 5545 N.E. Dawson Creek Drive, Hillsboro, OR 97124; our telephone number is (503) 615-1100. Our website address is [www.radisys.com](http://www.radisys.com).

## INTERNET INFORMATION

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) are available free of charge through our website ([www.radisys.com](http://www.radisys.com)) as soon as reasonably practicable after we electronically file the information with, or furnish it to, the Securities and Exchange Commission (the “SEC”).

We have adopted Corporate Governance Guidelines for our Board of Directors and a Code of Conduct and Ethics (“the Code”) for our Board of Directors, our Chief Executive Officer, principal financial and accounting officers and other persons responsible for financial management and our employees generally. We also have charters for the Audit Committee, Compensation and Development Committee, Nominating and Corporate Governance Committee of our Board of Directors. Copies of the above-referenced documents may be obtained on our website ([www.radisys.com](http://www.radisys.com)), and such information is available in print to any shareholder who requests it.

We also utilize a third party compliance website, EthicsPoint<sup>®</sup>, to provide our employees with a simple, risk-free way to anonymously and confidentially report actual or suspected activities that may involve financial or criminal misconduct or violations of the Code. This webpage is hosted on EthicsPoint’s secure servers and is not part of our website or intranet.

## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. Some of the forward-looking statements contained in this Annual Report on Form 10-K include:

- expectations and goals for revenues, gross margin, R&D expenses, selling, general and administrative expenses and profits;
- the impact of our restructuring events on future operating results;
- currency exchange rate fluctuations, changes in tariff and trade policies and other risks associated with foreign operations;
- our projected liquidity;
- matters affecting the embedded system industry, including changes in industry standards, changes in customer requirements and new product introductions; and
- other risks described in Item 1A “Risk Factors”.

All statements that relate to future events or to our future performance are forward-looking statements. In some cases, forward-looking statements can be identified by terms such as “may,” “will,” “should,” “expect,” “plans,” “seeks,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue,” “seek to continue,” “intends,” or other comparable terminology. These forward-looking statements are made pursuant to safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results or our industries’ actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements.

Forward-looking statements in this Annual Report on Form 10-K include discussions of our goals, including those discussions set forth in Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. We cannot provide assurance that these goals will be achieved.

Although forward-looking statements help provide additional information about us, investors should keep in mind that forward-looking statements are only predictions, at a point in time, and are inherently less reliable than historical information. In evaluating these statements, you should specifically consider the risks outlined above

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and those listed under “Risk Factors” in Item 1A. These risk factors may cause our actual results to differ materially from any forward-looking statement.

We do not guarantee future results, levels of activity, performance or achievements and we do not assume responsibility for the accuracy and completeness of these statements. The forward-looking statements contained in this Quarterly Report are made and based on information as of the date of this report. We assume no obligation to update any of these statements based on information after the date of this report.

### **Item 1A. Risk Factors**

There are many factors that affect our business and the results of our operations, many of which are beyond our control. The risks described in this Annual Report on Form 10-K for the year ended December 31, 2008, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

***Because of our dependence on certain customers, the loss of, or a substantial decline in sales to, a top customer could have a material adverse effect on our revenues and profitability.***

For 2008 and 2007, we derived 59.7% and 66.0%, respectively, of our revenues from our five largest customers during these periods. These five customers were Nokia Siemens Networks, Philips Healthcare, Danaher, Agilent and Fujitsu. During 2008, revenues attributable to Nokia Siemens Networks were 43.5%. During 2007, revenues attributable to Nokia Siemens Networks were 44.8%. Because of our significant customer concentration, our largest customers have additional pricing power over us. Further, a financial hardship experienced by, or a substantial decrease in sales to, any one of our customers could materially affect our revenues and profitability. Generally, these customers are not the end-users of our products. If any of these customers’ efforts to market the products we design and manufacture for them or the end products into which our products are incorporated are unsuccessful in the marketplace or if these customers experience a decrease in demand for such products, our design wins, sales and/or profitability will be significantly reduced. Furthermore, if these customers experience adverse economic conditions in the end markets into which they sell our products, we would expect a significant reduction in spending by these customers in addition to increasing our exposure to credit risk, which may limit our ability to collect. Some of these end markets are characterized by intense competition, rapid technological change and economic uncertainty and as such there is no guarantee that the revenues associated with the potential loss of a key customer will be replaced by the establishment of new business relationships. Our exposure to economic cyclicalities and any related fluctuation in demand from these customers could have a material adverse effect on our revenues and financial condition.

***Our operating results may be adversely impacted by worldwide political and macro- economic uncertainties and fears.***

Recently general worldwide economic conditions have experienced a significant downturn due to the credit conditions impacted by factors such as the subprime-mortgage turmoil, slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity, the ongoing effects of the war in Iraq, recent international conflicts and terrorist and military activity, and the impact of natural disasters and public health emergencies. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to slow spending on our products and services, which would lengthen sales cycles and, ultimately, reduce our revenues and profitability. Furthermore, during challenging economic times our customers may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and our days sales outstanding would be negatively impacted. We cannot predict the timing, depth or duration of any economic slowdown or subsequent economic recovery, worldwide, or in the markets in which we operate. If the economy

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or markets in which we operate do not continue at their present levels, our business, financial condition and results of operations could be materially and adversely affected. All the aforementioned macro-economic challenges and conditions could negatively impact our results of operations.

***We have shifted our business from predominately perfect fit (custom) solutions to more standards-based products, such as ATCA, IP Media Servers, and COM Express. This required substantial expenditures for R&D and if this strategy is not successful, our long-term revenues, profitability and financial condition could be materially and adversely affected***

We have shifted our business from predominately perfect fit solutions, or custom, to more standards-based solutions, such as ATCA, IP Media Server, and COM Express products. We believe that over the next several years customers will continue to increasingly design their embedded computing platforms around standards-based architectures and increasingly source embedded solutions from third-party suppliers, such as RadiSys. However, there can be no assurance that this strategy will be successful and the current state of the economy could further delay or prolong the transition or adoption of standards-based products. This strategy required us to make substantial expenditures for R&D in new technologies, which were reflected as current expenses in our financial statements. There is no assurance that these new products and technologies will be accepted by all of our customers and, if accepted, how large the market will be for these products or what the timing will be for any meaningful revenues. Customers may not choose to use standards-based products to the extent that we are projecting or in the timeframe that we are projecting, and if customers instead continue to use perfect fit architectures when designing their systems, we may not be well positioned to receive orders for such projects, or if we do receive such orders, they may not be profitable given our operational focus on standards-based solutions. If we are unable to successfully develop and sell standards-based products to our customers, our revenues, profitability and financial condition could be materially adversely affected. Additionally, if we successfully develop standards-based products we may incur incremental R&D expenses as we tailor the standards-based products for our customers. Furthermore, we are building standards-based products to meet industry standards that define the basis of compatibility in the operation and communication of a system supported by different vendors. Those standards constantly change and new competing standards emerge. The development or adaptation of products and technologies requires us to commit financial resources, personnel and time significantly in advance of sales. In order to compete, our decisions with respect to those commitments must accurately anticipate, sometimes two years or more in advance, both future demand and the technologies that will gain market acceptance to meet that demand.

***Our projections of future revenues and earnings are highly subjective and may not reflect future results which could cause volatility in the price of our common stock.***

We have contracts with most of our major customers but these contracts do not commit them to purchase a minimum amount of our products. These contracts generally require our customers to provide us with forecasts of their anticipated purchases. However, our experience indicates that customers can change their purchasing patterns quickly in response to market demands, changes in their management or strategy, among other factors, and therefore these forecasts may not be relied upon to accurately forecast sales. From time to time we provide projections to our shareholders and the investment community of our future sales and earnings. Since we do not have long-term purchase commitments from our major customers and the customer order cycle is short, it is difficult for us to accurately predict the amount of our sales and related earnings in any given period. Our projections are based on management's best estimate of sales using historical sales data, information from customers and other information deemed relevant. These projections are highly subjective since sales to our customers can fluctuate substantially based on the demands of their customers and the relevant markets. Our period to period revenues have varied in the past and may continue to vary in the future. Unanticipated reductions in purchase orders from our customers may also result in our having to write off excess or obsolete inventory. In addition and as stated above, we have a high degree of customer concentration. Any significant change in purchases by any one of our large customers can significantly affect our sales and profitability.

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If demand for our products fluctuates, our revenues, profitability and financial condition could be adversely affected. Important factors that could cause demand for our products to fluctuate include:

- changes in customer product needs;
- changes in the level of customers' inventory;
- changes in business and economic conditions;
- changes in the mix of products we sell; and
- market acceptance of our products.

The price of our common stock may be adversely affected by numerous factors, such as general economic and market conditions, changes in analysts' estimates regarding earnings as well as factors relating to the commercial systems and communication networking markets in general. We cannot accurately forecast all of the above factors. As a result, we believe that period-to-period comparisons may not be indicative of future operating results. Our operating results in any future period may fall below the expectations of public market analysts or investors.

***Our failure to develop and introduce new products on a timely basis could harm our ability to attract and retain customers.***

Our industry is characterized by rapidly changing technology, frequent product introductions and ongoing demands for greater speed and functionality. Therefore, we must continually design, develop and introduce new products with improved features to be competitive. To introduce these products on a timely basis we must:

- design innovative and performance-improving features that differentiate our products from those of our competitors;
- identify emerging technological trends in our target markets, including new standards for our products;
- accurately define and design new products to meet market needs;
- anticipate changes in end-user preferences with respect to our customers' products;
- rapidly develop and produce these products at competitive prices;
- respond effectively to technological changes or product announcements by others; and
- provide effective technical and post-sales support for these new products as they are deployed.

***Not all new design wins ramp into production, and even if ramped into production, the timing of such production may not occur as we or our customers had estimated or the volumes derived from such projects may not be as significant as we had estimated, which could have a substantial negative impact on our anticipated revenues and profitability.***

We have historically estimated the revenue from design wins, which can represent up to three years of revenue once product development has ramped into production. If a design win actually ramps into production, the average ramp into production begins about 12 to 18 months after the initial design win, although some more complex projects can take up to 24 months or longer. After that, there is an additional time lag from the start of production ramp to peak revenue. Not all design wins ramp into production and, even if a design win ramps into production, the volumes derived from such projects may be less than we had originally estimated. Products related to design wins are sometimes canceled or delayed, or can perform below original expectations, which can adversely impact anticipated revenues and profitability. In particular, the volumes and time to production ramp associated with new design wins depend on the adoption rate of new technologies in our customers' end markets, especially in the communications networking sector. Program delays or cancellations could be more frequent during times of meaningful economic downturn. Should technologies such as Voice over IP, IP Multimedia Subsystem, 3G wireless technologies, IPTV, advanced multimedia applications and other emerging technologies

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not be adopted as fast as we or our customers anticipate, actual volumes from new design wins may be lower than we are expecting, which could adversely affect our revenue and gross margin.

***Our business depends on conditions in the communications networking and commercial systems markets. Demand in these markets can be cyclical and volatile, and any inability to sell products to these markets or forecast customer demand due to unfavorable or volatile market conditions could have a material adverse effect on our revenues and gross margin.***

We derive our revenues from a number of diverse end markets, some of which are subject to significant cyclical changes in demand. In 2008, we derived 78.5% and 21.5% of our revenues from the communications networking and commercial systems markets, respectively. In 2007, we derived 76.0% and 24.0% of our revenues from the communications networking and commercial systems markets, respectively. We believe that our revenues will continue to be derived primarily from these two markets. Communications networking revenues include, but are not limited to, sales to Alcatel Lucent, Aspect Telecom, Avaya, Bigband Networks, British Telecom, Cisco Systems, Comverse, Danaher, Fujitsu, Hewlett Packard, Huawei Technologies Co., IBM, IP Access, Italtel, Kineto Wireless, Italtel, NEC, Nokia Siemens Networks, Nortel, West Corporation, and ZTE. Commercial systems revenues include, but are not limited to, sales to Agilent Technologies, Arrow Electronics, Danaher, Miltope, Mindray, Philips Healthcare, Siemens Medical and Universal Instruments. Generally, our customers are not the end-users of our products. If our customers experience adverse economic conditions in the end markets into which they sell our products, we would expect a significant reduction in spending by our customers. Some of these end markets are characterized by intense competition, rapid technological change and economic uncertainty. Our exposure to economic cyclicality and any related fluctuation in customer demand in these end markets could have a material adverse effect on our revenues and financial condition. We are expanding into applications either through new product development projects with our existing customers or through new customer relationships, but no assurance can be given that this strategy will be successful.

We forecast manufacturing needs based on customer demand. Changes in this demand could cause us or our contract manufacturers to hold excess or obsolete inventory that may not be salable to other customers on commercially reasonable terms, and which could require inventory valuation write downs that reduce our gross margin and profitability. This risk is exacerbated by a current trend from our customers of requiring shorter lead times between placing orders with us and the shipment date. That typically necessitates an increase in our inventory or inventory of our products at our contract manufacturers' locations, raising the likelihood that upon cancellation or deferral, we may be holding greater amounts of inventory and/or incurring additional costs. Additionally, we have adverse purchase commitment liabilities, which means we are contractually obligated to reimburse our contract manufacturers for the cost of excess inventory used in the manufacture of our products for which there is no forecasted or alternative use.

In addition, customer demand for our products is subject to significant fluctuation. A prolonged economic downturn in the business or geographic areas in which we sell our products could reduce demand for our products and result in a decline in our revenue, gross margin and overall profitability. Volatility and disruption of financial and credit markets could limit our customers' ability to obtain adequate financing to maintain operations and invest in network infrastructure and therefore could also reduce demand for our products and result in a decline revenue, gross margin and overall profitability. If we overestimate demand, we may experience underutilized capacity and excess inventory levels. As such, if we underestimate demand, we may miss sales opportunities and incur additional costs for labor overtime, equipment overuse and logistical complexities. Unexpected decreases in customer demand or our inability to accurately forecast customer demand could also result in increases in our adverse purchase commitment liability and have a material adverse effect on our gross margins and profitability.

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***Because of our dependence and our contract manufacturers' dependence on a few suppliers, or in some cases one supplier, for some of the components we use, as well as our dependence on a few contract manufacturers to supply a majority of our products, a loss of a supplier, a decline in the quality of these components, a shortage of any of these components, or a loss or degradation in performance of a contract manufacturer could have a material adverse effect on our business or our profitability.***

We depend on a few suppliers, or in some cases one supplier, for a continuing supply of the components we use in the manufacture of our products and any disruption in supply could adversely impact our financial performance. For example, we currently solely rely on Intel for the supply of some microprocessors and other components. Alternative sources of components that are procured from one supplier or a limited number of suppliers would be difficult to locate and/or would require a significant amount of time and resources to establish. We have in the past experienced and may in the future experience difficulty obtaining adequate quantities of key components used in certain of our products, which have resulted and may result in delayed or lost sales. In addition, current economic conditions expose us to an increased risk of vendor insolvency, which, given our reliance upon a limited supply base, could result in an inability to procure adequate quantities of materials and components to meet our customers' demand and/or ability to procure the quality of materials and components our customers require.

We also rely on contract manufacturers. In 2008, contract manufacturers provided approximately 85% of all of our unit volume, most of which was attributable to Foxconn and Jabil. Furthermore, we intend to continue transferring manufacturing capabilities to our contract manufacturers in the future, and there is no guarantee that these transitions will be successful and timely. In addition, if these third party manufacturers fail to adequately perform, our revenues and profitability could be adversely affected. Among other things, inadequate performance by our contract manufacturers could include the production of products that do not meet our quality standards or schedule and delivery requirements and could cause us to manufacture products internally or seek additional sources of manufacturing. Additionally, if our contract manufacturers are responsible for a patent or copyright infringement (including through the supply of counterfeit parts), we may or may not be able to hold them responsible and we may incur costs in defending claims or providing remedies. Such infringements may also cause our customers to abruptly discontinue selling the impacted products, which would adversely affect our net sales of those products, and could affect our customer relationships more broadly. In addition, alternative internal or external sources of manufacturing for our products could require significant time and resources to establish or transition.

***We operate in intensely competitive industries, and our failure to respond quickly to technological developments and incorporate new features into our products could have an adverse effect on our ability to compete.***

We operate in intensely competitive industries that experience rapid technological developments, changes in industry standards, changes in customer requirements, and frequent new product introductions and improvements. If we are unable to respond quickly and successfully to these developments, we may lose our competitive position, and our products or technologies may become uncompetitive or obsolete. Similarly, if there are changes to technology requirements, it can render our products and technologies uncompetitive. To compete successfully, we must maintain a successful R&D effort, develop new products and production processes, and improve our existing products and processes at the same pace or ahead of our competitors. We may not be able to successfully develop and market these new products; the products we invest in and develop may not be well received by customers; and products developed and new technologies offered by others may affect the demand for our products. These types of events could have a variety of negative effects on our competitive position and our profitability and financial condition, such as reducing our revenue, increasing our costs, lowering our gross margin, and requiring us to recognize and record impairments of our assets.

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***Competition in the market for embedded systems is intense, and if we lose our market share, our revenues and profitability could decline.***

We face competition in the design of embedded solutions from a number of sources. Our principal competition remains the internal design resources of our own customers. Many of our customers retain the ability to design embedded solutions in-house. In order to achieve design wins and receive subsequent orders, we must convince our customers of the benefits associated with using our design services and solutions rather than solutions designed by their in-house personnel. While we believe that many of our customers will increase the proportion of their solutions sourced from merchant suppliers, we will need to continue to demonstrate the benefits of our solutions relative to similar products that could be developed by our customers' internal personnel in order to successfully execute our strategy. In addition, consolidation of our customers can cause material changes in their use of third parties to realize new product designs.

We also compete with a number of companies and divisions of companies that focus on providing embedded solutions, including, but not limited to, Advantech Co., AudioCodes, a division within Emerson, a division within General Electric Company, Hewlett-Packard, Interphase, IBM, Kontron AG, Mercury Computer Systems, Movius, and Sun Microsystems.

Because the embedded systems market is growing, the market is attracting new non-traditional competitors. These non-traditional competitors include contract manufacturers that provide design services and Asian-based original design manufacturers.

Some of our competitors and potential competitors have a number of significant advantages over us, including:

- a longer operating history;
- greater name recognition and marketing power;
- preferred vendor status with our existing and potential customers;
- significantly greater financial, technical, marketing and other resources, which allow them to respond more quickly to new or changing opportunities, technologies and customer requirements;
- broader product and service offering to provide more complete and valued solutions; and
- lower cost structures which, among other things, could include different accounting principles relative to U.S. generally accepted accounting principles ("GAAP").

Furthermore, existing or potential competitors may establish cooperative relationships with each other or with third parties or adopt aggressive pricing policies to gain market share.

As a result of increased competition, we could encounter significant pricing pressures and/or suffer losses in market share. These pricing pressures could result in significantly lower average selling prices for our products. We may not be able to offset the effects of any price reductions with an increase in the number of customers, cost reductions or otherwise. In addition, many of the industries we serve, such as the communications industry, are encountering market consolidation, or are likely to encounter consolidation in the near future, which could result in increased pricing pressure and additional competition thus weakening our position or causing delays in new design wins and their associated production.

***Acquisitions and partnerships may be more costly or less profitable than anticipated and may adversely affect the price of our common stock.***

Future acquisitions and partnerships may involve the use of significant amounts of cash, potentially dilutive issuances of equity or equity-linked securities, issuances of debt and amortization of intangible assets with determinable lives. We may also be required to record a charge against earnings upon consummation of the

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acquisition in respect of the value of an acquired business' technology that does not meet the accounting definition of "completed technology." Moreover, to the extent that any proposed acquisition or strategic investment is not favorably received by shareholders, analysts and others in the investment community, the price of our common stock could be adversely affected. In addition, acquisitions or strategic investments involve numerous risks, including:

- difficulties in the assimilation of the operations, technologies, products and personnel of the acquired company;
- the diversion of management's attention from other business concerns;
- the risks of entering markets in which we have no or limited prior experience;
- the potential loss of key employees of the acquired company;
- unanticipated liabilities;
- performance by the acquired business below our expectations; and
- issues with meeting the needs of acquired customers.

In the event that we make an acquisition or enter into a partnership and we are unable to successfully integrate operations, technologies, products or personnel that we acquire, our business, results of operations and financial condition could be materially adversely affected. We may expend additional resources without receiving a related benefit from strategic alliances with third parties.

***We have incurred, and may in the future incur, restructuring and other charges, the amounts of which are difficult to predict accurately.***

From time to time, we seek to optimize our operational capabilities and efficiencies and focus our efforts and expertise through business restructurings. In the future we may decide to further restructure our operations, and possible adverse consequences related to such actions may include various charges for such items as idle capacity, disposition costs, severance costs, loss of propriety information and in-house knowledge. We may be unsuccessful in any of our current or future efforts to restructure our business. Our restructuring activities may have a material adverse effect upon our business, financial condition or results of operations.

***Our international operations expose us to additional political, economic and regulatory risks not faced by businesses that operate only in the United States.***

In 2008 and 2007, as measured by delivery destination, we derived 1.6% and 2.1%, respectively, of our revenues from Canada and Mexico, 37.0% and 40.6%, respectively, of our revenues from EMEA and 30.5% and 26.8%, respectively, from Asia Pacific. For the year ended December 31, 2008, approximately 78% of our unit volume consisted of products manufactured by our China contract manufacturer. During 2006, we completed the acquisition of Convedia, which includes significant operations in Burnaby, British Columbia. Also, in September 2007, we acquired assets from Intel that include operations in Malaysia. In January 2008, we opened an office in Penang, Malaysia, which houses operational staff to support our Malaysian contract manufacturer as well as a small group of support and design engineers. As a result of all these activities, we are subject to worldwide economic and market conditions risks generally associated with global trade, such as fluctuating exchange rates, tariff and trade policies, domestic and foreign tax policies, foreign governmental regulations, political unrest, wars and other acts of terrorism and changes in other economic conditions. These risks, among others, could adversely affect our results of operations or financial position. Additionally, some of our sales to overseas customers are made under export licenses that must be obtained from the U.S. Department of Commerce. Protectionist trade legislation in either the United States or other countries, such as a change in the current tariff structures, export compliance laws, trade restrictions resulting from war or terrorism, or other trade policies could adversely affect our ability to sell or to manufacture in international markets. Additionally, U.S. federal and state

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agency restrictions imposed by the Buy American Act or the Trade Agreement Act may apply to our products manufactured outside the United States. Furthermore, revenues from outside the United States are subject to inherent risks, including the general economic and political conditions in each country. As a result of the recent financial crisis and tightening of the credit markets, our customers and suppliers may face issues gaining timely access to sufficient credit, which could impair our customers' ability to make timely payments to us and could cause key suppliers to delay shipments and face serious risks of insolvency. These risks, among others, could adversely affect our results of operations or financial position.

***Our ability to procure contracts, maintain and increase revenues in foreign markets may be negatively impacted by increasing protectionism of foreign governments.***

Some foreign governments have come under increased pressure to protect their domestic economy and national security. Economic and security concerns have resulted in increasing protectionism that excludes foreign market participants from successfully procuring contracts and gaining sales in foreign markets. As a result, our revenues could decrease and business and operating results could be adversely affected.

***If we are unable to generate sufficient income in the future, we may not be able to fully utilize our net deferred tax assets or support our current levels of intangible assets on our balance sheet.***

We cannot provide assurance that we will generate sufficient taxable income to fully utilize our net deferred tax assets, which were \$56.4 million as of December 31, 2008. We may not generate sufficient taxable income due to earning lower than forecasted net income or incurring charges associated with unusual events, such as restructurings and acquisitions. Accordingly, we may record a full valuation allowance against the deferred tax assets if our expectations of future taxable income are not achieved. On the other hand, if we generate taxable income in excess of our expectations, the valuation allowance may be reduced accordingly. We also cannot provide assurance that future income will support the carrying amount of our remaining intangible assets, which were \$19.8 million as of December 31, 2008, and therefore, we may incur an impairment charge in the future.

***Our products for embedded solutions are based on industry standards, which are continually evolving, and any failure to conform to these standards or lack of success of these standards could have a substantial negative impact on our revenues and profitability. In addition, these standards could take longer to be deployed or may not be deployed at all.***

We develop and supply a mix of perfect fit (custom) and standards-based products. The industry standards upon which standards-based products for embedded computing are based are continually evolving. Our future success in these products will depend, in part, upon the success of these standards in the market and our capacity to invest in, and successfully develop and introduce new products based on emerging industry standards. Reduced market acceptance of these standards and our inability to invest in or conform to these standards could render parts of our product portfolio uncompetitive, unmarketable or obsolete. As new standards are developed for our addressable markets, we may be unable to successfully invest in, design and manufacture new products that address the needs of our customers or achieve substantial market acceptance.

***If we are unable to protect our intellectual property, we may lose a valuable competitive advantage or be forced to endure costly litigation.***

We are a technology dependent company, and our success depends on developing and protecting our intellectual property. We rely on patents, copyrights, trademarks and trade secret laws to protect our intellectual property. At the same time, our products are complex and are often not patentable in their entirety. We also license intellectual property from third parties and rely on those parties to maintain and protect their technology. We cannot be certain that our actions will protect our proprietary rights. Any patents owned by us may be invalidated, circumvented or challenged. Any of our patent applications, whether or not being currently challenged, may not be issued with the scope of the claims we seek, if at all. If we are unable to adequately protect our technology, or if we are unable to continue to obtain or maintain licenses for protected technology

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from third parties, it could have a material adverse effect on our results of operations. In addition, some of our products are now designed, manufactured and sold outside of the United States. Despite the precautions we take to protect our intellectual property, this international exposure may reduce or limit protection of our intellectual property, which is more prone to design piracy outside of the United States.

Third parties may also assert infringement claims against us in the future; assertions by third parties may result in costly litigation and we may not prevail in such litigation or be able to license any valid and infringed patents from third parties on commercially reasonable terms. Litigation, regardless of its outcome, could result in substantial costs and diversion of our resources. Any infringement claim or other litigation against us or by us could materially adversely affect our financial condition and results of operations.

### ***Changes to the inputs used to value our share based awards, could adversely affect our operating results.***

In accordance with SFAS 123R, *Share-Based Payment*, we are required to recognize the fair value of stock options and other share-based payment compensation to employees as compensation expense in the statement of income. Option pricing models require the input of highly subjective assumptions, including the expected stock price, stock price volatility, expected life and forfeiture rate of such options. We base our estimates on historical experience as well as other assumptions management believes to be reasonable under the circumstances at the time of updating our assumptions. Accordingly, actual results may differ significantly from these estimates, which could have a material impact on our financial position and results of operations. Given the unpredictable nature and current significant volatility of the "Black-Scholes" variables and other management assumptions such as number of options to be granted, underlying strike price and associated income tax impact, share based payment costs may differ from estimates as well as increase in future periods.

Total share-based compensation expense decreased for the year end December 31, 2008, as compared to the year ended December 31, 2007, however our stock price volatility has increased during the fourth quarter of 2008, which along with unfavorable changes in the other assumptions used to value our share based payment arrangements could result in future increased costs. Any such increase will be driven by significant fluctuations to the inputs used in applying our Black-Scholes valuation model, which may have a material impact on our operating results.

### ***Decreased effectiveness of share-based payment awards could adversely affect our ability to attract and retain employees.***

We have historically used stock options and other forms of share-based payment awards as key components of our total rewards employee compensation program in order to retain employees and provide competitive compensation and benefit packages. In accordance with SFAS 123R, we began recording charges to earnings for stock-based compensation expense in the first quarter of fiscal 2006. As a result, we have and will continue to incur increased compensation costs associated with our stock-based compensation programs making it more expensive for us to grant share-based payment awards to employees in the future. Like other companies, we have reviewed our equity compensation strategy in light of the current regulatory and competitive environment and have decided to reduce the total number of options granted to employees and the number of employees who receive share-based payment awards. Due to this change in our stock-based compensation strategy, we may find it difficult to attract, retain and motivate employees, and any such difficulty could materially adversely affect our business.

As of December 31, 2008, we had 2.1 million outstanding stock options awarded to our employees with an average grant price of \$15.46. In addition, approximately 97% of outstanding options were issued at a price above the closing price of our stock on December 31, 2008. If our stock price continues to decline, our stock option program will become ineffective as an incentive to retain key employees.

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***We rely on our key management and depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could seriously harm our business.***

A small number of key executives manage our business. Their departure could have a material adverse effect on our operations. In addition, due to the specialized nature of our business, our future performance is highly dependent upon our ability to attract and retain qualified engineering, manufacturing, marketing, sales and management personnel for our operations. Competition for personnel is intense, and we may not be successful in attracting and retaining qualified personnel. Our failure to compete for these personnel could seriously harm our business, results of operations and financial condition. In addition, if incentive programs we offer are not considered desirable by current and prospective employees, we could have difficulty retaining or recruiting qualified personnel. If we are unable to recruit and retain key employees, our product development, and marketing and sales could be harmed.

As of December 31, 2008, we had 972,000 outstanding stock options awarded to our executive management team with an average grant price of \$14.68. As the average grant price of our outstanding options is greater than our current stock price, our stock option program may become less effective as an incentive to retain our current management team.

***Our disclosure controls and internal control over financial reporting do not guarantee the absence of error or fraud.***

Disclosure controls are procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to ensure that the information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal controls over financial reporting ("Internal Controls") are procedures which are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our management, including our CEO and CFO, do not expect that our disclosure controls or Internal Controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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***Oregon corporate law, our articles of incorporation and our bylaws contain provisions that could prevent or discourage a third party from acquiring us even if the change of control would be beneficial to our shareholders.***

Our articles of incorporation and our bylaws contain anti-takeover provisions that could delay or prevent a change of control of our company, even if a change of control would be beneficial to our shareholders. These provisions:

- authorize our Board of Directors to issue up to 5,663,952 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without prior shareholder approval, which could adversely affect the voting power or other rights of the holders of outstanding shares of preferred stock or common stock;
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by shareholders at shareholder meetings;
- prohibit cumulative voting in the election of directors, which would otherwise allow less than a majority of shareholders to elect director candidates; and
- limit the ability of shareholders to take action by written consent, thereby effectively requiring all common shareholder actions to be taken at a meeting of our common shareholders.

In addition, if our common stock is acquired in specified transactions deemed to constitute “control share acquisitions,” provisions of Oregon law condition the voting rights that would otherwise be associated with those common shares upon approval by our shareholders (excluding, among other things, the acquirer in any such transaction). Provisions of Oregon law also restrict, subject to specified exceptions, the ability of a person owning 15% or more of our common stock to enter into any “business combination transaction” with us.

The foregoing provisions of Oregon law and our articles of incorporation and bylaws could limit the price that investors might be willing to pay in the future for shares of our common stock and value of our convertible notes.

***Sales of a significant number of shares of our common stock in the public markets, or the perception of such sales, could depress the market price of our common stock.***

Sales of a substantial number of shares of our common stock or other equity-related securities in the public markets could depress the market price of our common stock, and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock. As of December 31, 2008, we had \$50.0 million aggregate principal amount of our 2013 convertible senior notes outstanding. The price of our common stock could be affected by possible sales of our common stock by investors who view convertible notes as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity which we expect to occur involving our common stock.

***The capped call transaction may affect the value of our common stock.***

The capped call transaction, which we entered into with a hedge counterparty in connection with the issuance of our 2013 convertible senior notes, is expected to reduce the potential dilution upon conversion of the 2013 convertible senior notes in the event that the market value per share of our common stock, as measured under the terms of the capped call transaction, at the time of exercise is greater than the strike price of the capped call transaction, which corresponds to the initial conversion price of the notes and is subject to certain adjustments similar to those contained in the 2013 convertible senior notes. If, however, the market value per share of our common stock exceeds the cap price of the capped call transaction, as measured under the terms of the capped call transaction, the dilution mitigation under the capped call transaction will be limited, which means that there would be dilution to the extent that the then market value per share of our common stock exceeds the cap price of the capped call transaction.

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In connection with hedging the capped call transaction, the hedge counterparty or its affiliates:

- expect to purchase our common stock and/or enter into various derivatives and/or enter into various derivatives transactions with respect to our common stock; and
- may enter into or unwind various derivatives and/or purchase or sell our common stock in secondary market transactions.

These activities could have had the effect of increasing or preventing a decline in the price of our common stock concurrently with or following the pricing of the 2013 convertible senior notes and could have the effect of decreasing the price of our common stock during the period immediately prior to a conversion of the 2013 convertible senior notes.

The hedge counterparty or its affiliates are likely to modify their hedge positions in relation to the capped call transaction from time to time prior to conversion or maturity of the notes by purchasing and selling our common stock, other of our securities, or other instruments they may wish to use in connection with such hedging.

In addition, we intend to exercise options we hold under the capped call transaction whenever 2013 convertible senior notes are converted. In order to unwind its hedge positions with respect to those exercised options, the counterparty or affiliates thereof expect to sell our common stock in secondary market transactions or unwind various derivative transactions with respect to our common stock during the period immediately prior to conversion of the 2013 convertible senior notes. We have also agreed to indemnify the hedge counterparty and affiliates thereof for losses incurred in connection with a potential unwinding of their hedge positions under certain circumstances.

The effect, if any, of any of these transactions and activities on the market price of our common stock will depend in part on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock.

***If the economic viability of our investment bank (UBS AG) deteriorates, we may incur permanent impairment charges which could negatively affect the company's financial condition, cash flow and reported earnings.***

We currently hold investments in auction rate securities ("ARS"), which are highly rated debt instruments with a long-term nominal maturity. The majority of our ARS represent interests in collateralized debt obligations supported by pools of government-backed student loans with Standard and Poors ("S&P") AAA ratings or Moody's Investor Service ("Moody's") Aaa ratings at the time of purchase. These investments had previously been classified as available-for-sale investments. Available-for-sale securities are recorded at fair value, and unrealized holding gains and losses are recorded, net of tax, as a separate component of accumulated other comprehensive income.

Between December 31, 2007 and February 7, 2008, we sold at par value \$10.0 million in ARS of the total ARS balance of \$72.8 million which was held at December 31, 2007. During the first quarter of 2008, due to liquidity issues experienced in the global credit and capital markets, our remaining portfolio of ARS experienced multiple failed auctions as the amount of securities submitted for sale exceeded the amount of purchase orders. An auction failure, which is not a default in the underlying debt instrument, occurs when there are more sellers than buyers at a scheduled interest rate auction date and parties desiring to sell their auction rate securities are unable to do so. When an auction fails, the interest rate is adjusted according to the provisions of the associated security agreement, which may result in an interest rate that is higher than the interest rate the issuer pays in connection with successful auctions. We will not be able to liquidate the investments until a successful auction occurs, a buyer is found outside the auction process, the securities are called or refinanced by the issuer, or the securities mature. Due to the uncertainty of when we will be able to liquidate the investments, we reclassified the investments to long-term assets during the first quarter of 2008.

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During August of 2008, UBS AG, the parent company of the securities firm with which we hold our ARS, announced an offer to its clients holding ARS. Under this offer, UBS AG would issue Auction Rate Securities Rights to us. Subsequently, during the fourth quarter of 2008, we accepted the offer from UBS AG, which gave us a non-transferable right to require the bank to purchase, at par value, \$62.7 million in ARS at any time between June 30, 2010 and June 30, 2012. The agreement allows UBS AG, to purchase the ARS before than June 30, 2010, but it is under no obligation to do so. If the bank has not purchased the investments by June 30, 2010, we plan to exercise our non-transferable right to require the purchase at that time. In addition, under the terms of the offer, we also became eligible for a demand line of credit of up to 75% of the market value of our ARS until the time of purchase. As of December 31, 2008, we had drawn \$39.5 million under the terms of this agreement.

As a result of accepting the settlement right from UBS AG, in accordance with our policy as well as the provisions of SFAS No. 115, we transferred our ARS from available-for-sale to trading securities during the fourth quarter of 2008, as we plan to sell them on June 30, 2010. At the time of transfer, we recognized, in earnings, an unrealized loss in the amount of \$11.5 million, based on our estimated valuation of our ARS at that time. Concurrently, we recognized, in earnings, an unrealized gain in the amount of \$11.1 million, associated with our acceptance of the settlement right from UBS. This gain was due to our election of the fair value option under SFAS No. 159 – “*The Fair Value Option for Financial Assets and Financial Liabilities*” upon initial recognition of this right.

The fair value of both the settlement right and the ARS were derived based on estimates of their respective discounted cash flows. We considered various inputs to estimate future cash flows for our ARS at December 31, 2008, including the time believed to allow the market for such investments to recover, projected estimates of future interest income, as well premiums designed to account for liquidity and credit risks associated with our ARS holdings. For our non-transferable right, we considered inputs such as the issuer’s credit quality, expected term, and estimates of future risk free rates. Our valuation of both components of our ARS are contingent upon the financial viability of our investment bank and accordingly, we have assigned a credit risk component to our valuations based on market data available at the time of valuation. However, if market conditions change and our investment bank is unable to fulfil its commitment, we could incur a permanent impairment charge for the fair value assigned to our settlement right, which would materially and adversely affect our operating results and overall financial condition. Additionally, the inputs used in our valuation are based on managements’ estimates at the time of valuation and require significant judgment. If any of these inputs vary or market conditions change significantly, actual results may differ and our overall financial condition and operating results may be materially and adversely affected.

***Conversion of our convertible senior notes will dilute the ownership interest of existing shareholders, including holders who have previously converted their convertible senior notes.***

Upon conversion of our 2013 convertible senior notes, some or all of the ownership interests of existing shareholders may be diluted. Although the capped call transaction is expected to reduce potential dilution upon conversion of our 2013 convertible senior notes, the conversion of our 2013 convertible senior notes could still have a dilutive effect on our earnings per share to the extent that the price of our common stock exceeds the cap price of the capped call. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the anticipated conversion of our 2013 convertible senior notes into shares of our common stock could depress the price of our common stock.

***There are a number of trends and factors affecting our markets, including economic conditions in the United States, Europe and globally, which are beyond our control. These trends and factors may result in increasing upward pressure on the costs of products and an overall reduction in demand.***

There are trends and factors affecting our markets and our sources of supply that are beyond our control and may negatively affect our cost of sales. Such trends and factors include: adverse changes in the cost of raw commodities and increasing freight, energy, and labor costs in developing regions such as China. Our business

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strategy has been to provide customers with faster time-to-market and greater value solutions in order to help them compete in an industry that generally faces downward pricing pressure. In addition, our competitors have in the past lowered, and may again in the future lower, prices in order to increase their market share, which would ultimately reduce the price we may realize from our customers. If we are unable to realize prices that allow us to continue to compete on this basis of performance, our profit margin, market share, and overall financial condition and operating results may be materially and adversely affected.

### ***Other Risks Related to Our Business***

Other risk factors include, but are not limited to, changes in the mix of products sold, changes in regulatory and tax legislation, changes in effective tax rates, inventory risks due to changes in market demand or our business strategies, potential litigation and claims arising in the normal course of business, credit risk of customers and other risk factors.

### **Item 1B. *Unresolved Staff Comments***

None.

### **Item 2. *Properties***

Information concerning our principal properties at December 31, 2008 is set forth below:

<u>Location</u>	<u>Type</u>	<u>Principal Use</u>	<u>Square Footage</u>	<u>Ownership</u>
Hillsboro, OR	Office & Plant	Headquarters, marketing, manufacturing, distribution, research and engineering	129,885	Leased
	Land	Held for sale	214,664	Owned
Boca Raton, FL	Office	Marketing, research and engineering	26,211	Leased
Burnaby, Canada	Office	Marketing, research and engineering	32,890	Leased
Des Moines, Iowa	Office	Marketing, research and engineering	12,655	Leased
Dublin, Ireland	Office	Marketing and distribution	1,658	Leased
Penang, Malaysia	Office	Manufacturing support, research and engineering	18,164	Leased
Shanghai, China	Office	Research and engineering	13,078	Leased
Shenzhen, China	Office	Manufacturing support	857	Leased

We also lease sales offices in the United States located in San Diego, California and Marlborough, Massachusetts. We have international sales offices located in Munich, Germany, Tokyo, Japan and Shanghai, China. As noted in the above properties, we own a parcel of land adjacent to our Hillsboro, Oregon facility, which was acquired for future expansion but is currently held for sale.

### **Item 3. *Legal Proceedings***

None.

### **Item 4. *Submission of Matters to a Vote of Security Holders***

Not applicable.

**Item 5. Market for the Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

Our common stock is traded on the NASDAQ Global Select Market under the symbol "RSYS." The following table sets forth, for the periods indicated, the highest and lowest sale prices for the common stock, as reported by the NASDAQ Global Select Market.

	<u>High</u>	<u>Low</u>
<b>2008</b>		
Fourth Quarter	\$ 8.94	\$ 4.01
Third Quarter	12.69	7.72
Second Quarter	10.70	8.02
First Quarter	14.00	8.95
<b>2007</b>		
Fourth Quarter	\$ 17.48	\$ 11.71
Third Quarter	13.59	10.50
Second Quarter	16.74	12.40
First Quarter	17.60	15.04

The closing price as reported on the NASDAQ Global Select Market on March 3, 2009 was \$5.10 per share. As of March 3, 2009, there were approximately 279 holders of record of our common stock. We believe that the number of beneficial owners is substantially greater than the number of record holders because a large portion of our outstanding common stock is held of record in broker "street names" for the benefit of individual investors.

**Dividend Policy**

We have never paid any cash dividends on our common stock and do not expect to declare cash dividends on the common stock in the foreseeable future. Our ability to pay dividends is restricted by our policy as well as the covenants arising from our line of credit agreement with Silicon Valley Bank. As such, we plan to retain all of our earnings to finance future growth.

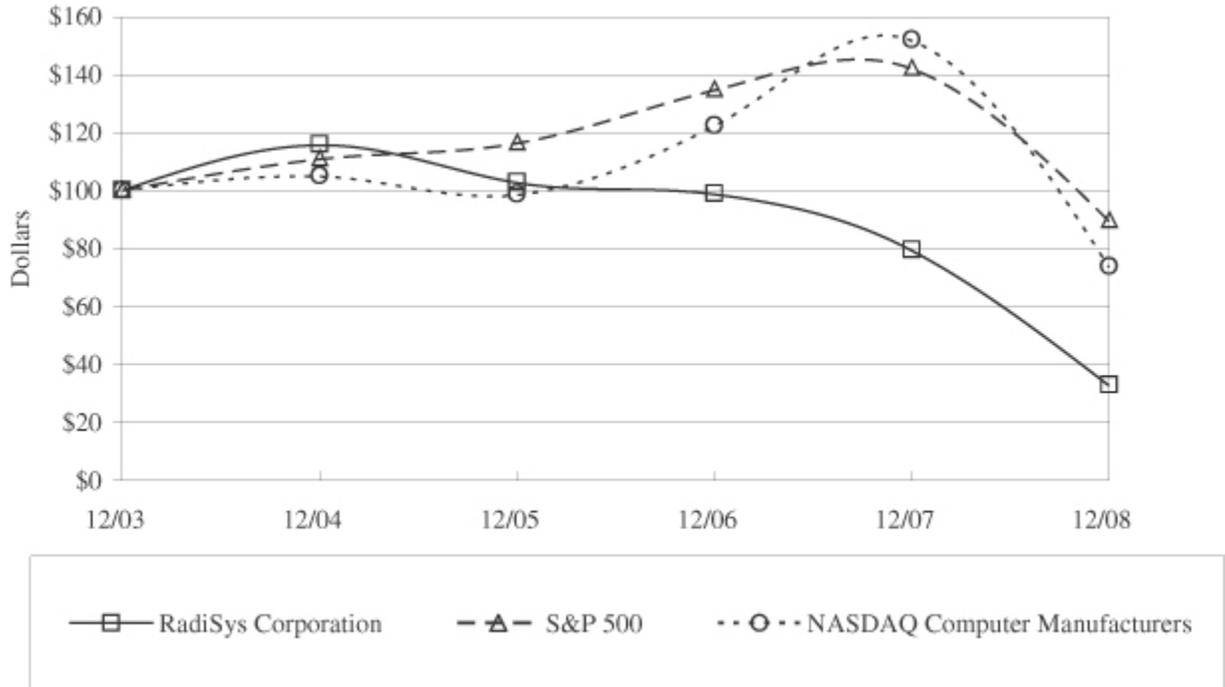
**Stock Price Performance Graph**

The following graph sets forth our total cumulative shareholder return as compared to the return of the S&P 500 Index and the NASDAQ Computer Manufacturers Index for the period of December 31, 2003 through December 31, 2008. The graph reflects the investment of \$100 on December 31, 2003 in our stock, the S&P 500 and in a published industry peer group index.

Total return also assumes reinvestment of dividends. As noted above, we have never paid dividends on our common stock. Historical stock price performance should not be relied upon as indicative of future stock price performance.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**

Among RadiSys Corporation, The S&P 500 Index  
And The NASDAQ Computer Manufacturers Index



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	Cumulative Total Return					
	12/2003	12/2004	12/2005	12/2006	12/2007	12/2008
RadiSys	100.00	115.83	102.79	98.81	79.43	32.78
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
NASDAQ Computer Manufacturers	100.00	104.95	98.58	122.27	151.90	73.66

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	For the Years Ended December 31,				
	2008	2007	2006	2005	2004
<b>Consolidated Statements of Operations Data</b>					
Revenues	\$ 372,584	\$ 325,232	\$ 292,481	\$ 260,234	\$ 245,824
Gross margin	96,083	71,838	78,956	76,836	79,172
Income (loss) from operations	(76,464)	(28,124)	(22,229)	13,788	17,272
Income (loss) from continuing operations	(65,950)	(17,552)	(13,016)	15,958	13,011
Net income (loss)	(65,950)	(17,552)	(13,016)	15,958	13,011
Net income (loss) per common share:					
Basic	\$ (2.92)	\$ (0.80)	\$ (0.62)	\$ 0.79	\$ 0.69
Diluted	\$ (2.92)	\$ (0.80)	\$ (0.62)	\$ 0.68	\$ 0.59
Weighted average shares outstanding (basic)	22,552	21,883	21,158	20,146	18,913
Weighted average shares outstanding (diluted)	22,552	21,883	21,158	24,832	23,823

	December 31,				
	2008	2007	2006	2005	2004
<b>Consolidated Balance Sheet Data</b>					
Working capital	\$ 66,067	\$ 61,840	\$ 161,575	\$ 249,159	\$ 186,634
Total assets	309,026	393,108	381,654	368,711	345,238
Long term obligations, excluding current portion	52,989	3,585	98,390	99,777	107,015
Total shareholders' equity	157,468	219,976	223,455	217,843	191,233

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

We have shifted more of our investments from predominantly perfect fit (custom) solutions to standards-based solutions. We believe standards-based solutions provide our customers a number of fundamental benefits. First, by using ready-made platform solutions rather than ground-start custom-designs, our customers can achieve significantly shorter product intervals and faster time-to-market. Second, we believe our customers can achieve a lower total cost by using solutions that are leveraged across multiple applications rather than a single-use proprietary solution. By offering ready-made solutions, we believe we have the opportunity to address a wider range of new market opportunities with the potential for faster time to revenue than with ground-start, custom-designs. We believe this ability to reuse designs makes our business and investment model more scalable. Finally, we believe a more standards-based product model will allow us to provide more integrated higher value solutions to our customers than we have typically delivered under a custom-design model. These higher value solutions drive higher price points and therefore more total revenue opportunities for our products.

*Financial Results*—Total revenue was \$372.6 million, \$325.2 million and \$292.5 million in 2008, 2007 and 2006, respectively. Backlog was approximately \$34.4 million, \$33.8 million and \$21.7 million at December 31, 2008, 2007 and 2006, respectively. Backlog includes all purchase orders scheduled for delivery within 12 months. The increase in revenues during 2008 compared to 2007 was due to increases in revenues in the communications networking market of \$45.4 million along with increased revenues of \$2.0 million in the commercial systems market. The increase in revenues during 2007 compared to 2006 was due to increases in revenues in the communications networking and commercial systems markets of \$29.5 million and \$3.3 million, respectively. Revenues in the communications networking market increased from 2007 to 2008 primarily due to increases in next generation communication revenues from our Intel MCPD acquisition, for which a full year of revenues were realized, as well as increases in revenues from organic ATCA and media server products. Revenues in the commercial systems market increased slightly during 2008 compared to 2007, primarily due to increases within the other commercial submarket, which was partially offset by declines in revenues from the test and measurement and medical submarkets.

From a geographic perspective, from 2007 to 2008 non-U.S. revenues by delivery destination increased by \$32.1 million. Specifically, revenues from the Asia Pacific region increased by \$26.2 million in 2008 and represented 30.5% of total revenues, up from 26.8% in 2007. Additionally, revenues from the EMEA region increased \$5.9 million and represented 37.0% of total revenues, down from 40.6% in 2007. Increased revenues in both the Asia Pacific and EMEA regions were driven by the addition of Asian Pacific and European customer revenues resulting from our MCPD acquisition. Increased sales to Nokia Siemens Networks further contributed to these increases. For the year ended December 31, 2008 revenues from North America increased by \$15.3 million as compared to the same period in 2007, but remained flat as a percent of total revenues. The increase was due primarily to the addition of revenues from our MCPD acquisition as well as increased media server revenues.

Gross margins as a percentage of revenues were 25.8%, 22.1% and 27.0% for 2008, 2007 and 2006, respectively. The increase in gross margin as a percentage of revenues for the year ended December 31, 2008 compared to the same period in 2007 was primarily attributable to an increased mix of revenues from higher margin next generation communication products. This increase was further driven by operational improvements leading to lower excess and obsolete charges as well as increased leverage of fixed costs. In addition, gross margin improved favorably due to the absence of significant charges associated with the transition from our North Carolina manufacturer, which occurred in 2007.

During the year ended December 31, 2008, we also incurred a \$67.3 million charge associated with the full impairment of our goodwill balances. A decline in our share price, during the fourth quarter of 2008, was considered a triggering event, which prompted us to perform an impairment analysis that ultimately led to the impairment charge. The charge was the result of our book value exceeding our fair value.

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Net loss was \$66.0 million, \$17.6 million, \$13.0 million in 2008, 2007 and 2006, respectively. Net loss per share was \$2.92, \$0.80 and \$0.62 for 2008, 2007 and 2006, respectively. The net loss increased from 2007 to 2008, due primarily to the goodwill impairment charge totaling \$67.3 million.

Cash and cash equivalents amounted to \$74.0 million and \$50.5 million at December 31, 2008 and December 31, 2007, respectively. The increase in cash and cash equivalents was primarily due to operating cash flows in the amount of \$34.9 million, which were partially offset by cash outflows for financing in the amount of \$15.1 million. Financing cash outflows were driven by repurchases of our convertible debt and offset partially by new borrowings on our revolving line of credit. Our investments totaled \$72.8 million at December 31, 2007 and \$62.3 million at December 31, 2008, which includes our ARS settlement right. The decrease is primarily due to sales of ARS in the first quarter of 2008.

In the following discussion of our financial condition and results of operations, we intend to provide information that will assist in understanding our financial statements, changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our financial statements.

### **Critical Accounting Policies and Estimates**

Management's discussion and analysis of our financial condition and results of operations are based upon the Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and judgments that may affect the reported amounts of assets, liabilities, and revenues and expenses. On an on-going basis, management evaluates its estimates. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

#### ***Inventory Valuation***

We record the inventory valuation allowance for estimated obsolete or unmarketable inventories as the difference between the cost of inventories and the estimated net realizable value based upon assumptions about future demand and market conditions. Pursuant to ARB 43 and SAB Topic 5-BB, our inventory valuation allowances establish a new cost basis for inventory. Factors influencing the provision include: changes in demand; rapid technological changes; product life cycle and development plans; component cost trends; product pricing; regulatory requirements affecting components; and physical deterioration. If actual market conditions are less favorable than those projected by management, additional provisions for inventory reserves may be required. Our estimate for the allowance is based on the assumption that our customers comply with their current contractual obligations. We provide long-life support to our customers and therefore we have material levels of customer specific inventory. If our customers experience a financial hardship or if we experience unplanned cancellations of customer contracts, the current provision for the inventory reserves may be inadequate. Additionally, we may incur additional expenses associated with any non-cancelable purchase obligations to our suppliers if they provide customer-specific components.

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### ***Adverse Purchase Commitments***

We are contractually obligated to reimburse our contract manufacturers for the cost of excess inventory used in the manufacture of our products, for which there is no alternative use. Excess inventory is defined as raw materials or assemblies ("components") used in the manufacture of our products for which the contract manufacturers' on-hand and on-order quantities are in excess of the requirements derived from our current product forecast of customer demand. We are liable for excess inventory only to the extent that the contract manufacturer procures components to fulfill the manufacturing requirements as set forth in our current product forecast and agreed upon lead times and minimum order quantities. Unexpected decreases in customer demand or our inability to accurately forecast customer demand could result in increases in our adverse purchase commitment liability and have a material adverse effect on our profitability. Factors influencing the adverse purchase commitments liability include: changes in demand, rapid technological changes, product life cycle and development plans, component cost trends, product pricing, customer liability and physical deterioration. If actual market conditions are less favorable than those projected by management, we may incur additional expenses due to increases in our adverse purchase commitment liabilities. Our estimate for the adverse purchase commitments liabilities is based on the assumption that our customers comply with their current contractual obligations to us. If our customers experience a financial hardship or if we experience unplanned cancellations of customer contracts, the current adverse purchase commitments liabilities may be inadequate.

Estimates for adverse purchase commitments are derived from reports received on a quarterly basis from our contract manufacturers. Increases to this liability are charged to cost of goods sold. When and if we take possession of inventory reserved for in this liability, the liability is transferred from other liabilities to our excess and obsolete inventory valuation allowance. This liability, referred to as adverse purchase commitments, is provided for in other accrued liabilities in the accompanying balance sheets. Adverse purchase commitments amounted to \$2.0 million and \$1.9 million at December 31, 2008 and 2007, respectively.

### ***Accrued Warranty***

We provide for the estimated cost of product warranties at the time revenue is recognized. Our standard product warranty terms generally include post-sales support and repairs or replacement of a product at no additional charge for a specified period of time, which is generally 24 months after shipment. The workmanship of our products produced by contract manufacturers is covered under warranties provided by the contract manufacturer for a specified period of time ranging from 12 to 15 months. We engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers. Our estimated warranty obligation is based upon ongoing product failure rates, internal repair costs, contract manufacturing repair charges for repairs not covered by the contract manufacturer's warranty, average cost per call and current period product shipments. If actual product failure rates, repair rates, service delivery costs, or post-sales support costs differ from our estimates, revisions to the estimated warranty liability would be required. Additionally, we accrue warranty costs for specific customer product repairs that are in excess of our warranty obligation calculation described above. Accrued warranty reserves are included in other accrued liabilities in the accompanying balance sheets.

### ***Long-Lived Assets***

Our long-lived assets include definite-lived intangible assets and property and equipment. The net balance of our definite-lived intangible assets and property and equipment at December 31, 2008 amounted to \$19.8 million and \$11.6 million, respectively.

In previous years our long-lived asset balance has included goodwill, which represents the excess of cost over the assigned value of the net assets in connection with prior acquisitions. Pursuant to SFAS No. 142, we are required to test goodwill for impairment at least annually. Additionally, we assess goodwill for impairment if any adverse conditions exist that would indicate impairment. Conditions that would trigger an impairment assessment, include, but are not limited to, (i) a significant decline in the Company's market capitalization, (ii) a

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significant adverse change in legal factors or in the business climate that could affect the value of an asset, (iii) or an adverse action or assessment by a regulator. The Company is considered one reporting unit. As a result, goodwill impairment testing is performed at the reporting unit level in a two-step process, which consists of, first, comparing the Company's fair value to its carrying value, including goodwill. If the Company's fair value exceeds its carrying value, applicable goodwill is not considered to be impaired. If the Company's carrying value exceeds its fair value, there is an indication of impairment, in which case we would perform the second step, including a further and more detailed analysis in order to corroborate any such impairment.

In accordance with SFAS No. 142, our annual goodwill impairment test was performed during the third quarter of 2008. General economic conditions combined with the resulting decline in the Company's stock price, were considered triggering events that required us to re-perform our goodwill impairment test at the end of the fourth quarter of 2008. To perform the test, a fair value for the Company was estimated primarily based on the market approach, using the market capitalization method. An impairment loss was then calculated based on an allocation of the fair value of the Company to the fair value of the Company's assets and liabilities in a manner similar to a purchase price allocation in a business combination. This resulted in an impairment charge representing the entire balance of goodwill, which totaled \$67.3 million, net of adjustments and as of December 31, 2008 we had no remaining indefinite lived intangible assets.

Intangible assets, net of accumulated amortization, primarily consist of acquired patents, completed technology, technology licenses, trade names and customer lists. Intangible assets are being amortized on a straight-line basis over estimated useful lives ranging from one to ten years. Property and equipment, net of accumulated depreciation, primarily consists of office equipment and software, manufacturing equipment, leasehold improvements and other physical assets owned by RadiSys. Property and equipment are being depreciated or amortized on a straight-line basis over estimated useful lives ranging from one to 15 years. We assess impairment of intangible assets and property and equipment whenever conditions indicate that the carrying values of the assets may not be recoverable.

Conditions that would trigger a long-lived asset impairment assessment include, but are not limited to, a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator. If we determine that a long-lived asset impairment assessment is required, we must determine the fair value of the asset, which is determined based on the associated value of estimated future cash flows. We would estimate future cash flows using assumptions about our expected future operating performance. Our estimates of future cash flows may differ from actual cash flow due to, among other things, technological changes, economic conditions or changes to our business operations. Impairments would be recognized in operating results to the extent that the carrying value exceeds this calculated fair value of the long-lived assets.

Considerable management judgment is required in determining if and when a condition would trigger an impairment assessment of our long-lived assets and once such a determination has been made, considerable management judgment is required to determine the fair market value of the long-lived asset. If the trading price or the average trading price of our common stock is below the book value per share for a sustained period or if and when a condition has triggered an impairment analysis of our long-lived assets, we may incur substantial impairment losses due to the write-down or the write-off of our long-lived assets.

The triggering events that resulted in the impairment analysis of goodwill were also considered triggering events that required us to perform an impairment test of our long lived assets at the end of the fourth quarter of 2008. For our long lived assets, we determined no impairment existed. However, during the analysis we noted that the benefit associated with certain of our intangible assets exceeded their remaining depreciable lives and therefore we adjusted their remaining depreciable lives prospectively. See Note 9 of the Notes to the Consolidated Financial Statements for additional details regarding these changes in accounting estimate.

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### ***Income Taxes***

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of the assets and liabilities. We record a valuation allowance to reduce deferred tax assets to the amount expected to “more likely than not” be realized in our future tax returns. Should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, adjustments to the valuation allowance for deferred tax assets may be required. The net deferred tax assets amounted to \$56.4 million as of December 31, 2008. As of December 31, 2008 we estimate utilization of the net deferred tax assets will require that we generate approximately \$56.0 million and \$41.5 million in taxable income in the United States and Canada, respectively, prior to the expiration of net operating loss and tax credit carryforwards which will occur between 2009 and 2028. We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, we would increase the valuation allowance and make a corresponding charge to earnings in the period in which we make such determination. Likewise, if we later determine that we are more likely than not to realize the net deferred tax assets, we would reverse the applicable portion of the previously provided valuation allowance. All future reversals of the valuation allowance would result in a benefit in the period recognized.

### ***Allowance for Doubtful Accounts***

We have a relatively small set of multinational customers that typically make up the majority of our accounts receivable balance. Our allowance for doubtful accounts is determined using a combination of factors to ensure that our trade receivables balances are not overstated. We record reserves for individual accounts when we become aware of a customer’s inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer’s operating results or financial position. If circumstances related to customers change, our estimates of the recoverability of receivables would be further adjusted. At December 31, 2008, 39.8% of our accounts receivable was due from our two largest customers. If one of these large customers or a number of our smaller customers files for bankruptcy or otherwise is unable to pay the amounts due to us, the current allowance for doubtful accounts may not be adequate. During the years ended December 31, 2008 and 2007, there were no significant account balances reserved for and the allowance for doubtful accounts increased by \$86,000 as a result of additional provisions partially offset by the write-off of previously specifically-identified account balances.

We maintain a non-specific bad debt reserve for all customers based on a variety of factors, including the length of time receivables are past due, trends in overall weighted average risk rating of the total portfolio, macroeconomic conditions, significant one-time events and historical experience. Typically, this non-specific bad debt reserve amounts to approximately 1% of quarterly revenues.

### ***Accrued Restructuring and Other Charges***

Expenses associated with exit or disposal activities are recognized when probable and estimable. Because we have a history of paying severance benefits, the cost of severance benefits associated with a restructuring charge is recorded when such costs are probable and the amount can be reasonably estimated.

For leased facilities that were vacated and subleased, an amount equal to the total future lease obligations from the date of vacating the premises through the expiration of the lease, net of any future sublease income, was recorded as a part of restructuring charges.

We have engaged, and may continue to engage, in restructuring actions, which require us to make significant estimates in several areas including: realizable values of assets made redundant or obsolete; expenses for severance and other employee separation costs; the ability to generate sublease income, as well as our ability

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to terminate lease obligations at the amounts we have estimated; and other exit costs. Should the actual amounts differ from our estimates, the amount of the restructuring charges could be materially impacted. For a description of our restructuring actions, refer to our discussion of restructuring charges in the Results of Operations section.

### *Revenue Recognition*

We recognize revenue when the earnings process is complete, as evidenced by the following revenue recognition criteria: an agreement with the customer; fixed pricing; transfer of title and risk of loss and customer acceptance, if applicable; and that the collectibility of the resulting receivable is reasonably assured. When a sales arrangement contains multiple elements, such as hardware and software products, licenses and/or services, we allocate revenue to each element based on its relative fair value, or for software, based on vendor specific objective evidence ("VSOE") of fair value. In the absence of fair value for a delivered element, we first allocate revenue to the fair value of the undelivered elements and the residual revenue to the delivered elements. Where the fair value for an undelivered element cannot be determined, we defer revenue for the delivered elements until the undelivered elements are delivered. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services or subject to customer-specified return or refund privileges. We enter into contracts to sell our products and services, and, while the majority of our sales agreements contain standard terms and conditions under which we recognize revenue upon shipment of product, infrequently we enter into agreements that contain non-standard terms and conditions. Non-standard terms and conditions can include, but are not limited to, customer acceptance criteria or other post-delivery obligations. As a result, significant contract interpretation is sometimes required to determine the appropriate timing of revenue recognition. The components of total revenues were as follows (in thousands):

	For the Years Ended December 31,		
	2008	2007	2006
Hardware	\$ 356,228	\$ 310,001	\$ 280,720
Software royalties and licenses	10,382	9,440	6,193
Software maintenance	3,093	2,876	1,402
Engineering and other services	2,881	2,915	4,166
Total revenues	<u>\$ 372,584</u>	<u>\$ 325,232</u>	<u>\$ 292,481</u>

### *Hardware*

Revenue from hardware products where software is incidental is recognized in accordance with Staff Accounting Bulletin ("SAB") 104. Under our standard terms and conditions of sale, we transfer title and risk of loss to the customer at the time product is shipped to the customer and revenue is recognized accordingly, unless customer acceptance is uncertain or significant obligations remain. We reduce revenue for estimated customer returns for rotation rights as well as for price protection rights according to agreements with our distributors. The amount of revenues derived from these distributors as a percentage of total revenues was 15.2%, 9.9% and 3.4% for the years ended December 31, 2008, 2007 and 2006, respectively.

The software content included in hardware products such as our ATCA systems, certain MCPD products and CMS solutions are considered to be more than incidental and our ATCA arrangements generally include multiple elements such as hardware, technical support services as well as specified software upgrades or enhancements. As such, the revenue associated with these products is recognized in accordance with Statement of Positions ("SOP") 97-2 Software Revenue Recognition ("SOP 97-2").

### *Software royalties and licenses*

Revenue from Software royalties and licenses is recognized in accordance with SOP 97-2. Revenue from customers for prepaid, non-refundable software royalties is recorded when the revenue recognition criteria have been met. Revenue for non-prepaid royalties is recognized at the time the underlying product is shipped by the

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customer paying the royalty. We recognize software license revenue at the time of shipment or upon delivery of the software provided all relevant revenue recognition criteria have been met and vendor-specific objective evidence exists to allocate the total fee to all delivered and undelivered elements of the arrangement. We defer revenue on arrangements including specified software upgrades until the specified upgrade has been delivered.

### *Software maintenance*

Software maintenance services are recognized as earned on the straight-line basis over the terms of the contract in accordance with SOP 97-2. The fair value of our post-contract support has been determined by renewal rates within the Company's support agreements as well as the actual amounts charged to customers for renewal of their support services.

### *Engineering and other services*

Engineering services revenue is recognized upon completion of certain contractual milestones and customer acceptance of the services rendered in accordance with SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts ("SOP 81-1"). Other services revenues include hardware repair services and custom software implementation projects. Hardware repair services revenues are recognized when the services are complete. Software implementation revenues are recognized upon completion of certain contractual milestones and customer acceptance of the services rendered.

### *Deferred income*

Deferred income represents amounts received or billed for the following types of transactions:

- *Distributor sales*—Certain sales are made to distributors under agreements providing price protection and right of return on unsold merchandise. Revenue and costs relating to such distributor sales are deferred until the product is sold by the distributor or return privileges and price protection rights terminate, at which time related estimated distributor resale revenue, estimated effects of distributor price adjustments, and estimated costs are reflected in the Consolidated Statement of Operations.

During the first quarter of 2008, we entered into new arrangements with our significant distributors servicing the MCPD business. For a few of these distributors, we eliminated some of the price adjustment programs. For those distributors where significant price adjustment programs remain in place, we will continue to defer revenue until the distributors sell the merchandise.

Our revenue reporting for these distributors is highly dependent on receiving pertinent and accurate data from our distributors in a timely fashion. Distributors provide us periodic data regarding the product, price, quantity, and end customer when products are resold as well as the quantities of our products they still have in stock. We must use estimates and apply judgments to reconcile distributors' reported inventories to their activities. Any error in our judgment could lead to inaccurate reporting of our revenues, deferred income on sales to distributors, and net income.

- *Undelivered elements of an arrangement*—Certain software sales include specified free upgrades and enhancements to an existing product. Revenue for such products is deferred until the future obligation is fulfilled.
- *Service sales*—Certain sales are made for products and related service where the fair value of the service cannot be determined. Revenues for such sales are deferred until service obligations represent the only undelivered element, at which point revenues are recognized ratably over the requisite service period. The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services or subject to customer-specified return or refund privileges.

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### *Stock-based Compensation*

Equity instruments are granted to employees, directors and consultants in certain instances, as defined in the respective plan agreements. In 2008, 2007, and 2006, we issued stock options, restricted stock, and stock to our employees under our employee stock purchase plan ("ESPP").

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, using the modified prospective transition method, and therefore have not restated prior periods' results. Under this method we recognize compensation expense for all stock-based employee benefit plan equity awards granted after January 1, 2006 and prior to but not yet vested as of January 1, 2006, in accordance with SFAS 123R. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation on a straight-line basis over the requisite service period of the award for those shares expected to vest as described below. Prior to SFAS 123R adoption, we accounted for share-based payments under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25").

We continue to use the Black-Scholes model to measure the grant date fair value of stock options and ESPP shares. The grant date fair value of stock options that are expected to vest is recognized on a straight-line basis over the requisite service period, which is equal to the option vesting period, which is generally three years. The grant date fair value of ESPP shares that are expected to vest is recognized on a straight-line basis over the requisite service period, which is generally 18 months, subject to modification at the date of purchase due to the ESPP look-back feature. The grant date fair value of restricted stock is equal to the closing price of RadiSys shares as quoted on the NASDAQ Global Select Market on the date of grant. The grant date fair value of restricted stock that are expected to vest is recognized on a straight-line basis over the requisite service period, which is 3 years. The estimate of the number of options, ESPP shares and restricted stock expected to vest is determined based on historical experience.

To determine the fair value of the stock options and ESPP shares, using the Black-Scholes option pricing model, the calculation takes into consideration the effect of the following:

- exercise price of the option or purchase price of the ESPP share;
- price of our common stock on the date of grant;
- expected term of the option or share;
- expected volatility of our common stock over the expected term of the option or share; and
- risk free interest rate during the expected term of the option or share.

The calculation includes several assumptions that require management's judgment. The expected term of the option or share is determined based on assumptions about patterns of employee exercises and represents a probability-weighted average time-period from grant until exercise of stock options, subject to information available at time of grant. Determining expected volatility generally begins with calculating historical volatility for a similar long-term period and then considers the ways in which the future is reasonably expected to differ from the past.

As part of our SFAS 123R adoption, we also examined our historical pattern of option exercises in an effort to determine if there were any discernable activity patterns based on certain employee populations. From this analysis, we identified three employee populations. The expected term computation is based on historical vested option exercises and post-vest forfeiture patterns and includes an estimate of the expected term for options that were fully vested and outstanding at December 31, 2006 for each of the three populations identified. The estimate of the expected term for options that were fully vested and outstanding at December 31, 2006 was determined as the midpoint of a range of estimated expected terms determined as follows: the low end of the range assumes the fully vested and outstanding options settle on December 31, 2006 and the high end of the range assumes that these options expire upon contractual term. The risk free interest rate is based on the U.S. Treasury constant maturities in effect at the time of grant for the expected term of the option or share.

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Determining the appropriate fair value model and, as noted above, calculating the fair value of equity instruments associated with our employee benefit plans require the input of highly subjective assumptions. The assumptions used in calculating the fair value of these equity instruments represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 19 to the Consolidated Financial Statements for a further discussion on stock-based compensation.

### ***Derivatives***

During 2008, we began to enter into forward foreign currency exchange contracts to reduce the impact of foreign currency exchange risks where natural hedging strategies could not be effectively employed.

We do not hold or issue derivative financial instruments for trading purposes. The purpose of our hedging activities are to reduce the risk that the eventual cash flows of the underlying assets, liabilities and firm commitments will be adversely affected by changes in exchange rates. In general, our hedging activities do not create foreign currency exchange rate risk because fluctuations in the value of the instruments used for hedging purposes are offset by fluctuations in the value of the underlying exposures being hedged. Counterparties to derivative financial instruments expose us to credit-related losses in the event of nonperformance. We do not believe there is a significant credit risk associated with our hedging activities because the counterparties are all large financial institutions with high credit ratings.

All derivatives, including foreign currency exchange contracts are recognized on the balance sheet at fair value. When specific criteria required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") have been met, changes in the fair values of hedge contracts related to anticipated transactions are recorded in other comprehensive income (loss) rather than net income (loss) until the underlying hedged transaction affects net income. One of the criteria for this accounting treatment is that the forward foreign currency exchange contract amount should not be in excess of specifically identified anticipated transactions. By their nature, estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. If anticipated transaction estimates or actual transaction amounts decrease below hedged levels, or when the timing of transactions change significantly, we would reclassify a portion of the cumulative changes in fair values of the related hedge contracts from other comprehensive income (loss) to other income (expense) during the quarter in which the changes occur.

We adopted SFAS No. 157, "Fair Value Measurements," ("SFAS 157"); however the adoption did not have a material impact on our results of operations.

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**Results of Operations**

The following table sets forth certain operating data as a percentage of revenues for the years ended December 31, 2008, 2007 and 2006.

	For the Years Ended December 31,		
	2008	2007	2006
Revenues	100.0%	100.0%	100.0%
Cost of sales:			
Cost of sales	70.3	73.3	73.0
Amortization of purchased technology	3.9	4.6	—
Total cost of sales	74.2	77.9	73.0
Gross margin	25.8	22.1	27.0
Research and development	13.2	14.2	14.2
Selling, general, and administrative	13.6	14.7	13.5
Intangible assets amortization	1.2	1.4	2.1
In-process research and development charge	—	—	4.8
Goodwill impairment charge	18.1	—	—
Restructuring and other charges	0.2	0.4	0.0
Loss from operations	(20.5)	(8.6)	(7.6)
Interest expense	(0.7)	(0.5)	(0.6)
Interest income	0.8	2.0	3.2
Other income (expense), net	0.2	(0.1)	0.3
Loss from continuing operations before income tax benefit	(20.2)	(7.2)	(4.7)
Income tax benefit	(2.5)	(1.8)	(0.3)
Net loss	(17.7)%	(5.4)%	(4.4)%

**Comparison of Year 2008 and Year 2007**

*Revenues.* Revenues increased by \$47.4 million, or 14.6%, from \$325.2 million in 2007 to \$372.6 million in 2008. The increase in revenues during the year ended December 31, 2008 compared to the year ended December 31, 2007 was driven by increases in revenues in the communications networking and commercial systems markets of \$45.4 million and \$2.0 million, respectively.

Revenues in the communications networking market increased in 2008 compared to 2007 primarily due to increases in next generation communication revenues from our Intel MCPD acquisition, for which a full year of revenue was realized, as well increases in revenues from organic ATCA and media server products. Offsetting these increases, were decreased revenues from legacy enterprise products in the IP networking and messaging markets, as various legacy enterprise products approach end of life.

Revenues in the commercial systems market increased slightly during 2008 as compared to 2007, primarily due to increases within the other commercial submarket, which offset decreased revenues in the industrial automation, medical, and test and measurement submarkets.

Given the dynamics of these markets, we may experience general fluctuations in the percentage of revenue attributable to each market. As a result, the quarter to quarter and year to year comparisons of our markets often are not indicative of overall economic trends affecting the long-term performance of our markets. We currently expect that each of our markets will continue to represent a significant portion of total revenues.

From a geographic perspective, for the year ended December 31, 2008 compared to the same period in 2007, the percentage of non-US revenues by delivery destination remained relatively flat. Revenues as measured

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by destination in the Asia Pacific region increased by \$26.2 and represented 30.5% of total revenues up from 26.8% in 2007. Revenues in the EMEA region increased by \$5.9 million in 2008, however, as a percent of total revenues decreased to 37.0% in 2008, down from 40.6% in 2007. Increased revenues from both the Asia Pacific and EMEA regions were driven by the addition of Asian Pacific and European customer revenues resulting from our MCPD acquisition. Increased sales to Nokia Siemens Networks further contributed to these increases. For the year ended December 31, 2008 revenues from North America increased by \$15.3 million compared to the same period in 2007. This increase is primarily due to the addition of revenues from our MCPD acquisition as well as increased revenues from the media server revenues.

We currently expect continued fluctuations in the percentage of revenue from each geographic region. Additionally, we expect non-U.S. revenues to remain a significant portion of our revenues.

Gross margins as a percentage of revenues were 25.8% and 22.1% for 2008 and 2007, respectively. The increase in gross margin as a percentage of revenues for the year ended December 31, 2008 compared to the same period in 2007 was primarily attributable to an increased mix of revenues from higher margin next generation communication products. This increase was further driven by operational improvements ultimately leading to lower excess and obsolete charges as well as increased leverage of fixed costs.

*Research and Development.* R&D expenses consist primarily of salary, bonuses and benefits for product development staff, and cost of design and development supplies and equipment, net of reimbursements for non-recurring engineering services. R&D expenses increased \$3.1 million, or 6.7%, from \$46.2 million in 2007 to \$49.3 million in 2008. The increase for the year ended December 31, 2008 compared to the same period in 2007 was primarily driven by the addition of the MCPD business, which includes increased headcount as well as stock-based compensation expense. The increase was further driven by increased incentive compensation costs. These increases were partially offset by decreased salary and related costs resulting from the restructuring activities undertaken in the second quarter of 2008, as well as conscious efforts to manage R&D spending.

*Selling, General, and Administrative.* Selling, general and administrative (“SG&A”) expenses consist primarily of salary, commissions, bonuses and benefits for sales, marketing, executive, and administrative personnel, as well as professional services and costs of other general corporate activities. SG&A expenses increased \$3.0 million, or 6.2%, from \$47.9 million in 2007 to \$50.8 million in 2008. The increase for the year ended December 31, 2008 compared to the same period in 2007 is primarily due to increased incentive compensation and sales commission costs, including direct representative costs. These increases in costs are primarily the result of increased revenue, new design wins and improved operating results. The increase in SG&A year over year was also attributable to the employee and related costs of the MCPD acquisition.

*Stock-based Compensation Expense.* Stock-based compensation expense for the year ended December 31, 2008 consists of amortization of stock-based compensation associated with stock options, restricted stock and ESPP shares unvested and outstanding on January 1, 2006 and new stock options, restricted stock and ESPP shares granted for the year ended December 31, 2008. During the year ended December 31, 2008, the Company incurred \$9.6 million in stock-based compensation. During the year ended December 31, 2007, we incurred \$9.9 million in stock-based compensation expense.

We recognized stock-based compensation expense as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Cost of sales	\$ 1,031	\$ 971
Research and development	3,001	2,793
Selling, general, and administrative	<u>5,584</u>	<u>6,117</u>
Total stock-based compensation expense	<u>\$ 9,616</u>	<u>\$ 9,881</u>

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*Deferred Compensation Expense.* On September 1, 2006, all outstanding Convedia stock options vested and were considered exercised immediately. The proceeds of which were distributed as follows: 75% of the purchase price per share less the exercise price was paid to the option holder at closing and the remaining 25% will be paid in full to those Convedia employees still employed by RadiSys after one year of service. The 75% paid at the time of the acquisition is included in the purchase price and is allocated to goodwill. The remaining 25% is recorded as deferred compensation and amortized through the Consolidated Statement of Operations for the life of the asset (one year). Pursuant to the purchase agreement any forfeitures are reallocated to the remaining Convedia employees. We paid the remaining 25% of the proceeds calculation on September 30, 2007.

We recognized deferred compensation expense as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Cost of sales	\$ —	\$ 67
Research and development	—	426
Selling, general, and administrative	—	757
Total deferred compensation expense	<u>\$ —</u>	<u>\$ 1,250</u>

*Intangible Assets Amortization.* Intangible assets consist of purchased technology, patents and other identifiable intangible assets. We reclassified certain amortization in 2007 to cost of sales based on our view that the intangibles are associated with product costs and our revenue-generating process. Amortization of purchased technology for prior periods is considered immaterial and has not been adjusted. Intangible assets amortization expense included in results of operations was \$4.6 million and \$4.4 million in 2008 and 2007, respectively. Intangible assets amortization increased primarily due to the amortization of purchased technology, for which the impact of a full year was realized. We perform reviews for impairment of the purchased intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

*Restructuring and Other Charges.* We evaluate the adequacy of the accrued restructuring and other charges on a quarterly basis. As a result, we record certain reclassifications and reversals to the accrued restructuring and other charges based on the results of the evaluation. The total accrued restructuring and other charges for each restructuring event are not affected by reclassifications. Reversals are recorded in the period in which we determine that expected restructuring and other obligations are less than the amounts accrued. Tables summarizing the activity in the accrued liability for each restructuring event are contained in Note 11 of the Notes to the Consolidated Financial Statements. During 2008 and 2007, we recorded restructuring and other charges and reversals as described below.

*First Quarter 2007 Restructuring.* During the first quarter of 2007, we incurred employee-related expenses associated with certain engineering realignments. The costs incurred in this restructuring event are associated with employee termination benefits, including severance and medical benefits. All restructuring activities were completed by September 30, 2007. In 2007, we incurred \$158,000 of employee-related, net expenses. No such charges were incurred during 2008.

*Second Quarter 2007 Restructuring.* During the second quarter of 2007, we incurred employee-related expenses associated with skill set changes for approximately 20 employees. The changes involved creating an integrated structure with our media server business along with some skill set changes in certain selling, general and administrative and engineering groups. The costs incurred in this restructuring event include employee severance and medical benefits. In 2007, we incurred \$1.3 million of employee-related, net expenses. No additional charges related to this restructuring event were incurred in the year ended December 31, 2008. All restructuring activities were completed by March 31, 2008.

*Second Quarter 2008 Restructuring.* During the second quarter of 2008, we initiated a restructuring plan that included the elimination of 23 positions primarily initiated with the intent to return our engineering spend to

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levels which align with targeted profitability as well as refocus our skill sets in order to promote new product growth and provide enhanced service and support to existing customers. During 2008, we incurred \$598,000 of employee-related expenses as part of this restructure. We expect to complete all activities associated with the restructuring by March 31, 2009.

*Interest Expense.* Interest expense includes interest incurred on our convertible notes and the Company's new lines of credit. Interest expense increased \$1.0 million, or 61.0%, from \$1.7 million in 2007 to \$2.7 million in 2008. The increase in interest expense in 2008 compared to 2007 was due to the issuance of \$55.0 million of our 2013 convertible senior notes with an interest rate of 2.75% on February 6, 2008, along with interest charges incurred from borrowings on our revolving line of credit.

*Interest Income.* Interest income decreased \$3.3 million, or 52.2%, from \$6.4 million in 2007 to \$3.1 million in 2008. Interest income decreased as a result of a lower average balance of cash, cash equivalents and investments during 2008 compared to 2007 as well as a decline in the average yield on investment holdings. The decline in cash, cash equivalents and investments was due to the repurchase of \$98.4 million and \$3.1 million of our 2023 and 2013 convertible notes, respectively. There was also a decline in cash, cash equivalents and investments resulting from the acquisition of Intel's MCPD business in 2007 for approximately \$32.0 million.

*Other Income (Expense), Net.* Other income (expense), net, primarily includes foreign currency exchange gains and losses. Other income (expense), net, was \$629,000 in 2008 compared to \$(169,000) in 2007. The increase is primarily due to net gains on the buyback of our convertible notes, which totaled \$843,000 during 2008.

*Income Tax Provision.* We recorded tax benefits of \$9.5 million and \$6.0 million for the years ended December 31, 2008 and 2007, respectively. Our effective tax rate for the year ended 2008 was (12.6%) compared to (25.5%) for the year ended December 31, 2007. The Company's current effective tax rate differs from the statutory rate primarily due to the impact of goodwill impairment, stock option expense, research and development tax credits generated in 2008, the revaluation of certain net deferred tax assets due to changes in foreign currency exchange rates and taxes on foreign income that differ from U.S. tax rate.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed into law which extended the research and development tax credit through December 31, 2009. Congress has reinstated the tax credit retroactive to January 1, 2008. We have recorded federal and Canadian research and development credits of approximately \$709,000 and \$1.3 million, respectively, for the year ended 2008.

At December 31, 2008, we had net deferred tax assets of \$56.4 million. Valuation allowances of \$5.6 million and \$6.3 million, as of December 31, 2008 and 2007, respectively, have been provided for deferred income tax assets related primarily to net operating loss and tax credit carryforwards that may not be realized. The decrease in valuation allowance of \$752,000 for the year ended December 31, 2008 compared to the year ended December 31, 2007 is primarily attributable to an increase in the utilization of net operating loss carryforwards from the acquisition of Microware in August 2001 and the expiration of a capital loss carryforward that was previously reserved. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, we would increase the valuation allowance and make a corresponding charge to earnings in the period in which we make such determination. Likewise, if we later determine that we are more likely than not to realize the net deferred tax assets, we would reverse the applicable portion of the previously provided valuation allowance. All future reversals of the valuation allowance would result in a benefit in the period recognized. Although realization is not assured, management believes that it is more likely than not that the balance of the deferred tax assets, net of the valuation allowance, as of December 31, 2008 will be realized.

The Company recognizes uncertain tax positions in accordance with FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109" ("FIN 48"). FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being

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recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48 on January 1, 2007.

The Company is subject to income taxes in the United States and ten foreign countries, and on occasion, we have been subject to corporate income tax audits. In determining the amount of income tax liabilities we make estimates of the results of future examinations of our income tax returns by taxing authorities. We believe that we have adequately provided for in our financial statements for additional taxes that we estimate may result from these examinations. If these amounts exceed our estimates, reversal of the reserves would result in the recognition of tax benefits in the period in which we determine the liability is no longer necessary. If an ultimate tax assessment exceeds our estimate of tax liabilities, an additional charge to expense will result.

### ***Comparison of Year 2007 and Year 2006***

*Revenues.* Revenues increased by \$32.8 million, or 11.2%, from \$292.5 million in 2006 to \$325.2 million in 2007. The increase in revenue during the year ended December 31, 2007 compared to the year ended December 31, 2006 was due to increases in revenues in the communications networking and commercial systems markets of \$29.5 million and \$3.3 million, respectively.

Revenues in the communications networking market increased in the year ended December 31, 2007 compared to the year ended December 31, 2006 due primarily to the addition of media server business and MCPD revenues. Revenues also increased due to increased wireless revenues partially offset by decreases in the IP networking and messaging submarket. In the fourth quarter of 2007 our wireless business increase was driven in part by some acceleration of customer demand into the fourth quarter.

Revenues in the commercial systems market increased in the year ended December 31, 2007 compared to the year ended December 31, 2006, primarily due to increases within the test and measurement submarket. The increase in revenues from the test and measurement submarket was attributable to design wins that have ramped into production in the latter half of 2006.

Given the dynamics of these markets, we experience general fluctuations in the percentage of revenue attributable to each market and, as a result, the quarter to quarter and year to year comparisons of our markets often are not indicative of overall economic trends affecting the long-term performance of our markets.

From a geographic perspective, for the year ended December 31, 2007 compared to the same period in 2006 the percentage of non-US revenues by delivery destination increased as a percentage of total revenues. Revenues as measured by destination in the Asia Pacific region increased by \$36.8 million while EMEA revenues decreased by \$8.7 million. This was primarily due to existing multinational customers requesting the delivery of products directly into the Asia Pacific region and decreased revenues attributable to our EMEA region associated with our wireless infrastructure products. For the year ended December 31, 2007 revenues from North America increased by \$4.6 million compared to the same period in 2006. This increase was due to primarily to the addition of media server business revenues.

Gross margins as a percentage of revenues were 22.1% and 27.0% for 2007 and 2006, respectively. The decrease in gross margin as a percentage of revenues for the year ended December 31, 2007 compared to the same period in 2006 was primarily attributable to amortization of purchased technology of \$15.0 million. We reclassified this amortization in 2007 to cost of sales based on our view that the intangibles are associated with product costs and our revenue-generating process. Amortization of purchased technology for prior periods was considered immaterial and has not been adjusted. This decrease was also due to product mix in our communications and commercial markets, increased excess and obsolescence inventory charges and costs associated with the remaining transitions from our North Carolina manufacturer.

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*Research and Development.* R&D expenses in 2007 consisted primarily of salary, bonuses and benefits for product development staff, and cost of design and development supplies and equipment, net of reimbursements for non-recurring engineering services. R&D expenses increased \$4.8 million, or 11.4%, from \$41.5 million in 2006 to \$46.2 million in 2007. The increase for the year ended December 31, 2007 compared to the same period in 2006 was primarily associated with the addition of our media server business partially offset by lower engineering headcount due to restructurings done during the year to integrate our media server business. The increase was also due to an additional \$1.0 million of stock-based compensation expense.

*Selling, General, and Administrative.* SG&A expenses in 2007 consisted primarily of salary, commissions, bonuses and benefits for sales, marketing, executive, and administrative personnel, as well as professional services and costs of other general corporate activities. SG&A expenses increased \$8.5 million, or 21.7%, from \$39.3 million in 2006 to \$47.9 million in 2007. The increase for the year ended December 31, 2007 compared to the same period in 2006 was primarily associated with higher sales and marketing headcount as we invested in the infrastructure to sell our standards-based products. The increase was also due to the addition of our media server business as well as an additional \$2.1 million of stock-based compensation expense.

*Stock-based Compensation Expense.* Stock-based compensation expense for the year ended December 31, 2007 consisted of amortization of stock-based compensation associated with stock options, restricted stock and ESPP shares unvested and outstanding on January 1, 2006 and new stock options, restricted stock and ESPP shares granted for the year ended December 31, 2007. During the year ended December 31, 2007, the Company incurred \$9.9 million in stock-based compensation. During the year ended December 31, 2006, we incurred \$6.6 million in stock-based compensation expense.

We recognized stock-based compensation expense as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Cost of sales	\$ 971	\$ 876
Research and development	2,793	1,745
Selling, general, and administrative	<u>6,117</u>	<u>3,968</u>
Total stock-based compensation expense	<u>\$ 9,881</u>	<u>\$ 6,589</u>

*Deferred Compensation Expense.* On September 1, 2006, all outstanding Convedia stock options vested and were considered exercised immediately. The proceeds of which were distributed as follows: 75% of the purchase price per share less the exercise price was paid to the option holder at closing and the remaining 25% will be paid in full to those Convedia employees still employed by RadiSys after one year of service. The 75% paid at the time of the acquisition is included in the purchase price and is allocated to goodwill. The remaining 25% is recorded as deferred compensation and amortized through the Consolidated Statement of Operations for the life of the asset (one year). Pursuant to the purchase agreement any forfeitures are reallocated to the remaining Convedia employees. We paid the remaining 25% of the proceeds calculation on September 30, 2007.

We recognized deferred compensation expense as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Cost of sales	\$ 67	\$ 34
Research and development	426	213
Selling, general, and administrative	<u>757</u>	<u>377</u>
Total deferred compensation expense	<u>\$ 1,250</u>	<u>\$ 624</u>

*Intangible Assets Amortization.* Intangible assets consisted of purchased technology, patents and other identifiable intangible assets. Intangible assets amortization expense was \$4.4 million and \$6.2 million in 2007

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and 2006, respectively. Intangible assets amortization decreased primarily due to the amortization of purchased technology which was included with cost of sales. We reclassified certain amortization in 2007 to cost of sales based on our view that the intangibles are associated with product costs and our revenue-generating process. Amortization of purchased technology for prior periods was considered immaterial and was not adjusted. We perform reviews for impairment of the purchased intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

*Restructuring and Other Charges.* We evaluate the adequacy of the accrued restructuring and other charges on a quarterly basis. As a result, we record certain reclassifications and reversals to the accrued restructuring and other charges based on the results of the evaluation. The total accrued restructuring and other charges for each restructuring event are not affected by reclassifications. Reversals are recorded in the period in which we determine that expected restructuring and other obligations are less than the amounts accrued. Tables summarizing the activity in the accrued liability for each restructuring event are contained in Note 11 of the Notes to the Consolidated Financial Statements. During 2007 and 2006, we recorded restructuring and other charges and reversals as described below.

*Fourth Quarter 2006 Restructuring.* During the fourth quarter of 2006, we initiated a restructuring plan that included the elimination of 12 positions primarily supporting our contract manufacturing operations as a result of the termination of our relationship with one of our contract manufacturers in North America. The restructuring plan also includes closing our Charlotte office. In 2006, we incurred severance and other employee-related separation costs of \$329,000 as a result of this restructuring event. In 2007 we incurred additional severance and other employee-related separation costs of \$127,000 offset by reversals of \$204,000, respectively, associated with three employees who found new positions within the Company. In addition, we incurred a cost of \$64,000 associated with the closing of the Charlotte office during the third quarter of 2007 offset by \$7,000 of amortization.

*First Quarter 2007 Restructuring.* During the first quarter of 2007, we incurred employee-related expenses associated with certain engineering realignments. The costs incurred in this restructuring event are associated with employee termination benefits, including severance and medical benefits. All restructuring activities were completed by September 30, 2007. In 2007, we incurred \$158,000 of employee-related, net expenses.

*Second Quarter 2007 Restructuring.* During the second quarter of 2007, we incurred employee-related expenses associated with skill set changes for approximately 20 employees. The changes involved creating an integrated structure with our media server business along with some skill set changes in certain selling, general and administrative and engineering groups. The costs incurred in this restructuring event include employee severance and medical benefits. In 2007, we incurred \$1.3 million of employee-related, net expenses.

*Interest Expense.* Interest expense included interest incurred on the convertible notes. Interest expense decreased \$54,000, or 3.1%, from \$1.7 million in 2006 to \$1.7 million in 2007. The decrease in the interest expense in 2007 compared to 2006 is due to the payment of the remaining principal amount of the convertible subordinated notes in August of 2007.

*Interest Income.* Interest income decreased \$2.9 million, or 31.5%, from \$9.3 million in 2006 to \$6.4 million in 2007. Interest income decreased primarily due to our decreased cash and cash equivalents and investments balance associated with the purchase of Convedia and MCPD.

*Other Income (Expense), Net.* Other income (expense), net, primarily includes foreign currency exchange gains and losses. Other income (expense), net, was \$(169,000) in 2007 compared to \$851,000 in 2006. Foreign currency exchange rate fluctuations resulted in a net loss of \$116,000 in 2007 compared to a net gain of \$96,000 in 2006. The change in the foreign currency exchange rate fluctuations for the year is due to changes in the Canadian Dollar, Euro, Israeli Shekel, Japanese Yen and Chinese Yuan relative the U.S. Dollar.

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In addition to foreign currency exchange rate fluctuations, other income (expense) included gains (losses) associated with our executive deferred compensation plan of \$(52,000) and \$362,000 for 2007 and 2006, respectively. For 2006, other income (expense), net also included a \$400,000 gain associated with a supplier settlement.

*Income Tax Provision.* We recorded tax benefits of \$6.0 million and \$746,000 for the years ended December 31, 2007 and 2006, respectively. Our effective tax rate for the year ended 2007 was (25.5%) compared to (5.4%) for the year ended December 31, 2006. The Company's current effective tax rate differs from the statutory rate primarily due to the impact of stock option expense, research and development tax credits generated in 2007, the revaluation of certain net deferred tax assets due to changes in foreign currency exchange rates and taxes on foreign income that differ from U.S. tax rate.

On December 20, 2006, President Bush signed the Tax Relief and Health Care Act of 2006 (the "Tax Relief Act"), which extended the research and development tax credit. Under the Tax Relief Act the research and development tax credit was retroactively reinstated to January 1, 2006 and is available through December 31, 2007. We have recorded federal and Canadian research and development credits of approximately \$770,000 and \$1.8 million, respectively, for the year ended 2007.

## Liquidity and Capital Resources

The following table summarizes selected financial information for each of the years ended on the dates indicated:

	December 31, 2008	December 31, 2007	December 31, 2006
	(Dollar amounts in thousands)		
Cash and cash equivalents	\$ 73,980	\$ 50,522	\$ 23,734
Short-term investments	—	72,750	102,250
Long-term investments	51,213	—	10,000
Cash and cash equivalents and investments	<u>\$ 125,193</u>	<u>\$ 123,272</u>	<u>\$ 135,984</u>
Working capital	\$ 66,067	\$ 61,840	\$ 161,575
Accounts receivable, net	\$ 45,551	\$ 70,548	\$ 42,549
Inventories, net	\$ 29,450	\$ 23,101	\$ 35,184
Accounts payable	\$ 34,123	\$ 49,675	\$ 39,699
Convertible senior notes	\$ 50,000	\$ 97,548	\$ 97,412
Convertible subordinated notes	\$ —	\$ —	\$ 2,410
Days sales outstanding (A)	45	79	53
Days to pay (B)	48	76	68
Inventory turns (C)	10.0	8.2	7.5
Inventory turns—days (D)	44	29	73
Cash cycle time—days (E)	41	32	58

(A) Based on ending net trade receivables divided by daily revenue (based on 365 days in each year presented).

(B) Based on ending accounts payable divided by daily cost of sales excluding amortization of purchased technology (based on 365 days in each year presented).

(C) Based on cost of sales, excluding amortization of purchased technology, divided by average ending inventory.

(D) Based on ending inventory divided by quarterly cost of sales excluding amortization of purchased technology (annualized and divided by 365 days).

(E) Days sales outstanding plus inventory turns—days, less days to pay.

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Cash and cash equivalents increased by \$23.5 million from \$50.5 million at December 31, 2007 to \$74.0 million at December 31, 2008. Activities impacting cash and cash equivalents are as follows:

### Cash Flows

	For the Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Cash provided by operating activities	\$ 34,855	\$ 19,971	\$ 9,062
Cash provided by (used in) investing activities	4,003	4,681	(88,179)
Cash (used in) provided by financing activities	(15,099)	1,783	12,366
Effects of exchange rate changes	(301)	353	430
Net increase (decrease) in cash and cash equivalents	<u>\$ 23,458</u>	<u>\$ 26,788</u>	<u>\$ (66,321)</u>

On September 12, 2007, we completed the acquisition of the MCPD business, paying cash of \$31.8 million at closing and estimated direct acquisition-related expenses of \$282,000.

During the years ended December 31, 2008 and 2007, we used \$6.3 million and \$5.7 million, respectively, for capital expenditures. During the year ended December 31, 2008 capital expenditures were primarily associated with integrating the MCPD business as well as various purchases made to upgrade our internal infrastructure. During the year ended December 31, 2007 capital expenditures were primarily associated with integrating the media server business and the MCPD business, upgrading our internal infrastructure as well as increasing manufacturing capabilities in our Hillsboro facility.

During the years ended December 31, 2008 and 2007, we received \$5.2 million and \$4.8 million, respectively, in proceeds from the issuance of common stock through the Company's stock compensation plans.

Changes in foreign currency rates impacted beginning cash balances during 2008 by (\$301,000). Due to the Company's international operations where transactions are recorded in functional currencies other than the U.S. Dollar, the effects of changes in foreign currency exchange rates on existing cash balances during any given periods results in amounts on the Consolidated Statements of Cash Flows that may not reflect the changes in the corresponding accounts on the Consolidated Balance Sheets.

As of December 31, 2008 and 2007 working capital was \$66.1 million and \$61.8 million, respectively. Working capital increased by \$4.3 million due primarily to a net decrease in current liabilities that was greater than the decrease in our current assets. The decrease in current assets was due primarily to the reclassification of our ARS to long-term along with a decrease in accounts receivable of \$25.0 million. These decreases were offset by an increased cash balance driven by cash flow from operations totaling \$34.9 million. The decrease in current liabilities resulted from the repurchase of our 2023 convertible senior notes for \$97.5 million and a decrease in accounts payable totaling \$15.6 million. These decreases were both offset by borrowings on our revolving line of credit.

### Investments

Short-term and long-term investments reported as (in thousands):

	December 31, 2008	December 31, 2007
Short-term investments	\$ —	\$ 72,750
Long-term investments	\$ 51,213	\$ —

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We currently hold investments in ARS, which are highly rated debt instruments with a long-term nominal maturity. The majority of our ARS represent interests in collateralized debt obligations supported by pools of government-backed student loans with S&P AAA ratings or Moody's Aaa ratings at the time of purchase. These investments had previously been classified as available-for-sale investments. Available-for-sale securities are recorded at fair value, and unrealized holding gains and losses are recorded, net of tax, as a separate component of accumulated other comprehensive income.

Between December 31, 2007 and February 7, 2008, we sold at par value \$10.0 million in ARS of the total ARS balance of \$72.8 million which was held at December 31, 2007. During the first quarter of 2008, due to liquidity issues experienced in the global credit and capital markets, our remaining portfolio of ARS experienced multiple failed auctions as the amount of securities submitted for sale exceeded the amount of purchase orders. An auction failure, which is not a default in the underlying debt instrument, occurs when there are more sellers than buyers at a scheduled interest rate auction date and parties desiring to sell their auction rate securities are unable to do so. When an auction fails, the interest rate is adjusted according to the provisions of the associated security agreement, which may result in an interest rate that is higher than the interest rate the issuer pays in connection with successful auctions. We will not be able to liquidate the investments until a successful auction occurs, a buyer is found outside the auction process, the securities are called or refinanced by the issuer, or the securities mature. Due to the uncertainty of when we will be able to liquidate the investments, we reclassified the investments to long-term assets during the first quarter of 2008 and continue to hold our ARS as such.

During August of 2008, UBS AG, the parent company of the securities firm with which we hold our ARS, announced an offer to its clients holding ARS. Under this offer, UBS AG would issue Auction Rate Securities Rights to us. Subsequently, during the fourth quarter of 2008, we accepted the offer from UBS AG, which gave us a non-transferable right to require the bank to purchase, at par value, \$62.7 million in ARS at any time between June 30, 2010 and June 30, 2012. The agreement allows UBS AG to purchase the ARS before June 30, 2010, but it is under no obligation to do so. If the bank has not purchased the investments by June 30, 2010, we plan to exercise our non-transferable right to require the purchase at that time. In addition, under the terms of the offer, we also became eligible for a demand line of credit of up to 75% of the market value of our ARS until the time of purchase, which is described in greater detail below. As of December 31, 2008, we had drawn \$39.5 million under the terms of this agreement.

As a result of accepting the settlement right from UBS, in accordance with our policy as well as the provisions of SFAS No. 115, we transferred our ARS from available-for-sale to trading securities during the fourth quarter of 2008, as we plan to sell them on June 30, 2010. At the time of transfer we recognized in earnings an unrealized holding loss in the amount of \$11.5 million. The loss was based on our own estimated valuation of the ARS as of December 31, 2008. Concurrently, we recognized a gain in the amount of \$11.1 million, associated with the settlement right accepted from UBS. This gain was due to the Company electing the fair value option under SFAS No. 159 "*The Fair Value Option for Financial Assets and Financial Liabilities*" upon initial recognition of this right.

The fair value of the settlement right and ARS were derived based on estimated discounted cash flows. We considered various inputs to estimate cash flows for our ARS at December 31, 2008, including the estimated time to allow the market for ARS to recover, projected estimates of future interest income generated from the investments, as well premiums designed to account for liquidity and credit risks associated with our ARS holdings. For our non-transferable right, we considered inputs such as the issuer's credit quality, expected term, and estimates of future risk free rates. Our valuation of both components of our ARS are contingent upon the financial viability of our investment bank and accordingly, we have assigned a credit risk component to our valuations based on market data available at the time of valuation. However, if market conditions change and our investment bank is unable to fulfill its commitment, we could incur an impairment charge on our settlement right, which would materially and adversely affect our operating results and overall financial condition. Additionally, the inputs used in our valuation are based on managements' estimates at the time of valuation and require significant judgment. If any of these inputs vary or market conditions change significantly, actual results may differ and our overall financial condition and operating results may be materially and adversely affected.

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### *Lines of Credit*

#### *Silicon Valley Bank*

On August 7, 2008, we entered into a secured revolving line of credit agreement (“the Agreement”) with Silicon Valley Bank, as the Lender. The Agreement provides us with a two-year secured revolving credit facility of \$30.0 million, which is subject to a borrowing base and secured by our accounts receivable. Borrowings under the Agreement will bear interest at the prime rate, which was 3.25% at December 31, 2008, or the LIBOR rate, which was 0.44% at December 31, 2008, plus 1.25%, with either interest rate determined upon our election. We are required to make interest payments monthly. We are further required to pay a commitment fee equal to 0.08% of the \$30.0 million maximum borrowing limit on an annual basis, and to pay quarterly in arrears an unused facility fee in an amount equal to 0.375% per year of the unused amount of the facility. In addition, the credit facility provides sub-facilities for letters of credit and foreign exchange contracts to be issued on our behalf.

The Agreement requires us to make and maintain certain financial covenants, representations, warranties and other agreements that are customary in credit agreements of this type. The Agreement requires us to maintain a minimum current ratio (current assets divided by the sum of current liabilities less deferred income plus the amount of outstanding advances and letters of credit) of 1.5 as of December 31, 2008 and quarterly periods thereafter. Additionally, any quarterly EBITDA (earnings before interest, taxes, depreciation, amortization, stock based compensation and goodwill impairment charges, as defined in the Agreement) loss may not exceed \$2.5 million in any one quarter, and quarterly EBITDA may not be negative for any two consecutive quarters for the duration of the Agreement. Further, our EBITDA may not be negative for the year ended December 31, 2008. For quarterly periods beginning after January 1, 2009, we must maintain a positive rolling four quarter EBITDA. In addition, capital expenditures may not exceed \$12.0 million in any fiscal year. During the fourth quarter of 2008, we amended the Agreement. The amendment included a one-time exclusion for the goodwill impairment charge recognized in the fourth quarter of 2008.

Amounts borrowed and repaid are available for re-borrowing during the term of the facility. Outstanding amounts are due in full on the maturity date of August 6, 2010. Upon the occurrence of certain events of default specified in the Agreement, amounts due under the Agreement may be declared immediately due and payable.

As of December 31, 2008, we had no outstanding balances on the line of credit or letters of credit issued on our behalf.

#### *UBS*

As noted above, in August 2008, UBS AG, the parent company of the securities firm with which we hold our ARS, announced an offer to its clients holding ARS. Under this offer, UBS AG would issue Auction Rate Securities Rights to us. These rights would allow us to sell the ARS held in our accounts with UBS Financial Services, Inc. or UBS Securities LLC to UBS AG at par value during the period beginning June 30, 2010 and ending July 2, 2012. Under this offer, we would also be entitled to receive no net cost loans from UBS AG or its affiliates for up to 75% of the fair value of our ARS.

We accepted the offer and entered into a Credit Line Agreement (“the Credit Line”), including an Addendum to Credit Line Account Application and Agreement, with UBS Bank USA. In addition, on December 12, 2008 we borrowed approximately \$39.8 million under the Credit Line. On December 15, 2008, we used a portion of the proceeds to pay in full the outstanding principal balance of approximately \$20.0 million under our secured revolving line of credit agreement with Silicon Valley Bank. The amount of interest we will pay under the Credit Line is intended to equal the amount of interest we would receive with respect to our ARS and is currently set at T-Bill plus 1.20%. The borrowings under the Credit Line are payable upon demand; however, UBS Bank USA or its affiliates are required to provide to us alternative financing on substantially similar terms, unless the demand right was exercised as a result of certain specified events or the customer relationship between UBS Bank USA and us is terminated for cause by UBS Bank USA. As of December 31, 2008, we had an outstanding balance on the Credit Line in the amount of \$39.5 million.

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### ***2023 Convertible Senior Notes***

During November 2003, we completed a private offering of \$100 million aggregate principal amount of 1.375% convertible senior notes due November 15, 2023 (the "2023 convertible senior notes") to qualified institutional buyers.

During the first quarter of 2008, we repurchased \$52.5 million aggregate principal amount of the 2023 convertible senior notes, with an associated discount of \$1.3 million. We repurchased the notes in the open market for \$51.1 million and, as a result, recorded a gain of \$68,000.

During the second quarter of 2008, we repurchased \$10.0 million aggregate principal amount of the 2023 convertible senior notes, with an associated discount of \$240,000. We repurchased the notes in the open market for \$9.8 million and, as a result, recorded a net loss of \$31,000.

On November 15, 2008, the holders of the 2023 convertible senior notes required us to purchase, in cash, the entire remaining aggregate amount outstanding, together with accrued and unpaid interest as of this date. As such, we repurchased \$37.5 million remaining aggregate principal amount of the 2023 convertible senior notes, with an associated discount of \$874,000. We repurchased the notes in the open market for \$37.5 million and, as a result, recorded a net loss of \$874,000. As of December 31, 2008, the 2023 convertible senior notes were fully retired.

### ***2013 Convertible Senior Notes***

On February 6, 2008, we offered and sold in a public offering pursuant to the shelf registration statement \$55.0 million aggregate principal amount of our 2013 convertible senior notes. Interest on the 2013 convertible senior notes is payable semi-annually, in arrears, on each August 15 and February 15, beginning on August 15, 2008, to the holders of record at the close of business on the preceding August 1 and February 1, respectively. The 2013 convertible senior notes mature on February 15, 2013. Holders of the 2013 convertible senior notes may convert their notes into a number of shares of our common stock determined as set forth in the indenture governing the notes at their option on any day to and including the business day prior to the maturity date. The 2013 convertible senior notes are initially convertible into 76.7448 shares of our common stock per \$1,000 principal amount of the notes (which is equivalent to a conversion price of approximately \$ 13.03 per share), subject to adjustment upon the occurrence of certain events. Upon the occurrence of a fundamental change, holders of the 2013 convertible senior notes may require us to repurchase some or all of our notes for cash at a price equal to 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest, if any. In addition, if certain fundamental changes occur, we may be required in certain circumstances to increase the conversion rate for any 2013 convertible senior notes converted in connection with such fundamental changes by a specified number of shares of our common stock. The 2013 convertible senior notes are our general unsecured obligations and rank equal in right of payment to all of our existing and future senior indebtedness, including our 2023 convertible senior notes, and senior in right of payment to our future subordinated debt. Our obligations under the 2013 convertible senior notes are not guaranteed by, and are effectively subordinated in right of payment to all existing and future obligations of, our subsidiaries and are effectively subordinated in right of payment to our future secured indebtedness to the extent of the assets securing such debt.

In connection with the issuance of the 2013 convertible senior notes, we entered into a capped call transaction with a hedge counterparty. The capped call transaction is expected to reduce the potential dilution upon conversion of the 2013 convertible senior notes in the event that the market value per share of our common stock, as measured under the terms of the capped call transaction, at the time of exercise is greater than the strike price of the capped call transaction of approximately \$13.03, which corresponds to the initial conversion price of the 2013 convertible senior notes and is subject to certain adjustments similar to those contained in the notes. If, however, the market value per share of our common stock exceeds the cap price of the capped call transaction of \$23.085, as measured under the terms of the capped call transaction, the dilution mitigation under the capped call transaction will be limited, which means that there would be dilution to the extent that the then market value per

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share of our common stock exceeds the cap price of the capped call transaction. The cost of the capped call transaction was approximately \$10.2 million and was recorded as a charge to shareholders' equity.

During the fourth quarter of 2008, we repurchased \$5.0 million aggregate principal amount of the 2013 convertible senior notes, with associated unamortized issuance costs of \$196,000. We repurchased the notes in the open market for \$3.1 million and, as a result, recorded a net gain of \$1.7 million.

As of December 31, 2008, we had outstanding 2013 convertible senior notes with a face value and fair value of \$50.0 million and \$26.9 million, respectively.

### Convertible Subordinated Notes

During August 2000, we completed a private offering of \$120 million aggregate principal amount of 5.5% convertible subordinated notes due to qualified institutional buyers. From 2000 to 2006, we repurchased \$117.7 million in aggregate principal amount of the convertible subordinated notes, with an associated unamortized discount of \$2.4 million. We repurchased the notes for \$106.7 million and, as a result recorded a gain of \$8.5 million. We paid the remaining balance of \$2.4 million at maturity on August 15, 2007.

### Contractual Obligations

The following summarizes our contractual obligations at December 31, 2008 and the effect of such on its liquidity and cash flows in future periods (in thousands).

	2009	2010	2011	2012	2013	Thereafter
Future minimum lease payments	\$ 4,483	\$ 4,150	\$ 2,417	\$ 719	\$ 727	\$ 788
Purchase obligations (A)	29,558	—	—	—	—	—
Foreign-currency cash flow hedge contracts	5,683	—	—	—	—	—
2013 convertible senior notes	—	—	—	—	50,000	—
Interest on convertible senior notes	1,375	1,375	1,375	1,375	229	—
Total contractual obligations	<u>\$ 41,099</u>	<u>\$ 5,525</u>	<u>\$ 3,792</u>	<u>\$ 2,094</u>	<u>\$ 50,956</u>	<u>\$ 788</u>

- (A) Purchase obligations include agreements or purchase orders to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

In addition to the above, as discussed in Note 18 of the Notes to the Consolidated Financial Statements, we have approximately \$2.4 million associated with unrecognized tax benefits and related interest and penalties. These liabilities are primarily included as a component of "other long-term liabilities" in our Consolidated Balance Sheet as we do not anticipate that settlement of the liabilities will require payment of cash within the next twelve months. We are not able to reasonably estimate when we would make any cash payments required to settle these liabilities, but do not believe that the ultimate settlement of our obligations will materially affect our liquidity.

### Off-Balance Sheet Arrangements

We do not engage in any activity involving special purpose entities or off-balance sheet financing.

### Shelf Registration Statement

On October 26, 2007, we filed an unallocated shelf registration statement on Form S-3 for the offering from time to time of up to \$150 million in securities consisting of common stock, preferred stock, depositary shares, warrants, debt securities or units consisting of one or more of these securities. The SEC declared the shelf registration statement effective on November 7, 2007. Except as may be stated in a prospectus supplement for

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any particular offering, we intend to use the net proceeds from the sale of any securities for general corporate purposes, which may include acquiring companies in our industry and related businesses, repaying existing debt, providing additional working capital and procuring capital assets.

On February 6, 2008, we offered and sold in a public offering pursuant to the shelf registration statement \$55.0 million aggregate principal amount of 2013 convertible senior notes. During the fourth quarter of 2008, we repurchased \$5.0 million aggregate principal amount of the 2013 convertible senior notes, with associated unamortized issuance costs of \$196,000. We repurchased the notes in the open market for \$3.1 million and, as a result, recorded a net gain of \$1.7 million. As such, we have \$100.0 million remaining capacity under this shelf registration statement.

### ***Liquidity Outlook***

We believe that our current cash, cash equivalents and investments, net, amounting to \$125.2 million at December 31, 2008, of which \$51.2 million consisted of ARS, the cash generated from operations and our line of credit facility will satisfy our short and long-term expected working capital needs, capital expenditures, stock repurchases, other liquidity requirements associated with our existing business operations even if we are required to hold our ARS until maturity. Capital expenditures are expected to range from \$1.0 million to \$1.5 million per quarter.

### ***Recent Accounting Pronouncements***

See Note 1 to the Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on results of operations and financial condition.

### **Item 7A. *Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to market risk from changes in interest rates, foreign currency exchange rates, and equity trading prices, which could affect our financial position and results of operations.

*Interest Rate Risk.* We invest excess cash in debt instruments of the U.S. Government and its agencies, and those of high-quality corporate issuers. We attempt to protect and preserve our invested funds by limiting default, market, and reinvestment risk. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair value adversely affected due to a rise in interest rates while floating rate securities may produce less income than expected if interest rates decline. Due to the short duration of most of the investment portfolios, an immediate 10% change in interest rates would not have a material effect on the fair value of our investment portfolio. Additionally, the interest rate changes affect the fair market value but do not necessarily have a direct impact on our earnings or cash flows. Therefore, we would not expect our operating results or cash flows to be affected, to any significant degree, by the effect of a sudden change in market interest rates on the securities portfolio. The estimated fair value of our interest bearing investments at December 31, 2008 and 2007 was \$66.2 million and \$95.1 million, respectively. The effect of an immediate 10% change in interest rates would not have a material effect on our operating results or cash flows.

*Foreign Currency Risk.* We pay the expenses of our international operations in local currencies, namely, the Euro, British Pound Sterling, New Shekel, Japanese Yen, Chinese Yuan, Canadian Dollar and Malaysian Ringgit. The international operations are subject to risks typical of an international business, including, but not limited to: differing economic conditions, changes in political climate, differing tax structures, foreign exchange rate volatility and other regulations and restrictions. Accordingly, future results could be materially and adversely affected by changes in these or other factors. We are also exposed to foreign exchange rate fluctuations as the balance sheets and income statements of our foreign subsidiaries are translated into U.S. Dollars during the consolidation process. Because exchange rates vary, these results, when translated, may vary from expectations and adversely affect overall expected profitability. Foreign currency exchange rate fluctuations resulted in a net

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gain of \$193,000 for the year ended December 31, 2008, a net loss of \$116,000 for the year ended December 31, 2007 and a net gain of \$96,000 for the year ended December 31, 2006.

Based on our policy, we have established a foreign currency exposure management program which uses derivative foreign exchange contracts to address nonfunctional currency exposures that are expected to be settled in one year or less. During the first quarter of 2008, in order to reduce the potentially adverse effects of foreign currency exchange rate fluctuations, we began to enter into forward exchange contracts. These hedging transactions primarily limit our exposure to changes in the U.S. Dollar/Canadian Dollar exchange rate and as of December 31, 2008 we had \$5.7 million in aggregate hedge contracts outstanding, which mature over the next 11 months.

Holding other variables constant, a 10% adverse fluctuation, in relation to our hedge positions, of the U.S. Dollar relative to the Canadian Dollar would result in an increase of \$625,000 to our current hedge liability and the total hedge liability as of December 31, 2008, would be \$1.8 million. A 10% favorable fluctuation, in relation to our hedge positions, of the U.S. Dollar relative to the Canadian Dollar would result in the reversal of an \$622,000 from our current hedge liability and the total hedge liability as of December 31, 2008, would be \$584,000. We do not expect a 10% fluctuation to have any impact on our operating results as the underlying hedged transactions will move in an equal and opposite direction.

*Convertible Notes.* The fair value of the convertible senior notes is sensitive to interest rate changes as well as changes in our stock price. Interest rate changes would result in an increase or decrease in the fair value of the convertible notes due to differences between market interest rates and rates in effect at the inception of the obligation. Fluctuations in our stock price would result in an increase or decrease in the fair value of the convertible notes due to the value of the notes derived from the conversion feature. Unless we elect to repurchase our senior convertible notes in the open market, changes in the fair value of the senior convertible notes have no impact on our cash flows or Consolidated Financial Statements. The estimated fair value of the 2013 convertible senior notes was \$26.9 million at December 31, 2008.

### Item 8. Financial Statements and Supplementary Data

#### Quarterly Financial Data (unaudited)

	For the Year Ended December 31, 2008				For the Year Ended December 31, 2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)							
Revenues	\$ 86,048	\$ 97,610	\$ 100,258	\$ 88,668	\$ 66,853	\$ 75,530	\$ 83,630	\$ 99,219
Gross margin	19,567	24,514	26,738	25,264	16,007	15,468	19,191	21,172
Income (loss) from operations (A)	(7,236)	(3,535)	800	(66,494)	(7,313)	(10,356)	(5,410)	(5,045)
Net loss	(6,338)	(2,774)	(246)	(56,592)	(5,392)	(7,324)	(2,446)	(2,390)
Net loss per share:								
Basic	(0.28)	(0.12)	(0.01)	(2.47)	(0.25)	(0.34)	(0.11)	(0.11)
Diluted	(0.28)	(0.12)	(0.01)	(2.47)	(0.25)	(0.34)	(0.11)	(0.11)

(A) *Second Quarter 2007 Restructuring.* During the second quarter of 2007, we incurred employee-related expenses associated with skill set changes for approximately 20 employees. The changes involved creating an integrated structure with our media server business along with some skill set changes in certain selling, general and administrative and engineering groups. In 2007, we incurred \$1.3 million of employee-related expenses, net.

*Third Quarter 2007 Acquisition of the MCPD business.* On September 12, 2007, we completed the acquisition of MCPD for \$31.8 million in cash at closing.

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*Second Quarter 2008 Restructuring.* During the second quarter of 2008, we incurred employee-related expenses associated with efforts to manage engineering spend to levels which align with targeted profitability as well as refocus the Company's skill sets in new product deployment and provide enhanced service and support to existing customers. In 2008 we incurred \$598,000 of employee-related expenses, net.

*Fourth Quarter 2008 Goodwill Impairment Charge.* During the fourth quarter of 2008, we incurred a goodwill impairment charge. In accordance SFAS 142, we completed our annual goodwill impairment test in September 2008, at which time no impairment was indicated. At the end of the fourth quarter of 2008, we reviewed our continued low stock price, which was considered a triggering event for re-testing goodwill impairment, and ultimately concluded that its difference from our book value per share indicated impairment. As such, we impaired our entire goodwill balance which resulted in a charge of \$67.3 million.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment, we conclude that, as of December 31, 2008, the Company's internal control over financial reporting is effective based on those criteria to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The effectiveness of internal control over financial reporting as of December 31, 2008, has been audited by KPMG, LLP, the independent registered public accounting firm who also audited the Company's Consolidated Financial Statements included in this Item 8, as stated in the report which appears on page 54 hereof.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
RadiSys Corporation:

We have audited RadiSys Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). RadiSys Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, RadiSys Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of RadiSys Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated March 6, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Portland, Oregon  
March 6, 2009

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

RadiSys Corporation:

We have audited the accompanying consolidated balance sheets of RadiSys Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RadiSys Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), RadiSys Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Portland, Oregon  
March 6, 2009

**RADISYS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Years Ended December 31,		
	2008	2007	2006
	(In thousands, except per share amounts)		
Revenues	\$ 372,584	\$ 325,232	\$ 292,481
Cost of sales:			
Cost of sales	262,100	238,392	213,525
Amortization of purchased technology	14,401	15,002	—
Total cost of sales	<u>276,501</u>	<u>253,394</u>	<u>213,525</u>
Gross margin	96,083	71,838	78,956
Research and development	49,325	46,242	41,492
Selling, general and administrative	50,837	47,874	39,330
Goodwill impairment charge	67,256	—	—
Intangible assets amortization	4,554	4,428	6,224
In-process research and development charge	—	—	14,000
Restructuring and other charges, net	575	1,418	139
Loss from operations	(76,464)	(28,124)	(22,229)
Interest expense	(2,701)	(1,678)	(1,732)
Interest income	3,059	6,405	9,348
Other income (expense), net	629	(169)	851
Loss before income tax benefit	(75,477)	(23,566)	(13,762)
Income tax benefit	(9,527)	(6,014)	(746)
Net loss	<u>\$ (65,950)</u>	<u>\$ (17,552)</u>	<u>\$ (13,016)</u>
Net loss per share:			
Basic	<u>\$ (2.92)</u>	<u>\$ (0.80)</u>	<u>\$ (0.62)</u>
Diluted	<u>\$ (2.92)</u>	<u>\$ (0.80)</u>	<u>\$ (0.62)</u>
Weighted average shares outstanding:			
Basic	<u>22,552</u>	<u>21,883</u>	<u>21,158</u>
Diluted	<u>22,552</u>	<u>21,883</u>	<u>21,158</u>

The accompanying notes are an integral part of these financial statements.

**RADISYS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
	<b>(In thousands)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Notes 2 and 3)	\$ 73,980	\$ 50,522
Short term investments, net (Note 2)	—	72,750
Accounts receivable, net (Notes 4 and 20)	45,551	70,548
Other receivables (Note 4)	1,090	2,678
Inventories, net (Note 5)	29,450	23,101
Other current assets (Note 10)	4,268	5,299
Deferred tax assets, net (Note 18)	10,297	6,489
Total current assets	164,636	231,387
Property and equipment, net (Notes 7 and 20 )	11,556	11,233
Goodwill (Notes 7, 18 and 20)	—	67,644
Intangible assets, net (Notes 9, 18 and 20)	19,804	38,779
Long-term investments (Note 2 and Note 3)	51,213	—
ARS settlement right (Notes 2 and 3)	11,071	—
Long-term deferred tax assets, net (Note 18)	45,864	40,078
Other assets (Note 10)	4,882	3,987
Total assets	<u>\$ 309,026</u>	<u>\$ 393,108</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 34,123	\$ 49,675
Accrued wages and bonuses	11,253	8,101
Deferred income	2,274	5,308
Line of credit (Note 13)	39,535	—
2023 convertible senior notes, net (Note 14)	—	97,548
Other accrued liabilities (Notes 12 and 16)	11,384	8,915
Total current liabilities	<u>98,569</u>	<u>169,547</u>
Long-term liabilities:		
2013 convertible senior notes (Note 14)	50,000	—
Other long-term liabilities (Note 16)	2,989	3,585
Total long-term liabilities	<u>52,989</u>	<u>3,585</u>
Total liabilities	<u>151,558</u>	<u>173,132</u>
Commitments and contingencies (Note 16)	—	—
Shareholders' equity (Notes 14, 16 and 17):		
Preferred stock—\$.01 par value, 5,664 shares authorized; none issued or outstanding	—	—
Common stock—no par value, 100,000 shares authorized; 23,033 and 22,312 shares issued and outstanding at December 31, 2008 and December 31, 2007	231,236	226,873
Accumulated deficit	(77,235)	(11,285)
Accumulated other comprehensive income:		
Cumulative translation adjustments	4,326	4,388
Unrealized loss on hedge instruments	(859)	—
Total accumulated other comprehensive income	<u>3,467</u>	<u>4,388</u>
Total shareholders' equity	<u>157,468</u>	<u>219,976</u>
Total liabilities and shareholders' equity	<u>\$ 309,026</u>	<u>\$ 393,108</u>

The accompanying notes are an integral part of these financial statements.

**RADISYS CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME (LOSS)**

	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total</u>	<u>Total Comprehensive Income (Loss)</u>
	<u>Shares</u>	<u>Amount</u>				
Balances, December 31, 2005	20,703	193,839	3,729	20,275	217,843	
Comprehensive income, for the year ended December 31, 2005						\$ 15,476
Cumulative effect of adjustment resulting from the adoption of SAB 108, net of tax	—	—	—	(704)	(704)	
Adjusted Balances, January 1, 2006	20,703	193,839	3,729	19,571	217,139	
Shares issued pursuant to benefit plans	1,000	12,723	—	—	12,723	
Stock based compensation associated with employee benefit plans	—	6,589	—	—	6,589	
Restricted stock issued	150	—	—	—	—	
Restricted share cancellations and forfeitures for tax settlements	(18)	(257)	—	—	(257)	
Tax deficiency associated with employee benefit plans	—	(7)	—	—	(7)	
Translation adjustments	—	—	350	—	350	350
Recognition of accumulated foreign currency translation adjustment due to liquidation of subsidiary	—	—	(66)	—	(66)	(66)
Net loss for the period	—	—	—	(13,016)	(13,016)	(13,016)
Balances, December 31, 2006	<u>21,835</u>	<u>\$ 212,887</u>	<u>\$ 4,013</u>	<u>\$ 6,555</u>	<u>\$ 223,455</u>	
Comprehensive loss, for the year ended December 31, 2006						\$ (12,732)
Shares issued pursuant to benefit plans	449	4,830	—	—	4,830	
Stock based compensation associated with employee benefit plans	—	9,881	—	—	9,881	
Restricted stock issued	80	—	—	—	—	
Restricted share cancellations and forfeitures for tax settlements	(52)	(359)	—	—	(359)	
Tax deficiency associated with employee benefit plans	—	(366)	—	—	(366)	
Translation adjustments	—	—	407	—	407	407
Recognition of accumulated foreign currency translation adjustment due to liquidation of subsidiary	—	—	(32)	—	(32)	(32)
Cumulative effect of adjustment resulting from the adoption of accounting policy	—	—	—	(288)	(288)	
Net loss for the period	—	—	—	(17,552)	(17,552)	(17,552)
Balances, December 31, 2007	<u>22,312</u>	<u>\$ 226,873</u>	<u>\$ 4,388</u>	<u>\$ (11,285)</u>	<u>\$ 219,976</u>	
Comprehensive loss, for the year ended December 31, 2007						\$ (17,177)
Shares issued pursuant to benefit plans	694	5,324	—	—	5,324	
Stock based compensation associated with employee benefit plans	—	9,571	—	—	9,571	
Restricted stock issued	76	—	—	—	—	
Restricted share cancellations and forfeitures for tax settlements	(49)	(378)	—	—	(378)	
Purchase of capped call	—	(10,154)	—	—	(10,154)	
Translation adjustments	—	—	(62)	—	(62)	(62)
Net adjustment for fair value of hedge derivatives	—	—	(859)	—	(859)	(859)
Net loss for the period	—	—	—	(65,950)	(65,950)	(65,950)
Balances, December 31, 2008	<u>23,033</u>	<u>\$ 231,236</u>	<u>\$ 3,467</u>	<u>\$ (77,235)</u>	<u>\$ 157,468</u>	
Comprehensive loss, for the year ended December 31, 2008						\$ (66,871)

The accompanying notes are an integral part of these financial statements.

**RADISYS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
<b>Cash flows from operating activities:</b>			
Net loss	\$ (65,950)	\$ (17,552)	\$ (13,016)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	25,147	25,337	12,015
Inventory valuation allowance	3,720	6,580	5,593
Non-cash amortization associated with the acquisition of Conveda	112	1,908	2,052
In-process research and development charge	—	—	14,000
Non-cash interest expense	519	209	217
Goodwill impairment charge	67,256	—	—
Loss (gain) on disposal of property and equipment	93	(148)	27
Gain from ARS settlement right	(11,071)	—	—
Loss from impairment of ARS	11,512	—	—
Gain on early extinguishments of convertible subordinated notes	(843)	—	—
Deferred income taxes	(9,223)	(6,360)	(562)
Stock-based compensation expense	9,616	9,881	6,589
Other	5	141	46
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	24,932	(27,958)	(1,547)
Other receivables	1,588	1,104	156
Inventories	(10,069)	5,502	(17,563)
Other current assets	1,282	5,540	(238)
Accounts payable	(15,586)	9,956	1,556
Accrued wages and bonuses	3,177	2,048	211
Accrued interest payable	344	(50)	(2)
Accrued restructuring	26	(228)	(557)
Deferred income	(3,124)	3,760	703
Other accrued liabilities	1,392	301	(618)
Net cash provided by operating activities	<u>34,855</u>	<u>19,971</u>	<u>9,062</u>
<b>Cash flows from investing activities:</b>			
Proceeds from held-to-maturity investments	—	10,000	39,750
Purchase of held-to-maturity investments	—	—	(10,000)
Proceeds from sale of auction rate securities	10,025	54,600	136,250
Purchase of auction rate securities	—	(25,100)	(142,450)
Capital expenditures	(6,324)	(5,657)	(5,185)
Purchase of long-term assets	302	(162)	(549)
Proceeds from the sale of property and equipment	—	3,032	73
Acquisition of Conveda, net of cash acquired	—	—	(106,068)
Acquisition of MCPD	—	(32,032)	—
Net cash provided by (used in) investing activities	<u>4,003</u>	<u>4,681</u>	<u>(88,179)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of 2013 convertible senior notes	55,000	—	—
Purchase of capped call	(10,154)	—	—
Extinguishment of convertible subordinated notes	—	(2,416)	(100)
Repurchase of 2023 convertible senior notes	(98,419)	—	—
Repurchase of 2013 convertible senior notes	(3,125)	—	—
Net settlement of restricted shares	(422)	(359)	(257)
Borrowings on line of credit	59,800	—	—
Payments on line of credit	(20,265)	—	—
Financing costs	(2,539)	(272)	—
Payments on capital lease obligation	(150)	—	—
Proceeds from issuance of common stock	5,175	4,830	12,723
Net cash (used in) provided by financing activities	<u>(15,099)</u>	<u>1,783</u>	<u>12,366</u>
Effect of exchange rate changes on cash	<u>(301)</u>	<u>353</u>	<u>430</u>
Net increase (decrease) in cash and cash equivalents	23,458	26,788	(66,321)
Cash and cash equivalents, beginning of period	50,522	23,734	90,055
Cash and cash equivalents, end of period	<u>\$ 73,980</u>	<u>\$ 50,522</u>	<u>\$ 23,734</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ 1,662	\$ 1,514	\$ 1,966
Income taxes paid (refunded)	229	(154)	199
<b>Supplemental disclosure of non-cash financing activities:</b>			
Capital lease obligation	\$ 155	\$ —	\$ —

The accompanying notes are an integral part of these financial statements.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1—Significant Accounting Policies**

***Basis of Presentation***

RadiSys Corporation (“RadiSys” or the “Company”) was incorporated in March 1987 under the laws of the State of Oregon for the purpose of developing, producing and marketing computer system (hardware and software) products for embedded computer applications in the manufacturing automation, medical, transportation, telecommunications and test equipment marketplaces. The Company has evolved into a leading provider of embedded systems for compute, data processing and network-intensive applications to original equipment manufacturers (“OEM”) within the communications networking and commercial systems markets.

***Principles of Consolidation***

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company accounts and transactions have been properly eliminated in consolidation.

***Management Estimates***

The Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and judgments that may affect the amounts reported in its Consolidated Financial statement and accompanying notes. Current volatile economic conditions require additional judgment in the establishment of reserves such as the Company’s allowance for doubtful accounts and inventory valuation allowance. Actual results may differ from these estimates under different assumptions or conditions.

***Reclassifications***

Certain reclassifications have been made to amounts in prior years to conform to current year presentation.

***Revenue Recognition***

The Company recognizes revenue when the earnings process is complete, as evidenced by the following revenue recognition criteria: an agreement with the customer, fixed pricing, transfer of title and risk of loss and customer acceptance, if applicable, and that the collectability of the resulting receivable is reasonably assured. When a sales arrangement contains multiple elements, such as hardware and software products, licenses and/or services, the Company allocates revenue to each element based on its relative fair value, or for software, based on vendor specific objective evidence (“VSOE”) of fair value. In the absence of fair value for a delivered element, the Company first allocates revenue to the fair value of the undelivered elements and the residual revenue to the delivered elements. Where the fair value for an undelivered element cannot be determined, the Company defers revenue for the delivered elements until the undelivered elements are delivered. The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services or subject to customer-specified return or refund privileges.

***Hardware***

Revenue from hardware products where software is incidental is recognized in accordance with Staff Accounting Bulletin (“SAB”) 104. Under the Company’s standard terms and conditions of sale, the Company transfers title and risk of loss to the customer at the time product is shipped to the customer and revenue is recognized accordingly, unless customer acceptance is uncertain or significant obligations remain. The Company

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

reduces revenue for estimated customer returns for rotation rights as well as for price protection rights according to agreements with its distributors. The amount of revenues derived from these distributors as a percentage of revenues was 15.2%, 9.9% and 3.4% for the years ended December 31, 2008, 2007 and 2006. The Company accrues the estimated cost of post-sale obligations for product warranties, based on historical experience at the time the Company recognizes revenue. In addition, approximately 85% of the Company's unit volume is attributable to contract manufacturers.

The software content included in certain components of ATCA systems, certain MCPD products and Convidia Media Servers is considered to be more than incidental and our ATCA arrangements generally include multiple elements such as hardware, technical support services as well as specified software upgrades or enhancements. As such, the revenue associated with these products is recognized in accordance with Statement of Position ("SOP") 97-2, Software Revenue Recognition.

*Software royalties and licenses*

Revenue from software royalties and licenses is recognized in accordance with SOP 97-2. Revenue from customers for prepaid, non-refundable software royalties is recorded when the revenue recognition criteria have been met. Revenue for non-prepaid royalties is recognized at the time the underlying product is shipped by the customer paying the royalty. The Company recognizes software license revenue at the time of shipment or upon delivery of the software master provided that the revenue recognition criteria have been met and VSOE exists to allocate the total fee to all undelivered elements of the arrangement. The Company defers revenue on arrangements including specified software upgrades until the specified upgrade has been delivered.

*Software maintenance*

Software maintenance services are recognized as earned on the straight-line basis over the terms of the contract in accordance with SOP 97-2. The fair value of the Company's post-contract support has been determined by renewal rates within the Company's support agreements as well as the actual amounts charged to customers for renewal of their support services.

*Engineering and other services*

Engineering services revenue is recognized upon completion of certain contractual milestones and customer acceptance of the services rendered in accordance with SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts ("SOP 81-1"). Other services revenues include hardware repair services and custom software implementation projects. Hardware repair services revenues are recognized when the services are complete. Software implementation revenues are recognized upon completion of certain contractual milestones and customer acceptance of the services rendered.

*Deferred income*

Deferred income represents amounts received or billed for the following types of transactions:

- *Distributor sales*—Certain sales are made to distributors under agreements providing price protection and right of return on unsold merchandise. Revenue and costs relating to such distributor sales are deferred until the product is sold by the distributor or return privileges and price protection rights terminate, at which time related estimated distributor resale revenue, estimated effects of distributor price adjustments, and estimated costs are reflected in the Consolidated Statement of Operations.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

During the first quarter of 2008, the Company entered into new arrangements with its significant distributors servicing the MCPD business. For the majority of these distributors, price adjustment programs were eliminated. For those distributors where significant price adjustment programs remain in place, the Company continues to defer revenue until the distributors sell the merchandise.

Revenue reporting for these distributors is highly dependent on receiving pertinent and accurate data from the Company's distributors in a timely fashion. Distributors provide periodic data regarding the product, price, quantity, and end customer when products are resold as well as the quantities of the Company's products they still have in stock. The Company must use estimates and apply judgments to reconcile distributors' reported inventories to its activities.

- *Undelivered elements of an arrangement*—Certain software sales include specified free upgrades and enhancements to an existing product. Revenue for such products is deferred until the future obligation is fulfilled.
- *Service sales*—Certain sales are made for products and related service where the fair value of the service cannot be determined. Revenues for such sales are deferred until service obligations represent the only undelivered element, at which point revenues are recognized ratably over the requisite service period. The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services or subject to customer-specified return or refund privileges.

***Capitalized Software Development Costs***

The Company does not capitalize internal software development costs incurred in the production of computer software as the Company concluded it does not incur any material costs between the point of technological feasibility and general release of the product to customers in the future. As such software development costs are expensed as R&D costs.

***Shipping Costs***

The Company's shipping and handling costs for product sales are included under cost of sales for all periods presented. For the years ended December 31, 2008, 2007 and 2006 shipping and handling costs represented approximately 1% of cost of sales.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents in accordance with a Statement of Financial Accounting Standards ("SFAS") No. 95 "Statement of Cash Flows."

***Investments***

Auction rate securities ("ARS") are classified as long-term trading securities. Trading securities are recorded at fair value, and unrealized holding gains and losses are recognized in earnings. Historically, these investments were classified as held-to-maturity with original maturities of more than three months but less than a year classified as short-term investments, and investments classified as held-to-maturity with original maturities more than a year classified as long-term investments in the Consolidated Financial Statements.

The Company's investments consist of ARS. The Company classifies, at the date of acquisition, its investments into categories in accordance with the provisions of SFAS No. 115, "Accounting for Certain

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Investments in Debt and Equity Securities.” The Company’s investments consisting of U.S. government notes and bonds are classified as held-to-maturity as the Company has the positive intent and ability to hold those securities to maturity and are stated at amortized cost in the Consolidated Balance Sheets. The Company’s investment policy requires that the held to maturity investments, including cash and investments, not exceed a maximum weighted-average maturity of 18 months. In addition, the policy mandates that an individual investment must have a maturity of less than 36 months, with no more than 20% of the total portfolio exceeding 24 months. Realized gains and losses, and interest and dividends on all securities are included in other expense, net and Interest income, in the Consolidated Statements of Operations.

***Accounts Receivable***

Trade accounts receivable are stated net of an allowance for doubtful accounts. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of customers to make required payments. Management reviews the allowance for doubtful accounts quarterly for reasonableness and adequacy. If the financial condition of the Company’s customers were to deteriorate resulting in an impairment of their ability to make payments, additional provisions for uncollectible accounts receivable may be required. In the event the Company determined that a smaller or larger reserve was appropriate, it would record a credit or a charge in the period in which such determination is made. In addition to customer accounts that are specifically reserved for, the Company maintains a non-specific bad debt reserve for all customers based on a variety of factors, including the length of time receivables are past due, trends in overall weighted average risk rating of the total portfolio, macroeconomic conditions, significant one-time events and historical experience. Typically, this non-specific bad debt reserve amounts to at least 1% of quarterly revenues. The Company’s customers are concentrated in the technology industry and the collection of its accounts receivable are directly associated with the operational results of the industry.

***Inventories***

Inventories are stated at the lower of cost or market, net of an inventory valuation allowance. Pursuant to ARB 43 and SAB Topic 5-BB, our inventory valuation allowances establish a new cost basis for inventory. The Company uses a standard cost methodology to determine its cost basis for its inventories. The Company evaluates inventory on a quarterly basis for obsolete or slow-moving items to ascertain if the recorded allowance is reasonable and adequate. Inventory is written down for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand and market conditions.

***Long-Lived Assets***

Long-lived assets, such as property and equipment and definite-life intangible assets are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” The Company assesses the impairment of the assets based on the undiscounted future cash flow the assets are expected to generate compared to the carrying value of the assets. If the carrying amount of the assets is determined not to be recoverable, a write-down to fair value is recorded. Management estimates future cash flows using assumptions about expected future operating performance. Management’s estimates of future cash flows may differ from actual cash flow due to, among other things, technological changes, economic conditions or changes to the Company’s business operations.

Goodwill represents the excess of cost over the assigned value of the net assets in connection with all acquisitions. Goodwill is reviewed for impairment in accordance with SFAS No. 142 “Goodwill and Other

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Intangible Assets” (“SFAS No. 142”). SFAS No. 142 requires goodwill to be tested for impairment at least annually and under certain circumstances and will be written down when impaired. During the fourth quarter of 2008, the Company impaired its entire amount of previously recorded goodwill. Refer to Note 8, for details of the impairment analysis.

Intangible assets with estimable useful lives are amortized over their respective estimated lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144.

***Property and Equipment***

Property and equipment is recorded at historical cost and generally depreciated or amortized on a straight-line basis according to the table below. In certain circumstances where the Company is aware that an asset’s life differs from the general guidelines set forth in its policy, management adjusts its depreciable life accordingly, to ensure that expense is being recognized over the appropriate future periods.

Machinery, equipment, furniture and fixtures	5 years
Software, computer hardware and manufacturing test fixtures	3 years
Engineering equipment and demonstration products	1 year
Leasehold improvements	Lesser of the lease term or estimated useful lives

Ordinary maintenance and repair expenses are charged to income when incurred.

***Accounting for Leases***

The Company leases most of its facilities, certain office equipment and vehicles under non-cancelable operating leases that expire at various dates through 2013, along with options that permit renewals for additional periods. Rent escalations are considered in the determination of straight-line rent expense for operating leases. Leasehold improvements made at the inception of or during the lease are amortized over the shorter of the asset life or the lease term.

***Asset Retirement Obligations***

The Company leases most of its facilities under various operating leases, some of which contain clauses that require the Company to restore the leased facility to its original state at the end of the lease term. In accordance with SFAS No. 143, “Accounting for Asset Retirement Obligations” and FIN 47, “Accounting for Conditional Asset Retirement Obligations” any identified material asset retirement obligation is initially measured at the fair value and recorded as a liability with a corresponding increase in the carrying amount of the underlying property. Subsequently, the asset retirement obligation would accrete until the time the retirement obligation is expected to settle while the asset retirement cost is amortized over the useful life of the underlying property. As of December 31, 2008 and 2007, the Company identified \$75,000, of asset retirement obligations.

***Accrued Restructuring and Other Charges***

For the years ended December 31, 2008, 2007 and 2006 expenses associated with exit or disposal activities are recognized when probable and estimable under SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities” for everything but severance. Because the Company has a history of paying severance benefits, the cost of severance benefits associated with a restructuring charge is recorded when such costs are probable and the amount can be reasonably estimated. For leased facilities that were vacated, an amount equal to

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

the total future lease obligations from the date of vacating the premises through the expiration of the lease, net of any future sublease income, was recorded as a part of restructuring charges.

***Warranty***

The Company provides for the estimated cost of product warranties at the time it recognizes revenue. Products are generally sold with warranty coverage for a period of 24 months after shipment. On a quarterly basis the Company assesses the reasonableness and adequacy of the warranty liability and adjusts such amounts as necessary. Warranty reserves are included in other accrued liabilities in the accompanying Consolidated Balance Sheets as of December 31, 2008 and December 31, 2007. See also Note 12—*Other Accrued Liabilities* and Note 16—*Commitments and Contingencies*.

***Research and Development***

Research, development and engineering costs are expensed as incurred. R&D expenses consist primarily of salary, bonuses and benefits for product development staff, and cost of design and development supplies and equipment, net of reimbursements for non-recurring engineering services.

***Income Taxes***

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities. Valuation allowances are established in accordance with SFAS No. 109, "Accounting for Income Taxes," to reduce deferred tax assets to the amount expected to "more likely than not" be realized in future tax returns. Tax law and rate changes are reflected in the period such changes are enacted. The Company recognizes uncertain tax positions in accordance with FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109" ("FIN 48"). The Company adopted the provisions of FIN 48 on January 1, 2007. In accordance with FIN 48, the Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within its global operations in income tax expense. See Note 18—*Income Taxes*.

***Fair Value of Financial Assets and Liabilities***

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP No. 157-2. SFAS No. 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about fair value measurements. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Refer to Note 3, for details of the Company's financial assets and their respective classification within the SFAS No. 157 hierarchy.

***Comprehensive Income (Loss)***

In accordance with SFAS No. 130, "Reporting Comprehensive Income," the Company reports accumulated other comprehensive income (loss) in its Consolidated Balance Sheets. Comprehensive income (loss) includes net income (loss), translation adjustments and unrealized gains (losses) on hedging instruments. The cumulative translation adjustments consist of unrealized gains (losses) in accordance with SFAS No. 52, "Foreign Currency Translation."

***Stock-Based Compensation***

On December 16, 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R, using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense for fiscal 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award. Prior to the adoption of SFAS 123R, the Company recognized stock-based compensation expense in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R. See Note 19—*Employee Benefit Plans*.

***Net income (loss) per share***

The Company computes earnings per share in accordance with SFAS No. 128, "Earnings per Share." Accordingly, basic earnings per share amounts are computed based on the weighted-average number of common shares outstanding. Diluted earnings per share amounts incorporated the incremental shares issuable upon assumed exercise of stock options, incremental shares associated with the assumed vesting of restricted stock and the assumed conversion of the Company's convertible notes, as if the conversion to common shares had occurred at the beginning of the fiscal year and when such conversion would have the effect of reducing earnings per share. When the conversion of the Company's convertible notes has the effect of reducing earnings per share earnings have also been adjusted for the interest expense on the convertible notes. See also Note 17—*Basic and Diluted Income per Share*.

***Derivatives***

During 2008, the Company began to enter into forward foreign currency exchange contracts to reduce the impact of foreign currency exchange risks where natural hedging strategies could not be effectively employed.

The Company does not hold or issue derivative financial instruments for trading purposes. The purpose of the Company's hedging activities are to reduce the risk that the eventual cash flows of the underlying assets, liabilities and firm commitments will be adversely affected by changes in exchange rates.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

All derivatives, including foreign currency exchange contracts are recognized on the balance sheet at fair value. When specific criteria required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") have been met, changes in the fair values of hedge contracts related to anticipated transactions are recorded in other comprehensive income (loss) rather than net income (loss) until the underlying hedged transaction affects net income. One of the criteria for this accounting treatment is that the forward foreign currency exchange contract amount should not be in excess of specifically identified anticipated transactions. By their nature, estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. If anticipated transaction estimates or actual transaction amounts decrease below hedged levels, or when the timing of transactions change significantly, the Company would reclassify a portion of the cumulative changes in fair values of the related hedge contracts from other comprehensive income (loss) to other income (expense) during the quarter in which the changes occur.

The Company adopted SFAS No. 157; however the adoption did not have a material impact on results of operations. Refer to Note 15—*Hedging* for further details of the Company's hedging activities.

***Foreign currency translation***

Assets and liabilities of international operations, using a functional currency other than the U.S. dollar, are translated into U.S. dollars at exchange rates as of December 31, 2008 and 2007. Income and expense accounts are translated into U.S. dollars at the actual daily rates of exchange prevailing during the period. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are recorded as a separate component in shareholders' equity in accordance with SFAS No. 130. Foreign exchange transaction gains and losses are included in other expense, net, in the Consolidated Statements of Operations. Foreign currency exchange rate fluctuations resulted in a net gain (loss) of \$193,000, \$(116,000), and \$96,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

***Recent Accounting Pronouncements***

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133," ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This standard becomes effective for the Company on January 1, 2009. Earlier adoption of SFAS 161 and, separately, comparative disclosures for earlier periods at initial adoption are encouraged. SFAS 161 requires enhanced disclosures, which will be provided in the Company's 2009 Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations," ("SFAS 141R") and SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51," ("SFAS 160"). These statements require significant changes in the accounting and reporting for business acquisitions and the reporting of non-controlling interests in subsidiaries. Among many changes under SFAS 141R, an acquirer will record 100% of all assets and liabilities at fair value for partial acquisitions, contingent consideration will be recognized at fair value at the acquisition date with changes possibly recognized in earnings, and acquisition related costs will be expensed rather than capitalized. SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary. Key changes under the standard are that non-controlling interests in a subsidiary will be reported as part of equity, losses allocated to a non-controlling interest can result in a deficit balance, and changes in ownership interests that do not result in a change of control are accounted for as equity transactions and, upon a loss of control, gain or loss is recognized

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

and the remaining interest is remeasured at fair value on the date control is lost. SFAS 141R will apply prospectively to the Company's business combinations occurring on or after January 1, 2009. The Company will also apply SFAS 160 beginning January 1, 2009. Adoption of these statements will affect the Company's accounting for any business acquisitions occurring after the effective date and the reporting of any non-controlling interests in subsidiaries existing on or after the effective date.

In May 2008, the FASB issued FASB Staff Position ("FSP") No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires that issuers of such instruments separately account for the liability and equity components related to convertible debt instruments in a manner that will reflect the issuer's nonconvertible debt borrowing rate when interest expense is recognized in subsequent periods. Early adoption is not permitted and FSP APB 14-1 becomes effective for the Company on January 1, 2009. Based on preliminary analysis, the Company has determined that the new guidance should only affect its 1.375% convertible senior notes due November 15, 2023 (the "2023 convertible senior notes"). Although, the Company's 2023 convertible senior notes were retired as of December 31, 2008, the Company will still be required to retrospectively apply FSP APB 14-1 in all periods presented that include the Company's 2023 convertible senior notes. As a result of this retrospective adoption, the Company's opening accumulated deficit balance and paid in capital balance will increase, however the Company is still assessing the magnitude.

**Note 2—Cash Equivalents and Investments**

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
(In thousands)				
<b>December 31, 2008</b>				
<b>Cash Equivalents</b>				
Money market mutual funds	\$ 14,987	\$ —	\$ —	\$ 14,987
<b>Long-term investments</b>				
Auction rate securities	51,213	—	—	51,213
<b>December 31, 2007</b>				
<b>Cash Equivalents</b>				
Money market mutual funds	\$ 22,309	\$ —	\$ —	\$ 22,309
<b>Short-term investments</b>				
Auction rate securities	72,750	—	—	72,750

The Company has invested excess cash in auction rate securities ("ARS") that have been classified as trading securities. Historically these investments have been held as available-for-sale short-term investments, however, as explained below, due the circumstances surrounding the Company's ARS they were moved from short-term to long-term in the first quarter of 2008, and reclassified to trading securities during the fourth quarter of 2008. In the past, available-for-sale securities were recorded at fair value, and unrealized holding gains and losses were recorded, net of tax, as a separate component of accumulated other comprehensive income. For the years ended December 31, 2008, 2007 and 2006 the Company did not recognize any gains or losses on the sales of available-for-sale investments. At December 31, 2008 and 2007 the Company had no held-to-maturity investments. The Company's investment policy requires that the total investment portfolio, including cash and investments, not exceed a maximum weighted-average maturity of 18 months. In addition, the policy mandates that an individual investment must have a maturity of less than 36 months, with no more than 20% of the total portfolio exceeding 24 months.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Between December 31, 2007 and February 7, 2008, the Company sold at par value \$10.0 million in ARS of the total ARS balance of \$72.8 million which was held at December 31, 2007. During the first quarter of 2008, due to liquidity issues experienced in the global credit and capital markets, the Company's remaining portfolio of ARS experienced multiple failed auctions as the amount of securities submitted for sale exceeded the amount of purchase orders. An auction failure, which is not a default in the underlying debt instrument, occurs when there are more sellers than buyers at a scheduled interest rate auction date and parties desiring to sell their auction rate securities are unable to do so. When an auction fails, the interest rate is adjusted according to the provisions of the associated security agreement, which may result in an interest rate that is higher than the interest rate the issuer pays in connection with successful auctions. The Company will not be able to liquidate the investments until a successful auction occurs, a buyer is found outside the auction process, the securities are called or refinanced by the issuer, or the securities mature. Due to the uncertainty of when the Company will be able to liquidate the investments, the investments were reclassified to long-term assets during the first quarter of 2008 and will continue to be held as such.

During August of 2008, the Company's investment bank announced it had agreed to settlements with the Securities and Exchange Commission and other state regulatory agencies to restore liquidity to eligible holders of auction-rate securities. Subsequently, during the fourth quarter of 2008, the Company accepted an offer from its investment bank which provided a non-transferable right to require the bank to purchase, at par value, \$62.7 million in ARS at any time between June 30, 2010 and June 30, 2012. The agreement allows the investment bank to purchase the ARS sooner than June 30, 2010, but is under no obligation to do so. If the bank has not purchased the investments by June 30, 2010, the Company plans to exercise its non-transferable right to require the purchase at that time. In addition, under the terms of the offer, the Company also became eligible for a demand line of credit of up to 75% of the market value of our ARS until the time of purchase. As of December 31, 2008, the Company had drawn \$39.5 million under the terms of this agreement.

Consequently, in accordance with its policy as well as the provisions of SFAS No. 115, the Company transferred its ARS from available-for-sale to trading securities during the fourth quarter of 2008, as it plans to sell them on June 30, 2010. As such, at the time of transfer, the Company recognized, in earnings, an unrealized holding loss, in the amount of \$11.5 million, based on its estimated valuation of its ARS at that time. Concurrently, the Company elected the fair value option under SFAS No. 159 "*The Fair Value Option for Financial Assets and Financial Liabilities*" for the non-transferable right, upon initial recognition. As such, the Company also recognized a gain in the amount of \$11.1 million, based upon the value assigned to its non-transferable right from UBS. The net loss resulting from these transactions is included in other income (expense), net, in the consolidated statements of operations for the year ended December 31, 2008.

The Company considered various inputs to estimate the fair value of its ARS at December 31, 2008, including the estimated time believed to allow the market for such investments to recover, projected estimates of future risk free rates, as well premiums designed to account for liquidity and credit risks associated with its ARS holdings. For its non-transferable right, the Company considered inputs around the issuer's credit quality, expected term, and estimates of future risk free rates. The Company's valuation of both components of its ARS, are contingent upon the financial viability of its investment bank and accordingly, the Company has assigned a credit risk component to both its valuations based on market data available at the time of valuation. However, if market conditions change and the Company's investment bank is unable to fulfil its commitment, the Company could incur a permanent impairment charge for the remaining amount of our ARS, which would materially and adversely affect its operating results and overall financial condition. Additionally, the inputs used in the Company's valuation are based on managements' estimates at the time of valuation and require significant judgment. If any of these inputs vary or market conditions change significantly, actual results may differ and the Company's overall financial condition and operating results may be materially and adversely affected.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Short-term and long-term investments reported as (in thousands):

	December 31, 2008	December 31, 2007
Short-term available for sale investments	\$ —	\$ 72,750
Long-term trading investments	\$ 51,213	\$ —

**Note 3—Fair Value of Financial Instruments**

The Company measures at fair value certain financial assets and liabilities, including cash equivalents, long-term investments, and its ARS settlement right. SFAS No. 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

Level 1—Quoted prices for identical instruments in active markets

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table summarizes the fair value measurements as of December 31, 2008, for the Company's financial instruments, including its ARS (in thousands):

	Fair Value Measurements as of December 31, 2008			
	December 31, 2008	Level 1	Level 2	Level 3
Cash equivalents	\$ 14,987	\$ 14,987	\$ —	\$ —
Long-term trading investments	\$ 51,213	\$ —	\$ —	\$ 51,213
ARS settlement right	\$ 11,071	\$ —	\$ —	\$ 11,071
Total	\$ 77,271	\$ 14,987	\$ —	\$ 62,284

The following tables outline changes in the fair value of the Company's ARS and ARS settlement right, where fair value is determined using Level 3 inputs:

	Fair Value
Balance as of December 31, 2007	\$ —
Fair value transferred in from Level 1 securities	62,750
Sales of ARS	(25)
Impairment charges (A)	(11,512)
Balance as of December 31, 2008	\$ 51,213

	Fair Value
Balance as of December 31, 2007	\$ —
Initial recognition of ARS settlement right (A)	11,071
Balance as of December 31, 2008	\$ 11,071

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

- (A) Refer to Note 2—Cash Equivalents and Investments for further discussion of the inputs used in determining the appropriate fair values for each financial instrument.

**Note 4—Accounts Receivable and Other Receivables**

Accounts receivable balances consisted of the following (in thousands):

	December 31, 2008	December 31, 2007
Accounts receivable, gross	\$ 46,521	\$ 71,432
Less: allowance for doubtful accounts	(970)	(884)
Accounts receivable, net	<u>\$ 45,551</u>	<u>\$ 70,548</u>

Accounts receivable at December 31, 2008 and 2007 primarily consists of sales to the Company's customers which are generally based on standard terms and conditions. The Company recorded the following activity in allowance for doubtful accounts (in thousands):

	For the Years Ended December 31,		
	2008	2007	2006
Allowance for doubtful accounts, beginning of the year	\$ 884	\$ 858	\$ 876
Charged to costs and expenses	168	65	200
Less: write-offs, net of recoveries	(82)	(39)	(218)
Remaining allowance, end of the year	<u>\$ 970</u>	<u>\$ 884</u>	<u>\$ 858</u>

As of December 31, 2008 and 2007 other receivables was \$1.1 million and \$2.7 million, respectively. Other receivables consisted primarily of non-trade receivables including receivables for inventory sold to the Company's contract manufacturing partners. Sales to the Company's contract manufacturing partners are based on terms and conditions similar to the terms offered to the Company's regular customers. There is no revenue recorded associated with non-trade receivables.

**Note 5—Inventories**

Inventories consisted of the following (in thousands):

	December 31, 2008	December 31, 2007
Raw materials	\$ 30,183	\$ 28,752
Work-in-process	1,126	1,762
Finished goods	<u>9,392</u>	<u>4,405</u>
	40,701	34,919
Less: inventory valuation allowance	<u>(11,251)</u>	<u>(11,818)</u>
Inventories, net	<u>\$ 29,450</u>	<u>\$ 23,101</u>

During the years ended December 31, 2008, 2007 and 2006 the Company recorded provision for excess and obsolete inventory of \$3.7 million, \$6.6 million and \$5.6 million, respectively.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following is a summary of the change in the Company’s inventory valuation allowance (in thousands):

	For the Years Ended December 31,	
	2008	2007
Inventory valuation allowance, beginning of the year	\$ 11,818	\$ 8,612
Usage:		
Inventory scrapped	(4,793)	(1,958)
Inventory utilized	(1,166)	(2,154)
Subtotal—usage	(5,959)	(4,112)
Write-downs of inventory valuation	3,720	6,580
Transfer from other liabilities (A)	1,421	738
Inventory revaluation for standard cost changes	251	—
Inventory valuation allowance, end of the year	<u>\$ 11,251</u>	<u>\$ 11,818</u>

(A) Transfer from other liabilities is related to obsolete inventory purchased from contract manufacturers during the year which was previously reserved for as an adverse purchase commitment. (Note 12—*Other Accrued Liabilities* and Note 16—*Commitments and Contingencies*)

Although many of the raw materials used in the Company’s internal and outsourced manufacturing operations are available from a number of alternative sources, some of these are obtained from a single supplier or a limited number of suppliers. The Company and its outsourced manufacturing partners contract with third parties for a continuing supply of the components used in the manufacture of our products. The Company currently relies solely on Intel for the supply of some microprocessors and other components. Alternative sources of components that are procured from one supplier or a limited number of suppliers would be difficult to locate and/or it would require a significant amount of time and resources to establish and accommodate.

**Note 6—Long-Lived Assets Held for Sale**

Beginning in 2001, RadiSys made it part of its strategic plan to significantly reduce its costs. As part of its plan to reduce costs RadiSys began in 2004 to outsource the manufacture of most of its products. Through various restructuring activities, facilities requirements for manufacturing and other activities in the Hillsboro, Oregon location have decreased significantly. As a result, management decided to transfer operations currently located in one of the Company’s buildings in Hillsboro, Oregon (“DC3 building”) to its other building located in Hillsboro, Oregon and its contract manufacturing partners.

In January 2006, RadiSys vacated the DC3 building and put it and the surrounding land, which had previously been held for future expansion, on the market for sale. The assets held for sale had a recorded value of \$3.5 million which included land with a value of \$2.2 million, building and building improvements with a net value of \$1.3 million, and machinery and equipment with a net value of \$38,000. The Company classified this facility in net assets held for sale as of January 31, 2006, and as a result ceased depreciation of these assets.

During 2007, the Company sold the DC3 building and one of the remaining lots of land held for \$3.0 million resulting in a gain of \$212,000 included in selling, general and administrative expenses in the Consolidated Statement of Operations. The balance in long-lived assets held for sale as of December 31, 2008 of \$644,000 relates to the remaining parcel of land, and is recorded in other current assets as of December 31, 2008 and 2007.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 7—Property and Equipment**

Property and equipment consisted of the following (in thousands):

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Manufacturing equipment	\$ 20,362	\$ 17,133
Office equipment and software	27,153	26,608
Leasehold improvements	<u>5,124</u>	<u>4,588</u>
	52,639	48,329
Less: accumulated depreciation and amortization	<u>(41,083)</u>	<u>(37,096)</u>
Property and equipment, net	<u>\$ 11,556</u>	<u>\$ 11,233</u>

Depreciation and amortization expense for property and equipment for the years ended December 31, 2008, 2007 and 2006 was \$6.2 million, \$5.7 million and \$5.1 million, respectively.

**Note 8—Goodwill**

Pursuant to SFAS No. 142, the Company is required to test goodwill for impairment at least annually. Additionally, the Company assesses goodwill for impairment if any adverse conditions exist that would indicate impairment. Conditions that would trigger an impairment assessment, include, but are not limited to, a significant decline in the Company's market capitalization, a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator. The Company is considered one reporting unit. As a result, goodwill impairment testing is performed at the reporting unit level in a two-step process, which consists of, first, comparing the Company's fair value to its carrying value, including goodwill. If the Company's fair value exceeds its carrying value, applicable goodwill is not considered to be impaired. If the Company's carrying value exceeds its fair value, there is an indication of impairment, upon which time the Company would perform the second step, which includes a further and more detailed analysis in order to corroborate any such impairment.

In accordance with SFAS No. 142, the Company's annual goodwill impairment test was performed during the third quarter of 2008. General economic conditions combined with a decline in the Company's stock price, were considered triggering events that required management to re-perform its goodwill impairment test at the end of the fourth quarter of 2008. To perform the test, a fair value for the Company was estimated primarily based on the market approach, which used the market capitalization method. An impairment loss was then calculated based on an allocation of the fair value of the Company to the fair value of the Company's assets and liabilities in a manner similar to a purchase price allocation in a business combination. This resulted in an impairment charge representing the entire balance of goodwill, which totaled \$67.3 million, net of adjustments and as of December 31, 2008 the Company had no remaining indefinite lived intangible assets.

The following is a summary of the change in Company's total balance during the year ended December 31, 2008 (in thousands):

	<u>Goodwill Balance</u>
Goodwill balance as of January 1, 2008	\$ 67,644
Purchase accounting adjustments	(388)
Impairments	<u>(67,256)</u>
Goodwill balance as of December 31, 2008	<u>\$ —</u>

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 9—Intangible Assets**

The following tables summarize details of the Company's total purchased intangible assets (in thousands):

	Weighted Average Amortization Period (in years)	Gross	Accumulated Amortization	Net
<b>December 31, 2008</b>				
Existing technology	5.0	\$ 38,315	\$ (29,407)	\$ 8,908
Technology licenses	3.7	18,589	(11,867)	6,722
Patents	10.5	6,652	(6,216)	436
Customer lists	3.0	10,800	(8,805)	1,995
Trade names	6.0	3,636	(1,893)	1,743
Other	—	1,537	(1,537)	—
Total intangible assets	<u>4.6</u>	<u>\$ 79,529</u>	<u>\$ (59,725)</u>	<u>\$ 19,804</u>
<b>December 31, 2007</b>				
Existing technology	3.2	\$ 38,315	\$ (19,011)	\$ 19,304
Technology licenses	3.5	18,589	(8,052)	10,537
Patents	10.5	6,652	(6,073)	579
Customer lists	2.4	10,800	(4,895)	5,905
Trade names	6.0	3,636	(1,236)	2,400
Other	0.5	1,537	(1,483)	54
Total intangible assets	<u>3.4</u>	<u>\$ 79,529</u>	<u>\$ (40,750)</u>	<u>\$ 38,779</u>

Intangible assets amortization expense was \$19.0 million, \$19.4 million and \$6.6 million for the years ended December 31, 2008, 2007 and 2006, respectively. The Company's purchased intangible assets have lives ranging from one to 10 years. In accordance with SFAS No. 144, the Company reviews for impairment of all its purchased intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

General economic conditions as well as the decline in the Company's stock price were considered triggering events that required the Company to re-perform an impairment test of its long lived assets, including intangible assets. This analysis was performed in accordance with SFAS No. 144. For its long lived intangible assets, the Company determined no impairment existed, however, during its analysis, the remaining depreciable lives were reviewed for adequacy. The Company noted that expected future benefits derived from certain MSBU intangible assets exceeded their remaining depreciable lives. Accordingly, an adjustment was made in order to match amortization expense over the period of expected future benefit. The intangible asset categories impacted were existing technology and customer lists. The adjustments to depreciable lives of the Company's intangible assets were treated as changes in estimates and, in accordance with Statement of Financial Accounting Standard No. 154, "Accounting Changes and Error Corrections," their effects were recognized prospectively in our Consolidated Financial Statements, effective October 1, 2008.

The intangible asset balance within existing technology is made up of one asset, which is related to technology acquired in the Company's purchase of Convedia in 2007. In the quarter and year ended December 31, 2008, this prospective treatment resulted in a reduction in our amortization expense of \$637,000. The balance within customer lists is also associated with the Convedia acquisition. In the quarter and year ended December 31, 2008, this prospective treatment resulted in a reduction in our amortization expense of \$1.0 million. In the quarter and year ended December 31, 2008, this prospective treatment resulted in a collective

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

reduction in our amortization expense of \$1.7 million. The impact of the change in estimate resulted in a pre-tax decrease to net loss of \$1.7 million, and a pre-tax decrease in fully diluted loss per share of \$0.08.

The estimated future amortization expense of purchased intangible assets as of December 31, 2008 is as follows (in thousands):

<u>For the Years Ending December 31,</u>	<u>Estimated Intangible Amortization Amount</u>
2009	9,084
2010	6,388
2011	3,683
2012	649
Total estimated future amortization expense	<u>\$ 19,804</u>

**Note 10—Other Assets**

Other current assets consisted of the following (in thousands):

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Prepaid maintenance, rent and other	\$ 3,279	\$ 4,555
Assets held for sale	644	644
Income tax receivable, net	345	100
Other current assets	<u>\$ 4,268</u>	<u>\$ 5,299</u>

Other assets consisted of the following (in thousands):

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Employee deferred compensation arrangement	\$ 2,819	\$ 3,362
2013 convertible senior notes debt issuance costs	1,394	—
Other	669	625
Other assets	<u>\$ 4,882</u>	<u>\$ 3,987</u>

Employee deferred compensation arrangement represents the cash surrender value of insurance contracts purchased by the Company as part of its deferred compensation plan established in January 2001. Any elective deferrals by the eligible employees are invested in insurance contracts.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 11—Accrued Restructuring and Other Charges**

Accrued restructuring is recorded in other accrued liabilities as of December 31, 2008 and 2007, and consisted of the following (in thousands):

	December 31, 2008	December 31, 2007
Fourth quarter 2006 restructuring charge	\$ 6	\$ 57
Second quarter 2007 restructuring charge	—	11
Second quarter 2008 restructuring charge	87	—
Total	<u>\$ 93</u>	<u>\$ 68</u>

The Company evaluates the adequacy of the accrued restructuring charges on a quarterly basis. The Company records certain reclassifications between categories and reversals to the accrued restructuring charges based on the results of the evaluation. The total accrued restructuring charges for each restructuring event are not affected by reclassifications. Reversals are recorded in the period in which the Company determines that expected restructuring obligations are less than the amounts accrued.

***Fourth Quarter 2006 Restructuring***

During the fourth quarter of 2006, the Company initiated a restructuring plan that included the elimination of 12 positions primarily supporting the Company's contract manufacturing operations as a result of the termination of the relationship with one of the Company's contract manufacturers in North America. The restructuring plan also includes closing the Charlotte, North Carolina manufacturing support office. The Company expects this office closure to be completed by January 31, 2009.

***Second Quarter 2007 Restructuring***

During the second quarter of 2007, the Company incurred employee-related expenses associated with skill set changes for approximately 20 employees. The changes involved creating an integrated structure with the media server business along with some skill set changes in certain selling, general and administrative and engineering groups. The costs incurred in this restructuring event include employee severance and medical benefits, and associated legal costs. All restructuring activities were completed by March 31, 2008.

***Second Quarter 2008 Restructuring***

During the second quarter of 2008, the Company initiated a restructuring plan that included the elimination of 23 positions. The restructuring was primarily initiated with the intent to return the Company's engineering spend to levels which align with targeted profitability as well as refocus the Company's skill sets in new product deployment and provide enhanced service and support to existing customers. The Company expects to complete all activities associated with the restructuring by March 31, 2009.

The following table summarizes the changes to the second quarter 2008 restructuring costs (in thousands):

	Employee Termination and Related Costs
Restructuring and other costs	\$ 598
Expenditures	(468)
Reversals	<u>(43)</u>
Balance accrued as of December 31, 2008	<u>\$ 87</u>

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 12—Other Accrued Liabilities**

Other accrued liabilities consisted of the following (in thousands):

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Accrued warranty reserve	3,072	2,494
Deferred compensation plan liability	2,135	2,651
Adverse purchase commitments	1,968	1,884
Accrued interest payable	517	172
Accrued restructuring	93	68
Hedge liability	1,196	—
Other	2,403	1,646
Other accrued liabilities	<u>\$ 11,384</u>	<u>\$ 8,915</u>

**Note 13—Short-Term Borrowings***Silicon Valley Bank*

On August 7, 2008, the Company entered into a secured revolving line of credit agreement (“the Agreement”) with Silicon Valley Bank, as the Lender. The Agreement provides the Company with a two-year secured revolving credit facility of \$30.0 million, which is subject to a borrowing base and secured by its accounts receivable. Borrowings under the Agreement will bear interest at the prime rate, which was 3.25% as of December 31, 2008, or the LIBOR rate, which was 0.44% as of December 31, 2008, plus 1.25%, with either interest rate determined by the Company’s election. The Company is required to make interest payments monthly. The Company is further required to pay a commitment fee equal to 0.08% of the \$30.0 million maximum borrowing limit on an annual basis, and to pay quarterly in arrears an unused facility fee in an amount equal to 0.375% per year of the unused amount of the facility. In addition, the credit facility provides sub-facilities for letters of credit and foreign exchange contracts to be issued on the Company’s behalf.

The credit facility requires the Company to make and maintain certain financial covenants, representations, warranties and other agreements that are customary in credit agreements of this type. The Agreement requires the Company to maintain a minimum current ratio (current assets divided by the sum of current liabilities less deferred income plus the amount of outstanding advances and letters of credit) of 1.5 as of December 31, 2008 and during quarterly periods thereafter. Additionally, any quarterly EBITDA (earnings before interest, taxes, depreciation, amortization, stock based compensation and goodwill impairment charges, as defined in the Agreement) loss may not exceed \$2.5 million in any one quarter, and quarterly EBITDA may not be negative for any two consecutive quarters for the duration of the Agreement. Further, the Company’s EBITDA may not be negative for the year ended December 31, 2008. For quarterly periods beginning after January 1, 2009, the Company must maintain a positive rolling four quarter EBITDA. In addition, capital expenditures may not exceed \$12.0 million in any fiscal year. During the fourth quarter of 2008, the Company amended the Agreement with Silicon Valley bank. The amendment included a one-time exclusion for the goodwill impairment charge recognized in the fourth quarter of 2008.

Amounts borrowed and repaid are available for re-borrowing during the term of the facility. Outstanding amounts are due in full on the maturity date of August 6, 2010. Upon the occurrence of certain events of default specified in the Agreement, amounts due under the Agreement may be declared immediately due and payable.

As of December 31, 2008, the Company had no outstanding balances on the line of credit or letters of credit issued on its behalf.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*UBS*

During August of 2008, UBS AG, the parent company of the securities firm with which the Company holds its ARS, announced an offer to its clients holding auction rate securities (“the Offer”). Under the Offer, UBS AG would issue Auction Rate Securities Rights (“the Rights”) to the Company. The Rights would allow the Company to sell the ARS held in the Company accounts with UBS Financial Services, Inc. or UBS Securities LLC to UBS AG at par value during the period beginning June 30, 2010 and ending July 2, 2012. Under the Offer, the Company would also be entitled to receive no net cost loans from UBS AG or its affiliates for up to 75% of the market value of the Company’s ARS.

The Company accepted the Offer and entered into a Credit Line Agreement (“the Credit Line”), including an Addendum to Credit Line Account Application and Agreement, with UBS Bank USA and on December 12, 2008 borrowed approximately \$39.8 million under the Credit Line. On December 15, 2008, the Company used a portion of the proceeds to pay in full the outstanding principal balance of approximately \$20.0 million under its secured revolving line of credit agreement with Silicon Valley Bank. The amount of interest the Company will pay under the Credit Line is intended to equal the amount of interest the Company would receive with respect to the Company’s auction rate securities and is currently set at T-Bill plus 1.20%, which will be subject market fluctuations. The borrowings under the Credit Line are payable upon demand; however, UBS Bank USA or its affiliates are required to provide to the Company alternative financing on substantially similar terms, unless the demand right was exercised as a result of certain specified events or the customer relationship between UBS Bank USA and the Company is terminated for cause by UBS Bank USA. As of December 31, 2008, the Company had an outstanding balance on the Credit Line in the amount of \$39.5 million.

**Note 14—Convertible Debt**

***2023 Convertible Senior Notes***

During November 2003, the Company completed a private offering of \$100 million in aggregate principal amount of the 2023 convertible senior notes due November 15, 2023 to qualified institutional buyers. The discount at issuance on the 2023 convertible senior notes amounted to \$3 million.

During the first quarter of 2008, the Company repurchased \$52.5 million aggregate principal amount of the 2023 convertible senior notes, with an associated discount of \$1.3 million. The notes were repurchased in the open market for \$51.1 million and, as a result, the Company recorded a gain of \$68,000.

During the second quarter of 2008, the Company repurchased \$10.0 million aggregate principal amount of the 2023 convertible senior notes, with an associated discount of \$240,000. The Company repurchased the notes in the open market for \$9.8 million and, as a result, recorded a net loss of \$31,000.

On November 15, 2008, the holders of the 2023 convertible senior notes required the Company to purchase, in cash, the entire remaining aggregate amount outstanding, together with accrued and unpaid interest as of this date. As such, the Company repurchased \$37.5 million aggregate principal amount of the 2023 convertible senior notes, with an associated discount of \$874,000. The Company repurchased the notes in the open market for \$37.5 million and, as a result, recorded a net loss of \$874,000. As of December 31, 2008, the 2023 convertible senior notes were fully retired.

***2013 Convertible Senior Notes***

On February 6, 2008, the Company offered and sold in a public offering pursuant to the shelf registration statement \$55.0 million aggregate principal amount of 2.75% convertible senior notes due 2013 (the “2013 convertible senior notes”). Interest on the 2013 convertible senior notes is payable semi-annually, in arrears, on

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

each August 15 and February 15, beginning on August 15, 2008, to the holders of record at the close of business on the preceding August 1 and February 1, respectively. The 2013 convertible senior notes mature on February 15, 2013. Holders of the 2013 convertible senior notes may convert their notes into a number of shares of the Company's common stock determined as set forth in the indenture governing the notes at their option on any day to and including the business day prior to the maturity date. The 2013 convertible senior notes are initially convertible into 76,7448 shares of the Company's common stock per \$1,000 principal amount of the notes (which is equivalent to a conversion price of approximately \$13.03 per share), subject to adjustment upon the occurrence of certain events. Upon the occurrence of a fundamental change, holders of the 2013 convertible senior notes may require the Company to repurchase some or all of their notes for cash at a price equal to 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest, if any. In addition, if certain fundamental changes occur, the Company may be required in certain circumstances to increase the conversion rate for any 2013 convertible senior notes converted in connection with such fundamental changes by a specified number of shares of the Company's common stock. The 2013 convertible senior notes are the Company's general unsecured obligations and rank equal in right of payment to all of its existing and future senior indebtedness, and senior in right of payment to the Company's future subordinated debt. The Company's obligations under the 2013 convertible senior notes are not guaranteed by, and are effectively subordinated in right of payment to all existing and future obligations of its subsidiaries and are effectively subordinated in right of payment to its future secured indebtedness to the extent of the assets securing such debt.

In connection with the issuance of the 2013 convertible senior notes, the Company entered into a capped call transaction with a hedge counterparty. The capped call transaction is expected to reduce the potential dilution upon conversion of the 2013 convertible senior notes in the event that the market value per share of the Company's common stock, as measured under the terms of the capped call transaction, at the time of exercise is greater than the strike price of the capped call transaction of approximately \$13.03, which corresponds to the initial conversion price of the 2013 convertible senior notes and is subject to certain adjustments similar to those contained in the notes. If, however, the market value per share of the Company's common stock exceeds the cap price of the capped call transaction of \$23.085, as measured under the terms of the capped call transaction, the dilution mitigation under the capped call transaction will be limited, which means that there would be dilution to the extent that the then market value per share of the Company's common stock exceeds the cap price of the capped call transaction.

During the fourth quarter of 2008, the Company repurchased \$5.0 million aggregate principal amount of the 2013 convertible senior notes, with associated unamortized issuance costs of \$196,000. The Company repurchased the notes in the open market for \$3.1 million and, as a result, recorded a net gain of \$1.7 million.

As of December 31, 2008, the Company had outstanding 2013 convertible senior notes with a face value and fair value of \$50.0 million and \$26.9 million, respectively.

***Convertible Subordinated Notes***

During August 2000, the Company completed a private offering of \$120 million in aggregate principal amount of 5.5% convertible subordinated notes due to qualified institutional buyers. The discount at issuance on the convertible subordinated notes amounted to \$3.6 million. The remaining outstanding notes of \$2.4 million were paid at maturity on August 15, 2007.

**Note 15—Hedging**

The Company's activities expose it to a variety of market risks, including the effects of changes in foreign currency exchange rates. During the first quarter of 2008, the Company entered into forward exchange contracts, designated as foreign-currency cash flow hedges, to reduce the potentially adverse effects of foreign currency

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

exchange rate fluctuations that occur in the normal course of business. All hedging transactions are conducted with a large, and in the opinion of management, reputable and financially stable financial institution.

These derivatives are recognized on the balance sheet at their fair value. Unrealized gain positions are recorded as other current assets and unrealized loss positions are recorded as other current liabilities as all maturity dates are less than one year. Changes in the fair values of the outstanding derivatives that are highly effective are recorded in other comprehensive income until net income is affected by the variability of the cash flows of the hedged transaction. Changes in the fair values of the derivatives not effective as hedging instruments are recognized in earnings in the current period. Results of hedges are recorded in the expense line item being hedged, which is primarily R&D, when the underlying hedged transaction affects net income (loss).

The Company evaluates, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives are expected to remain highly effective in future periods.

For the year ended December 31, 2008, the Company had a net foreign exchange hedge-related transaction loss of \$190,000. As of December 31, 2008, the Company had forward contracts outstanding in the amount of \$5.7 million that mature monthly over the next eleven months. For the year ended December 31, 2008, the Company had recorded as other comprehensive income, unrealized losses of \$859,000 on outstanding derivatives. The majority of these amounts are expected to be reclassified from other comprehensive (loss) income to other (expense) income within the next twelve months. As of December 31, 2008, the Company had no ineffective hedges because forward foreign currency contract amounts were less than the specifically identified anticipated transactions being hedged.

**Note 16—Commitments and Contingencies**

RadiSys leases most of its facilities, certain office equipment, and vehicles under non-cancelable operating leases which require minimum lease payments expiring from one to four years after December 31, 2008. Amounts of future minimum lease commitments in each of the five years ending December 31, 2009 through 2013 and thereafter, are as follows (in thousands):

<b>For the Years Ending December 31,</b>	<b>Future Minimum Lease Payments</b>
2009	4,483
2010	4,150
2011	2,417
2012	719
2013 and thereafter	1,515
Total future minimum lease commitments	<u>\$ 13,284</u>

Rent expense totaled \$5.4 million, \$5.7 million and \$3.6 million for the years ended December 31, 2008, 2007 and 2006, respectively.

***Adverse Purchase Commitments***

The Company is contractually obligated to reimburse its contract manufacturers for the cost of excess inventory used in the manufacture of the Company's products, if there is no alternative use. This liability, referred to as adverse purchase commitments, is provided for in other accrued liabilities in the accompanying balance sheets. Estimates for adverse purchase commitments are derived from reports received on a quarterly

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

basis from the Company's contract manufacturers. Increases to this liability are charged to cost of goods sold. When and if the Company takes possession of inventory reserved for in this liability, the liability is transferred from other accrued liabilities (Note 12—*Other Accrued Liabilities*) to the excess and obsolete inventory valuation allowance (Note 5—*Inventories*).

***Guarantees and Indemnification Obligations***

As permitted under Oregon law, the Company has agreements whereby it indemnifies its officers, directors and certain finance employees for certain events or occurrences while the officer, director or employee is or was serving in such capacity at the request of the Company. The term of the indemnification period is for the officer's, director's or employee's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a Director and Officer insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts paid. To date, the Company has not incurred any costs associated with these indemnification agreements and, as a result, management believes the estimated fair value of these indemnification agreements is minimal. Accordingly, the Company has not recorded any liabilities for these agreements as of December 31, 2008.

The Company enters into standard indemnification agreements in its ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company's business partners or customers, in connection with patent, copyright or other intellectual property infringement claims by any third party with respect to the Company's current products, as well as claims relating to property damage or personal injury resulting from the performance of services by us or the Company's subcontractors. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is generally limited. Historically, the Company's costs to defend lawsuits or settle claims relating to such indemnity agreements have been minimal and accordingly management believes the estimated fair value of these agreements is immaterial.

The Company provides for the estimated cost of product warranties at the time it recognizes revenue. Products are generally sold with warranty coverage for a period of 24 months after shipment. Parts and labor are covered under the terms of the warranty agreement. The workmanship of the Company's products produced by contract manufacturers is covered under warranties provided by the contract manufacturer for a specified period of time ranging from 12 to 15 months. The warranty provision is based on historical experience by product family. The Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its components suppliers; however ongoing failure rates, material usage and service delivery costs incurred in correcting product failure, as well as specific product class failures out of the Company's baseline experience affect the estimated warranty obligation. If actual product failure rates, material usage or service delivery costs differ from estimates, revisions to the estimated warranty liability would be required.

The following is a summary of the change in the Company's warranty accrual reserve (in thousands):

	For the Years Ended	
	December 31,	
	2008	2007
Warranty liability balance, beginning of the year	\$ 2,494	\$ 2,000
Product warranty accruals	5,465	3,836
Adjustments for payments made	(4,887)	(3,342)
Warranty liability balance, end of the year	<u>\$ 3,072</u>	<u>\$ 2,494</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The warranty liability balance is included in other accrued liabilities in the accompanying Consolidated Balance Sheets as of December 31, 2008 and 2007.

**Note 17—Basic and Diluted Loss per Share**

A reconciliation of the numerator and the denominator used to calculate basic and diluted income per share is as follows (in thousands, except per share amounts):

	For the Years Ended December 31,		
	2008	2007	2006
<b>Numerator—Basic</b>			
Net loss, basic	\$ (65,950)	\$ (17,552)	\$ (13,016)
<b>Numerator—Diluted</b>			
Net loss, basic	(65,950)	(17,552)	(13,016)
Interest on convertible senior notes, net of tax benefit (A)	—	—	—
Net loss, diluted	\$ (65,950)	\$ (17,552)	\$ (13,016)
<b>Denominator—Basic</b>			
Weighted average shares used to calculate net loss per share, basic	22,552	21,883	21,158
<b>Denominator—Diluted</b>			
Weighted average shares used to calculate net loss per share, basic	22,552	21,883	21,158
Effect of dilutive restricted stock	—	—	—
Effect of dilutive stock options (B)	—	—	—
Effect of convertible senior notes (A)	—	—	—
Weighted average shares used to calculate net loss per share, diluted	22,552	21,883	21,158
<b>Net loss per share:</b>			
Basic	\$ (2.92)	\$ (0.80)	\$ (0.62)
Diluted	\$ (2.92)	\$ (0.80)	\$ (0.62)

(A) For the years ended December 31, 2008, 2007 and 2006, as-if converted shares associated with the Company's 2013 and 2023 convertible notes, as well as its previously issued convertible subordinated notes, were excluded from the calculation if the effect would be anti-dilutive. The following table summarizes the total number of shares excluded from the earnings per share calculation, by year, for the different forms of convertible debt:

	For the Years Ended December 31,		
	2008	2007	2006
Convertible subordinated notes	—	9	36
2023 convertible senior notes	1,896	4,243	4,243
2013 convertible senior notes	3,653	—	—
Total shares excluded from earnings per share calculation	5,549	4,252	4,279

(B) For the years ended December 31, 2008, 2007, and 2006, options amounting to 3.8 million, 3.3 million, and 3.1 million, respectively, were excluded from the calculation as the Company was in a loss position.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 18—Income Taxes**

The income tax provision consists of the following (in thousands):

	For the Years Ended December 31,		
	2008	2007	2006
Current provision (benefit):			
Federal	\$ (216)	\$ (65)	\$ (133)
State	34	6	(178)
Foreign	(193)	1,334	135
Total current provision (benefit)	<u>(375)</u>	<u>1,275</u>	<u>(176)</u>
Deferred provision (benefit):			
Federal	(12,051)	(2,249)	824
State	(526)	789	(109)
Foreign	3,425	(5,829)	(1,285)
Total deferred benefit	<u>(9,152)</u>	<u>(7,289)</u>	<u>(570)</u>
Total income tax benefit	<u>\$ (9,527)</u>	<u>\$ (6,014)</u>	<u>\$ (746)</u>

The income tax provision (benefit) differs from the amount computed by applying the statutory federal income tax rate to pretax income as a result of the following differences:

	For the Years Ended December 31,		
	2008	2007	2006
Statutory federal tax (benefit) rate	(35.0)%	(35.0)%	(35.0)%
Increase (decrease) in rates resulting from:			
State taxes	(0.6)	(0.5)	(1.5)
Goodwill impairment expense and (benefit) from acquisitions	15.6	(1.1)	(1.8)
Valuation allowance	0.1	(0.9)	(0.4)
Taxes on foreign income that differ from U.S. tax rate	1.1	16.6	(5.1)
Tax credits	(2.0)	(5.1)	(5.5)
Export sale benefit	—	—	(1.4)
Non-deductible stock-based compensation expense	2.5	6.4	5.7
In process research and development	—	—	37.1
Foreign currency adjustments	3.6	(6.9)	—
Other	2.1	1.0	2.5
Effective tax rate	<u>(12.6)%</u>	<u>(25.5)%</u>	<u>(5.4)%</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The components of deferred taxes consist of the following (in thousands):

	December 31,	
	2008	2007
Deferred tax assets:		
Accrued warranty	\$ 1,014	\$ 827
Inventory	4,517	4,885
Restructuring accrual	24	25
Net operating loss carryforwards	10,804	18,306
Tax credit carryforwards	19,034	17,651
Stock-based compensation	3,389	2,407
Capitalized research and development	1,355	1,640
Fixed assets	4,300	5,660
Intangible Assets	4,845	1,240
Goodwill	7,980	—
Other	4,704	3,661
Total deferred tax assets	61,966	56,302
Less: valuation allowance	(5,555)	(6,307)
Net deferred tax assets	56,411	49,995
Deferred tax liabilities:		
Goodwill	—	(2,789)
Other	(250)	(639)
Total deferred tax liabilities	(250)	(3,428)
Total net deferred tax assets	\$ 56,161	\$ 46,567

At December 31, 2008, our unrecognized tax benefits associated with uncertain tax positions were \$1.8 million, substantially all of which, if recognized, would favorably affect the effective tax rate.

The Company's ongoing practice is to recognize potential accrued interest and penalties related to unrecognized tax benefits within its global operations in income tax expense. During the year ended December 31, 2008, potential interest and penalties associated with uncertain tax positions totaled \$678,000, which represents an increase of \$51,000 from the balance as of December 31, 2007.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The Company's total amounts of unrecognized tax benefits at the beginning and end of the period are as follows (in thousands):

	<u>Total</u>
Balance at January 1, 2007	\$ 1,476
Additions based on tax positions related to the current year	—
Additions for tax positions of prior years	835
Reductions for tax positions of prior years	(57)
Settlements	—
Reductions as a result of a lapse of applicable statute of limitations	(78)
Other	(33)
Balance accrued as of December 31, 2007	<u>\$ 2,143</u>
Additions based on tax positions related to the current year	—
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Settlements	(107)
Reductions as a result of a lapse of applicable statute of limitations	(78)
Other	(203)
Balance accrued as of December 31, 2008	<u>\$ 1,755</u>

The Company and its subsidiaries are subject to federal income tax as well as income tax of multiple state and foreign jurisdictions. The Company's statute of limitations is closed for all federal and state income tax years before 2005 and 2004, respectively. The statute of limitations for the Company's Canadian subsidiary is closed for all tax years ended before October 31, 2005. The statute of limitations for the Company's other foreign subsidiaries is closed for all income tax years before 2002 which includes federal and state income tax returns. However, to the extent allowed by law, the taxing authorities may have the right to examine prior periods where net operating losses and credits were generated and carried forward, and make adjustments up to the net operating loss and credit carryforward amounts.

The Company is not currently under Internal Revenue Service (IRS) examination. During 2005, the Company settled an IRS tax examination related to the 1996 through 2002 tax years. In the fourth quarter of 2006, the German tax authorities commenced audits of 2002 through 2004 years. The German taxing authority has completed their examination and all audit adjustments were essentially settled during the third quarter of 2008. The final audit adjustments did not have a material impact on the Company's position or results of operations. In the fourth quarter of 2008, the Canada Revenue Agency commenced routine tax inquiries for the taxation years 2005 through 2007. The Company is not currently under examination in any other states or foreign jurisdictions.

During the year ended December 31, 2008, the Company recorded a reduction to goodwill of \$388,000 primarily related to a purchase accounting adjustment to increase a deferred tax asset for acquired net operating losses related to the acquisition of Microware and the recognition of an acquisition related uncertain tax position.

The Company has recorded valuation allowances of \$5.6 million and \$6.3 million at December 31, 2008 and December 31, 2007, respectively, due to uncertainty involving utilization of certain net operating loss and tax credit carryforwards prior to the expiration which will occur between 2009 and 2026. The decrease in valuation allowance of \$752,000 for the year ended December 31, 2008 compared to the year ended December 31, 2007, is primarily attributable to an increase in the utilization of net operating loss carryforwards from the acquisition of Microware in August 2001 and the expiration of a capital loss carryforward, that was previously reserved.

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

At December 31, 2008 and 2007, the Company had total available federal net operating loss carryforwards of approximately \$27.9 million and \$32.0 million, respectively, before valuation allowance. The federal net operating loss carryforwards expire between 2009 and 2023 and consist of approximately \$14.5 million of consolidated taxable loss remaining after loss carrybacks to prior years, \$3.9 million of loss carryforwards from the Texas Micro merger in 1999, and \$9.5 million of loss carryforwards from the Microware acquisition in August of 2001. The net operating losses from Texas Micro and Microware are stated net of limitations pursuant to Section 382 of the Internal Revenue Code. The annual utilization limitations are \$5.7 million and \$732,000 for Texas Micro and Microware, respectively. The Company had total state net operating loss carryforwards of approximately \$40.2 million and \$40.9 million at December 31, 2008 and 2007, respectively, before valuation allowance. The state net operating loss carryforwards expire between 2010 and 2023. The Company also had net operating loss carryforwards of approximately \$5.9 million from certain non-U.S. jurisdictions. The non-U.S. net operating loss carryforwards are primarily attributable to Canada and the U.K. The Canada tax losses are attributable to the Convedia acquisition in September of 2006 and they expire between 2009 and 2026. The U.K. tax losses may be carried forward indefinitely provided certain requirements are met.

The Company has federal and state research and development tax credit and other federal tax credit carryforwards of approximately \$13.3 million at December 31, 2008, to reduce future income tax liabilities. The federal and state tax credits expire between 2014 and 2028. The federal tax credit carryforwards include research and development tax credits of \$1.5 million and \$268,000 from the Texas Micro and Microware acquisitions, respectively. The utilization of these acquired credits is subject to an annual limitation pursuant to Section 383 of the Internal Revenue Code. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed into law which extended the research and development tax credit through December 31, 2009. Congress has reinstated the tax credit retroactive to January 1, 2008. The Company's Canadian subsidiary also had approximately \$3.6 million in investment tax credit, \$8.9 million in unclaimed scientific research and experimental expenditures and \$12.5 million in undepreciated capital cost to be carried forward and applied against future income in Canada.

Realization of the deferred tax assets is dependent on generating sufficient taxable income prior to the expiration of the net operating loss and tax credit carryforwards. Although realization is not assured, management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the balance of the deferred tax assets, net of the valuation allowance, as of December 31, 2008. The amount of the net deferred tax assets that is considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced. Should management determine that the Company would not be able to realize all or part of the net deferred tax assets in the future, adjustments to the valuation allowance for deferred tax assets may be required. Pre-tax book loss in fiscal 2008 is primarily the result of the \$67.3 million charge associated with the full impairment of our goodwill balances. Of this total charge, approximately \$34.0 million is related to stock acquisitions and therefore not tax deductible for income tax purposes. The pre-tax book losses from foreign operations for fiscal years 2008, 2007 and 2006 are primarily the result of purchased intangible asset amortization and an in-process R&D charge related to the Convedia Corporation acquisition of \$13.7 million, \$16.5 million and \$19.9 million, respectively. These other acquisition related charges, as well as approximately \$34.0 million of the goodwill charge, are not tax deductible and therefore have not affected taxable income for these years.

Pretax book income (loss) from domestic operations for the fiscal years 2008, 2007 and 2006 was \$(42.4) million, \$(7.4) million, and \$2.4 million, respectively. Pretax book income (loss) from foreign operations for fiscal years 2008, 2007 and 2006 was \$(33.1) million, \$(16.1) million, and \$(16.2) million, respectively. The Company has indefinitely reinvested approximately \$13.3 million of the undistributed earnings of certain foreign subsidiaries at December 31, 2008. Such earnings would be subject to U.S. taxation if repatriated to the United States.

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**Note 19—Employee Benefit Plans**

***Stock-Based Employee Benefit Plans***

Equity instruments are granted to employees, directors and consultants in certain instances, as defined in the respective plan agreements. Beginning in the second quarter of 2005, the Company issued equity instruments in the form of stock options, restricted shares and shares issued to employees as a result of the employee stock purchase plan (“ESPP”). Beginning in the third quarter of 2006, the Company began issuing restricted stock units in conjunction with the other equity instruments. Prior to the second quarter of 2005, the Company issued equity instruments in the form of stock options and ESPP shares, only.

***Stock Options and Restricted Stock Awards***

On May 15, 2007, the Shareholders approved the 2007 Stock Plan (the “Plan”) to replace the 1995 Stock Incentive Plan, the 2001 Nonqualified Stock Option Plan and the RadiSys Corporation Stock Plan for Conveda Employees. The Plan provides the Board of Directors broad discretion in creating employee equity incentives. Unless otherwise stipulated in the plan document, the Board of Directors, at their discretion, determines stock option exercise prices, which may not be less than the fair market value of RadiSys common stock at the date of grant, vesting periods and the expiration periods which are a maximum of 10 years from the date of grant. Under the Plan, 3.2 million shares of common stock have been reserved and authorized for issuance to any non-employee directors and employees, with a maximum of 400,000 shares in any calendar year to one participant. The Plan provides for the issuance of stock options, restricted shares, restricted stock units and performance-based awards.

On May 15, 2008, the shareholders approved the Long-Term Incentive Plan (the “LTIP”). The LTIP provides for the grants of awards payable in shares of common stock or cash upon the achievement of performance goals set by the Company’s Compensation and Development Committee. The number of shares of the Company’s common stock initially reserved for issuance under the LTIP is 2.0 million shares with a maximum of 500,000 shares in any calendar year to one participant.

The table below summarizes the activities related to the Company’s stock plans (in thousands, except weighted average exercise prices):

	Shares Available for Grant	Stock Options Outstanding		Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
		Number	Average Price		
Balance, December 31, 2007	2,284	3,269	\$ 16.79	4.17	\$ 2,032
Shares replaced	(345)	—	—		
Authorized	2,000	—	—		
Options granted	(603)	603	\$ 9.38		
Restricted shares granted	(0)	—	—		
Restricted stock units granted (A)	(407)	—	—		
Options forfeited	62	(62)	\$ 17.98		
Options expired	262	(262)	\$ 20.80		
Restricted shares canceled	5	—	—		
Restricted stock units canceled (A)	64	—	—		
Restricted shares repurchased	27	—	—		
Options exercised	—	(75)	\$ 3.99		
Balance, December 31, 2008	3,349	3,473	\$ 15.46	3.89	\$ 12
Vested and expected to vest, December 31, 2008		3,471	\$ 15.46	3.89	\$ 12
Vested at December 31, 2008		2,493	\$ 16.95	3.10	\$ 7,301

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(A) The 2007 plan that replaced the 1995 Stock Incentive Plan, the 2001 Nonqualified Stock Option Plan and the RadiSys Corporation Stock Plan for Convidia Employees requires all restricted stock to be counted as two shares and stock options to be counted as one share.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the closing price of RadiSys shares as quoted on the NASDAQ Global Select Market for December 31, 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2008. The intrinsic value of options changes based on the fair market value of RadiSys stock. Total intrinsic value of options exercised for the years ended December 31, 2008, 2007 and 2006 was \$591,000, \$227,000, and \$6.4 million, respectively.

The following table summarizes the information about stock options outstanding at December 31, 2008 (shares in thousands):

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding As of 12/31/2008</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable As of 12/31/2008</u>	<u>Weighted Average Exercise Price</u>
\$ 4.34-\$ 9.44	669	4.86	\$ 8.63	187	\$ 7.52
\$ 9.74-\$13.56	638	5.11	\$ 12.73	300	\$ 13.00
\$13.66-\$15.27	588	3.68	\$ 14.38	534	\$ 14.43
\$15.30-\$18.92	554	2.64	\$ 17.16	507	\$ 17.19
\$18.94-\$20.65	404	3.09	\$ 19.40	404	\$ 19.39
\$20.75-\$49.91	620	3.44	\$ 22.54	561	\$ 22.64
\$ 4.34-\$49.91	<u>3,473</u>	3.89	\$ 15.46	<u>2,493</u>	\$ 16.95

***Employee Stock Purchase Plan***

In December 1995, the Company established an Employee Stock Purchase Plan (“ESPP”). All employees of RadiSys and its subsidiaries who customarily work 20 or more hours per week, including all officers, are eligible to participate in the ESPP. Separate offerings of common stock to eligible employees under the ESPP (an “Offering”) commence on February 15, May 15, August 15 and November 15 of each calendar year (“Enrollment Dates”) and continue for a period of 18 months. Multiple separate Offerings are in operation under the ESPP at any given time. An employee may participate in only one Offering at a time and may purchase shares only through payroll deductions permitted under the provisions stipulated by the ESPP. The purchase price is the lesser of 85% of the fair market value of the common stock on date of grant or that of the purchase date (“look-back feature”). Pursuant to the provisions of the ESPP, as amended, the Company is authorized to issue up to 5.2 million shares of common stock under the plan. For the years ended December 31, 2008, 2007 and 2006 the Company issued 596,000, 405,000 and 278,000 shares under the plan, respectively. At December 31, 2008, 1.3 million shares were available for issuance under the plan.

***Stock-Based Compensation associated with Stock-Based Employee Benefit Plans***

In 2004, in an effort to reduce the amount of stock-based compensation expense that the Company would include in its financial statements after the effective date of SFAS 123R or January 1, 2006, the Compensation Committee of the Board of Directors approved an acceleration of vesting of those non-director employee stock options with an option price greater than \$15.99, which was greater than the fair market value of the shares on

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that date (\$14.23). Approximately 1.1 million options with varying remaining vesting schedules were subject to the acceleration and became immediately exercisable. Historically the Company has not accelerated the vesting of employee stock options. As a result of the acceleration, the Company estimates that stock-based compensation expense, net of related tax effects, was reduced by approximately \$1.8 million and \$219,000 for the years ended December 31, 2006 and 2007, respectively.

The Company uses the Black-Scholes model to measure the grant date fair value of stock options and ESPP shares. The grant date fair value of stock options that are expected to vest is recognized on a straight-line basis over the requisite service period, which is equal to the option vesting period which is, generally, 3 years. The grant date fair value of ESPP shares that are expected to vest is recognized on a straight-line basis over the requisite service period, which is generally, 18 months, subject to modification at the date of purchase due to the ESPP look-back feature. The Company computes the grant date fair value of restricted stock granted as the closing price of RadiSys shares as quoted on the NASDAQ Global Select Market on the earlier of the date of grant or the first date of the service period. The grant date fair value of restricted stock that are expected to vest is recognized on a straight-line basis over the requisite service period, which is 3 years. The estimate of the number of options, ESPP shares and restricted stock expected to vest is determined based on historical experience.

To determine the fair value of the stock options and ESPP shares using the Black-Scholes option pricing model, the calculation takes into consideration the effect of the following:

- Exercise price of the option or purchase price of the ESPP share;
- Price of the Company's common stock on the date of grant;
- Expected term of the option or share;
- Expected volatility of the Company's common stock over the expected term of the option or share; and
- Risk free interest rate during the expected term of the option or share.

The calculation includes several assumptions that require management's judgment. The expected term of the option or share is determined based on assumptions about patterns of employee exercises, and represents a probability-weighted-average time period from grant until exercise of stock options, subject to information available at time of grant. Determining expected volatility generally begins with calculating historical volatility for a similar long-term period and then considering the ways in which the future is reasonably expected to differ from the past.

The Company uses three employee populations. The expected term computation is based on historical vested option exercise and post-vest forfeiture patterns and included an estimate of the expected term for options that were fully vested and outstanding, for each of the three populations identified. The estimate of the expected term for options that were fully vested and outstanding was determined as the midpoint of a range of estimated expected terms determined as follows: the low end of the range assumes the fully vested and outstanding options settle on the evaluation date and the high end of the range assumes that these options expire upon contractual term. The risk free interest rate is based on the U.S. Treasury constant maturities in effect at the time of grant for the expected term of the option or share.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

As required by SFAS No. 123(R), the Company computed the value of options granted and ESPP shares issued during 2008, 2007 and 2006 using the Black-Scholes option pricing model. The fair value of the following stock-based awards was estimated using the Black-Scholes model with the following weighted-average assumptions for the fiscal years ended December 31:

	Options			Employee Stock Purchase Plan		
	2008	2007	2006	2008	2007	2006
Expected life (in years)	4.2	4.1	4.0	1.5	1.5	1.5
Interest rate	2.55%	4.60%	4.95%	1.59%	4.23%	4.73%
Volatility	46%	44%	56%	59%	37%	42%
Dividend yield	—	—	—	—	—	—

For the years ended December 31, 2008, 2007 and 2006, the total value of the options granted was approximately \$2.2 million, \$3.7 million and \$7.0 million, respectively. For the years ended December 31, 2008, 2007 and 2006 the weighted-average valuation per option granted was \$3.67, \$5.63 and \$10.18, respectively. The total estimated value associated with ESPP shares to be granted under enrollment periods beginning in the years ended December 31, 2008, 2007 and 2006 was \$563,000, \$449,000 and \$1.9 million, respectively.

The table below summarizes the activities related to the Company's unvested restricted stock grants (in thousands; except weighted-average grant date fair values):

	Restricted Shares	Weighted-Average Grant Date Fair Value
Balance, December 31, 2007	382	\$ 17.41
Stock units granted	204	10.58
Shares vested	(79)	18.74
Stock units vested	(76)	16.27
Shares canceled	(6)	19.31
Stock units canceled	(44)	18.40
Balance, December 31, 2008	<u>381</u>	<u>\$ 13.45</u>

The Company expects that approximately 248,300 of the balance of restricted stock at December 31, 2008 will vest. According to the Restricted Stock Grant Agreement, upon the vesting dates, the holder of the restricted stock unit grant shall be issued a number of shares equal to the number of restricted stock units which have vested.

For the years ended December 31, 2008, 2007 and 2006, stock-based compensation was recognized and allocated in the Consolidated Statements of Operations as follows (in thousands):

	2008	2007	2006
Cost of sales	\$ 1,031	\$ 971	\$ 876
Research and development	3,001	2,793	1,745
Selling, general and administrative	5,584	6,117	3,968
Total stock-based compensation expense	<u>9,616</u>	<u>9,881</u>	<u>6,589</u>

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

For the year ended December 31, 2008, stock-based compensation associated with stock options, restricted stock and ESPP shares amounted to \$3.7 million, \$3.0 million and \$2.9 million, respectively. For the year ended December 31, 2007, stock-based compensation associated with stock options, restricted stock and ESPP shares amounted to \$4.6 million, \$2.9 million and \$2.4 million, respectively. For the year ended December 31, 2006, stock-based compensation associated with stock options, restricted stock and ESPP shares amounted to \$3.8 million, \$1.4 million and \$1.4 million, respectively. As of December 31, 2008, \$3.9 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.00 years. As of December 31, 2008, \$7.3 million of unrecognized stock-based compensation expense related to unvested restricted stock is expected to be recognized over a weighted-average period of 1.03 years.

***401(k) Savings Plan***

The Company established a 401(k) Savings Plan (“401(k) Plan”), a defined contribution plan, as of January 1, 1989 and amended through January 1, 2007, in compliance with Section 401(k) and other related sections of the Internal Revenue Code and corresponding Regulations issued by the Department of Treasury and Section 404(c) of Employee Retirement Income Security Act of 1974 (“ERISA”), to provide retirement benefits for its U.S. employees. Under the provisions of the plan, eligible employees are allowed pre-tax contributions of up to 30% of their annual compensation or the maximum amount permitted by the applicable statutes. Additionally, eligible employees can elect to make catch-up contributions, within the limits set forth by pre-tax contributions, or to the maximum amount permitted by the applicable statutes. Pursuant to the provisions of the 401(k) Plan, the Company may contribute 50% of pre-tax contributions made by eligible employees, adjusted for loans and withdrawals, up to 6% of annual compensation for each eligible employee. The Company may elect to make supplemental contributions as periodically determined by the Board of Directors at their discretion. The contributions made by the Company on behalf of eligible employees become 100% vested after three years of service, or 33% per year after one year of service. The Company’s total contributions to the 401(k) Plan amounted to \$1.0 million, \$905,000 and \$887,000 in 2008, 2007 and 2006, respectively. In addition, some of the Company’s employees outside the U.S. are covered by various defined contribution plans, in compliance with the statutes of respective countries. The participants pay for the 401(k) Savings Plan administrative expenses.

***Deferred Compensation Plan***

Effective January 1, 2001, the Company established a Deferred Compensation Plan, providing its directors and certain eligible employees with opportunities to defer a portion of their compensation as defined by the provisions of the plan. The Company credits additional amounts to the deferred compensation plan to make up for reductions of Company contributions under the 401(k) Plan. The deferred amounts are credited with earnings and losses under investment options chosen by the participants. The Company sets aside deferred amounts, which are then invested in long-term insurance contracts. All deferred amounts and earnings are 100% vested at all times, but are subject to the claims of creditors of the Company under a bankruptcy proceeding. Benefits are payable to a participant upon retirement, death, and termination of employment and paid as elected by the participant in accordance with the terms of the plan. The Plan also permits scheduled in-service distributions. (see Note 10- Other Assets) Deferred amounts may be withdrawn by the participant in case of financial hardship as defined in the plan agreement.

**Note 20—Segment Information**

The Company has adopted SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information.” SFAS No. 131 establishes standards for the reporting by public business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method for determining what information to report is based upon the way that management organizes the segments within

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

the Company for making operating decisions and assessing financial performance. The Company is one operating segment according to the provisions of SFAS No. 131.

Revenues on a product and services basis are as follows (in thousands):

	<b>For the Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Hardware	\$ 356,228	\$ 310,001	\$ 280,720
Software royalties and licenses	10,382	9,440	6,193
Software maintenance	3,093	2,876	1,402
Engineering and other services	2,881	2,915	4,166
<b>Total revenues</b>	<b>\$ 372,584</b>	<b>\$ 325,232</b>	<b>\$ 292,481</b>

Generally, the Company's customers are not the end-users of its products. The Company ultimately derives its revenues from two end markets as follows (in thousands):

	<b>For the Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Communication Networking	\$ 292,608	\$ 247,227	\$ 217,744
Commercial Systems	79,976	78,005	74,737
<b>Total revenues</b>	<b>\$ 372,584</b>	<b>\$ 325,232</b>	<b>\$ 292,481</b>

Information about the Company's geographic revenues and long-lived assets by geographical area is as follows (in thousands):

***Geographic Revenues***

	<b>For the Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
United States	\$ 114,582	\$ 99,173	\$ 89,404
Other North America	6,552	6,706	11,836
North America	121,134	105,879	101,240
Europe, the Middle East and Africa ("EMEA")	137,940	132,054	140,719
Asia Pacific	113,510	87,299	50,522
<b>Total revenues</b>	<b>\$ 372,584</b>	<b>\$ 325,232</b>	<b>\$ 292,481</b>

**RADISYS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Long-lived assets by Geographic Area*

	December 31, 2008	December 31, 2007	December 31, 2006
<b>Property and equipment, net</b>			
United States	\$ 9,343	\$ 9,459	\$ 7,881
Other North America	706	987	1,096
EMEA	66	99	143
Asia Pacific	1,441	688	1,955
Total property and equipment, net	<u>\$ 11,556</u>	<u>\$ 11,233</u>	<u>\$ 11,075</u>
<b>Goodwill</b>			
United States	\$ —	\$ 37,033	\$ 27,463
Other North America	—	30,611	39,720
Total goodwill	<u>\$ —</u>	<u>\$ 67,644</u>	<u>\$ 67,183</u>
<b>Intangible assets, net</b>			
United States	\$ 8,454	\$ 13,684	\$ 1,434
Other North America	2,440	9,838	18,416
EMEA	8,910	15,257	23,085
Total intangible assets, net	<u>\$ 19,804</u>	<u>\$ 38,779</u>	<u>\$ 42,935</u>

For the years ended December 31, 2008, 2007 and 2006, the following customers accounted for more than 10% of total revenues. These customers accounted for the following percentages of total revenue:

	2008	2007	2006
Nokia Siemens Networks	43.5%	44.8%	40.9%
Nortel	—	—	10.3%

For the year ended December 31, 2006, revenues attributable to Nokia Siemens Networks include revenues of Nokia and Siemens Networks prior to their business combination.

The following customers accounted for more than 10% of accounts receivable. These customers accounted for the following percentages of accounts receivable:

	December 31, 2008	December 31, 2007
Nokia Siemens Networks	31.0%	39.4%
Intel	—	20.6%

**Note 21—Legal Proceedings**

In the normal course of business, the Company becomes involved in litigation. As of December 31, 2008, in the opinion of management, RadiSys had no pending litigation that would have a material effect on the Company's financial position, results of operations or cash flows.

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**Item 9. *Changes In and Disagreements with Accountants on Accounting and Financial Disclosure***

There has been no change of accountants nor any disagreements with accountants on any matter of accounting principles or practices or finance statement disclosure required to be reported under this item.

**Item 9A. *Controls and Procedures***

*Disclosure Controls and Procedures.* Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective.

During the Company's fiscal quarter ended December 31, 2008, no change occurred in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial reporting appears on page 53 hereof. KPMG LLP's attestation report on the effectiveness of the Company's internal control over financial reporting appears on page 54 hereof.

**Item 9B. *Other Information***

None

## PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

## DIRECTORS

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
C. Scott Gibson	56	Chairman of the Board
Scott C. Grout	46	Director, President and Chief Executive Officer
Ken J. Bradley	61	Director
Richard J. Faubert	61	Director
Dr. William W. Lattin	68	Director
Kevin C. Melia	61	Director
Carl W. Neun	65	Director
Lorene K. Steffes	63	Director

**C. Scott Gibson** has served as a Director since June 1993 and as Chairman of our Board of Directors since October 2002. From January 1983 through February 1992, Mr. Gibson co-founded and served as President of Sequent Computer Systems, Inc., a computer systems company. Before co-founding Sequent, Mr. Gibson served as General Manager, Memory Components Operation, at Intel Corporation. Since March 1992, Mr. Gibson has been a director and consultant to high technology companies. Mr. Gibson serves on the boards of several other companies and non-profit organizations, including Verigy, Triquint Semiconductor, Inc., Pixelworks, Inc., NW Natural, Electroglas, Inc., Oregon Health and Science University, the Oregon Community Foundation and the Franklin W. Olin College of Engineering. Mr. Gibson holds a B.S.E.E. and a M.B.A. from the University of Illinois.

**Scott C. Grout** has served as our President, Chief Executive Officer and a Director since October 2002. From May 1998 to October 2002, Mr. Grout was President and Chief Executive Officer of Chorum Technologies, Inc., a privately held provider of fiber optic products based in Richardson, Texas. Prior to joining Chorum, Mr. Grout held various positions at Lucent Technologies, a telecommunications network vendor, including as the Vice President of the Optical Networking Group and a Director of the Access and Optical Networking Group, from June 1984 to May 1998. Mr. Grout received a B.S. in Engineering from the University of Wisconsin at Madison and a M.B.A. from the Sloan School of Management at the Massachusetts Institute of Technology.

**Ken J. Bradley** has served as a Director since October 2003. Since February 2005, Mr. Bradley has been President of Lytica Inc., a company specializing in supply chain management and product lifecycle planning. He is also President and Director of Shared Insight, a management consulting firm. From January 2003 through January 2005, Mr. Bradley was the Chief Executive Officer of CoreSim, Inc., a company specializing in advanced systems design analysis. Prior to CoreSim, Inc. Mr. Bradley was with Nortel Networks from 1972 to 2002, most recently as Nortel's Chief Procurement Officer. During his 30-year career at Nortel, Mr. Bradley held several national and international executive positions in supply management, operations management and technology development including Vice President, Supplier Strategy; Senior Managing Director, Guangdong Nortel Communications Joint Venture in China; and Vice President, China Joint Venture Program. Mr. Bradley also serves on the Board of Directors of SynQor, Inc., Powerwave Technologies, Inc. and Mu-Analysis, Inc. Mr. Bradley is a degreed electrical engineer and a member of the Professional Engineers of Ontario.

**Richard J. Faubert** has served as a Director since June 1993. Since September 2003, Mr. Faubert has served as President, Chief Executive Officer, and Director of Amberwave Systems, Inc., a semiconductor technology company in New Hampshire. From January to September 2003, Mr. Faubert served as Executive Vice President of Novellus Systems, Inc.'s Chemical Mechanical Planarization Business Unit, a company that designs, manufactures, markets and services chemical vapor deposition equipment, used in fabricating integrated circuits. From 1998 through 2002, Mr. Faubert was President, Chief Executive Officer and Director of SpeedFam-IPEC, Inc., a semiconductor capital equipment manufacturing company that was purchased in

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December 2002 by Novellus Systems Inc. From 1992 through 1998, Mr. Faubert was employed by Tektronix, Inc., a test, measurement and monitoring technology company, first as General Manager of its Instruments Business Unit and then as Vice President and General Manager of the Television and Communications Business Unit, Measurement Business Division. From 1986 through 1992, Mr. Faubert served as Vice President of Product Development of GenRad, Inc. Mr. Faubert serves on the North American Board of Semiconductor Equipment and Materials International and the Board of Electro Scientific Industries, Inc. in Portland, Oregon. Mr. Faubert holds a B.S.E.E. from Northeastern University.

**Dr. William W. Lattin** has served as a Director since November 2002. In October 1999, Dr. Lattin retired from Synopsys, Inc., a supplier of electronic design automation software, where he had been an Executive Vice President since October 1994. Prior to joining Synopsys, Dr. Lattin served as President and Chief Executive Officer of Logic Modeling Corp. from 1986 through 1994. From 1975 to 1986, Dr. Lattin held various engineering and management positions with Intel Corporation. Dr. Lattin also serves on the Board of Directors of Merix Corporation, Easy Street Online Services, Inc., FEI Corp., Tripwire Inc., and Intrinsic, Inc. Dr. Lattin previously served on our Board of Directors from 1988 to 1999. Dr. Lattin holds a Ph.D. in electrical engineering from Arizona State University and a M.S.E.E. and a B.S.E.E. from the University of California-Berkeley.

**Kevin C. Melia** has served as a Director since July 2003. Mr. Melia is a past Chairman of the Board of IONA Technologies PLC, a leading middleware software company. Prior to joining IONA Technologies, Inc., he was the Co-Founder and Chief Executive Officer of Manufacturers' Services Ltd. ("MSL") from June 1994 to January 2003. MSL is a leading company in the electronics manufacturing services industry. Mr. Melia also served as Chairman of the Board of MSL from June 1994 to January 2003. Prior to establishing MSL, he held a number of senior executive positions over a five-year period at Sun Microsystems, initially as their Executive Vice President of Operations, then as President of Sun Microsystems Computer Company, a Sun Microsystems subsidiary, and finally as Chief Financial Officer of Sun Microsystems Corporation. Mr. Melia also held a number of senior executive positions in operations and finance over a sixteen-year career at Digital Equipment Corporation. Mr. Melia is a past member of the Board of Directors of Manugistics Group Inc., a supply chain software application company and is a past member of the Board of Directors of Eircom PLC, a leading telecom company in Ireland. He is also a joint managing director of Boulder Brook Partners LLC, a private investment company and a member of the Board of Directors of C&S Wholesale Grocers, Greatbatch Company, and DCC PLC. He is also a past member of the Board of Directors of Horizon Technologies, a European systems integration and distribution company. Mr. Melia is a Chartered Accountant and holds a joint diploma in Management Accounting from the Accounting Institutes of the U.K and Ireland.

**Carl W. Neun** has served as a Director since June 2000. Mr. Neun is Chairman of the Board of Directors of Powerwave Technologies, Inc., serves on the Board of Directors of Planar Systems, Inc. and is past Chairman of the Board of Directors of Oregon Steel Mills, Inc. From March 1993 to January 2000, Mr. Neun was Senior Vice President and Chief Financial Officer of Tektronix, Inc. From September 1987 to March 1993, he was the Chief Financial Officer for Conner Peripherals, Inc. Mr. Neun received a B.A. from Hamilton College and an M.B.A. from The Wharton School at the University of Pennsylvania.

**Lorene K. Steffes** has served as a Director since January 2005. Since October 2003, she has been an independent business advisor. From July 1999 to October 2003 she was an executive at IBM Corporation where she served as Vice President and General Manager, Global Electronics Industry; was based in Tokyo as Vice President, Asia Pacific marketing and sales of solutions for the Telecommunications, Media & Entertainment and Energy & Utilities industries; and, prior to her assignment in Asia Pacific, was Vice President of software group services for IBM's middleware products. Ms. Steffes was appointed President and Chief Executive Officer of Transarc Corporation, Inc. in 1997. Prior to this appointment she worked for 15 years in the telecommunications industry at Ameritech and at AT&T Bell Laboratories and AT&T Network Systems. Ms. Steffes is a director on the board of PNC Financial Services Corporation and PNC Bank, NA, a member of the Northern Illinois University College of Liberal Arts and Sciences advisory board and was formerly a trustee on the Carlow College Board in Pittsburgh. She holds a BS in Mathematics and MS in Computer Science from Northern Illinois University.

EXECUTIVE OFFICERS

<u>Name</u>	<u>Age</u>	<u>Position</u>
Scott C. Grout	46	President, Chief Executive Officer and Director
Brian Bronson	37	Chief Financial Officer
Anthony Ambrose	47	Vice President & General Manager
Christian A. Lepiane	49	Vice President, Worldwide Sales
John T. Major	49	Vice President, Corporate Operations

See **Mr. Grout's** biography above.

**Mr. Bronson** joined us in 1999 and has been an officer since 2000. Prior to his being named as our Chief Financial Officer in November 2006, Mr. Bronson held the positions of our Vice President of Finance and Business Development and Treasurer and Chief Accounting Officer. Before joining RadiSys, from 1995 to 1999, Mr. Bronson held a number of financial management roles at Tektronix, Inc. where he was responsible for investor relations, finance and accounting functions for both domestic and international operations. Prior to joining Tektronix, Inc., Mr. Bronson practiced as a Certified Public Accountant with the accounting firm Deloitte and Touche, LLP. Mr. Bronson holds a bachelors degree in Business Administration and Communications from Oregon State University.

**Mr. Ambrose** joined us in 2007 as Vice President and General Manager of Communications Networks and has been an officer since 2008. Before joining our executive team, Mr. Ambrose was Intel Corporation's General Manager of the Modular Communications Platform Division in the Communications Infrastructure Group. Mr. Ambrose joined Intel Corporation in 1983, where he utilized his leadership experience in engineering, development, sales and marketing. In his most recent role at Intel Corporation, his organization had the responsibility for servers, blades, boards and software to the telecommunications industry and he has led Intel Corporation's ATCA efforts for the past several years. In addition to being an industry advocate and spokesperson for standards based platforms, Mr. Ambrose has a track record of developing products and building businesses worldwide. While he held the Director of Product Marketing position in the Enterprise Server Group at Intel Corporation, he developed the strategies for standard high volume server products, leading to a \$1 Billion business. Mr. Ambrose holds a Bachelors of Science degree in Engineering from Princeton University, graduating Magna Cum Laude.

**Mr. Lepiane** joined us in 2003. Before joining RadiSys, Mr. Lepiane was vice president of worldwide sales for Lightspeed Semiconductor in Sunnyvale, California, a chip design company. Mr. Lepiane has also held various management level sales positions with Oplink Communications, OMM, Lucent and AT&T. With nearly 20 years of experience selling to global OEMs, Mr. Lepiane has been recognized for his ability to grow and manage worldwide sales organizations and successfully lead multifunctional teams through all phases of client platform selection and product life cycles. He also has extensive experience developing strategic alliances and negotiating contracts with major OEMs. Mr. Lepiane holds a B.S. from the University of Pittsburgh. He also received a M.B.A. from the University of California.

**Mr. Major** joined us in 2008 as Vice President of Global Operations. Prior to joining us, Mr. Major served as Vice President of Global Operations for Planar Systems, a company that provides display technologies and solutions for home, business, medical and industrial needs, since January 2008, and Vice President of Supply Chain and Manufacturing Operations for Tektronix, Inc. from October 2003 to January 2008, where he was responsible for worldwide operations, including the deployment of Lean Sigma. Prior to joining Tektronix, Inc., Mr. Major served as Vice President of Customer Support and Service for Xerox Office Printing Business from June 2000 to October 2003. Earlier in his career, Mr. Major served in a number of manufacturing leadership roles at Tektronix, Inc. and Digital Equipment Corporation. Mr. Major holds a Bachelor of Science degree in Mechanical Engineering and an Executive MBA from the University of Washington.

## Corporate Governance

We have implemented corporate governance policies that are designed to strengthen the accountability of our Board of Directors and management team, thereby aiming to achieve long-term shareholder value.

Our Board of Directors has adopted a Code of Ethics applicable to each of our directors, officers, employees and agents including our Chief Executive Officer, Chief Financial Officer or persons performing similar functions. Our Code of Ethics is available on our website at [www.radisys.com](http://www.radisys.com) under Investor Relations/Corporate Governance.

In addition, our Board of Directors has implemented a process whereby shareholders may send communications directly to its attention. Any shareholder desiring to communicate with our Board of Directors, or one or more members of our Board of Directors, should communicate in writing addressed to our Corporate Secretary. Our Corporate Secretary has been instructed by our Board of Directors to promptly forward all such communications to the specified addressees. Shareholders should send communications directed to our Board of Directors to 5445 NE Dawson Creek Drive, Hillsboro, Oregon 97124, Attention: Corporate Secretary.

Our Board of Directors held five regularly scheduled board meetings during the fiscal year ended December 31, 2008. In 2008, independent directors met on a regularly scheduled basis in executive sessions without our Chief Executive Officer or other members of the our management present. The Chairman of the Board presides at these meetings.

Each director attended at least 75% of the aggregate of the regularly scheduled meetings of our Board of Directors and the committees of which he or she was a member. We encourage, but do not require, our Board of Directors' members to attend the annual shareholders meeting. Last year, all of our directors attended the annual shareholders meeting.

### Board Committees

#### *Audit Committee.*

We maintain an Audit Committee consisting of Carl W. Neun as Chairman, C. Scott Gibson and Kevin C. Melia which is established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. All of the members of the Audit Committee are "independent directors" within the meaning of the Nasdaq listing standards and Rule 10A-3 of the Securities Exchange Act of 1934. In addition, our Board of Directors has determined that all three members of the Audit Committee, C. Scott Gibson, Kevin C. Melia and Carl W. Neun, qualify as "audit committee financial experts" as defined by the SEC in Item 407(d)(5) of Regulation S-K promulgated under the Securities Act of 1933 and are independent within the meaning of Rule 10A-3 of the Securities Exchange Act of 1934. C. Scott Gibson qualifies as an audit committee financial expert by virtue of his service on our audit committee since 1992, the audit committee of Pixelworks, Inc. since 2002, and past service on the audit committees of Inference Corp. and Integrated Measurement Systems. Additionally, Mr. Gibson received an M.B.A. in Finance from the University of Illinois in 1976 and served as CFO and Senior VP Operations for Sequent Computer Systems from 1983 to 1984. Further, from 1985 to March 1992, the CFO of Sequent Computer Systems reported to Mr. Gibson. Our Audit Committee assists our Board of Directors in fulfilling its oversight responsibilities relating to corporate accounting, our reporting practices and the quality and integrity of our financial reports; compliance with law and the maintenance of our ethical standards; and our the effectiveness of our internal controls. The full responsibilities of our Audit Committee are set forth in its charter, a copy of which can be found on our website at [www.radisys.com](http://www.radisys.com) under Investor Relations/Corporate Governance. The charter was last reviewed and updated in May 2008. Our Audit Committee met nine times in the last fiscal year.

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### *Compensation and Development Committee.*

We maintain a Compensation and Development Committee consisting of Dr. William W. Lattin as Chairman, Ken J. Bradley, C. Scott Gibson and Lorene K. Steffes, all of whom are independent directors within the meaning of the Nasdaq listing standards. None of the members of our Compensation and Development Committee are our current or former officers or employees. The Committee assists our Board of Directors in fulfilling its oversight responsibilities relating to our compensation policies and benefit plans, particularly policies relating to executive compensation and performance. The Chairman of the Committee reports and reviews the Committee's activities and decisions with our Board of Directors on a regular basis. The Committee met nine times in the last fiscal year.

The Compensation and Development Committee is responsible for the design and management of our executive compensation programs as well as our philosophy and programs for all employee compensation, benefit, and development programs on a worldwide basis. The full responsibilities of the Committee are set forth in a written charter, which is formally reviewed by the Committee on an annual basis. Our Board of Directors regularly reviews the Committee charter and approves any proposed changes made by the Committee. The charter was last reviewed and updated in July 2007 and is available on our Internet website at [www.radisys.com](http://www.radisys.com) under Investor Relations/Corporate Governance.

Our Compensation and Development Committee annually reviews and establishes executive compensation levels and makes equity grants to our officers under our 2007 Stock Plan. The Committee has delegated its responsibility for approving non-executive employee new hire and refresher equity grants (up to a maximum grant of 10,000 shares per individual and within established guidelines) to our Chief Executive Officer and President, Scott Grout. In addition, pursuant to its Charter, the Committee may delegate authority to its Chairman and one or more members, as the Committee deems necessary, provided that the decisions of such members shall be presented to the full Committee at its next scheduled meeting.

Our Compensation and Development Committee maintains a formal annual calendar and annual plan to guide the timing of the Committee's review, analysis, and decision making related to our compensation, benefits, and development programs. Our Chief Executive Officer and Chief Financial Officer provide inputs and recommendations to the Committee on matters of executive compensation. Under the supervision of the Committee, our Chief Executive Officer and Chief Financial Officer have responsibility for the execution of our compensation philosophy and related compensation elements.

### *Nominating and Governance Committee.*

We maintain a Nominating and Governance Committee consisting of Richard J. Faubert as Chairman, Kevin C. Melia and Lorene K. Steffes, all of whom are independent directors within the meaning of the Nasdaq listing standards. The Committee met four times in the last fiscal year. The Committee (i) recommends for our Board of Director's selection the individuals qualified to serve on our Board of Directors (consistent with criteria that our Board of Directors has approved) for election by shareholders at each annual meeting of shareholders to fill vacancies on our Board of Directors, (ii) develops and recommends to our Board of Directors, and assesses our corporate governance policies, and (iii) oversees the evaluations of our Board of Directors. The full responsibilities of the Committee are set forth in its charter, a copy of which is posted on our website at [www.radisys.com](http://www.radisys.com) under Investor Relations/Corporate Governance. The charter was last reviewed and updated in July 2007. Our Board of Directors considers the recommendations of the Committee with respect to the nominations of directors to our Board of Directors, but otherwise retains authority over the identification of nominees. Candidates to serve on our Board of Directors are considered based upon various criteria, such as ethics, business and professional activities, relevant business expertise, available time to carry out our Board of Directors' duties, social, political and economic awareness, health, conflicts of interest, service on other boards and commitment to our overall performance. The Committee will make an effort to maintain representation on our Board of Directors of members who have substantial and direct experience in areas of importance to us.

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**Director Nomination Policy**

The Nominating and Governance Committee has a policy with regard to consideration of director candidates recommended by shareholders. The Committee will consider nominees recommended by our shareholders holding no less than 10,000 shares of our common stock continuously for at least 12 months prior to the date of the submission of the recommendation. A shareholder that desires to recommend a candidate for election to our Board of Directors shall direct his or her recommendation in writing to RadiSys Corporation, Attention: Corporate Secretary, 5445 NE Dawson Creek Drive, Hillsboro, Oregon 97124. The recommendation must include the candidate's name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between us and the candidate within the last three years and evidence of the recommending shareholder's ownership of the our common stock. In addition, the recommendation shall also contain a statement from the recommending shareholder in support of the candidate, professional references, particularly within the context of the those relevant the membership on our Board of Directors, including issues of character, judgment, diversity, age, independence, expertise, corporate experience, length of service, other commitments and the like, personal references and a written indication by the candidate of his or her willingness to serve, if elected.

**SECTION 16(a) BENEFICIAL  
OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and persons who own more than 10% of our outstanding common stock to file with the SEC reports of changes in ownership of the common stock of the Company held by such persons. Officers, directors and greater than 10% shareholders are also required to furnish the Company with copies of all forms they file under this regulation. To the Company's knowledge, based solely on a review of the copies of the reports received by the Company during and with respect to fiscal 2008 and on written representations of certain reporting persons, no director, executive officer or beneficial owner of more than 10% of the outstanding common stock of the Company failed to file on a timely basis reports required by Section 16(a) of the Securities Exchange Act of 1934.

**Item 11.     *Executive Officer Compensation***

**Executive Compensation Discussion and Analysis (CD&A)**

**Section I: Introduction**

This narrative describes the philosophy, approach and elements used by us and the Compensation and Development Committee of our Board of Directors to define, manage and review compensation paid to our executives. The philosophy and management approach for executive compensation described below applies to all executives including those executives designated as named executive officers.

Our Compensation and Development Committee is responsible for the design and management of our executive compensation programs as well as the philosophy and programs for all employee compensation, benefit, and development programs on a worldwide basis. The Committee operates under a written charter, which is formally reviewed annually by the members of the Committee and is revised as needed. Our Board of Directors regularly reviews the Committee charter and any changes the Committee makes to it. The charter is available on our website at [www.radisys.com](http://www.radisys.com) under the investor relations tab.

Our Compensation and Development Committee regularly reviews and uses data, analysis and recommendations from internal staff and survey data from Radford, a division of Aon Corporation, an independent executive compensation survey and consulting firm to establish the approach and implementation of executive compensation. The Committee maintains an annual calendar to guide the timing of its review, analysis, and decision making related to compensation, benefits, and development programs. Our Chief Executive Officer, Chief Financial Officer, and Human Resources staff provide management inputs and recommendations to the Committee on matters of executive compensation.

Our Board of Directors has delegated responsibility to the Compensation and Development Committee for final approval of decisions related to all executive employment offers, adjustments to base salary and bonus targets, equity grants, payments for executive incentive bonuses, as well as any executive change of control agreements, succession plans, and other programs which are related to the executives. Under the supervision of the Committee, our Chief Executive Officer, Chief Financial Officer and Human Resources staff have responsibility for the implementation of our executive compensation programs. The Committee also guides executive development programs and succession planning in order to maintain and develop the Company's leadership and management capability.

**Section II: Philosophy and Objectives of Executive Compensation Programs**

The Compensation and Development Committee has adopted a philosophy of executive compensation that is based on performance and is competitive with other similar sized high tech companies. The goal of our compensation program is to attract and retain the executives and employees needed to achieve our business objectives, and to substantially link executive compensation with near-term performance on operating plans and longer-term strategic progress. Our executive compensation program is comprised of cash compensation (base salary and incentive bonus), equity incentive grants, employee benefits, a deferred compensation program, paid time off and a 401(k) matching plan.

Annually, our Compensation and Development Committee, with the assistance of the Chief Executive Officer, the Chief Financial Officer, and the Human Resources staff reviews base salaries, incentive bonus targets and equity compensation paid in the market by the peer group of companies identified in the Radford Total Compensation Survey U.S. Executive report, which included summary data from 111 U.S. based high tech companies with annual revenues between \$200 – 499 million (average revenue is approximately \$331 million). This information is used to assure our base salaries, incentive bonus targets and equity grants are competitive with other companies in the same industry and revenue size. The Committee believes that using third party peer group benchmark data is essential to determining market competitive compensation to ensure the attraction and

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retention of key management. To ensure accurate data collection based on actual job duties, our executive positions are individually benchmarked with the Radford Survey data using a detailed review of the job responsibilities and scope for each executive role as defined by their job descriptions.

Our Compensation and Development Committee has historically considered salary, bonus and equity compensation as a package in making annual compensation decisions and uses “tally sheets” to consider and evaluate the total potential compensation of executives from all sources upon various scenarios and any benefits associated with voluntary and involuntary termination of employment.

### **Section III: Design of Our Compensation Programs, Individual Elements, and Impact of Performance on Compensation**

The design of our executive compensation program includes three main categories:

1. Cash compensation, which includes base salary, incentive bonus plan (target and actual) and other potential incentive cash awards.
2. Equity incentive awards, which may include stock option grants, restricted stock grants, or a combination thereof.
3. Employee benefits, including health care insurance, employee stock purchase program under the RadiSys Corporation 1996 Employee Stock Purchase Plan (“ESPP”), 401(k) plan, flexible spending accounts, life insurance, and other benefits. Employee benefit programs are the same for all U.S. employees including executive officers. Executive officers receive no special employee benefits except that U.S. employees at director level and above are eligible to participate in our Non-Qualified Deferred Compensation Plan. By approval of our Compensation and Development Committee, change of control agreements and severance agreements are used in selected situations as described in the section outlining potential post-employment payments.

*Total Cash Compensation.* The total cash compensation for an executive is the sum of the base salary amount plus the cash incentive bonus amount. Our goal is for an executive’s targeted total cash compensation to be approximately equal to the 50<sup>th</sup> percentile of the Radford median market data when shared and individual objectives are met. At the end of 2008, the total cash compensation for our Chief Executive Officer at 100% cash incentive bonus payout was at the 35<sup>th</sup> percentile of Radford market data and our Chief Financial Officer was at the 37<sup>th</sup> percentile. The average total cash compensation among the rest of the named executive officers at 100% cash incentive bonus payout was at the 58<sup>th</sup> percentile of Radford market data.

*Base Salary.* Our objective is that the base salaries of our executives be between the 25<sup>th</sup> and 50<sup>th</sup> percentile (median) of the market data. At the end of 2008, the base salary was at the 39<sup>th</sup> percentile of Radford market data for our Chief Executive Officer and the 39<sup>th</sup> percentile for our Chief Financial Officer. The base salary for the rest of the named executive officers was at the 43<sup>rd</sup> percentile of the Radford market data. This approach is based on the principle that a competitive base salary is required to attract and retain the qualified and experienced executive talent required to effectively lead and manage our business, while placing more upside in incentive bonus targets.

Our Compensation and Development Committee reviews base salary for each executive on an annual basis as part of the company-wide merit review process. The amount of any merit increase to an executive’s base salary is determined based on a combination of the current position of the executive’s pay against market data and the executive’s performance and results during the past year. Our Chief Executive Officer is responsible for assessing the performance of each executive reporting to him. The Committee assesses the performance of our Chief Executive Officer annually. The Chief Executive Officer performance review process includes a Chief Executive Officer self appraisal, a formal Board of Directors evaluation process as well as a written performance appraisal delivered by the Chairman of the Board of Directors. In addition the Committee reviews the overall performance assessment of his direct reports, including all named executive officers.

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An executive's base salary is increased if warranted based on the executive's performance and business results provided the resulting base salary remains within the targeted zone of the market data. By exception, our Compensation and Development Committee or Chief Executive Officer may determine that an individual executive's base salary should be above (or below) the targeted zone due to extenuating factors. In this case the executive's compensation may be outside the targeted zone. In 2008, our executive and broad employee base salaries increased an average of 3% based on performance and market data. Due to the uncertain economic climate, on January 27, 2009, the Board of Directors decided to forego any Board and Executive merit increases for 2009.

*Cash Incentive Bonus.* Based on Radford survey data, job level, and our compensation program philosophy, each executive is assigned an annual cash incentive bonus amount. The executive cash incentive bonus is designed to be a significant portion of executive compensation in order to create high incentive for our executives to perform against annual and strategic objectives. The cash incentive bonus when paid at 100% of plan is targeted to be at the 50<sup>th</sup> to 75<sup>th</sup> percentile of the Radford market data. By setting the potential (target) incentive bonus to be between the 50<sup>th</sup> to 75<sup>th</sup> percentile, our Compensation and Development Committee believes that we are encouraging our executives to achieve higher levels of performance. At the end of 2008, the cash incentive bonus at 100% payout was at the 31<sup>st</sup> percentile of Radford market data for our Chief Executive Officer and at the 33<sup>rd</sup> percentile for our Chief Financial Officer. The cash incentive bonus at 100% payout for the rest of the named executive officers was at the 63<sup>rd</sup> percentile of the Radford market data.

In addition, there is a difference between targeted bonus and actual paid bonus. Actual bonus payments are funded by profitability against our target model and paid out based on the performance by each executive to defined objectives. For the five years leading up to 2008, actual total cash compensation funded for all executives has been below targeted compensation as we continued to invest in new strategies which impacted profitability and therefore the level of bonuses funded. This curtailed funding of bonuses would have further reduced the performance to Radford benchmarks referenced above.

Our incentive bonus target is expressed as a dollar amount and the incentive bonus pool for executives as well as all employees is funded based on certain levels of non-GAAP operating income. Operating income goals and resulting bonus pool funding levels are established at the beginning of each year through our annual operating plan process. Actual operating income results determine the available bonus pool. This incentive bonus pool is calculated by our Finance department with review and approval by our Compensation and Development Committee on a semi-annual basis along with any actual payouts to each executive, including our Chief Executive Officer. Our Chief Financial Officer calculates the proposed bonus payout amounts based on the bonus pool, performance results, and the individual executive's bonus target. If we underachieve or over-achieve our objectives for operating income, the bonus pool is adjusted accordingly. In addition, minimum levels of non-GAAP operating income must be met before there is any payout. Further lower achievement of individual annual and strategic objectives would also reduce the payout. Funding levels for the bonus pool have been 162%, 50%, and 67% for 2008, 2007 and 2006, respectively. The incentive bonuses of other executives are designed and managed using the same performance based program as our named executive officers.

The Compensation and Development Committee establishes the maximum payout which could be made on an annual basis at the beginning of the year. For example, the maximum payout which could have been made in 2008 was two times the targeted amount. The Committee also has discretion to make adjustments to individual bonus payouts to executives and the broad employee base when in its business judgment, it believes that the results obtained by the formula may not provide the appropriate judgment of performance. In 2008, the Committee used its discretion to increase the earned payouts to certain named executive officers by a total of \$135,000.

Our other employees also participate in a bonus program with targeted annual bonus amounts based on the level of their position in the organization and for performance to established objectives in the case of non-executive management. The incentive bonuses of all other company non-executive management are

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designed and managed using a performance based program similar to our executives, as described below. For the year 2008, the bonus pool payout for all eligible employees was approximately 162% of the annual target amount. This is the same percentage bonus pool paid for executives, including our Chief Executive Officer.

The calculation of an individual executive's bonus is based on the calculated bonus pool times performance against shared/corporate objectives (weighted 50%) and performance against department/individual objectives (weighted 50%). The Committee believes that assigning equal weights to the shared/corporate objectives and department/individual objectives provides an appropriate balance of rewarding and encouraging overall performance to promote teamwork with recognizing and rewarding individual/department performance.

Our shared/corporate objectives are developed by our Chief Executive Officer and reviewed by our Board of Directors. The shared/corporate objectives and progress towards these objectives are periodically reviewed by our Board of Directors and Compensation and Development Committee during the year. For 2008, these shared objectives related to enhancements to customer service, the successful integration of the Intel Modular Communications Platform ATCA business we acquired in the fourth quarter of 2007, a ramp-up of revenues on new products, and targeted market share growth. On average, the shared/corporate objectives were 96% achieved based on the annual operating plan.

Individual objectives for each executive officer are developed by the Chief Executive Officer with the executive and then reviewed by the Compensation and Development Committee. The individual performance objectives include both quantitative and subjective metrics, such as quality, service, new product introduction, sales, design wins, working capital and cost improvements, and strategy realization, depending on the job function of the executive. Individual executive bonus amounts paid out vary depending on the individual results against these objectives. For 2008, the Committee determined that the individual performance objectives were 115%, 93%, 86%, 96% and 97% achieved by Mr. Bronson, Mr. Lepiane, Ms. Harper, Mr. Ambrose and Mr. Grout, respectively. The Committee reviews and approves our Chief Executive Officer's quantitative assessment of executive performance and the proposed executive bonus amounts to be paid to each executive with such qualitative modifications as the Committee may make at its discretion. The Committee assesses performance of our Chief Executive Officer and determines the amount of bonus to be paid to our Chief Executive Officer based on the same calculation used for other executives.

In addition to our cash-based, pay-for-performance incentive compensation plan described above, we maintain a cash-based reward program for selected members of our sales and marketing departments who can most directly impact revenues of our media server business ("MSBU Plan"). The named executive officer participants in the MSBU Plan include Messrs. Ambrose and Lepiane. Payouts under the MSBU Plan are determined based on the achievement of the pre-determined revenue objectives of our media server business unit. The objectives for the MSBU Plan are proposed by our Chief Executive Officer and reviewed, modified and approved by our Compensation and Development Committee. Depending on the actual results, as determined by the Committee, final payouts may be below (but not above) the targeted amount payable at 100% of the objectives' achievement. The MSBU Plan payout pool is calculated by our Finance department with review and approval by our Chief Executive Officer and the Committee.

*Equity Incentive Awards.* We believe that long-term incentives in the form of stock options, restricted stock, or other equity instruments are a highly effective way to link the interests of management and shareholders, and to motivate management to drive longer term shareholder value. Stock option and/or restricted stock grants are made to executives under the RadiSys Corporation 2007 Stock Plan. For 2008, the annual equity grant made to each executive consisted of stock options and restricted stock units. For 2009, the annual equity grant made to each executive consisted solely of stock options. The decision to grant only stock options was due to the Company's stock price and the ongoing effort to reduce overall burnrate.

Our Compensation and Development Committee uses Radford survey data as a reference point in determining the amounts and allocation of equity grants by executive position. Radford survey data on equity grants to executives at similar sized high tech companies is reviewed and analyzed annually. The Committee's

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objective is to provide equity grants to executives that are at approximately the 50<sup>th</sup> to 75<sup>th</sup> percentile of market data for the Radford Survey peer group companies. In addition, the retentive value of past grants for each executive is reviewed to ensure that the value of unvested equity grants is in line with benchmarks and is of sufficient value to assure retention and strong performance incentive for the executive in future years.

All equity grants to newly hired executives and annual (“refresher”) grants to existing executives are reviewed and approved by our Compensation and Development Committee using the above mentioned factors of market data, the total retention value, and the executive’s projected level of future contribution. Grants of equity awards are made at predetermined times and are not intentionally scheduled to coincide with the disclosure of favorable or unfavorable information. Each year we review to determine whether refresher grants are necessary to continue to motivate management and employees while providing long term incentives.

Our Compensation and Development Committee anticipated implementing a new, performance-based Long-Term Incentive Plan (“LTIP”) in 2008, following its approval by shareholders in May 2008. The LTIP is intended to create an incentive for exceptional performance in addition to our annual refresher stock program that enables us to attract, retain and motivate senior executives and other key employees. The difference between the annual refresher stock program and LTIP is that the LTIP grants are performance based and participants are only eligible to receive these awards if certain financial or strategic metrics, such as non-GAAP earnings per share (EPS), meet or exceed threshold targets established by our Compensation and Development Committee. These targets will be “stretch” goals above the targets in our operating plan and require superior corporate performance to be earned.

The LTIP awards, when combined with annual refresher stock grants made to executives, are designed to strongly align equity grants with higher levels of company performance. Because of the dramatic change in the global economic environment, it became difficult to establish longer-range corporate performance targets at the end of 2008 and our Compensation and Development Committee decided to delay the start of the LTIP program. We anticipate that the program will be initiated in the second half of 2009.

Finally, our executive officers are expected to acquire and hold a minimum number of shares equal to one year of their annual base salary. The minimum amount is expected to be reached within three to five years from joining us or being promoted to an executive role. Of our five current named executive officers, four have already reached this ownership goal, including our Chief Executive Officer who is over three times the stock ownership goal.

*Executive and Employee Benefits.* RadiSys provides employee benefit programs to executive officers which are the same as those benefits provided to other employees in the same country. Our U.S. based employee benefit programs include medical/dental/vision plans, Employee Stock Purchase Plan, 401(k) plan, tuition reimbursement, life insurance, short term disability and long term disability. Employee benefit programs are targeted to be approximately at the 50<sup>th</sup> to 60<sup>th</sup> percentile of market data of employee benefit programs for similar high tech companies using the same survey firm used for executive compensation data. Our employee benefit programs are benchmarked at least annually to ensure that program design reflects current market practices and is cost effective.

Our executive officers, directors and director level equivalents (i.e. employees who are classified as a principal) and members of our Board of Directors are also eligible to participate in the RadiSys Corporation Deferred Compensation Plan. For further description of our Deferred Compensation Plan, please refer to the narrative following the 2008 Nonqualified Deferred Compensation Table. The gains or losses of participants in the Deferred Compensation Plan based on their investment choices are not a factor in determining an executive’s base, incentive bonus target, equity, or any other forms of reward or recognition.

We do not provide our executives with any special perquisites such as club memberships, pension plans, automobile allowances, or dwellings for personal use. Relocation packages to newly hired executives and other

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newly hired employees are defined within our hiring policy and are based on standard market practices for executive level relocation.

**Section IV: Deductibility of Compensation**

Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), limits to \$1,000,000 per person the amount that we may deduct for compensation paid to our Chief Executive Officer and four highest compensated officers who are named executive officers (other than the Chief Executive Officer) in any year. The levels of salary and annual cash incentive bonus we generally pay to our executive officers do not exceed this limit. In addition, Section 162(m) specifically exempts certain performance-based compensation from the deduction limit. The stock options granted to executive officers under the RadiSys Corporation 2007 Stock Plan are considered performance based for purposes of Section 162(m) and are therefore not subject to the \$1,000,000 limitation. The intent of our Compensation and Development Committee is to design compensation that will be deductible without limitation, where doing so will further the purposes of our executive compensation program. The Committee will, however, take into consideration various other factors described in this CD&A, together with Section 162(m) considerations, in making executive compensation decisions and could, in certain circumstances, approve and authorize compensation that is not fully tax-deductible.

**SUMMARY COMPENSATION TABLE**

The following table sets forth information concerning compensation paid or accrued for services to us in all capacities for the last fiscal year for:

- the individuals who served as our Chief Executive Officer and Chief Financial Officer during fiscal year 2008;
- our most highly compensated executive officers other than the Chief Executive Officer and Chief Financial Officer whose total compensation exceeded \$100,000 and who were serving as executive officers at the end of fiscal year 2008; and
- one other individual for whom disclosure would have been provided, but for the fact that the individual was not serving as an executive officer at the end of the last completed fiscal year.

The above individuals are referred to hereafter as the “named executive officers.”

Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards	Option Awards	Non- Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred compensation Earnings (4)(\$)	All Other Compensation (5)	Total
				(1)(2) (\$)	(1)(3) (\$)	(\$)	(\$)	(\$)	
<b>Scott Grout</b> President & Chief Executive Officer	2008	476,242	—	522,162	613,836	641,066	—	8,160	2,261,466
	2007	452,413	—	441,742	483,821	176,600	—	8,010	1,562,586
	2006	434,385	—	283,007	459,233	218,400	—	7,860	1,402,885
<b>Brian Bronson</b> Chief Financial Officer	2008	293,352	20,000	203,446	292,279	320,501	—	8,150	1,137,728
	2007	273,844	39,500	160,811	249,834	73,400	—	7,710	805,100
	2006	189,877	13,000	53,586	115,185	54,100	—	7,344	433,092
<b>Anthony Ambrose</b> Vice President & General Manager, CNBU	2008	267,039	20,000	98,830	137,186	266,908	—	8,022	797,985
<b>Julia Harper (6)</b> VP Corporate Operations	2008	254,892	20,000	143,096	234,174	239,007	—	8,025	899,194
	2007	244,551	—	114,440	283,089	88,400	—	7,637	738,117
	2006	263,269	—	76,880	220,876	91,400	—	8,062	660,487
<b>Christian Lepiane</b> VP Worldwide Sales	2008	255,367	20,000	152,108	214,671	286,297	—	8,024	936,467
	2007	238,696	25,000	118,658	237,228	77,600	—	7,691	704,873
	2006	226,123	—	81,115	187,983	118,600	—	7,547	621,368

- (1) The amounts included in the Stock Awards and Option Awards columns include stock-based compensation cost we recognized in fiscal 2008 in accordance with Statement of Financial Accounting Standards No. 123(R) (revised 2004), “Share-Based Payment” (“Stock-based Compensation Cost”). We continue to use the Black-Scholes model to measure the grant date fair value of stock options and ESPP shares. The grant date fair value of stock options that are expected to vest is recognized on a straight-line basis over the requisite service period, which is equal to the option vesting period which is, generally, three years. The grant date fair value of ESPP shares that are expected to vest is recognized on a straight-line basis over the requisite service period, which is generally 18 months, subject to modification at the date of purchase due to the ESPP look-back feature. For a discussion of the valuation assumptions used to value the options and shares purchased or to be purchased under the ESPP, see Note 19 to our Consolidated Financial Statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2008. We compute the grant date fair value of restricted stock as the closing price of our shares as quoted on the Nasdaq Global Market (“Nasdaq”) on the date of grant or the first date of the underlying service period, whichever occurs first. The grant date fair value of restricted shares that are expected to vest is recognized on a straight-line basis over the requisite service period, which is three years.
- (2) The amounts included in the Stock Awards column include Stock-based Compensation Cost we recognized in fiscal 2008 related to unvested restricted share awards for which the first date of the underlying service period occurred during 2008.
- (3) The amounts included in the Option Awards column include Stock-based Compensation Cost we recognized in fiscal 2008 related to unvested stock option awards and the ESPP.
- (4) The Summary Compensation Table only requires disclosure of above-market or preferential returns on nonqualified deferred compensation. The 2008 Nonqualified Deferred Compensation Table below discloses all earnings under our Non-Qualified Deferred Compensation Plan during 2008. Participants in our Non-Qualified Deferred Compensation Plan make voluntary contributions to their

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accounts and in some cases we make matching contributions to the extent that a participant loses the Company match in our 401(k) plan due to the effect of participation in the Non-Qualified Deferred Compensation Plan. Participants elect to benchmark earnings on their accounts to the performance of third-party investment funds available to them under the Non-Qualified Deferred Compensation Plan. Participants select from among the funds available to them. Earnings are calculated and applied to participant accounts daily and may be positive or negative, based on individual fund performance. Although the funds offered to participants under our Non-Qualified Deferred Compensation Plan differ from those of our 401(k) plan, the number of funds and investment objectives of each fund are similar to those of the 401(k) plan. In accordance with SEC rules and publicly available interpretations of these rules by the SEC Staff, earnings on deferred compensation invested in third-party investment vehicles, such as mutual funds, need not be reported as compensation on the Summary Compensation Table.

- (5) The table below details the amounts included in the All Other Compensation column for 2008:

	<b>401(k) Contributions</b>	<b>Term Life Insurance Payments</b>	<b>Contributions to our Non- Qualified Deferred Compensation Plan</b>
Scott C. Grout	\$ 6,900	\$ 1,260	\$ —
Brian Bronson	6,900	1,250	—
Anthony Ambrose	6,900	1,122	—
Julia A. Harper	6,900	1,125	—
Christian Lepiane	6,900	1,124	—

- (6) Julia A. Harper was no longer an executive officer as of November 17, 2008.

**2008 GRANTS OF PLAN BASED AWARDS**

Name	Grant Date (1)	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (2)			Estimated Future Payouts Under Equity Incentive Plan Awards			Full Grant Date Fair Value (\$)	Exercise or Base Price of Option Awards (\$/sh)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
Scott Grout	3/17/2008	3/13/2008				—	100,000	—	379,090	9.44
	3/17/2008	3/13/2008	—	361,920	723,840	—	26,753	—	252,548	N/A
Brian Bronson	3/17/2008	3/13/2008				—	47,000	—	178,172	9.44
	3/17/2008	3/13/2008	—	161,160	322,320	—	15,523	—	146,537	N/A
Anthony Ambrose	1/1/2008	12/12/2007				—	4,000	—	58,760	N/A
	3/17/2008	3/13/2008				—	12,300	—	46,628	9.44
	3/17/2008	3/13/2008				—	4,062	—	38,345	N/A
	2008 Incentive Compensation Plan MSBU Plan		—	150,000	300,000					
Julia Harper	3/17/2008	3/13/2008				—	28,000	—	106,145	9.44
	3/17/2008	3/13/2008	—	166,400	332,800	—	9,248	—	87,301	N/A
Christian Lepiane	3/17/2008	3/13/2008				—	33,000	—	125,100	9.44
	3/17/2008	3/13/2008				—	10,899	—	102,887	N/A
	2008 Incentive Compensation Plan MSBU Plan		—	162,330	324,660					
	MSBU Plan		23,200	(3)	67,200					

- (1) Grant Date applies only to grants of equity awards.
- (2) Represents estimated payouts during 2008 fiscal year. Under the 2008 Incentive Compensation Plan, minimum levels of non-GAAP operating income and achievement of individual annual and strategic objectives must be met before there is any payout into the bonus pool under the plan, which means that the minimum payout of any named executive officer's individual bonus cannot be determined.
- (3) There is no target payout under this Plan. Payouts are made at the Maximum amount if maximum revenue targets defined in the Plan are achieved or exceeded. Payouts are pro-rated between the Threshold and Maximum amounts when revenue results are between minimum and maximum targeted amounts as defined in the Plan.

**Narrative Description of Additional Material Factors — Summary Compensation Table & 2008 Grants of Plan-Based Awards Table**

Equity Incentive Plans: Stock option and restricted stock units and awards are made under the RadiSys Corporation 2007 Stock Plan. Grants of stock options become exercisable for one-third of the total option shares on the first anniversary of the date of grant and become exercisable in monthly increments equal to 1/36th of the total option shares, cumulatively, each month thereafter, becoming fully exercisable on the 3rd anniversary of the date of grant. The term of each option grant is seven years. No consideration is payable by the named executive for grants of restricted stock units/awards. Grants of restricted stock units become vested for one-third of the award shares on each anniversary of the date of grant.

The grant dates for equity awards during 2008 were established by our Compensation and Development Committee during meetings prior to each grant date.

Non-Equity Incentive Plans: We maintain a cash-based, pay-for-performance annual Incentive Compensation Plan in which executive officers are eligible for potential cash bonuses dependent upon the level of achievement of the stated corporate goals and department/individual performance goals, calculated on the basis of a fixed semi-annual target dollar amount. Depending on the pool funding level, achievement of the stated corporate goals and individual/department performance goals, the bonus may be less than or greater than the target bonus.

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The actual bonus payouts are calculated and paid semi-annually. Bonuses earned between January 1 and June 30 are generally paid in early August; bonuses earned between July 1 and December 31 are generally paid in the following February. Our Compensation and Development Committee determines the actual bonuses based initially on our achievement of certain financial objectives that are based on our annual targeted operating plan. For 2008 and previous years, the Committee used operating income as the financial objective to determine funding of the bonus pool.

The actual operating income payout percentage is determined at the end of the semi-annual period. The operating income payout percentage multiplied by the target bonus and percent goal achievement for each executive officer determines the executive's semi-annual bonus. The Compensation and Development Committee then reviews additional information we provided on the individual executive's performance and his or her department's collective performance, and may make subjective adjustments to the initial calculation.

Depending upon actual department/individual performance results, as determined by the Compensation and Development Committee, an executive's final bonus payout may be above or below the initial calculation. However, generally, the aggregate amount of bonuses paid to all executive officers will not exceed that calculated by the formula stated above, which represents the bonus funding pool.

In September 2007, our Compensation and Development Committee approved the MSBU Plan. The MSBU Plan is a cash-based motivation and reward program for selected members of our sales and marketing departments who can most directly impact revenues of our media server business. Messrs. Ambrose and Lepiane, two of our named executive officers, participate in the MSBU Plan. Payouts under the MSBU Plan are determined based on the achievement of pre-determined revenue objectives of our media server business.

Payouts under the MSBU Plan are calculated and made on a quarterly basis. Payouts are made if the average of the past quarter's results, the current quarter's results and the forecasted next quarter results of our media server business are at, or above, certain revenue levels. Payouts are made at 100% of the maximum payout amount if the results for each of the quarters meet the revenue targets and are prorated for lower levels. The MSBU Plan objectives for 2008 were considered difficult to obtain at the maximum level and have been set at a higher level in 2009 in order to payout at the same level.

For the second, third and fourth quarters of 2008, our Compensation and Development Committee determined that the media server business stretch objectives achieved by both Mr. Ambrose and Mr. Lepiane were 67.46%, 89.09% and 100%, respectively.

2008 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

Name	Option Awards (1)					Stock Awards (1)			
	Number of Securities Underlying Unexercised	Number of Securities Underlying Unexercised	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised	Option Exercise Price (\$/share)	Option Expiration Date	Number of Shares or Units of Stock that Have Not	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not	Equity Incentive Plan Awards: Market or Payout Value or Unearned Shares, Units or Other Rights That Have Not
	Options (#) Exercisable	Options (#) Unexercisable	Options (#)			Vested (#)		Vested (#)	Vested (\$)
Scott Grout	—	100,000	—	9.44	3/17/2015	26,753	147,944	—	—
	68,997	69,003	—	13.56	6/5/2014	5,834	32,262	—	—
	44,778	7,222	—	20.75	5/2/2013	30,667	169,589	—	—
	50,000	—	—	14.23	5/2/2012	—	—	—	—
	50,000	—	—	15.13	2/9/2012	—	—	—	—
	100,000	—	—	19.12	3/15/2011	—	—	—	—
Brian Bronson	—	7,711	—	9.44	3/17/2015	15,523	85,842	—	—
	14,200	14,200	—	13.56	6/5/2014	6,334	35,027	—	—
	25,000	11,000	—	18.34	11/6/2013	7,579	41,912	—	—
	8,656	7,744	—	20.75	5/2/2013	1,800	9,954	—	—
	14,122	2,278	—	14.23	5/2/2012	—	—	—	—
	7,500	—	—	22.31	4/20/2011	—	—	—	—
	10,000	—	—	19.12	3/15/2011	—	—	—	—
	9,603(2)	—	—	21.28	3/1/2011	—	—	—	—
	5,000	—	—	17.461	4/10/2009	—	—	—	—
	4,250	—	—	16.76	3/20/2009	—	—	—	—
Anthony Ambrose	—	12,300	—	9.44	3/17/2015	4,062	22,463	—	—
	4,000	8,000	—	14.69	12/12/2014	4,000	22,120	—	—
	22,916	14,584	—	16.48	2/26/2014	8,000	44,240	—	—
Julia Harper	—	28,000	—	9.44	3/17/2015	9,248	51,141	—	—
	8,450	8,450	—	13.56	6/5/2014	3,734	20,649	—	—
	26,264	4,236	—	20.75	5/2/2013	3,367	18,620	—	—
	54,200	—	—	14.23	5/2/2012	—	—	—	—
	50,000	—	—	19.12	3/15/2011	—	—	—	—
	19,000	—	—	7.039	1/28/2010	—	—	—	—
	5,140	—	—	5.33	10/17/2009	—	—	—	—
	15,000	—	—	12.26	7/16/2009	—	—	—	—
	5,000	—	—	19.49	1/11/2009	—	—	—	—
Christian Lepiane	—	33,000	—	9.44	3/17/2009	10,899	60,271	—	—
	10,650	10,650	—	13.56	6/5/2014	4,734	26,179	—	—
	21,786	3,514	—	20.75	5/2/2013	2,800	15,484	—	—
	43,200	—	—	14.23	5/2/2012	—	—	—	—
	75,000	—	—	17.58	9/15/2010	—	—	—	—

(1) Unless otherwise noted, grants of option awards become exercisable for one-third of the total option shares on the first anniversary of the date of grant and become exercisable in monthly increments equal to 1/36th of the total option shares, each month thereafter, becoming fully exercisable on the 3rd anniversary of the date of grant. Grants of restricted stock awards become vested for one-third of the award shares on each anniversary of the date of grant.

(2) Option award vested on November 12, 2004.

2008 OPTION EXERCISES AND STOCK VESTED

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Scott Grout	70,000	570,189	32,834	321,269
Brian Bronson	—	—	10,387	114,621
Anthony Ambrose	—	—	4,500	45,180
Julia Harper	—	—	6,900	60,936
Christian Lepiane	—	—	7,500	64,225

2008 NONQUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in Last Fiscal Year (\$ (1))	Registrant Contributions in Last Fiscal Year (2) (\$)	Aggregate Earnings in Last Fiscal Year (\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Fiscal Year End (\$)
Scott Grout	47,136	—	(109,778)	—	196,731
Brian Bronson	—	—	—	—	—
Anthony Ambrose	—	—	802	—	43,462
Julia Harper	91,250	—	(62,571)	10,259	664,471
Christian Lepiane	12,752	—	(101,151)	—	215,192

- (1) The amounts reported in this column are included in the Salary and Non-Equity Incentive Plan Compensation columns in the Summary Compensation Table above.
- (2) The amounts reported in this column are included in the All Other Compensation column in the Summary Compensation Table above.

**Narrative Disclosure Describing Material Factors**

Executives and other select employees can participate in a deferred compensation program. Executive contributions to this program may be made from salary, sales commission payments and/or incentive bonus, excluding the MSBU Plan. A maximum of 90% of salary and 100% of sales commission payments and/or incentive bonus may be deferred. Base salary and bonus elections apply to compensation earned during the plan year. Sales commission elections apply to compensation paid during the plan year. Employee contributions are credited to the account balance on the date they would otherwise have been paid to the participant. We only make Company contributions to the Non-Qualified Deferred Compensation Plan in situations where such contributions are needed to restore any match lost in the 401(k) plan due to the effect of participation in the Non-Qualified Deferred Compensation Plan. Any such matching contributions are credited as soon as practicable following the end of the plan year.

Participants select from among the funds available to them. Earnings are calculated and applied to participant accounts daily and may be positive or negative, based on individual fund performance. Although the funds offered to participants under our Non-Qualified Deferred Compensation Plan differ from those of our 401(k) plan, the number of funds and investment objectives of each fund are similar to those of the 401(k) plan.

Aggregate Distributions are any distributions made to a participant measured from participation commencement in the Non-Qualified Deferred Compensation Plan to the end of the proxy reporting period. Distributions are paid in the form elected by the participant in the Participation Agreement filed prior to the

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beginning of each plan year. The participant may elect to receive payment during employment or upon separation from service. Available forms of payment made during employment are lump sum or annual installments over a maximum of five years. Available forms of payment made following a separation from service are lump sum or annual installments over a maximum of 15 years.

### POTENTIAL POST-EMPLOYMENT PAYMENTS

Our Compensation and Development Committee has adopted guidelines on severance and change of control agreements to help ensure that written severance or change of control agreements are offered to our executive officers only if special business needs indicate that such agreements are necessary or advisable.

On December 24, 2008, we entered into a Change of Control Agreement with our Chief Executive Officer, Scott C. Grout, to update a preexisting agreement to comply with changes in tax laws. Mr. Grout's Change of Control Agreement provides that if we terminate his employment with us (other than for cause, death or disability) or if he terminates his employment with us for good reason within 12 months following a change of control or within three months preceding a change of control, Mr. Grout is entitled to receive severance pay in a cash amount equal to 12 months of Mr. Grout's annual base pay at the highest annual rate in effect at any time within the 12-month period preceding the date of termination. Upon such a termination, Mr. Grout would receive 25% of the severance pay on the date that is six months and one day following termination and the remaining 75% would be paid in six periodic payments on regular paydays, provided that the first remaining payment will be an amount equal to one-half of the aggregate amount of the remaining payments so long as during the period of remaining payments Mr. Grout does not serve as or become a director, officer, partner, limited partner, employee, agent, representative, material stockholder, creditor, or consultant of or to, or serve in any other capacity with any business worldwide that shall in any manner (i) engage or prepare to engage in any business which competes directly with us or (ii) solicit, hire, or otherwise assist in any effort that attempts to employ or otherwise utilize the services of any of our employees. Upon such termination, and in addition to severance pay, Mr. Grout is also entitled to receive COBRA benefits for 12 months. Upon such termination, all stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other similar awards granted to Mr. Grout shall be immediately exercisable in full in accordance with the applicable provisions of the relevant award agreement and the plan; and any risk of forfeiture included in any restricted stock or other similar award shall immediately lapse. Stock options (other than those considered Incentive Stock Options) and stock appreciation rights shall also be amended to permit Mr. Grout to exercise such stock options and stock appreciation rights for a period of time equal to the earlier of (i) the period of 180 days after the date of Mr. Grout's termination; or (ii) the date that each stock option and stock appreciation right would otherwise expire by its original terms had Mr. Grout not terminated. Had the Change of Control Agreement been in effect and a triggering event occurred on December 31, 2008, such that Mr. Grout would become entitled to benefits under his Change of Control Agreement, Mr. Grout would have been entitled to receive the payments described below.

On December 24, 2008, we entered into an Employment Agreement including Severance Agreement with Scott C. Grout, to update a preexisting agreement to comply with changes in tax laws. If Mr. Grout's employment with us is terminated other than for cause and contingent on Mr. Grout signing the Release Agreement, Mr. Grout is entitled to receive severance pay in a lump sum cash amount equal to 12 months of Mr. Grout's annual base pay at the rate in effect immediately before the date of termination. Had Mr. Grout's employment been terminated by us without cause, and if he had signed a release agreement, on December 31, 2008, Mr. Grout would have become entitled to receive the payment described below.

<u>Scott Grout</u>	<u>Termination Following a Change of Control</u>	<u>Termination Under Employment/Severance Agreement</u>
Severance Payments	\$ 476,736	\$ 476,736
Equity Acceleration	\$ 349,795(1)	—
Health Insurance Benefits	\$ 17,011	\$ 17,011

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- (1) Options to acquire 176,225 shares would have accelerated and vested. However, all of the options would have had an exercise price greater than the closing market price on December 31, 2008. Restricted stock with a market value of \$349,795 would have accelerated and vested.

On December 23, 2008, we entered into a Change of Control Agreement with our Vice President of Corporate Operations, Julia A. Harper, to update a preexisting agreement to comply with changes in tax laws. Ms. Harper's Change of Control Agreement provides that if we terminate her employment with us (other than for cause, death or disability) or if she terminates her employment with us for good reason within 12 months following a change of control or within three months preceding a change of control, Ms. Harper is entitled to receive severance pay in a cash amount equal to 12 months of Ms. Harper's annual base pay at the highest annual rate in effect at any time within the 12-month period preceding the date of termination. Upon such termination, and in addition to severance pay, Ms. Harper is also entitled to receive COBRA benefits for 12 months. Upon such termination, all stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other similar awards granted to Ms. Harper shall be immediately exercisable in full in accordance with the applicable provisions of the relevant award agreement and the plan; and any risk of forfeiture included in any restricted stock or other similar award shall immediately lapse. Stock options (other than those considered Incentive Stock Options) and stock appreciation rights shall also be amended to permit Ms. Harper to exercise such stock options and stock appreciation rights for a period of time equal to the earlier of (i) the period of 180 days after the date of Ms. Harper's termination; or (ii) the date that each stock option and stock appreciation right would otherwise expire by its original terms had Ms. Harper not terminated. Had the Change of Control Agreement been in effect and a triggering event occurred on December 31, 2008, such that Ms. Harper would become entitled to benefits under her Change of Control Agreement, Ms. Harper would have been entitled to the payments detailed below.

<u>Julia Harper</u>	<b>Termination Following a Change of Control</b>	
Severance Payments	\$	254,616
Equity Acceleration	\$	90,410(1)
Health Insurance Benefits	\$	8,772

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- (1) Options to acquire 40,686 shares would have accelerated and vested. However, all of the options would have had an exercise price greater than the closing market price on December 31, 2008. Restricted stock with a market value of \$90,410 would have accelerated and vested.

On December 22, 2008, we entered into a Change of Control Agreement with our Chief Financial Officer, Brian Bronson, to update a preexisting agreement to comply with changes in tax laws. Mr. Bronson's Change of Control Agreement provides that if we terminate his employment with us (other than for cause, death or disability), or if his employment terminates as a result of a requirement that he accept a position greater than 25 miles from his current work location or a position of less total compensation within 12 months following a change of control, Mr. Bronson is entitled to receive severance pay in a cash amount equal to 12 months of Mr. Bronson's annual base pay at the highest annual rate in effect at any time within the 12-month period preceding the date of termination. Upon such termination, and in addition to severance pay, Mr. Bronson is also entitled to receive COBRA benefits for 12 months. Upon such termination, all stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other similar awards granted to Mr. Bronson shall be immediately exercisable in full in accordance with the applicable provisions of the relevant award agreement and the plan; and any risk of forfeiture included in any restricted stock or other similar award shall immediately lapse. Stock options (other than those considered Incentive Stock Options) and stock appreciation rights shall also be amended to permit Mr. Bronson to exercise such stock options and stock appreciation rights for a period of time equal to the earlier of (i) the period of 180 days after the date of Mr. Bronson's termination; or (ii) the date that each stock option and stock appreciation right would otherwise expire by its original terms had Mr. Bronson not terminated. Had the Change of Control Agreement been in effect and a triggering event occurred on December 31, 2008, such that

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Mr. Bronson would become entitled to benefits under his Change of Control Agreement, Mr. Bronson would have been entitled to the payments detailed below.

On December 22, 2008, we entered into an Executive Severance Agreement with Brian Bronson, to update a preexisting agreement to comply with changes in tax laws. If Mr. Bronson's employment with us is terminated other than for cause, death or disability, Mr. Bronson will be entitled to (i) a payment of twelve months base pay, (ii) up to twelve months of continued coverage pursuant to COBRA under the Company's group health plan, (iii) stock-based incentive compensation plan payout under our LTIP pursuant to the terms of and within the periods specified in the LTIP (when implemented), and (iv) partial cash-based incentive compensation plan payout, if any. Had Mr. Bronson's employment been terminated by us without cause on December 31, 2008, Mr. Bronson would have become entitled to receive the payment described below.

<u>Brian Bronson</u>	<u>Termination Following a Change of Control</u>	<u>Termination Under Executive Severance Agreement</u>
Severance Payments	\$ 293,035	\$ 293,035
Equity Acceleration	\$ 172,735(1)	—
Health Insurance Benefits	\$ 14,977	\$ 14,977

- (1) Options to acquire 74,478 shares would have accelerated and vested. However, all of the options would have had an exercise price greater than the closing market price on December 31, 2008. Restricted stock with a market value of \$172,735 would have accelerated and vested.

On December 31, 2008, we entered into a Change of Control Agreement with our Vice President of Sales, Christian Lepiane, to update a preexisting agreement to comply with changes in tax laws. Mr. Lepiane's Change of Control Agreement provides for severance pay in a cash amount equal to 9 months of his annual base pay at the highest annual rate in effect at any time within the 12-month period preceding the date of termination. Mr. Lepiane is entitled to receive the severance pay if we terminate his employment with us (other than for cause, death or disability), or if his employment terminates as a result of a requirement that he accept a position with a title of less than Vice President or greater than 25 miles from his current work location, within three months before, or within twelve months after, a change of control. Upon such termination, and in addition to severance pay, Mr. Lepiane is also entitled to receive COBRA benefits for 9 months. Had the Change of Control Agreement been in effect and a triggering event occurred on December 31, 2008, such that Mr. Lepiane would become entitled to benefits under his Change of Control Agreement, Mr. Lepiane would have been entitled to the payments detailed below.

On December 31, 2008, we entered into an Employment Agreement including Severance Agreement with Christian Lepiane, to update a preexisting agreement to comply with changes in tax laws. If we terminate Mr. Lepiane's employment with us other than for cause and contingent upon Mr. Lepiane signing a release agreement, Mr. Lepiane is entitled to receive severance pay in a lump sum cash amount equal to six months of Mr. Lepiane's annual base pay at the rate in effect immediately before the date of termination. The payment would be made on the later of the date of termination or ten days after execution of the release agreement. Mr. Lepiane would also receive COBRA benefits for six months. Had Mr. Lepiane's employment been terminated by us without cause, and if he had signed a release agreement, on December 31, 2008, Mr. Lepiane would have become entitled to receive the payment described below.

<u>Christian Lepiane</u>	<u>Termination Following a Change of Control</u>	<u>Termination Under Employment/ Severance Agreement</u>
Severance Payments	\$ 194,724	\$ 127,816
Health Insurance Benefits	\$ 6,779	\$ 4,519

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On December 29, 2008, we entered into an Executive Severance Agreement with Anthony Ambrose. If we terminate Mr. Ambrose's employment with us other than for cause and contingent upon Mr. Ambrose signing a release agreement, Mr. Ambrose is entitled to receive severance pay in a lump sum cash amount equal to six months of Mr. Ambrose's annual base pay at the rate in effect immediately before the date of termination. However, the payment may not exceed two times the lesser of (i) the sum of Mr. Ambrose's annualized compensation based upon the annual rate of pay for services provided to us as an employee for the calendar year preceding the calendar year of the termination of Mr. Ambrose's employment, or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to the Code. The payment would be made within 30 days following execution of the release agreement and in any event, no later than the end of the second calendar year following the calendar year of termination. Mr. Ambrose would also receive COBRA benefits for six months. Had Mr. Ambrose's employment been terminated by us without cause, and if he had signed a release agreement, on December 31, 2008, Mr. Ambrose would have become entitled to receive the payment described below.

<u>Anthony Ambrose</u>	<u>Termination Under Severance Agreement</u>
Severance Payments	\$ 130,000
Health Insurance Benefits	\$ 8,506

## 2008 DIRECTOR COMPENSATION

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Stock Awards (1) (\$)</u>	<u>Option Awards (1) (\$)</u>	<u>Non-Equity Incentive Plan Compensation (\$)</u>	<u>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (2)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
Ken Bradley	32,000	—	33,166	—	—	—	65,166
Richard J. Faubert	35,000	—	33,166	—	—	—	68,166
C. Scott Gibson	67,000	—	41,458	—	—	—	108,458
William W. Lattin	38,000	—	33,166	—	—	—	71,166
Kevin C. Melia	38,000	—	33,166	—	—	—	71,166
Carl W. Neun	40,500	—	33,166	—	—	—	73,666
Lorene K. Steffes	36,000	—	33,166	—	—	—	69,166

- (1) The amounts included in the Stock Awards and Option Awards columns include Stock-Based Compensation cost we recognized in fiscal 2008. We continue to use the Black-Scholes model to measure the grant date fair value of stock options. The grant date fair value of stock options that are expected to vest is recognized on a straight-line basis over the requisite service period, which is equal to the option vesting period which is, generally, three years. For a discussion of the valuation assumptions, see Note 19 to our Consolidated Financial Statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2008. A supplemental table following these footnotes sets forth: (i) the aggregate number of stock awards and option awards outstanding at 2008 fiscal year end; (ii) the aggregate number of stock awards and options awards granted during fiscal 2008; and (iii) the grant date fair value of equity awards granted by us during fiscal 2008 to each of our directors who was not an executive officer.
- (2) The 2008 Director Compensation Table only requires disclosure of above-market or preferential returns on nonqualified deferred compensation. Participants in our Non-Qualified Deferred Compensation Plan make voluntary contributions to their accounts and in some cases we make matching contributions to the extent that a participant loses the Company match in our 401(k) plan due to the effect of participation in the Non-Qualified Deferred Compensation Plan. Participants elect to benchmark earnings on their accounts to the performance of third-party investment funds available to them under the Non-Qualified Deferred Compensation Plan. Participants select from among the funds available to them. Earnings are calculated and

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applied to participant accounts daily and may be positive or negative, based on individual fund performance. Although the funds offered to participants under our Non-Qualified Deferred Compensation Plan differ from those of our 401(k) plan, the number of funds and investment objectives of each fund are similar to those of the 401(k) plan. In accordance with SEC rules and publicly available interpretations of these rules by the SEC Staff, earnings on deferred compensation invested in third-party investment vehicles, such as mutual funds, need not be reported as compensation on the Director Compensation Table.

### Additional Information With Respect to Director Equity Awards

Name	Option Awards Outstanding at 2008 Fiscal Year End (#) (1)	Stock Awards Outstanding at 2008 Fiscal Year End (#) (1)	Option Awards Granted during Fiscal 2008 (#) (2)	Stock Awards Granted during Fiscal 2008 (#)	Grant Date Fair Value of Option Awards Granted in Fiscal 2008 (\$) (3)
Ken Bradley	59,000	—	12,000	—	49,606
Richard J. Faubert	68,500	—	12,000	—	49,606
C. Scott Gibson	67,500	—	15,000	—	62,007
William W. Lattin	64,000	—	12,000	—	49,606
Kevin C. Melia	59,000	—	12,000	—	49,606
Carl W. Neun	54,000	—	12,000	—	49,606
Lorene K. Steffes	49,000	—	12,000	—	49,606

- (1) Includes both vested and unvested options to purchase our common stock.
- (2) Stock grants to our Board of Directors are made pursuant to the terms of the RadiSys Corporation 2007 Stock Plan. The exercise price of options granted to non-employee directors during 2008 was the fair market value of our common stock on the date of grant and the term of each option is seven years. For stock option grants made in 2008, the exercise price was \$10.13. Grants of stock options become exercisable for one-third of the total option shares on the first anniversary of the date of grant and become exercisable in monthly increments equal to 1/36th of the total option shares, cumulatively, each month thereafter, becoming fully exercisable on the 3rd annual anniversary of the date of grant.
- (3) Amounts in this column represent the fair value of stock options, calculated in accordance with FAS123(R). For option awards, that number is calculated by multiplying the Black-Scholes value by the number of options awarded.

### Narrative Disclosure of Director Compensation

During 2008, each director who was not employed by us was compensated as follows:

Director annual retainer	\$ 28,000
Chairman of the Board annual retainer	\$ 57,000
Audit Committee Chairman	\$ 12,500
Compensation and Development Committee Chairman	\$ 10,000
Nominating and Governance Committee Chairman	\$ 7,000
Committee membership (other than Audit Committee)	\$ 4,000
Audit Committee membership	\$ 6,000

Directors are also reimbursed for reasonable expenses incurred in attending meetings.

Non-employee directors are expected to acquire and hold a minimum of 5,000 shares or \$100,000 worth of our common stock, whichever is the lesser value, and that minimum amount is expected to be reached within

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three to five years of becoming a director. Of our non-employee directors, five have already reached this ownership goal and two are within the three to five year period to reach this goal. Directors who are our employees receive no separate compensation as directors.

Our Board of Directors is eligible to participate in the RadiSys Corporation Deferred Compensation Plan. The Deferred Compensation Plan provides the members of our Board of Directors the opportunity to defer up to 100% of compensation (includes annual retainer and committee fees). Contributions by the members of our Board of Directors are credited on the date they would otherwise have been paid to the participant. We make no contributions on behalf of our Board of Directors' members who participate in the Deferred Compensation Plan.

Participants select from among the fund(s) available to them. Earnings are calculated and applied to participant accounts daily and may be positive or negative, based on individual fund performance.

### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

None.

### **COMPENSATION AND DEVELOPMENT COMMITTEE REPORT<sup>1</sup>**

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the RadiSys Corporation annual report on Form 10-K for the year ended December 31, 2008.

Ken J. Bradley  
C. Scott Gibson  
Dr. William W. Lattin, Chairman  
Lorene K. Steffes

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<sup>1</sup> This Compensation and Development Committee Report is not "soliciting material," is not deemed "filed" with the SEC and is not to be incorporated by reference in any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, regardless of date or any general incorporation language in such filing.

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### Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information regarding the beneficial ownership of our common stock as of March 3, 2009 (or such other date as otherwise indicated in the footnotes below) by (i) each person known by us to be the beneficial owner of more than 5% of our common stock, (ii) each of our directors, (iii) each “named executive officer” named in the Summary Compensation Table and (iv) all of our directors and executive officers as a group. Unless otherwise noted in the footnotes to the table, the persons named in the table have sole voting and investment power with respect to all outstanding shares of common stock shown as beneficially owned by them.

Name	Shares Beneficially Owned	Percentage of Common Stock (1)
Anthony Ambrose (2)	62,580	*
Ken J. Bradley (2)	47,667	*
Brian Bronson (2)	159,174	*
Richard J. Faubert (2)	62,167	*
C. Scott Gibson (2)	78,167	*
Scott C. Grout (2)	481,234	2.03%
Julia A. Harper (2)(6)	232,910	*
Dr. William W. Lattin (2)	88,123	*
Christian A. Lepiane (2)	193,366	*
Kevin C. Melia (2)	47,667	*
Carl W. Neun (2)	42,667	*
Lorene K. Steffes (2)	37,167	*
Artisan Partners Limited Partnership (3) 875 East Wisconsin Avenue, Suite 800 Milwaukee, WI 53202	1,872,600	8.04%
Barclays Global Investors, NA (3) 400 Howard Street San Francisco, CA 94105	1,762,595	7.71%
Credit Suisse (3) Uetlibergstrasses 231 P.O. Box 900 CH 8070 Zurich, Switzerland	1,203,208	5.17%
The D3 Family Fund, L.P. (4) Nierenberg Investment Management Company 19605 NE 8 <sup>th</sup> Street Camas, WA 98607	4,527,463	19.44%
Dimensional Fund Advisors LP (3) Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746	1,669,846	7.25%
Ronald J. Juvonen (3) Downtown Associates, L.L.C. 674 Unionville Road, Suite 105 Kennett Square, PA 19348	1,674,946	7.19%
All directors and executive officers as a group (12 persons) (5)	1,299,979	5.35%

\* Less than 1%

(1) Percentage ownership is calculated based on 23,288,842 shares of our common stock outstanding on March 3, 2009.

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- (2) Includes the number of shares of our common stock that could be purchased by exercise of options exercisable at March 3, 2009, or within 60 days thereafter and the number of shares underlying restricted stock units that vest within 60 days of March 3, 2009 as set forth below:

Name	Options to Purchase Shares	Restricted Stock Units Vesting
Anthony Ambrose	36,858	1,354
Ken J. Bradley	42,667	—
Brian Bronson	129,414	5,174
Richard J. Faubert	52,167	—
C. Scott Gibson	47,083	—
Scott C. Grout	372,439	8,917
Julia A. Harper	189,139	3,082
Dr. William W. Lattin	47,667	—
Christian A. Lepiane	168,433	3,633
Kevin C. Melia	42,667	—
Carl W. Neun	37,667	—
Lorene K. Steffes	32,667	—

- (3) Based solely on information set forth in Schedule 13G dated December 31, 2008, filed with the SEC.
- (4) Based solely on information set forth in Form 4 dated December 29, 2008, filed with the SEC.
- (5) The total amount includes options to purchase 1,009,729 shares of our common stock exercisable within 60 days after March 3, 2009 and 19,078 shares underlying restricted stock units that vest within 60 days of March 3, 2009.
- (6) Julia A. Harper was no longer an executive officer as of November 17, 2008.

### EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes information about the Company's equity compensation plans as of December 31, 2008. All outstanding awards relate to the Company's common stock.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights (\$)	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	2,777,758(1)	\$ 14.76	4,647,513(2)
Equity compensation plans not approved by security holders (3)	1,017,454(4)	\$ 17.19	—
Total	3,795,212	\$ 15.46	4,647,513

- (1) Includes 300,694 restricted stock units which will vest only if specific service measures are met.
- (2) Includes 1,298,014 of securities authorized and available for issuance in connection with the RadiSys Corporation 1996 Employee Stock Purchase Plan.
- (3) Includes 69,700 shares granted under the RadiSys Corporation Stock Plan For Conveda Employees. The Plan is intended to comply with the NASD Marketplace Rule 4350 which provides an exception to the NASD shareholder approval requirement for the issuance of securities with regard to grants to new employees of the Company, including grants to transferred employees in connection with a merger or other acquisition.
- (4) Includes 21,025 restricted stock units which will vest only if specific service measures are met.

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### **Description of Equity Compensation Plans Not Adopted by Shareholders**

#### *2001 Nonqualified Stock Option Plan.*

In February 2001, we established the 2001 Nonqualified Stock Option Plan, under which 2,250,000 shares of our common stock were reserved as of December 31, 2006. Grants under the 2001 Nonqualified Stock Option Plan may be awarded to selected employees, who are not executive officers or directors of the Company. The purpose of the 2001 Nonqualified Stock Option Plan is to enable the Company to attract and retain the services of selected employees of the Company or any parent or subsidiary of the Company. Unless otherwise stipulated in the plan document, the Board of Directors, at their discretion, determines the exercise prices (which may not be less than the fair market value of the Company's common stock at the date of grant), vesting periods, and the expiration periods, which are a maximum of 10 years from the date of grant.

On March 21, 2007, our Board of Directors approved the termination of the RadiSys Corporation 2001 Nonqualified Stock Option Plan, which was effective upon our shareholders' approval of the 2007 Stock Plan at the annual meeting on May 15, 2007. Accordingly, no new options may be granted under the 2001 Nonqualified Stock Option Plan. However, the termination does not affect any outstanding options issued under this Plan.

#### *RadiSys Corporation Stock Plan For Convedia Employees.*

On August 31, 2006, our Compensation and Development Committee adopted the RadiSys Corporation Stock Plan for Convedia Employees ("Convedia Stock Plan") for awards to be made in connection with our acquisition of Convedia Corporation. The Convedia Stock Plan was adopted without shareholder approval in reliance upon the exception provided under Nasdaq Marketplace Rule 4350(i)(1)(A)(iv) relating to awards granted in connection with an acquisition and in connection with the hiring of new employees. The Convedia Stock Plan became effective as of September 1, 2006. The Convedia Stock Plan permits the granting of stock options, restricted stock and restricted stock units. The maximum number of shares of common stock with respect to which awards may be granted is 365,000 shares (subject to adjustment in accordance with the Convedia Stock Plan). In order to comply with Nasdaq Marketplace Rule 4350, the awards may only be granted to employees transferred from Convedia Corporation in connection with our acquisition of Convedia Corporation and in connection with the future hiring of new employees of Convedia Corporation by us. Unless sooner terminated by our Board of Directors, the Convedia Stock Plan will terminate on the tenth anniversary of its effective date of September 1, 2006. The Convedia Stock Plan provides that the Committee will determine the option price at which common stock may be purchased, but the price will not be less than the fair market value of the common stock on the date the option is granted. The Committee will determine the term of each option, but no option will be exercisable more than 10 years after the date of grant. The Convedia Stock Plan provides for certain terms and conditions pursuant to which restricted stock and restricted stock units may be granted under the Convedia Stock Plan. Each grant of restricted stock and restricted stock units must be evidenced by an award agreement in a form approved by the Committee. The vesting of restricted stock or restricted stock units may be conditioned upon the completion of a specified period of employment, upon attainment of specified performance goals and/or upon such other criteria as the Committee determines.

On March 21, 2007, our Board of Directors approved the termination of the Convedia Stock Plan, which was effective upon our shareholders' approval of the 2007 Stock Plan at the annual meeting on May 15, 2007. Accordingly, no new awards may be granted under the Convedia Stock Plan. However, the termination does not affect any awards previously granted and outstanding under this Plan.

### **Item 13. *Certain Relationships and Related Transactions, and Director Independence***

Our Board of Directors has affirmatively determined that each of C. Scott Gibson, Ken J. Bradley, Richard J. Faubert, Dr. William W. Lattin, Kevin C. Melia, Carl W. Neun, and Lorene K. Steffes are "independent directors" as defined by the SEC rules and within the meaning of the Nasdaq Marketplace Rule 4200(a)(15) and, therefore, a majority of our Board of Directors is currently independent as so defined. Dr. Lattin is also a member

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of the Board of Directors of Merix Corporation which builds printed circuit boards for us, and Mr. Bradley is a member of the Board of Directors of SynQor Inc., which supplies power converters to us. We do not view Dr. Lattin's or Mr. Bradley's positions with Merix Corporation or SynQor Inc., as applicable, as a conflict of interest or as a material relationship that would prevent either of them from being an independent director.

### **Related Party Transactions Policy**

In accordance with our Audit Committee charter, the Audit Committee is responsible for reviewing and approving the terms and conditions of all proposed related-party transactions required to be disclosed under the SEC rules prior to initiation of any such transaction.

#### **Item 14. Principal Accounting Fees and Services**

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>
<b>Fee Category</b>		
Audit Fees	\$ 914,203	\$ 734,866
Audit-Related Fees	\$ 20,250	\$ 22,500
Tax Fees	\$ 66,518	\$ 63,631
All Other Fees	—	—
Total Fees	\$ 1,000,971	\$ 820,997

*Audit Fees.* This category includes the audit of the Company's annual financial statements included in the Company's Annual Report on Form 10-K, review of financial statements included in the Company's Quarterly Reports on Form 10-Q, Section 404 internal control audit and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of the audit or the review of interim financial statements. The amounts reported in fiscal year 2007 also include additional audit work required in connection with the acquisition of certain assets of the module communications platform division business from Intel Corporation and our shelf registration statement and related convertible debt issuance.

*Audit-Related Fees.* This category consists of fees billed for assurance and related services that are related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees". These services include employee benefit plan audits and accounting consultations concerning financial accounting and reporting standards. For 2008, this category primarily consists of fees paid in connection with our employee benefit plan audit.

*Tax Fees.* This category consists of professional services rendered by KPMG for international tax compliance and other international tax related services. The services for the fees disclosed under this category primarily consist of international tax return preparation, technical consulting and other international tax related services. For 2008, these fees included work on Canadian tax related matters including the Scientific Research & Experimental Design tax credits.

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**AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee pre-approved all of the services described above that were provided during 2007 and 2008 in accordance with the pre-approval requirements of the Sarbanes-Oxley Act of 2002. Accordingly, there were no services for which the de minimus exception, as defined in Section 202 of the Sarbanes-Oxley Act, was applicable. The Audit Committee has considered whether the provision of the services covered by these fees is compatible with maintaining the principal auditor's independence. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent registered public accounting firm. Under the policy, all audit and non-audit services to be performed by the independent registered public accounting firm must be presented to the Audit Committee in writing prior to the commencement of such services. The proposal must include a description and purpose of the services, estimated fees and other terms of the engagement. The Audit Committee may delegate to the Chairman of the Audit Committee the authority to grant pre-approvals. Any pre-approvals made by the Chairman pursuant to this delegation shall be presented to the full Audit Committee at its next scheduled meeting following such pre-approvals.

**Item 15. Exhibits and Financial Statement Schedules**

(a) (1) *Financial Statements*

**Index to Financial Statements**

	<b>Form 10-K Page No.</b>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	54-55
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006</a>	56
<a href="#">Consolidated Balance Sheets as of December 31, 2008 and 2007</a>	57
<a href="#">Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2008, 2007 and 2006</a>	58
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006</a>	59
<a href="#">Notes to the Consolidated Financial Statements</a>	60

(a) (2) *Financial Statement Schedule*

None.

(a) (3) *Exhibits*

<u>Exhibit No.</u>	<u>Description</u>
2.1	Amended and Restated Asset Purchase Agreement, dated September 12, 2007, by and between the Company and Intel Corporation. Incorporated by reference from Exhibit 2.1 in the Company's Amended Current Report of Form 8-K/A, filed on November 1, 2007, SEC File No. 000-26844.
2.2	Transition Services Agreement, dated September 12, 2007, by and between the Company and Intel Corporation (portions of the exhibit have been omitted pursuant to a request for confidential treatment to the Commission). Incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007, filed on November 8, 2007, SEC File No. 000-26844.
2.3	Warranty Services Agreement, dated September 12, 2007, by and between the Company and Intel Corporation (portions of the exhibit have been omitted pursuant to a request for confidential treatment to the Commission). Incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007, filed on November 8, 2007, SEC File No. 000-26844.
2.4	Arrangement Agreement among RadiSys Corporation, Convedia Corporation and RadiSys Canada Inc., effective as of July 26, 2006. Incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 28, 2006, SEC File No. 000-26844
3.1	Second Restated Articles of Incorporation and amendments thereto. Incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC File No. 333-137060, as amended by the Articles of Amendment incorporated by reference from Exhibit 3.1 in the Company's Current Report on Form 8-K filed on January 30, 2008.
3.2	Restated Bylaws. Incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, filed on May 8, 2007.

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<u>Exhibit No.</u>	<u>Description</u>
4.1	Indenture, dated February 12, 2008, by and between the Company and The Bank of New York Trust Company, N.A. Incorporated by reference from Exhibit 4.1 in the Company's Current Report on Form 8-K, filed on February 12, 2008.
4.2	First Supplemental Indenture, dated February 12, 2008, by and between the Company and The Bank of New York Trust Company, N.A. Incorporated by reference from Exhibit 4.2 in the Company's Current Report on Form 8-K, filed on February 12, 2008.
4.3	Form of Global Security for the 2.75% Convertible Senior Notes due 2013 (included in Exhibit 4.2).
4.4	Indenture dated as of November 19, 2003, between the Company and JPMorgan Chase Bank, as Trustee, with respect to the 1.375% Convertible Senior Notes due 2023. Incorporated by reference from Exhibit 4.7 to the Company's Registration Statement on Form S-3, filed December 24, 2003, SEC Registration No. 333-111547.
4.5	Form of Note for the 1.375% Convertible Senior Notes due 2023. See Exhibit 4.4.
10.1	Amended and Restated Asset Purchase Agreement, dated September 12, 2007, by and between the Company and Intel Corporation. See Exhibit 2.1.
10.2	Transition Services Agreement, dated September 12, 2007, by and between the Company and Intel Corporation. See Exhibit 2.2.
10.3	Warranty Services Agreement, dated September 12, 2007, by and between the Company and Intel Corporation. See Exhibit 2.3.
10.4*	RadiSys Corporation 1995 Employee Stock Incentive Plan, as amended. Incorporated by reference from Exhibit (d)(1) to the Tender Offer Statement filed by the Company on Schedule TO-I, filed July 31, 2003, SEC File No. 005-49160.
10.5*	RadiSys Corporation 1996 Employee Stock Purchase Plan, as amended. Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, filed on August 5, 2004, SEC File No. 0-26844.
10.6*	RadiSys Corporation 2001 Nonqualified Stock Option Plan, as amended. Incorporated by reference from Exhibit (d)(2) to the Tender Offer Statement filed by the Company on Schedule TO-I, filed July 31, 2003, SEC File No. 005-49160.
10.7*	Form of Restricted Stock Agreement, as amended. Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, for the quarterly period ended March 31, 2006, filed on May 9, 2006, SEC File No. 000-26844.
10.8*	Form of Notice of Stock Option Grant for the 1995 Stock Incentive Plan. Incorporated by reference from Exhibit (d)(3) to the Tender Offer Statement filed by the Company on TO-I, filed July, 31, 2003, SEC File No. 005-49160.
10.9*	Form of Notice of Stock Option Grant for the 2001 Nonqualified Stock Option Plan. Incorporated by reference from Exhibit (d)(4) to the Tender Offer Statement filed by the Company on TO-I, filed July, 31, 2003, SEC File No. 005-49160.
10.10*	Deferred Compensation Plan. Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, filed on May 15, 2001, SEC File No. 000-26844.
10.11*	RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.4 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.

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<u>Exhibit No.</u>	<u>Description</u>
10.12*	Form of Notice of Option Grant for United States employees for RadiSys Corporation Stock Plan for Conveda Employees. Incorporated by reference from Exhibit 4.5 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.
10.13*	Form of Notice of Option Grant for Canada employees for RadiSys Corporation Stock Plan for Conveda Employees. Incorporated by reference from Exhibit 4.6 to the Company's Registration Statement on Form S-8 filed on September 1, 2006, SEC Registration No. 333-137060.
10.14*	Form of Notice of Option Grant for international employees for RadiSys Corporation Stock Plan for Conveda Employees. Incorporated by reference from Exhibit 4.7 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.
10.15*	Form of Notice of Option Grant for China employees for RadiSys Corporation Stock Plan for Conveda Employees. Incorporated by reference from Exhibit 4.8 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.
10.16*	Form of Restricted Stock Grant Agreement for RadiSys Corporation Stock Plan for Conveda Employees. Incorporated by reference from Exhibit 4.9 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.
10.17*	Form of Restricted Stock Unit Grant Agreement for RadiSys Corporation Stock Plan for Conveda Employees. Incorporated by reference from Exhibit 4.10 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.
10.18*	Description of the Revisions of the Company's Directors Compensation Arrangements. Incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on November 8, 2007.
10.19*	RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.4 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.20*	Form of Notice of Option Grant for United States employees for RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.5 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.21*	Form of Notice of Option Grant for Canada employees for RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.6 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.22*	Form of Notice of Option Grant for China employees for RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.7 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.23*	Form of Notice of Option Grant for international employees for RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.8 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.24*	Form of Restricted Stock Unit Grant Agreement for RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.9 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.25*	Amended and Restated Executive Change of Control Agreement dated February 27, 2007 between the Company and Julia A. Harper. Incorporated by reference from Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.

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<u>Exhibit No.</u>	<u>Description</u>
10.26*	Amended and Restated Executive Change of Control Agreement dated February 27, 2007 between the Company and Scott C. Grout. Incorporated by reference from Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.27*	Amended and Restated Executive Change of Control Agreement dated February 27, 2007 between the Company and Christian Lepiane. Incorporated by reference from Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.28*	Amended and Restated Executive Change of Control Agreement dated February 27, 2007 between the Company and Brian Bronson. Incorporated by reference from Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.29*	Form of Indemnity Agreement for directors of the Company. Incorporated by reference from Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.30*	Offer letter dated September 16, 2002 between the Company and Scott C. Grout. Incorporated by reference from Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.31*	Offer letter dated August 15, 2003 between the Company and Christian Lepiane. Incorporated by reference from Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.32*	Summary of Compensation and Performance Goals and Business Criteria for Payment of Incentive Awards. Incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 27, 2006, SEC File No. 000-26844.
10.33*	Summary of Performance Goals and Business Criteria for Payment of Awards. Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 28, 2006, SEC File No. 000-26844.
10.34	Dawson Creek II lease, dated March 21, 1997, incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997, filed on August 13, 1997, SEC File No. 000-26844.
10.35*	Summary of Compensation Arrangements of Certain Officers. Incorporated by reference from Exhibit 10.2 in the Company's Quarterly report on Form 10-Q for the quarterly period ended March 31, 2008, filed on May 9, 2008, SEC File No. 000-26844.
10.36	Loan and Security Agreement, dated August 7, 2008, between the Company and Silicon Valley Bank. Incorporated by reference from Exhibit 10.3 in the Company's Quarterly report on Form 10-Q for the quarterly period ended June 30, 2008, filed on August 8, 2008, SEC File No. 000-26844.
10.37*	Severance Agreement, dated August 6, 2008, between the Company and Scott Grout. Incorporated by reference from Exhibit 10.4 in the Company's Quarterly report on Form 10-Q for the quarterly period ended June 30, 2008, filed on August 8, 2008, SEC File No. 000-26844.
10.38*	Severance Agreement, dated February 26, 2008, between the Company and Brian Bronson. Incorporated by reference from Exhibit 10.1 in the Company's Quarterly report on Form 10-Q for the quarterly period ended March 31, 2008, filed on May 9, 2008, SEC File No. 000-26844.
10.39**	Offer by UBS AG relating to auction rate Securities as accepted by the Company on October 21, 2008.
10.40**	Credit Line Agreement by and between the Company and UBS AG, dated December 12, 2008.

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<u>Exhibit No.</u>	<u>Description</u>
10.41*/**	Severance agreement, dated November 4, 2008, between the Company and John T. Major.
10.42*/**	Severance agreement, dated December 29, 2008, between the Company and Anthony Ambrose.
10.43*/**	Executive Change of Control Agreement dated December 30, 2008 between the Company and John T. Major.
10.44**	Second Amendment and Limited Waiver to Loan and Security Agreement, dated February 13, 2009, between the Company and Silicon Valley Bank.
10.45**	Third Amendment to Loan and Security Agreement, dated February 13, 2009, between the Company and Silicon Valley Bank.
21.1**	List of Subsidiaries.
23.1**	Consent of KPMG LLP.
31.1**	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* This Exhibit constitutes a management contract or compensatory plan or arrangement

\*\* Filed herewith

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADISYS CORPORATION

By:           /s/ SCOTT C. GROUT            
          **Scott C. Grout**  
          **President and Chief Executive Officer**

Dated: March 6, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 6, 2009.

<u>Signature</u>	<u>Title</u>
<u>          /s/ SCOTT C. GROUT          </u> <b>Scott C. Grout</b>	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>          /s/ BRIAN BRONSON          </u> <b>Brian Bronson</b>	Chief Financial Officer (Principal Financial Officer)
<b>Directors:</b>	
<u>          /s/ C. SCOTT GIBSON          </u> <b>C. Scott Gibson</b>	Chairman of the Board and Director
<u>          /s/ KEN BRADLEY          </u> <b>Ken Bradley</b>	Director
<u>          /s/ RICHARD J. FAUBERT          </u> <b>Richard J. Faubert</b>	Director
<u>          /s/ DR. WILLIAM W. LATTIN          </u> <b>Dr. William W. Lattin</b>	Director
<u>          /s/ KEVIN C. MELIA          </u> <b>Kevin C. Melia</b>	Director
<u>          /s/ CARL NEUN          </u> <b>Carl Neun</b>	Director
<u>          /s/ LORENE K. STEFFES          </u> <b>Lorene K. Steffes</b>	Director

**EXHIBIT INDEX**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
2.1	Amended and Restated Asset Purchase Agreement, dated September 12, 2007, by and between the Company and Intel Corporation. Incorporated by reference from Exhibit 2.1 in the Company's Amended Current Report of Form 8-K/A, filed on November 1, 2007, SEC File No. 000-26844.
2.2	Transition Services Agreement, dated September 12, 2007, by and between the Company and Intel Corporation (portions of the exhibit have been omitted pursuant to a request for confidential treatment to the Commission). Incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007, filed on November 8, 2007, SEC File No. 000-26844.
2.3	Warranty Services Agreement, dated September 12, 2007, by and between the Company and Intel Corporation (portions of the exhibit have been omitted pursuant to a request for confidential treatment to the Commission). Incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007, filed on November 8, 2007, SEC File No. 000-26844.
2.4	Arrangement Agreement among RadiSys Corporation, Convedia Corporation and RadiSys Canada Inc., effective as of July 26, 2006. Incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 28, 2006, SEC File No. 000-26844.
3.1	Second Restated Articles of Incorporation and amendments thereto. Incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC File No. 333-137060, as amended by the Articles of Amendment incorporated by reference from Exhibit 3.1 in the Company's Current Report on Form 8-K filed on January 30, 2008.
3.2	Restated Bylaws. Incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, filed on May 8, 2007.
4.1	Indenture, dated February 12, 2008, by and between the Company and The Bank of New York Trust Company, N.A. Incorporated by reference from Exhibit 4.1 in the Company's Current Report on Form 8-K, filed on February 12, 2008.
4.2	First Supplemental Indenture, dated February 12, 2008, by and between the Company and The Bank of New York Trust Company, N.A. Incorporated by reference from Exhibit 4.2 in the Company's Current Report on Form 8-K, filed on February 12, 2008.
4.3	Form of Global Security for the 2.75% Convertible Senior Notes due 2013 (included in Exhibit 4.2).
4.4	Indenture dated as of November 19, 2003, between the Company and JPMorgan Chase Bank, as Trustee, with respect to the 1.375% Convertible Senior Notes due 2023. Incorporated by reference from Exhibit 4.7 to the Company's Registration Statement on Form S-3, filed December 24, 2003, SEC Registration No. 333-111547.
4.5	Form of Note for the 1.375% Convertible Senior Notes due 2023. See Exhibit 4.4.
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10.3	Warranty Services Agreement, dated September 12, 2007, by and between the Company and Intel Corporation. See Exhibit 2.3

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<u>Exhibit No.</u>	<u>Description</u>
10.4*	RadiSys Corporation 1995 Employee Stock Incentive Plan, as amended. Incorporated by reference from Exhibit (d)(1) to the Tender Offer Statement filed by the Company on Schedule TO-I, filed July 31, 2003, SEC File No. 005-49160.
10.5*	RadiSys Corporation 1996 Employee Stock Purchase Plan, as amended. Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, filed on August 5, 2004, SEC File No. 0-26844.
10.6*	RadiSys Corporation 2001 Nonqualified Stock Option Plan, as amended. Incorporated by reference from Exhibit (d)(2) to the Tender Offer Statement filed by the Company on Schedule TO-I, filed July 31, 2003, SEC File No. 005-49160.
10.7*	Form of Restricted Stock Agreement, as amended. Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, for the quarterly period ended March 31, 2006, filed on May 9, 2006, SEC File No. 000-26844.
10.8*	Form of Notice of Stock Option Grant for the 1995 Stock Incentive Plan. Incorporated by reference from Exhibit (d)(3) to the Tender Offer Statement filed by the Company on TO-I, filed July, 31, 2003, SEC File No. 005-49160.
10.9*	Form of Notice of Stock Option Grant for the 2001 Nonqualified Stock Option Plan. Incorporated by reference from Exhibit (d)(4) to the Tender Offer Statement filed by the Company on TO-I, filed July, 31, 2003, SEC File No. 005-49160.
10.10*	Deferred Compensation Plan. Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, filed on May 15, 2001, SEC File No. 000-26844.
10.11*	RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.4 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.
10.12*	Form of Notice of Option Grant for United States employees for RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.5 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.
10.13*	Form of Notice of Option Grant for Canada employees for RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.6 to the Company's Registration Statement on Form S-8 filed on September 1, 2006, SEC Registration No. 333-137060.
10.14*	Form of Notice of Option Grant for international employees for RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.7 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.
10.15*	Form of Notice of Option Grant for China employees for RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.8 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.
10.16*	Form of Restricted Stock Grant Agreement for RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.9 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.
10.17*	Form of Restricted Stock Unit Grant Agreement for RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.10 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC Registration No. 333-137060.

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<u>Exhibit No.</u>	<u>Description</u>
10.18*	Description of the Revisions of the Company's Directors Compensation Arrangements. Incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on November 8, 2007.
10.19*	RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.4 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.20*	Form of Notice of Option Grant for United States employees for RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.5 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.21*	Form of Notice of Option Grant for Canada employees for RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.6 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.22*	Form of Notice of Option Grant for China employees for RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.7 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.23*	Form of Notice of Option Grant for international employees for RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.8 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.24*	Form of Restricted Stock Unit Grant Agreement for RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.9 to the Company's Registration Statement on Form S-8, filed on May 15, 2007, SEC Registration No. 333-142968.
10.25*	Amended and Restated Executive Change of Control Agreement dated February 27, 2007 between the Company and Julia A. Harper. Incorporated by reference from Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.26*	Amended and Restated Executive Change of Control Agreement dated February 27, 2007 between the Company and Scott C. Grout. Incorporated by reference from Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.27*	Amended and Restated Executive Change of Control Agreement dated February 27, 2007 between the Company and Christian Lepiane. Incorporated by reference from Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.28*	Amended and Restated Executive Change of Control Agreement dated February 27, 2007 between the Company and Brian Bronson. Incorporated by reference from Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.29*	Form of Indemnity Agreement for directors of the Company. Incorporated by reference from Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.30*	Offer letter dated September 16, 2002 between the Company and Scott C. Grout. Incorporated by reference from Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.
10.31*	Offer letter dated August 15, 2003 between the Company and Christian Lepiane. Incorporated by reference from Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007, SEC File No. 000-26844.

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<u>Exhibit No.</u>	<u>Description</u>
10.32*	Summary of Compensation and Performance Goals and Business Criteria for Payment of Incentive Awards. Incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 27, 2006, SEC File No. 000-26844.
10.33*	Summary of Performance Goals and Business Criteria for Payment of Awards. Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 28, 2006, SEC File No. 000-26844.
10.34	Dawson Creek II lease, dated March 21, 1997, incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997, filed on August 13, 1997, SEC File No. 000-26844.
10.35*	Summary of Compensation Arrangements of Certain Officers. Incorporated by reference from Exhibit 10.2 in the Company's Quarterly report on Form 10-Q for the quarterly period ended March 31, 2008, filed on May 9, 2008, SEC File No. 000-26844.
10.36	Loan and Security Agreement, dated August 7, 2008, between the Company and Silicon Valley Bank. Incorporated by reference from Exhibit 10.3 in the Company's Quarterly report on Form 10-Q for the quarterly period ended June 30, 2008, filed on August 8, 2008, SEC File No. 000-26844.
10.37*	Severance Agreement, dated August 6, 2008, between the Company and Scott Grout. Incorporated by reference from Exhibit 10.4 in the Company's Quarterly report on Form 10-Q for the quarterly period ended June 30, 2008, filed on August 8, 2008, SEC File No. 000-26844.
10.38*	Severance Agreement, dated February 26, 2008, between the Company and Brian Bronson. Incorporated by reference from Exhibit 10.1 in the Company's Quarterly report on Form 10-Q for the quarterly period ended March 31, 2008, filed on May 9, 2008, SEC File No. 000-26844.
10.39**	Offer by UBS AG relating to auction rate Securities as accepted by the Company on October 21, 2008.
10.40**	Credit Line Agreement by and between the Company and UBS AG, dated December 12, 2008.
10.41**/*	Severance agreement, dated November 4, 2008, between the Company and John T. Major.
10.42**/*	Severance agreement, dated December 29, 2008, between the Company and Anthony Ambrose.
10.43**/*	Executive Change of Control Agreement dated December 30, 2008 between the Company and John T. Major.
10.44**	Second Amendment and Limited Waiver to Loan and Security Agreement, dated February 13, 2009, between the Company and Silicon Valley Bank.
10.45**	Third Amendment to Loan and Security Agreement, dated February 13, 2009, between the Company and Silicon Valley Bank.
21.1**	List of Subsidiaries.
23.1**	Consent of KPMG LLP.
31.1**	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* This Exhibit constitutes a management contract or compensatory plan or arrangement

\*\* Filed herewith



RADISYS CORPORATION  
 ATTN: BARB DOOLIN  
 5445 N.E. DAWSON CREEK DRIVE  
 HILLSBORO OR 97124-5797

**UBS Financial Services Inc.**  
 1200 Harbor Boulevard  
 Weehawken, NJ 07086

James M. Pierce  
 Co-Head  
 Wealth Management Advisor Group US

James D. Price  
 Co-Head  
 Wealth Management Advisor Group US

www.ubs.com

October 8, 2008

Branch Telephone Number  
 +1-206-628-8511

Account Number: WI 10802

We are pleased to offer you a way to liquidate certain of your auction rate securities (ARS). UBS has designed a solution that gives you the option to hold your ARS or sell the securities back to UBS. This solution is available for ARS that were held in a UBS account on February 13, 2008, and that are not successfully clearing at auction (Eligible ARS).

**UBS is offering you “Auction Rate Securities Rights” (Rights) to sell Eligible ARS at par value to UBS at any time during a two-year time period. These Rights are nontransferable securities registered with the U.S. Securities and Exchange Commission (SEC). This is a limited time offer that will expire on November 14, 2008. Accepting this offer may impact your legal rights. Not accepting this offer may have repercussions on outstanding loans secured by Eligible ARS. As a result, it is important that you review the prospectus carefully.**

The key features and terms of the offer are summarized below. For complete details, please see the enclosed prospectus.

- UBS is offering you nontransferable Rights to sell Eligible ARS, held in the UBS account identified above, at par value to UBS at any time during the period of June 30, 2010, through July 2, 2012.
  - You may instruct your UBS Financial Advisor to exercise these Rights at any time during this time period;
  - If you do not exercise your Rights, the Eligible ARS will continue to accrue interest or dividends as determined by the auction process;
  - If you do not exercise your Rights before July 2, 2012, they will expire and UBS will have no further obligation to buy your Eligible ARS.
- Clients who accept this offer give UBS the discretion to purchase or sell their Eligible ARS at any time after accepting the firm’s offer and without other prior notice.
  - UBS will purchase tax-exempt Auction Preferred Stock (a specific type of ARS also known as APS) at any time after clients accept the firm’s Rights offer;
  - UBS will only exercise its discretion to purchase or sell Eligible ARS for the purpose of restructurings, dispositions or other solutions that will provide clients with par value for their Eligible ARS;
  - In purchasing Eligible ARS or selling Eligible ARS on behalf of clients, including tax-exempt APS, UBS will act in its capacity as broker-dealer and will execute these transactions on a principal basis regardless of the type of client accounts in which the Eligible ARS are held. Please see pages 27-28 in the enclosed prospectus for more information;
  - UBS will pay clients par value for their Eligible ARS within one day of settlement of the transaction;
  - Eligible ARS are subject to issuer redemptions at any time.

UBS AG has filed a registration statement (Including a prospectus) with the SEC for the offering to which this communication relates. Before you make an Investment decision, you should read the prospectus in that registration statement and other documents that UBS has filed with the SEC for more complete Information about UBS and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at [www.sec.gov](http://www.sec.gov) or by calling UBS’s ARS Client Service Center at +1-800-253-1974.

**UBS Financial Services Inc. and UBS International Inc. are subsidiaries of UBS AG.**

**1C-ARS0**



- Clients who accept this offer release UBS and its employees/agents from all claims except claims for consequential damages directly or indirectly relating to its marketing and sale of ARS and expressly agree not to seek any damages or costs (punitive damages, attorney fees, etc.) other than consequential damages. Clients also will not serve as a class representative or receive benefits under any class action settlement or investor fund.
- UBS will provide clients who accept the offer “no net cost” loans up to the par value of Eligible ARS until June 30, 2010. Please see pages 36-39 in the enclosed prospectus for more information.
- UBS will reimburse all clients who participated in prior UBS ARS loan programs after February 13, 2008, for the difference between the cost of the loan and the applicable interest paid on the Eligible ARS.

**THIS OFFER EXPIRES ON NOVEMBER 14, 2008.** Please complete, sign and date the enclosed form and return it in the postage-paid envelope if you wish to accept this offer. We must **receive** your signed acceptance form no later than November 14, 2008.

**You may receive multiple letters from us depending on the type of ARS you own or if you have ARS in multiple accounts. Please note you must return a form for each letter you receive to accept all available offers relating to your ARS holdings. Please read each response form carefully as the terms may vary.**

A list of your Eligible ARS in the account identified on the first page of this letter is attached. Additional information about your Eligible ARS, including the most recent interest rates and dividend yields, is available at [www.ubs.com/auctionratesecurities](http://www.ubs.com/auctionratesecurities).

If you have any questions about your Eligible ARS or this offer, please contact your UBS Financial Advisor or Branch Manager at the telephone number listed at the top of this letter. Please note that UBS Financial Advisors and Branch Managers cannot provide legal or tax advice regarding this offer. Instructions to exercise your Rights should be directed to your UBS Financial Advisor or Branch Manager.

We regret any hardship that the failure of the ARS markets may have caused you. We hope that the offer described above and discussed in detail in the prospectus provides resolution for you regarding this matter. We look forward to continuing our relationship with you and to serving your future investment needs.

Thank you for your business and for maintaining your relationship with UBS.

Sincerely,

James M. Pierce

James D. Price

UBS Financial Services Inc. serves as the clearing firm for UBS International Inc. Accordingly, the information and terms contained in this letter and the accompanying materials are directed to clients of both UBS Financial Services Inc and UBS International Inc.

**UBS Financial Services Inc. and UBS International Inc. are subsidiaries of UBS AG.**

**1C-ARS0**

## Current rate and dividend information

To allow you to view the current interest rates and/or dividends your holdings are earning, we have created an online tool available at [www.ubs.com/auctionratesecurities](http://www.ubs.com/auctionratesecurities).

Simply enter the nine-digit CUSIP number(s) shown below to obtain the most current information about your securities.

Percentages displayed in the descriptions below are as of September 30, 2008.

<u>CUSIP</u>	<u>Description</u>	<u>CUSIP</u>	<u>Description</u>	<u>CUSIP</u>	<u>Description</u>
00432CAR2	ACCESS GROUP INC NTS BE/R/ RATE 03.485% MATURES 09/01/37	194262CZ2	COLLEGE LN CORP TR 1 02 TXBL ABS ARCS SR BE/R/ VARIABLE RATE RATE 05.426% MATURES 11/01/47	207784AH2	CONNECTICUT STUDENT LN F NDTN RV SER A-2 REV /R/ VARIABLE RATE RATE 03.989% MATURES 06/01/34
452281HU5	ILLINOIS STU ASSIST VIII 5 28DY ARC RV TXBL BE/R/ VARIABLE RATE RATE 04.248% MATURES 03/01/45	452281HV3	ILLINOIS STU ASSIST VIII 6 28DY ARC RV TXBL BE/R/ VARIABLE RATE RATE 04.201% MATURES 03/01/45	454905AZ3	INDIANA SECOND MKT EDL SER 2004- REV STUDE /R/ VARIABLE RATE RATE 05.126% MATURES 09/01/44
455900BJ8	INDIANA SECNDRY MRKT EDU SER 1 REV TAXABLE B/E/R/ VARATE PUTBND RATE 02.486% MATURES 12/01/47	49130NAB5	KENTUCKY HIGHER ED STUD LN INS RV ARCS SER A2/R/ VARIABLE RATE RATE 03.323% MATURES 5/01/28	49130NBE8	KENTUCKY HGHR ED STUD LN SER A-4 REV TXBL BE/R/ VARIABLE RATE RATE 03.920% MATURES 06/01/35
49130NBP3	KENTUCKY HIGHER ED S/L SER A-5 RV TXBL B/E /R/ VARIABLE RATE RATE 03.970% MATURES 06/01/36	606072GF7	MISSOURI HGR EDUC LN SER C REV TAXABLE B/E/R/ VARIABLE RATE RATE 02.525% MATURES 06/01/31	644616AQ7	NEW HAMPSHIRE HGHR ED LN CRP ARCS AIRV TXBL BE/R/ VARIABLE RATE RATE 00.000% MATURES 12/01/36
66704JAF5	NORTHSTAR GTEE INC DIVISION B TXBLE /R/ VARIABLE RATE RATE 03.156% MATURES 04/01/42	709163BX6	PA ST H/E ASST AGY REV. SER F-1 RV TAXABLE BE/R/ VARIABLE RATE RATE 04.220% MATURES 10/01/40	709163CE7	PA ST H/E ASST AGY SR SR J-4 REV TAXABLE B/E /R/ VARATE PUTBND RATE 03.523% MATURES 12/01/40
917546GH0	UTAH ST BRD OF REGT S/L 28D TXBL 2006 DD-1 /R/ VARIABLE RATE RATE 03.911% MATURES 05/01/46	917546GJ6	UTAH ST BRD OF REGT S/L 28D TXBL 2006 DD-2 /R/ VARIABLE RATE RATE 03.781% MATURES 05/01/46		



Please complete and sign this form.
We must receive it by November 14, 2008.

Acceptance of UBS's offer relating to auction rate securities

By signing below and returning this form, I accept UBS's offer of Rights relating to my Eligible ARS in the account listed below. I understand and acknowledge the following:

- All Eligible ARS must remain in my UBS account listed below until I exercise my Rights to sell my Eligible ARS to UBS or they are redeemed by the issuer or purchased or sold on my behalf by UBS;
I will instruct my UBS Financial Advisor or Branch Manager if and when I want to exercise my Rights and sell my Eligible ARS to UBS during the period of June 30, 2010, through July 2, 2012;
The acceptance of UBS's offer constitutes consent (to the extent legally required) for UBS, acting as principal, to purchase my Eligible ARS or to sell them on my behalf at any time in its sole discretion and without other prior notice to me, from the date that I accept this offer through July 2, 2012;
If UBS purchases, sells or otherwise disposes of my Eligible ARS, it will deposit the par value in my account within one business day of settlement of the transaction;
I release UBS and its employees/agents from all claims except claims for consequential damages directly or indirectly relating to its marketing and sale of ARS and expressly agree that I will not seek any damages or costs (punitive damages, attorney fees, etc.) other than consequential damages. I also will not serve as a class representative or receive benefits under any class action settlement or investor fund;
If the account named below is in the name of a corporation, partnership, trust or other entity, I represent and warrant that I have the power and authority to accept this offer on behalf of that entity.

Please complete and sign this form.
We must receive it by November 14, 2008.

RADISYS CORPORATION
ATTN: BARB DOOLIN
5445 N.E. DAWSON CREEK DRIVE
HILLSBORO OR 97124-5797

Mail UBS Financial Services Inc.
ATTN: ARS Group
1000 Harbor Boulevard
Weehawken, NJ 07086

Account Number: WI 10802

Fax +1-201-442-7766



Account owner signature Bri Brons Date 10-21-08
Additional party signature Date
Daytime telephone number 503-615-1281

If you have questions, please contact your UBS Financial Advisor or Branch Manager at +1-206-628-8511. Clients outside the U.S. may call +1-201-352-0105 collect.

We kindly request that you do not include comments or questions on this form as it could delay processing of your instructions.

UBS AG has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you make an investment decision, you should read the prospectus in that registration statement and other documents that UBS has filed with the SEC for more complete information about UBS and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at www.sec.gov or by calling UBS's ARS Client Service Center at +1-800-253-1974.

UBS Financial Services Inc. serves as the clearing firm for UBS International Inc. Accordingly, the information and terms contained in this letter and the accompanying materials are directed to clients of both UBS Financial Services Inc and UBS International Inc.



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## UBS Bank USA

Variable Credit Line Account Number: <i>(if applicable)</i>		
5V	65085	W1
Fixed Credit Line Account Number: <i>(if applicable)</i>		
5F		
SS# / TIN	Internal Use Only	

## Credit Line Agreement

## Borrower Agreement

## BY SIGNING BELOW, THE BORROWER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT:

- A** The Borrower has received and read a copy of this Borrower Agreement, the attached Credit Line Account Application and Agreement (including the Credit Line Agreement following this Borrower Agreement) and the Loan Disclosure Statement explaining the risk factors that the Borrower should consider before obtaining a loan secured by the Borrower's securities account. The Borrower agrees to be bound by the terms and conditions contained in the Credit Line Account Application and Agreement (including the Credit Line Agreement following this Borrower Agreement) (which terms and conditions are incorporated by reference). Capitalized terms used in this Borrower Agreement have the meanings set forth in the Credit Line Agreement.
- B** **THE BORROWER UNDERSTANDS AND AGREES THAT UBS BANK USA MAY DEMAND FULL OR PARTIAL PAYMENT OF THE CREDIT LINE OBLIGATIONS, AT ITS SOLE OPTION AND WITHOUT CAUSE, AT ANY TIME, AND THAT NEITHER FIXED RATE ADVANCES NOR VARIABLE RATE ADVANCES ARE EXTENDED FOR ANY SPECIFIC TERM OR DURATION. THE BORROWER UNDERSTANDS AND AGREES THAT ALL ADVANCES ARE SUBJECT TO COLLATERAL MAINTENANCE REQUIREMENTS. THE BORROWER UNDERSTANDS THAT UBS BANK USA MAY, AT ANY TIME, IN ITS DISCRETION, TERMINATE AND CANCEL THE CREDIT LINE REGARDLESS OF WHETHER OR NOT AN EVENT HAS OCCURRED.**
- C** **UNLESS DISCLOSED IN WRITING TO UBS BANK USA AT THE TIME OF THIS AGREEMENT, AND APPROVED BY UBS BANK USA, THE BORROWER AGREES NOT TO USE THE PROCEEDS OF ANY ADVANCE EITHER TO PURCHASE, CARRY OR TRADE IN SECURITIES OR TO REPAY ANY DEBT (I) USED TO PURCHASE, CARRY OR TRADE IN SECURITIES OR (II) TO ANY AFFILIATE OF UBS BANK USA. THE BORROWER WILL BE DEEMED TO REPEAT THIS AGREEMENT EACH TIME THE BORROWER REQUESTS AN ADVANCE.**
- D** **THE BORROWER UNDERSTANDS THAT BORROWING USING SECURITIES AS COLLATERAL ENTAILS RISKS, SHOULD THE VALUE OF THE SECURITIES IN THE COLLATERAL ACCOUNT DECLINE BELOW THE REQUIRED COLLATERAL MAINTENANCE REQUIREMENTS, UBS BANK USA MAY REQUIRE THAT THE BORROWER POST ADDITIONAL COLLATERAL, REPAY PART OR ALL OF THE BORROWER'S LOAN AND/OR SELL THE BORROWER'S SECURITIES. ANY REQUIRED LIQUIDATIONS MAY INTERRUPT THE BORROWER'S LONG-TERM INVESTMENT STRATEGIES AND MAY RESULT IN ADVERSE TAX CONSEQUENCES.**
- E** **Neither UBS Bank USA nor UBS Financial Services Inc. provides legal or tax advice and nothing herein shall be construed as providing legal or tax advice.**
- F** Upon execution of this Credit Line Account Application and Agreement, the Borrower declares that all of the information requested in the Application and supplied by the Borrower is true and accurate and further agrees to promptly notify UBS Bank USA in writing of any material changes to any or all of the information contained in the Application including information relating to the Borrower's financial situation.
- G** Subject to any applicable financial privacy laws and regulations, data regarding the Borrower and the Borrower's securities accounts may be shared with UBS Bank USA affiliates. Subject to any applicable financial privacy laws and regulations, the Borrower requests that UBS Bank USA share such personal financial data with non-affiliates of UBS Bank USA as is necessary or advisable to effect, administer or enforce, or to service, process or maintain, all transactions and accounts contemplated by this Agreement.
- H** The Borrower authorizes UBS Bank USA and UBS financial Services Inc. to obtain a credit report or other credit references concerning the Borrower (including making verbal or written inquiries concerning credit history) or to otherwise verify or update credit information given to UBS Bank USA at any time. The Borrower authorizes the release of this credit report or other credit information to UBS Bank USA affiliates as it deems necessary or advisable to effect, administer or enforce, or to service, process or maintain all transactions and accounts contemplated by this Agreement, and for the purpose of offering additional products, from time to time, to the Borrower. The Borrower authorizes UBS Bank USA to exchange Borrower information with any party it reasonably believes is conducting a legitimate credit inquiry in accordance with the Fair Credit Reporting Act. UBS Bank USA may also share credit or other transactional experience with the Borrower's designated UBS Financial Services Inc. Financial Advisor or other parties designated by the Borrower.
- I** UBS Bank USA is subject to examination by various federal, state and self-regulatory organizations and the books and records maintained by UBS Bank USA are subject to inspection and subpoena by these regulators and by federal, state, and local law enforcement officials. The Borrower also acknowledges that such regulators and officials may, pursuant to treaty or other arrangements, in-turn disclose such information to the officials or regulators of other countries, and that U.S. courts may be required to compel UBS Bank USA to disclose such information to the officials or regulators of other countries. The Borrower agrees that UBS Bank USA may disclose to such regulators and officials information about the Borrower and transactions in the credit line account or other accounts at UBS Bank USA without notice to the Borrower. In addition, UBS Bank USA may in the context of a private dispute be required by subpoena or other judicial process to disclose information or produce documentation related to the Borrower, the credit line account or other accounts at UBS Bank USA. The Borrower acknowledges and agrees that UBS Bank USA reserves the right, in its sole discretion, to respond to subpoenas and judicial process as it deems appropriate.

- J** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. When the Borrower opens an account with UBS Bank USA, UBS Bank USA will ask for the Borrower's name, address, and other information that will allow UBS Bank USA to identify the Borrower. UBS Bank USA may also ask to see other identifying documents. UBS Financial Services Inc. and UBS Bank USA are firmly-committed to compliance with all applicable laws, rules and regulations, including those related to combating money laundering. The Borrower understands and agrees that the Borrower must take all necessary steps to comply with the anti-money laundering laws, rules and regulations of the Borrower's country of origin, country of residence and the situs of the Borrower's transaction.
- K** UBS Bank USA and its affiliates will act as creditors and, accordingly, their interests may be inconsistent with, and potentially adverse to, the Borrower's interests. As a lender and consistent with normal lending practice, UBS Bank USA may take any steps necessary to perfect its interest in the Credit Line, issue a call for additional collateral or force the sale of the Borrower's securities if the Borrower's actions or inactions call the Borrower's creditworthiness into question. Neither UBS Bank USA nor UBS Financial Services Inc. will act as Client's investment advisor with respect to any liquidation. In fact UBS Bank USA will act as a creditor and UBS Financial Services Inc. will act as a securities intermediary.
- L** The Borrower understands that, if the Collateral Account is a managed account with UBS Financial Services Inc., (i) in addition to any fees payable so UBS Financial Services Inc. in connection with the Borrower's managed account, interest will be payable to the Bank on an amount advanced to the Borrower in connection with the Credit Line Account, and (ii) the performance of the managed account might not exceed the managed account fees and the interest expense payable to the Bank in which case the Borrower's overall rate of return will be less than the costs associated with the managed account.
- M** UBS Bank USA may provide copies of all credit line account statements to UBS Financial Services Inc. and to any Guarantor. The Borrower acknowledges and agrees that UBS Bank USA may share any and all information regarding the Borrower and the Borrower's accounts at UBS Bank USA with UBS Financial Services Inc. UBS Financial Services Inc. may provide copies of all statements and confirmations concerning each Collateral Account to UBS Bank USA at such times and in such manner as UBS Bank USA may request and may share with UBS Bank USA any and all information regarding the Borrower and the Borrower's accounts with UBS Financial Services Inc.

IN WITNESS WHEREOF, the undersigned ("Borrower") has signed this Agreement, or has caused this Agreement to be signed in its name by its duly authorized representatives, as of the date indicated below.

DATE: December 12, 2008

**Name of Borrower:** Radisys Corporation

By: /s/ Brian J. Bronson  
 (Signature of Authorized Signatory of Borrower)\* Brian J. Bronson

By: /s/ Scott C. Grout  
 (Signature of Authorized Signatory of Borrower)\* Scott C. Grout

Title: Chief Financial Officer/CFO  
 (Title of Authorized Signatory of Borrower)

Title: Chief Executive Officer/CEO  
 (Title of Authorized Signatory of Borrower)

**The authorized signatory of the Borrower must be one of the Authorized Persons designated on the applicable UBS Bank USA supplemental form executed by the Borrower (e.g., the Supplemental Corporate Resolution Form (HP Form)).**



**UBS Bank USA**

Variable Credit Line Account Number: <i>(if applicable)</i>		
SV	65085	W1
Fixed Credit Line Account Number: <i>(if applicable)</i>		
5F		
SS# / TIN	Internal Use Only	

Credit Line Agreement

**Credit Line Agreement - Demand Facility**

THIS CREDIT LINE AGREEMENT (as it may be amended, supplemented or otherwise modified from time to time, this "Agreement") is made by and between the party or parties signing as the Borrower on the Application to which this Agreement is attached (together and individually, the "Borrower") and UBS Bank USA (the "Bank") and, together with the Application, establishes the terms and conditions that will govern the uncommitted demand loan facility made available to the Borrower by the Bank. This Agreement becomes effective upon the earlier of (i) notice from the Bank (which notice may be oral or written) to the Borrower that the Credit Line has been approved and (ii) the Bank making an Advance to the Borrower.

**1) Definitions**

- "Advance" means any Fixed Rate Advance or Variable Rate Advance made by the Bank pursuant to this Agreement.
- "Advance Advice" means a written or electronic notice by the Bank, sent to the Borrower, the Borrower's financial advisor at UBS Financial Services Inc. or any other party designated by the Borrower to receive the notice, confirming that a requested Advance will be a Fixed Rate Advance and specifying the amount, fixed rate of interest and Interest Period for the Fixed Rate Advance.
- "Application" means the Credit Line Account Application and Agreement that the Borrower has completed and submitted to the Bank and into which this Agreement is incorporated by reference.
- "Approved Amount" means the maximum principal amount of Advances that is permitted to be outstanding under the Credit Line at any time, as specified in writing by the Bank.
- "Breakage Costs" and "Breakage Fee" have the meanings specified in Section 6(b).
- "Business Day" means a day on which both of the Bank and UBS Financial Services Inc. are open for business. For notices and determinations of LIBOR, Business Day must also be a day for trading by and between banks in U.S. dollar deposits in the London interbank market.
- "Collateral" has the meaning specified in Section 8(a).
- "Collateral Account" means, individually and collectively, each account of the Borrower or Pledgor at UBS Financial Services Inc. or UBS International Inc., as applicable, that is either identified as a Collateral Account on the Application to which this Agreement is attached or subsequently identified as a Collateral Account by the Borrower or Pledgor, either directly or indirectly through the Borrower's or Pledgor's UBS Financial Services Inc. financial advisor, together with all successors to those identified accounts, irrespective of whether the successor account bears a different name or account number.
- "Credit Line" has the meaning specified in Section 2(a).
- "Credit Line Account" means each Fixed Rate Account and each Variable Rate Account of the Borrower that is established by the Bank in connection with this Agreement and either identified on the Application or subsequently identified as a Credit Line Account by the Bank by notice to the Borrower, together with all successors to those identified accounts, irrespective of whether any successor account bears a different name or account number.
- "Credit Line Obligations" means, at any time of determination, the aggregate of the outstanding principal amounts of all Advances, together with all accrued but unpaid interest on the outstanding principal amounts, any and all fees or other charges payable in connection with the Advances and any costs of collection (including reasonable attorneys' fees) and other amounts payable by the Borrower under this Agreement, and any and all other present or future obligations of the Borrower and the other respective Loan Parties under this Agreement and the related agreements, whether absolute or contingent, whether or not due or mature.
- "Event" means any of the events listed in Section 10.
- "Fixed Rate Advance" means any advance made under the Credit Line that accrues interest at a fixed rate.
- "Guarantor" means any party who guaranties the payment and performance of the Credit Line Obligations.
- "Guaranty Agreement" means an agreement pursuant to which a Guarantor agrees to guaranty payment of the Credit Line Obligations.

- “Interest Period” means, for a Fixed Rate Advance, the number of days, weeks or months requested by the Borrower and confirmed in the Advance Advice relating to the Fixed Rate Advance, commencing on the date of (i) the extension of the Fixed Rate Advance or (ii) any renewal of the Fixed Rate Advance and, in each case, ending on the last day of the period. If the last day is not a Business Day, then the Interest Period will end on the immediately succeeding Business Day. If the last Business Day would fall in the next calendar month, the Interest Period will end on the immediately preceding Business Day. Each monthly or longer Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) will end on the last Business Day of the appropriate calendar month.
- “Joint Borrower” has the meaning specified in Section 7(a).
- “LIBOR” means, as of any date of determination:
  - (i) for Variable Rate Advances, the prevailing London Interbank Offered Rate for deposits in U.S. dollars having a maturity of 30 days as published in The Wall Street Journal “Money Rates” Table on the date of the Advance; and
  - (ii) for Fixed Rate Advances of one (1) year or less, the prevailing London Interbank Offered Rate for deposits in U.S. dollars having a maturity corresponding to the length of the Interest Period applicable to the Advance as quoted by the Bloomberg service at 4:00 a.m. Eastern Standard Time on the date of the Advance.

If the rate ceases to be regularly published by The Wall Street Journal or stated by the Bloomberg Service, as applicable, LIBOR will be determined by the Bank in its sole and absolute discretion. For any day that is not a Business Day, LIBOR will be the applicable LIBOR in effect immediately prior to that day.

- “Loan Party” means each Borrower, Guarantor and Pledgor, each in their respective capacities under this Agreement or any related agreement.
- “Person” means any natural person, company, corporation, firm, partnership, joint venture, limited liability company or limited liability partnership, association, organization or any other legal entity.
- “Pledgor” means each Person who pledges to the Bank any Collateral to secure the Credit Line Obligations (or to secure the



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obligations of any Guarantor with respect to the guaranty of the Credit Line Obligations). Pledgors will include (i) each Borrower who pledges Collateral to secure the Credit Line Obligations, (ii) each Guarantor who has pledged collateral to secure the Credit Line Obligations or its obligations under a Guaranty Agreement, (iii) any spouse of a Borrower who executes a spouse's pledge and consent agreement with respect to a jointly held collateral account, (iv) any other joint account holder who executes a joint account holder pledge and consent agreement with respect to a jointly held collateral account, and (v) any other Person who executes a pledge agreement with respect to the Credit Line.

- "Premier Credit Line" means any Credit Line with an Approved Amount equal to or greater than \$250,000.
- "Prime Credit Line" means any Credit Line with an Approved Amount less than \$250,000.
- "Prime Rate" means the floating "Prime Rate" as published in The Wall Street Journal "Money Rates" Table from time to time. The Prime Rate will change as and when the Prime Rate as published in The Wall Street Journal changes. In the event that The Wall Street Journal does not publish a Prime Rate, the Prime Rate will be the rate as determined by the Bank in its sole and absolute discretion.
- "Securities Intermediary" has the meaning specified in Section 9.
- "UBS Bank USA Fixed Funding Rate" means, as of any date of determination for Fixed Rate Advances of greater than one (1) year, an internally computed rate established from time-to-time by the Bank, in its sole discretion, based upon the LIBOR swap curve for a corresponding period as well as the Bank's assessment of other lending rates charged in the financial markets.
- "UBS Financial Services Inc." means UBS Financial Services Inc. and its successors.
- "UBS-I" means UBS International Inc. and its successors.
- "Variable Rate Advance" means any advance made under the Credit Line that accrues interest at a variable rate."

**2) Establishment of Credit Line; Termination**

- a) Upon the effectiveness of this Agreement, the Bank establishes an **UNCOMMITTED, DEMAND** revolving line of credit (the "Credit Line") in an amount up to the Approved Amount. The Bank may, from time to time upon request of the Borrower, without obligation and in its sole and absolute discretion, authorize and make one or more Advances to the Borrower. The Borrower acknowledges that the Bank has no obligation to make any Advances to the Borrower. The Bank may carry each Variable Rate Advance in a Variable Rate Account and may carry each Fixed Rate Advance in a Fixed Rate Account, but all Advances will constitute extensions of credit pursuant to a single Credit Line. The Approved Amount will be determined, and may be adjusted from time to time, by the Bank in its sole and absolute discretion.
- b) **THE BORROWER AND EACH OTHER LOAN PARTY UNDERSTAND AND AGREE THAT THE BANK MAY DEMAND FULL OR PARTIAL PAYMENT OF THE CREDIT LINE OBLIGATIONS, AT ITS SOLE AND ABSOLUTE DISCRETION AND WITHOUT CAUSE, AT ANY TIME, AND THAT NEITHER FIXED RATE ADVANCES NOR VARIABLE RATE ADVANCES ARE EXTENDED FOR ANY SPECIFIC TERM OR DURATION.**
- c) **UNLESS DISCLOSED IN WRITING TO THE BANK AT THE TIME OF THE APPLICATION, AND APPROVED BY THE BANK, THE BORROWER AGREES NOT TO USE THE PROCEEDS OF ANY ADVANCE EITHER TO PURCHASE, CARRY OR TRADE IN SECURITIES OR TO REPAY ANY DEBT (I) USED TO PURCHASE, CARRY OR TRADE IN SECURITIES OR (II) TO ANY AFFILIATE OF THE BANK. THE BORROWER WILL BE DEEMED TO REPEAT THE AGREEMENT IN THIS SECTION 2(C) EACH TIME IT REQUESTS AN ADVANCE.**
- d) Prior to the first Advance under the Credit Line, the Borrower must sign and deliver to the Bank a Federal Reserve Form U-1 and all other documentation as the Bank may require. The Borrower acknowledges that neither the Bank nor any of its affiliates has advised the Borrower in any manner regarding the purposes for which the Credit Line will be used.
- e) The Borrower consents and agrees that, in connection with establishing the Credit Line Account, approving any Advances to the Borrower or for any other purpose associated with the Credit Line, the Bank may obtain a consumer or other credit report from a credit reporting agency relating to the Borrower's credit history. Upon request by the Borrower, the Bank will inform the Borrower: (i) whether or not a consumer or other credit report was requested; and (ii) if so, the name and address of the consumer or other credit reporting agency that furnished the report.

- f) The Borrower understands that the Bank will, directly or indirectly, pay a portion of the interest that it receives to the Borrower's financial advisor at UBS Financial Services Inc. or one of its affiliates. To the extent permitted by applicable law, the Bank may also charge the Borrower fees for establishing and servicing the Credit Line Account.
- g) Following each month in which there is activity in the Borrower's Credit Line Account in amounts greater than \$1, the Borrower will receive an account statement showing the new balance, the amount of any new Advances, year to date interest charges, payments and other charges and credits that have been registered or posted to the Credit Line Account.
- h) Each of the Loan Parties understands and agrees that the Bank may, at any time, in its sole and absolute discretion, terminate and cancel the Credit Line regardless of whether or not an Event has occurred. In the event the Bank terminates and cancels the Credit Line the Credit Line Obligations shall be immediately due and payable in full. If the Credit Line Obligations are not paid in full, the Bank shall have the right, at its option, to exercise any or all of its remedies described in Section 10 of this Agreement.

**3) Terms of Advances**

- a) Advances made under this Agreement will be available to the Borrower in the form, and pursuant to procedures, as are established from time to time by the Bank in its sole and absolute discretion. The Borrower and each Loan Party agree to promptly provide all documents, financial or other information in connection with any Advance as the Bank may request. Advances will be made by wire transfer of funds to an account as specified in writing by the Borrower or by any other method agreed upon by the Bank and the Borrower. The Borrower acknowledges and agrees that the Bank will not make any Advance to the Borrower unless the collateral maintenance requirements that are established by the Bank in its sole and absolute discretion have been satisfied.
- b) Each Advance made under a Premier Credit Line will be a Variable Rate Advance unless otherwise designated as a Fixed Rate Advance in an Advance Advice sent by the Bank to the Borrower. The Bank will not designate any Advance as a Fixed Rate Advance unless it has been requested to do so by the Borrower (acting directly or indirectly)



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through the Borrower's UBS Financial Services Inc. financial advisor or other agent designated by the Borrower and acceptable to the Bank). Each Advance Advice will be conclusive and binding upon the Borrower, absent manifest error, unless the Borrower otherwise notifies the Bank in writing no later than the close of business, New York time, on the third Business Day after the Advance Advice is received by the Borrower.

- c) Each Advance made under a Prime Credit Line will be a Variable Advance.
- d) Unless otherwise agreed by the Bank: (i) all Fixed Rate Advances must be in an amount of at least \$100,000; and (ii) all Variable Rate Advances taken by wire transfer must be in an amount of at least \$2,500. If the Borrower is a natural person, the initial Variable Rate Advance under the Credit Line must be in an amount equal to at least \$25,001 (the "Initial Advance Requirement"). If the initial Advance requested by the Borrower is made in the form of a check drawn on the Credit Line that does not satisfy the Initial Advance Requirement, then, in addition to and not in limitation of the Bank's rights, remedies, powers or privileges under this Agreement or applicable law, the Bank may, in its sole and absolute discretion:
  - (i) pay the check drawn by the Borrower if, prior to paying that check, the Bank makes another Advance to the Borrower, which Advance shall be in an amount not less than \$25,001; or
  - (ii) pay the check drawn by the Borrower; or
  - (iii) decline to pay (bounce) the check.

If the Bank elects option (ii), no interest shall accrue on the amount of the Advance made by paying the check, and the amount of that Advance shall be due and payable to the Bank immediately (with or without demand by the Bank).

**4) Interest**

- a) Each Fixed Rate Advance will bear interest at a fixed rate and for the Interest Period each as specified in the related Advance Advice. The rate of interest payable on each Fixed Rate Advance will be determined by adding a percentage rate to (i) LIBOR, if the Fixed Rate Advance is for a period of one (1) year or less or (ii) the UBS Bank USA Fixed Funding Rate, if the Fixed Rate Advance is for a period of greater than one (1) year, as of the date that the fixed rate is determined.
- b) Each Variable Rate Advance under a Premier Credit Line will bear interest at a variable rate equal to LIBOR, adjusted daily, plus the percentage rate that (unless otherwise specified by the Bank in writing) is shown on Schedule I below for the Approved Amount of the Credit Line. For Premier Credit Lines, the rate of interest payable on Variable Rate Advances is subject to change without notice in accordance with fluctuations in LIBOR and in the Approved Amount. On each day that LIBOR changes or the Approved Amount crosses one of the thresholds that is indicated on Schedule I (or that is otherwise specified by the Bank in writing), the interest rate on all Variable Rate Advances will change accordingly.
- c) Each Variable Rate Advance under a Prime Credit Line will bear interest at a variable rate equal to the Prime Rate, adjusted daily, plus the percentage rate that (unless otherwise specified by the Bank in writing) is shown on the attached Schedule II and that corresponds to the aggregate principal amount outstanding under the Prime Credit Line on that day. For Prime Credit Lines, the rate of interest payable on Variable Rate Advances is subject to change without notice in accordance with fluctuations in the Prime Rate and in the aggregate amount outstanding under the Prime Credit Line. On each date that the Prime Rate changes or the aggregate principal amount outstanding under the Prime Credit Line crosses one of the thresholds that is indicated on Schedule II (or that is otherwise specified by the Bank in writing), the interest rate on all Variable Rate Advances will change accordingly.

**5) Payments**

- a) **Each Fixed Rate Advance will be due and payable in full ON DEMAND or, if not earlier demanded by the Bank, on the last day of the applicable Interest Period.** Any Fixed Rate Advance as to which the Bank has not made a demand for payment and that is not paid in full or renewed, which renewal is in the sole and absolute discretion of the Bank, (pursuant to procedures as may be established by the Bank) as another Fixed Rate Advance on or before the last day of its Interest Period, will be automatically renewed on that date as a U.S. dollar denominated, Variable Rate Advance in an amount (based, in the case of any conversion of a non-U.S. dollar denominated Fixed Rate Advance, upon the applicable, spot currency exchange rate as of the maturity date, as determined by the Bank) equal to the unpaid principal balance of the Fixed Rate Advance plus any accrued but unpaid interest on the Fixed Rate Advance, which Variable Rate Advance will then accrue additional interest at a variable rate as provided in this Agreement.

- b) **Each Variable Rate Advance will be due and payable ON DEMAND.**
- c) The Borrower promises to pay the outstanding principal amount of each Advance, together with all accrued but unpaid interest on each Advance, any and all fees or other charges payable in connection with each Advance, on the date the principal amount becomes due (whether by reason of demand, the occurrence of a stated maturity date, by reason of acceleration or otherwise). The Borrower further promises to pay interest in respect of the unpaid principal balance of each Advance from the date the Advance is made until it is paid in full. All interest will be computed on the basis of the number of days elapsed and a 360-day year. Interest on each Advance will be payable in arrears as follows:
- (i) for Fixed Rate Advances - on the last day of the Interest Period (or if the Interest Period is longer than three months, on the last day of each three month period following the date of the Advance) and on each date that all or any portion of the principal amount of the Fixed Rate Advance becomes due or is paid; and
  - (ii) for Variable Rate Advances - on the twenty-second day of each month other than December, and on the thirty-first day of December, and on each date that all or any portion of the principal amount of the Variable Rate Advance becomes due or is paid.
- To the extent permitted by law, and without limiting any of the Bank's other rights and remedies under the Agreement, Interest charges on any Advance that are not paid when due will be treated as principal and will accrue interest at a variable rate from the date the payment of interest was due until it is repaid in full.
- d) All payments of principal, interest or other amounts payable under this Agreement will be made in immediately available funds and in the same currency in which the Advance was made, which unless otherwise agreed by the Bank will be U.S. dollars. UBS Financial Services Inc. or UBS International Inc., as applicable, may act as collecting and servicing agent for the Bank for the Advances. All payments will be made by wire transfer of funds to an account specified by the Bank or by another method agreed upon by the Bank and the Borrower. Upon receipt of all payments, the Bank will credit the same to the Credit Line Account, The Bank shall apply

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the proceeds of any payments in the following order; first to any Breakage Costs, Breakage Fee, other fees, costs of collection and expenses, second to the outstanding principal amount of the related Advance and third to accrued interest.

- e) All payments must be made to the Bank free and clear of any and all present and future taxes (including withholding taxes), levies, imposts, duties, deductions, fees, liabilities and similar charges other than those imposed on the overall net income of the Bank. If so requested by the Bank, the Borrower will deliver to the Bank the original or a certified copy of each receipt evidencing payment of any taxes or, if no taxes are payable in respect of any payment under this Agreement, a certificate from each appropriate taxing authority, or an opinion of counsel in form and substance and from counsel acceptable to the Bank in its sole and absolute discretion, in either case stating that the payment is exempt from or not subject to taxes. If any taxes or other charges are required to be withheld or deducted from any amount payable by the Borrower under this Agreement, the amount payable will be increased to the amount which, after deduction from the increased amount of all taxes and other charges required to be withheld or deducted from the amount payable, will yield to the Bank the amount stated to be payable under this Agreement. If any of the taxes or charges are paid by the Bank, the Borrower will reimburse the Bank on demand for the payments, together with all interest and penalties that may be imposed by any governmental agency. None of the Bank, UBS Financial Services Inc., UBS-I or their respective employees has provided or will provide legal advice to the Borrower or any Loan Party regarding compliance with (or the implications of the Credit Line and the related guaranties and pledges under) the laws (including tax laws) of the jurisdiction of the Borrower or any Loan Party or any other jurisdiction. The Borrower and each Loan Party are and shall be solely responsible for, and the Bank shall have no responsibility for, the compliance by the Loan Parties with any and all reporting and other requirements arising under any applicable laws.
- f) In no event will the total interest and fees, if any, charged under this Agreement exceed the maximum interest rate or total fees permitted by law. In the event any excess interest or fees are collected, the same will be refunded or credited to the Borrower. If the amount of interest payable by the Borrower for any period is reduced pursuant to this Section 5(f), the amount of interest payable for each succeeding period will be increased to the maximum rate permitted by law until the amount of the reduction has been received by the Bank.

**6) Prepayments; Breakage Charges**

- a) The Borrower may repay any Variable Rate Advance at any time, in whole or in part, without penalty.
- b) The Borrower may repay any Fixed Rate Advance, in whole or in part. The Borrower agrees to reimburse the Bank, immediately upon demand, for any loss or cost ("Breakage Costs") that the Bank notifies the Borrower has been incurred by the Bank as a result of (i) any payment of the principal of a Fixed Rate Advance before the expiration of the Interest Period for the Fixed Rate Advance (whether voluntarily, as a result of acceleration, demand or otherwise), or (ii) the Customer's failure to take any Fixed Rate Advance on the date agreed upon, including any loss or cost (including loss of profit or margin) connected with the Bank's re-employment of the amount so prepaid or of those funds acquired by the Bank to fund the Advance not taken on the agreed upon date.

Breakage Costs will be calculated by determining the differential between the stated rate of interest (as determined in accordance with Section 4(a) of the Agreement) for the Fixed Rate Advance and prevailing LIBOR and multiplying the differential by the sum of the outstanding principal amount of the Fixed Rate Advance (or the principal amount of Fixed Rate Advance not taken by the Borrower) multiplied by the actual number of days remaining in the Interest Period for the Fixed Rate Advance (based upon a 360-day year). The Borrower also agrees to promptly pay to the Bank an administrative fee ("Breakage Fee") in connection with any permitted or required prepayment. The Breakage Fee will be calculated by multiplying the outstanding principal amount of the Fixed Rate Advance (or the principal amount of Fixed Rate Advance not taken by the Borrower) by two basis points (0.02%) (with a minimum Breakage Fee of \$100.00). Any written notice from the Bank as to the amount of the loss or cost will be conclusive absent manifest error.

**7) Joint Credit Line Account Agreement; Suspension and Cancellation**

- a) If more than one Person is signing this Agreement as the "Borrower", each party (a "Joint Borrower") will be jointly and severally liable for the Credit Line Obligations, regardless of any change in business relations, divorce, legal separation, or other legal proceedings or in any agreement that may affect liabilities between the parties. Except as provided below for the reinstatement of a suspended or cancelled Credit Line, and unless otherwise agreed by the Bank in writing, the Bank may rely on, and each Joint Borrower will be responsible for, requests for Advances, directions, instructions and other information provided to the Bank by any Joint Borrower.
- b) Any Joint Borrower may request the Bank to suspend or cancel the Credit Line by sending the Bank a written notice of the request addressed to the Bank at the address shown on the Borrower's periodic Credit Line Account statements. Any notice will become effective three Business Days after the date that the Bank receives it, and each Joint Borrower will continue to be responsible for paying: (i) the Credit Line Obligations as of the effective date of the notice, and (ii) all Advances that any Joint Borrower has requested but that have not yet become part of the Credit Line Obligations as of the effective date of the notice. No notice will release or in any other way affect the Bank's interest in the Collateral. All subsequent requests to reinstate credit privileges must be signed by all Joint Borrowers comprising the Borrower, including the Joint Borrower requesting the suspension of credit privileges. Any reinstatement will be granted or denied in the sole and absolute discretion of the Bank.

- c) All Credit Line Obligations will become immediately due and payable in full as of the effective date of any suspension or cancellation of the Credit Line. The borrower will be responsible for the payment of all charges incurred on the Advances after the effective date. The Bank will not release any Loan Party from any of the obligations under this Agreement or any related agreement until the Credit Line Obligations have been paid in full and this Agreement has been terminated.

**8) Collateral; Grant of Security Interest; Set-off**

- a) To secure payment or performance of the Credit Line Obligations, the Borrower assigns, transfers and pledges to the Bank, and grants to the Bank a first priority lien and security interest in the following assets and rights of the Borrower, wherever located and whether owned now or acquired or arising in the future: (i) each Collateral Account; (ii) any and all money, credit balances, certificated and uncertificated securities, security entitlements, commodity contracts, certificates of deposit, instruments, documents, partnership interests, general intangibles, financial assets and other investment property now or in the future credited to or carried, held or maintained in any Collateral Account; (iii) any and all over-the-counter options, futures, foreign exchange, swap or similar contracts between the Borrower and either UBS Financial Services Inc. or any of its affiliates; (iv) any and all accounts of the Borrower at the Bank or any of its affiliates; (v) any and all supporting obligations and other



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rights ancillary or attributable to, or arising in any way in connection with, any of the foregoing; and (vi) any and all interest, dividends, distributions and other proceeds of any of the foregoing, including proceeds of proceeds (collectively, the "Collateral").

- b) The Borrower and if applicable, any Pledgor on the Collateral Account, will take all actions reasonably requested by the Bank to evidence, maintain and perfect the Bank's first priority security interest in, and to enable the Bank to obtain control over, the Collateral and any additional collateral pledged by the Pledgors, including but not limited to making, executing, recording and delivering to the Bank (and authorizes the Bank to file, without the signature of the Borrower and any Pledgor where permitted by applicable law) financing statements and amendments thereto, control agreements, notices, assignments, listings, powers, consents and other documents regarding the Collateral and the Bank's security interest in the Collateral in such jurisdiction and in a form as the Bank reasonably may require. Each Loan Party irrevocably authorizes and appoints each of the Bank and UBS Financial Services Inc., as collateral agent, to act as their agent and attorney-in-fact to file any documents or to execute any documents in their name, with or without designation of authority. Each Loan Party acknowledges that it will be obligated in respect of the documentation as if it had executed the documentation itself.
- c) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees to maintain in a Collateral Account, at all times, Collateral having an aggregate lending value as specified by the Bank from time to time.
- d) The Bank's sole duty for the custody, safe keeping and physical preservation of any Collateral in its possession will be to deal with the Collateral in the same manner as the Bank deals with similar property for its own account. The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the Bank will have no responsibility to act on any notice of corporate actions or events provided to holders of securities or other investment property included in the Collateral. The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees to (i) notify the Bank promptly upon receipt of any communication to holders of the investment property disclosing or proposing any stock split, stock dividend, extraordinary cash dividend, spin-off or other corporate action or event as a result of which the Borrower or Pledgor would receive securities, cash (other than ordinary cash dividends) or other assets in respect of the investment property, and (ii) immediately upon receipt by the Borrower or Pledgor of any of these assets, cause them to be credited to a Collateral Account or deliver them to or as directed by the Bank as additional Collateral
- e) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that all principal, interest, dividends, distributions, premiums or other income and other payments received by the Bank or credited to the Collateral Account in respect of any Collateral may be held by the Bank as additional Collateral or applied by the Bank to the Credit Line Obligations. The Bank may create a security interest in any of the Collateral and may, at any time and at its option, transfer any securities or other investment property constituting Collateral to a securities account maintained in its name or cause any Collateral Account to be redesignated or renamed in the name of the Bank.
- f) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that if a Collateral Account has margin features, the margin features will be removed by UBS Financial Services Inc. or UBS International Inc., as applicable, so long as there is no outstanding margin debit in the Collateral Account.
- g) If the Collateral Account permits cash withdrawals in the form of check writing, access card charges, bill payment and or electronic funds transfer services (for example, Resource Management Account<sup>®</sup>, Business Services Account BSA<sup>®</sup>, certain Basic Investment Accounts and certain accounts enrolled in UBS Financial Services Inc. Investment Consulting Services programs), the Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the "Withdrawal Limit" for the Collateral Account, as described in the documentation governing the account will be reduced on an ongoing basis so that the aggregate lending value of the Collateral remaining in the Collateral Account following the withdrawal may not be less than the amount required pursuant to Section 8(c).
- h) In addition to the Bank's security interest, the Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the Bank will at all times have a right to set off any or all of the Credit Line Obligations at or after the time at which they become due, whether upon demand, at a stated maturity date, by acceleration or otherwise, against all securities, cash, deposits or other property in the possession of or at any time in any account maintained with the Bank or any of its affiliates by or for the benefit of the Borrower, whether carried individually or jointly with others. This right is in addition to, and not in limitation of, any right the Bank may have at law or otherwise.
- i) The Bank reserves the right to disapprove any Collateral and to require the Borrower at any time to deposit into the Borrower's Collateral Account additional Collateral in the amount as the Bank requests or to substitute new or additional Collateral for any Collateral that has previously been deposited in the Collateral Account.

**9) Control**

For the purpose of giving the Bank control over each Collateral Account and in order to perfect the Bank's security interests in the Collateral, the Borrower and each Pledgor on the applicable Collateral Account consents to compliance by UBS Financial Services Inc., UBS-I or any other securities intermediary (in any case, the "Securities Intermediary") maintaining a Collateral Account with entitlement orders and instructions from the Bank (or from any assignee or successor of the Bank) regarding the Collateral Account and any financial assets or other property held therein without the further consent of the Borrower or any other Pledgor on the applicable Collateral Account. Without limiting the foregoing, the Borrower and each Pledgor on the

Collateral Account acknowledges, consents and agrees that, pursuant to a control agreement entered into between the Bank and the Securities Intermediary:

- a) The Securities Intermediary will comply with entitlement orders originated by the Bank regarding any Collateral Account without further consent from the Borrower or any Pledgor. The Securities Intermediary will treat all assets credited to a Collateral Account, including money and credit balances, as financial assets for purposes of Article 8 of the Uniform Commercial Code.
  
- b) In order to enable the Borrower and any Pledgor on the applicable Collateral Account to trade financial assets that are from time to time credited to a Collateral Account, the Securities Intermediary may comply with entitlement orders originated by the Borrower or any Pledgor on the applicable Collateral Account (or if so agreed by the Bank, by an investment adviser designated by the Borrower or any Pledgor on the applicable Collateral Account and acceptable to the Bank and the Securities Intermediary) regarding the Collateral Account, but only until the time that the Bank notifies the Securities Intermediary, that the Bank is asserting exclusive control over the Collateral Account. After the Securities Intermediary has received a notice of exclusive control and has had a reasonable opportunity to comply, it will no longer comply with entitlement orders originated by the Borrower or any Pledgor (or by any investment adviser designated by the Borrower or any Pledgor)



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concerning the Collateral Account. Notwithstanding the foregoing, however, and irrespective of whether it has received any notice of exclusive control, the Securities Intermediary will not comply with any entitlement order originated by the Borrower or any Pledgor (or by any investment adviser designated by the Borrower or any Pledgor) to withdraw any financial assets from a Collateral Account or to pay any money, free credit balance or other amount owing on a Collateral Account (other than cash withdrawals and payments not exceeding the "Withdrawal Limit" as contemplated in Section 8 (g)) without the prior consent of the Bank.

**10) Remedies**

- a) If any of the following events (each, an "Event") occurs:
  - (i) the Borrower fails to pay any amount due under this Agreement;
  - (ii) the Borrower and/or any other relevant Loan Party fails to maintain sufficient Collateral in a Collateral Account as required by the Bank or any Guarantor fails to maintain collateral as required by the Bank under its Guaranty Agreement;
  - (iii) the Borrower or any other Loan Party breaches or fails to perform any other covenant, agreement, term or condition that is applicable to it under this Agreement or any related agreement, or any representation or other statement of the Borrower (or any Loan Party) in this Agreement or in any related agreement is incorrect in any material respect when made or deemed made;
  - (iv) the Borrower or any other Loan Party dies or is declared (by appropriate authority) incompetent or of unsound mind or is indicted or convicted of any crime or, if not an individual, ceases to exist;
  - (v) any voluntary or involuntary proceeding for bankruptcy, reorganization, dissolution or liquidation or similar action is commenced by or against the Borrower or any other Loan Party, or a trustee in bankruptcy, receiver, conservator or rehabilitator is appointed, or an assignment for the benefit of creditors is made, with respect to the Borrower or any other Loan Party or its property;
  - (vi) the Borrower or any Loan Party is insolvent, unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, begins negotiations or takes any proceeding or other step with a view to readjustment, rescheduling or deferral of all or any part of its indebtedness, which it would or might otherwise be unable to pay when due, or proposes or makes a general assignment or an arrangement or composition with or for the benefit of its creditors;
  - (vii) a Collateral Account (or any account in which collateral provided by a Loan Party is maintained) or any portion thereof is terminated, attached or subjected to a levy;
  - (viii) the Borrower or any Loan Party fails to provide promptly all financial and other information as the Bank may request from time to time;
  - (ix) any indebtedness of the Borrower or any other Loan Party in respect of borrowed money (including indebtedness guaranteed by the Borrower or any other Loan Party) or in respect of any swap, forward, cap, floor, collar, option or other derivative transaction, repurchase or similar transaction or any combination of these transactions is not paid when due, or any event or condition causes the indebtedness to become, or permits the holder to declare the indebtedness to be, due and payable prior to its stated maturity;
  - (x) final judgment for the payment of money is rendered against Borrower (or any Loan Party) and, within thirty days from the entry of judgment, has not been discharged or stayed pending appeal or has not been discharged within thirty days from the entry of a final order of affirmance on appeal;
  - (xi) any legal proceeding is instituted or any other event occurs or condition exists that in the Bank's judgment calls into question (A) the validity or binding effect of this Agreement or any related agreement or any of the Borrower's (or any other Loan Party's) obligations under this Agreement or under any related agreement or (B) the ability of the Borrower (or any Loan Party) to perform its obligations under this Agreement, or under any related agreement; or
  - (xii) the Bank otherwise deems itself or its security interest in the Collateral insecure or the Bank believes in good faith that the prospect of payment or other performance by any Loan Party is impaired.

then, the Credit Line Obligations will become immediately due and payable (without demand) and the Bank may, in its sole and absolute discretion, liquidate, withdraw or sell all or any part of the Collateral and apply the same, as well as the proceeds of any liquidation or sale, to any amounts owed to the Bank, including any applicable Breakage Costs and Breakage Fee. The Bank will not be liable to any Loan Party in any

way for any adverse consequences (for tax effect or otherwise) resulting from the liquidation of appreciated Collateral. Without limiting the generality of the foregoing, the sale may be made in the Bank's sole and absolute discretion by public sale on any exchange or market where business is then usually transacted or by private sale, and the Bank may be the purchaser at any public or private sale. Any Collateral that may decline speedily in value or that customarily is sold on a recognized exchange or market may be sold without providing any Loan Party with prior notice of the sale. Each Loan Party agrees that, for all other Collateral, two calendar days notice to the Loan Party, sent to its last address shown in the Bank's account records, will be deemed reasonable notice of the time and place of any public sale or time after which any private sale or other disposition of the Collateral may occur. Any amounts due and not paid on any Advance following an Event will bear interest from the day following the Event until fully paid at a rate per annum equal to the interest rate applicable to the Advance immediately prior to the Event plus 2.00%. In addition to the Bank's rights under this Agreement, the Bank will have the right to exercise any one or more of the rights and remedies of a secured creditor under the Utah Uniform Commercial Code, as then in effect, or under any other applicable law.

- b) Nothing contained in this Section 10 will limit the right of the Bank to demand full or partial payment of the Credit Line Obligations, in its sole and absolute discretion and without cause, at any time, whether or not an Event has occurred and is continuing.
- c) All rights and remedies of the Bank under this Agreement are cumulative and are in addition to all other rights and remedies that the Bank may have at law or equity or under any other contract or other writing for the enforcement of the security interest herein or the collection of any amount due under this Agreement.
- d) Any non-exercise of rights, remedies and powers by the Bank under this Agreement and the other documents delivered in connection with this Agreement shall not be construed as a waiver of any rights, remedies and powers. The Bank fully reserves its rights to invoke



**UBS Bank USA**

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any of its rights, remedies and powers at any time it may deem appropriate.

**11) Representations, Warranties and Covenants by the Loan Parties**

Each Borrower and each other Loan Party (if applicable) makes the following representations, warranties and covenants (and each Borrower will be deemed to have repeated each representation and warranty each time a Borrower requests an Advance) to the Bank:

- a) Except for the Bank's rights under this Agreement and the rights of the Securities Intermediary under any account agreement, the Borrower and each relevant Pledgor owns the Collateral, free of any interest, lien or security interest in favor of any third party and free of any impediment to transfer;
- b) Each Loan Party: (i) if a natural Person, is of the age of majority; (ii) is authorized to execute and deliver this Agreement and to perform its obligations under this Agreement and any related agreement; (iii) is not an employee benefit plan, as that term is defined by the Employee Retirement Income Security Act of 1974, or an Individual Retirement Credit Line Account (and none of the Collateral is an asset of a plan or account); and (iv) unless the Loan Party advises the Bank to the contrary, in writing, and provides the Bank with a letter of approval, where required, from its employer, is not an employee or member of any exchange or of any corporation or firm engaged in the business of dealing, either as a broker or as principal, in securities, bills of exchange, acceptances or other forms of commercial paper;
- c) Neither the Borrower nor any Pledgor on the Collateral Account has pledged or will pledge the Collateral or grant a security interest in the Collateral to any party other than the Bank or the Securities Intermediary, or has permitted or will permit the Collateral to become subject to any liens or encumbrances (other than those of the Bank and the Securities Intermediary), during the term of this Agreement;
- d) No Loan Party is in default under any material contract, judgment, decree or order to which it is a party or by which it or its properties may be bound;
- e) Each Loan Party has duly filed all tax and information returns required to be filed and has paid all taxes, fees, assessments and other governmental charges or levies that have become due and payable, except to the extent such taxes or other charges are being contested in good faith and are adequately reserved against in accordance with GAAP.
- f) The Borrower and each relevant Pledgor (i) is and at all times will continue to be the legal and beneficial owner of all assets held in or credited to any Collateral Account or otherwise included in the Collateral, and (ii) does not hold any assets held in or credited to any Collateral Account or otherwise included in the Collateral in trust or subject to any contractual or other restrictions on use that would prevent the use of such assets to (a) repay the Bank or (b) be pledged as Collateral in favor of the Bank.

The provisions of this Section 11 will survive the termination of this Agreement or any related agreement and the repayment of the Credit Line Obligations.

**12) Indemnification; Limitation on Liability of the Bank and the Securities Intermediary**

Borrower agrees to indemnify and hold harmless the Bank and the Securities Intermediary, their affiliates and their respective directors, officers, agents and employees against any and all claims, causes of action, liabilities, lawsuits, demands and damages, for example, any and all court costs and reasonable attorneys fees, in any way relating to or arising out of or in connection with this Agreement, except to the extent caused by the Bank's or Securities Intermediary's breach of its obligations under this Agreement. Neither the Bank nor the Securities Intermediary will be liable to any party for any consequential damages arising out of any act or omission by either of them with respect to this Agreement or any Advance or Collateral Account. The provisions of this Section 12 will survive the termination of this Agreement or any related agreement and the repayment of the Credit Line Obligations.

**13) Acceptance of Application and Agreement Applicable Law**

**THIS APPLICATION AND AGREEMENT WILL BE RECEIVED AND ACCEPTED BY BANK IN THE STATE OF UTAH, OR IF THIS APPLICATION AND AGREEMENT IS DELIVERED TO BANK'S AGENT, UBS FINANCIAL SERVICES INC., IT WILL BE RECEIVED AND ACCEPTED WHEN RECEIVED BY UBS FINANCIAL SERVICES INC.'S UNDERWRITING DEPARTMENT. DELIVERY OF THE APPLICATION AND AGREEMENT TO THE BORROWER'S FINANCIAL ADVISOR AT UBS FINANCIAL SERVICES INC. WILL NOT BE CONSIDERED RECEIPT OR ACCEPTANCE BY BANK. ALL DECISIONS MADE BY BANK REGARDING THE CREDIT LINE WILL BE MADE IN UTAH.**

**THIS AGREEMENT WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF UTAH APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY IN THE STATE OF UTAH AND, IN CONNECTION WITH THE CHOICE OF LAW GOVERNING INTEREST, THE FEDERAL LAWS OF THE UNITED STATES, EXCEPT THAT WITH RESPECT TO THE COLLATERAL ACCOUNT AND THE BANK'S SECURITY INTEREST THEREIN, THIS AGREEMENT SHALL BE**

**GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, INCLUDING, WITHOUT LIMITATION, THE NEW YORK UNIFORM COMMERCIAL CODE, AND FOR PURPOSES OF THIS AGREEMENT, THE COLLATERAL ACCOUNT AND THE BANK'S SECURITY INTEREST THEREIN, THE JURISDICTION OF UBS FINANCIAL SERVICES INC. AND UBS-I SHALL BE DEEMED TO BE THE STATE OF NEW YORK.**

**14) Assignment**

This Agreement may not be assigned by the Borrower without the prior written consent of the Bank. This Agreement will be binding upon and inure to the benefit of the heirs, successors and permitted assigns of the Borrower. The Bank may assign this Agreement, and this Agreement will inure to the benefit of the Bank's successors and assigns.

**15) Amendment**

This Agreement may be amended only by the Bank, including, but not limited to, (i) the addition or deletion of any provision of this Agreement and (ii) the amendment of the (x) "Spread Over LIBOR/UBS Bank USA Fixed Funding Rate" in Schedule I or (y) "Spread Over Prime" in Schedule II to this Agreement, at any time by sending written notice, signed by an authorized officer of the Bank, of an amendment to the Borrower. The amendment shall be effective as of the date established by the Bank. This Agreement may not be amended orally. The Borrower or the Bank may waive compliance with any provision of this Agreement, but any waiver must be in writing and will not be deemed to be a waiver of any other provision of this Agreement. The provisions of this Agreement constitute the entire agreement between the Bank and the Borrower with respect to the subject matter hereof and supersede all prior or contemporaneous agreements, proposals, understandings and representations, written or oral, between the parties with respect to the subject matter hereof.

**16) Severability**

If any provision of this Agreement is held to be invalid, illegal, void or unenforceable, by reason of any law, rule, administrative order or judicial



UBS Bank USA

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or arbitral decision, the determination will not affect the validity of the remaining provisions of this Agreement.

17) Choice of Forum; Waiver of Jury Trial

- a) ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY JUDGMENT ENTERED BY ANY COURT REGARDING THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT WILL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE THIRD JUDICIAL DISTRICT COURT FOR THE STATE OF UTAH OR IN THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH. EACH OF THE LOAN PARTIES IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE THIRD JUDICIAL DISTRICT COURT FOR THE STATE OF UTAH AND OF THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH FOR THE PURPOSE OF ANY SUCH ACTION OR PROCEEDING AS SET FORTH ABOVE AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH ACTION OR PROCEEDING. EACH OF THE LOAN PARTIES IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE NOW OR IN THE FUTURE TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.
- b) EACH OF THE LOAN PARTIES (FOR ITSELF, ANYONE CLAIMING THROUGH IT OR IN ITS NAME, AND ON BEHALF OF ITS EQUITY HOLDERS) IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY REGARDING ANY CLAIM BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.
- c) Any arbitration proceeding between the Borrower (or any other Loan Party) and the Securities Intermediary, regardless of whether or not based on circumstances related to any court proceedings between the Bank and the Borrower (or the other Loan Party), will not provide a basis for any stay of the court proceedings.
- d) Nothing in this Section 17 will be deemed to alter any agreement to arbitrate any controversies which may arise between the Borrower (or any other Loan Party) and UBS Financial Services Inc. or its predecessors, and any claims between the Borrower or the Loan Party, as applicable, and UBS Financial Services Inc. or its employees (whether or not they have acted as agents of the Bank) will be arbitrated as provided in any agreement between the Borrower or the Loan Party, as applicable, and UBS Financial Services Inc.

18) State Specific Provisions and Disclosures

- a) For residents of Ohio:  
The Ohio laws against discrimination require that all creditors make credit equally available to all creditworthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio civil rights commission administers compliance with this law.
- b) For residents of Oregon:  
NOTICE TO BORROWER: DO NOT SIGN THIS AGREEMENT BEFORE YOU READ IT. THIS AGREEMENT PROVIDES FOR THE PAYMENT OF A PENALTY IF YOU WISH TO REPAY A FIXED RATE ADVANCE PRIOR TO THE DATE PROVIDED FOR REPAYMENT IN THE AGREEMENT.
- c) For residents of Vermont:  
NOTICE TO BORROWER: THE ADVANCES MADE UNDER THIS AGREEMENT ARE DEMAND LOANS AND SO MAY BE COLLECTED BY THE LENDER AT ANY TIME. A NEW LOAN MUTUALLY AGREED UPON AND SUBSEQUENTLY ISSUED MAY CARRY A HIGHER OR LOWER RATE OF INTEREST.  
NOTICE TO JOINT BORROWER: YOUR SIGNATURE ON THE AGREEMENT MEANS THAT YOU ARE EQUALLY LIABLE FOR REPAYMENT OF THIS LOAN. IF THE BORROWER DOES NOT PAY, THE LENDER HAS A LEGAL RIGHT TO COLLECT FROM YOU.
- d) For residents of California:
  - (i) Any person, whether married, unmarried, or separated, may apply for separate credit.

- (ii) As required by law, you are notified that a negative credit report reflecting on your credit record may be submitted to a credit reporting agency if you fail to fulfill the terms of your credit obligations.
- (iii) The Borrower will notify the Bank, within a reasonable time, of any change in the Borrower's name, address, or employment.
- (iv) The Borrower will not attempt to obtain any Advance if the Borrower knows that the Borrower's credit privileges under the Credit Line have been terminated or suspended.
- (v) The Borrower will notify the Bank by telephone, telegraph, letter, or any other reasonable means that an unauthorized use of the Credit Line has occurred or may occur as the result of the loss or theft of a credit card or other instrument identifying the Credit Line, within a reasonable time after the Borrower's discovery of the loss or theft, and will reasonably assist the Bank in determining the facts and circumstances relating to any unauthorized use of the Credit Line.

**19) Account Agreement**

Each Loan Party acknowledges and agrees that this Agreement supplements their account agreement(s) with the Securities Intermediary relating to the Collateral Account and, if applicable, any related account management agreement(s) between the Loan Party and the Securities Intermediary. In the event of a conflict between the terms of this Agreement and any other agreement between the Loan Party and the Securities Intermediary, the terms of this Agreement will prevail.

**20) Notices**

Unless otherwise required by law, all notices to a Loan Party may be oral or in writing, in the Bank's discretion, and if in writing, delivered or mailed by the United States mail, or by overnight carrier or by telecopy to the address of the Loan Party shown on the records of the Bank. Each Loan Party agrees to send notices to the Bank, in writing, at such address as provided by the Bank from time to time.



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**Schedule I to UBS Bank USA Credit Line Agreement**

Schedule of Percentage Spreads Over LIBOR or the UBS Bank USA Fixed Funding Rate, as applicable

<u>Aggregate Approved Amount</u>	<u>Spread Over LIBOR/UBS Bank USA Fixed Funding Rate</u>
\$250,000 to \$499,999	2.750%
\$500,000 to \$999,999	1.750%
\$1,000,000 to \$4,999,999	1.500%
\$5,000,000 and over	1.250%

**Schedule II to UBS Bank USA Credit Line Agreement**

Schedule of Percentage Spreads Over Prime

<u>Outstanding Amount under Credit Line</u>	<u>Spread Over Prime</u>
\$0 to \$24,999	3.125%
\$25,000 to \$49,999	2.625%
\$50,000 to \$74,999	2.125%
\$75,000 to \$99,999	1.625%
\$100,000 to \$249,999	1.375%

**NOTICE TO CO-SIGNER (Traduccion en Ingles Se Requiere Por La Ley)**

You are being asked to guarantee this debt. Think carefully before you do. If the borrower doesn't pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility.

You may have to pay to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount.

The creditor can collect this debt from you without first trying to collect from the borrower. The creditor can use the same collection methods against you that can be used against the borrower, such as suing you, garnishing your wages, etc. If this debt is ever in default, that fact may become a part of your credit record.

This notice is not the contract that makes you liable for the debt.

**AVISO PARA EL FIADOR (Spanish Translation Required By Law)**

Se le esta pidiendo que garantice esta deuda. Pienselo con cuidado antes de ponerse de acuerdo. Si la persona que ha pedido este prestamo no paga la deuda, usted tendra que pagarla. Este seguro de que usted podra pagar si sea obligado a pagarla y de que usted desea aceptar la responsabilidad.

Si la persona que ha pedido el prestamo no paga la deuda, es posible que usted tenga que pagar la suma total de la deuda, mas los cargos por tardarse en el pago o el costo de cobranza, lo cual aumenta el total de esta suma.

El acreedor (financiero) puede cobrarle a usted sin, primeramente, tratar de cobrarle al deudor. Los mismos metodos de cobranza que pueden usarse contra el deudor, podran usarse contra usted, tales como presentar una demanda en corte, quitar parte de su sueldo, etc. Si alguna vez no se cumpla con la obligacion de pagar esta deuda, se puede incluir esa informacion en la historia de credito de usted.

Este aviso no es el contrato mismo en que se le echa a usted la responsabilidad de la deuda.

HB Rev 07/08 HB LOAD SPEDOC UX E HB V102

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Sign and date the application on page 5

**ADDENDUM TO CREDIT LINE ACCOUNT APPLICATION AND AGREEMENT****Credit Line Account**

Radisys Corporation

5V

**Account Number**

65085

WI

**Collateral Account**

Radisys Corporation Attn: Barb Doolin

WI

**Account Number**

10802

WIJP

This Addendum (this "Addendum") is attached to, incorporated by reference into and is fully a part of the Credit Line Account Application and Agreement between UBS Bank USA (the "Bank") and the borrower named in the signature area below (the "Borrower"), dated as of the date hereof (as amended or otherwise modified from time to time, the "Agreement"). This Addendum and the Agreement shall not become effective and binding upon the Bank until this Addendum has been executed by the Borrower and accepted by the Bank at its home office. Any conflict between the terms of the Agreement and this Addendum shall be resolved in accordance with the terms of this Addendum. Defined terms used herein to have the respective meanings set forth in the Agreement unless otherwise defined in this Addendum.

A. The Bank, UBS Financial Services Inc. and the Borrower each acknowledge and agree that:

**Definitions**

1. The Agreement is amended by adding the following definitions in Section 1:

- "Additional Payments" has the meaning specified in Section 5 g).
- "ARS Collateral" means any and all Collateral consisting of Auction Rate Securities.
- "ARS Payments" has the meaning specified in Section 5 g).
- "Auction Rate Securities" means any and all securities determined by the Bank, in its sole and absolute discretion, as being commonly referred to as "Auction Rate Securities," which, for greater certainty, include, without limitation, debt securities on which the interest rate payable is periodically re-set by an auction process and/or equity securities on which any dividend payable is periodically re-set by an auction process.
- "Taxable SLARC Maximum Auction Rate" means the applicable "reset rate," "maximum auction rate" or other similar rate as may be specified in the prospectus or other documentation governing any applicable Taxable Student Loan Auction Rate Securities as representing the failed auction rate or similar rate payable on such Auction Rate Securities, in each case expressed as a per-annum rate and as calculated in the Bank's sole and absolute discretion.
- "Taxable Student Loan Auction Rate Securities" means any and all Auction Rate Securities Collateral consisting of securities determined by the Bank, in its sole and absolute discretion, as being commonly referred to as "Student Loan Auction Rate Securities" and on which the interest or dividend rate paid or payable to the Borrower by the issuer of such securities is taxable to the Borrower."

**Terms of Advances**

2. The Agreement is amended by adding the following as Section 3 e):

"The Borrower acknowledges that the Bank will not make an Advance against the ARS Collateral in amounts equal to the fair market or par value of the ARS Collateral unless the Borrower arranges for another person or entity to provide additional collateral or assurances on terms and conditions satisfactory to the Bank. In requesting an Approved Amount equal to the par value of the ARS Collateral, the Borrower has arranged for UBS Financial Services Inc. to provide, directly or through a third party, the pledge of additional collateral and/or assurances to the Bank so that the Bank will consider making Advances from time to time in accordance with the terms of this Agreement and in amounts equal to, in the aggregate, the par value of the ARS Collateral at the date of an Advance. In addition, the Borrower, the Bank and UBS Financial Services Inc. acknowledge and agree that if (a) the Bank is repaid all of the Credit Line Obligations due to the Bank under the Agreement and this Addendum and (b) as part of such repayment, the Bank realizes on the additional collateral and/or assurances pledged or otherwise provided by UBS Financial Services and/or any such third party to the Bank, then the Agreement shall not terminate and the Bank shall automatically assign to UBS Financial Services Inc. and any such third party, and UBS Financial Services Inc. and any such third party shall automatically assume and be subrogated to, all of the Bank's rights, claims and interest in and under the Agreement and this Addendum, including without limitation, the security interest in the Collateral, including without limitation the ARS Collateral, granted the Bank under the Agreement and this Addendum (further including, without limitation, interest, dividends, distributions, premiums, other income and payments received in respect of any and all such Collateral) to the extent of the amount that the Bank has realized on all or any part of the additional collateral and/or assurances pledged or otherwise provided by UBS Financial Services and/or any such third party to the Bank in order to effect the repayment of the Credit Line Obligations due to the Bank under the Agreement. Upon such automatic assignment and subrogation, UBS Financial Services Inc. and any such third party shall be entitled to directly exercise any and all rights and remedies afforded the Bank under the Agreement, this Addendum and any and all other documents and agreements entered into in connection with the Agreement and/or this Addendum."



### Interest

3. The Agreement is amended by adding the following as a new Section 4 d), Section 4 e) and Section 4 f):

- “d) Notwithstanding anything to the contrary in this Agreement, and subject to the provisions of Sections 4 e) and f) of this Agreement, the interest rate charged on any and all outstanding Variable Rate Advances shall be the lesser of (i) the amount prescribed by Sections 4 a), b), or c) of this Agreement, as applicable, and (ii) the then applicable weighted average rate of interest or dividend rate paid to the Borrower by the issuer of the ARS Collateral.
- e) The Bank and the Borrower acknowledge and agree that the Bank shall be entitled to determine or adjust, at any time and from time to time, the interest rate payable by the Borrower to the Bank on all or any part of the outstanding Variable Rate Advances to reflect any changes in the composition of the ARS Collateral, to address any inability to determine interest rates, or for any other reason that, in the Bank’s sole and absolute discretion, is necessary to give effect to the intent of the provisions of this Agreement, including, without limitation, this Section 4 (it being acknowledged and agreed that the provisions of this Section 4 are intended to cause the interest payable by the Borrower under this Agreement to equal the interest or dividend rate payable to the Borrower by the issuer of any ARS Collateral) and any and all such adjustments by the Bank hereunder shall be conclusive and binding on the Bank and the Borrower absent manifest error.
- f) **If and to the extent that any or all of the ABS Collateral consists of Taxable Student Loan Auction Rate Securities, then notwithstanding anything to the contrary in this Agreement, when calculating such weighted average Interest rate, the Interest rate paid to the Borrower with respect to such Taxable Student Loan Auction Rate Securities shall be deemed to be equal to (i) for the period from the date of this Addendum through and including January 21, 2009, the applicable coupon rate(s) and (ii) from January 22, 2009 and thereafter, the then applicable Taxable SLARC Maximum Auction Rate, for, and to the extent of, such Taxable Student Loan Auction Rate Securities. The Borrower will be charged interest on the Loan in months in which the Borrower does not receive interest on the Taxable Student Loan Auction Rate Securities.”**

### Payments

4. The Agreement is amended by adding the following as Section 5 g):

“The Borrower will make additional payments (“Additional Payments”) as follows:

- The proceeds of any liquidation, redemption, sale or other disposition of all or part of the ARS Collateral will be automatically transferred to the Bank as payments. The amount of these payments will be determined by the proceeds received in the Collateral Account, and may be as much as the total Credit Line Obligations.
- All other interest, dividends, distributions, premiums, other income and payments that are received in the Collateral Account in respect of any ARS Collateral will be automatically transferred to the Bank as payments. These are referred to as “ARS Payments.” The amount of each ARS Payment will vary, based on the proceeds received in the Collateral Account. The Bank estimates that the ARS Payments will range from zero to fifteen (\$15.00) dollars per month per \$1,000 in par value of Pledged ARS. The Bank will notify the Borrower at least ten (10) days in advance of any ARS Payment that falls outside of this range. If the Borrower would prefer to have advance notice of each payment to be made to Advances, the Borrower may cancel ARS Payments as described below.
- The Borrower agrees that any cash, check or other deposit (other than a deposit of securities) made to the Collateral Account is an individual authorization to have such amount transferred to the Bank as a payment. The amount of each payment is the amount of the deposit.

Each Additional Payment will be applied, as of the date received by the Bank, in the manner set forth in the last sentence of Section 5 d). The Borrower acknowledges that neither the Bank nor UBS Financial Services Inc. sets or arranges for any schedule of Additional Payments. Instead, Additional Payments will be transferred automatically from the Collateral Account whenever amounts are received in the collateral Account, generally on the second Business Day after receipt.

The Borrower may elect to stop ARS Payments at any time, and this election will cancel all ARS Payments that would occur three (3) Business Days or more after the Bank receives such notice. If the Borrower stops ARS Payments, the Borrower will continue to be obligated to pay principal, interest, and other amounts pursuant to the Agreement. If the Borrower elects to cancel ARS Payments, all other Additional Payments will be cancelled. Cancelling ARS Payments and Additional Payments may result in higher interest charges by the Bank because amounts received in the Collateral Account will not be automatically transferred and credited. Any amounts received in the Collateral Account will remain in the Collateral Account unless the Bank permits you to withdraw all or part of such amounts. Your notice to cancel must be sent to: Attention: Head of Credit Risk Monitoring, UBS Bank USA, 299 South Main Street, Suite 2275, Salt Lake City, Utah 84111, or call (801) 741-0310.

**Important Disclosure About Required Payments.** If Additional Payments are sufficient to pay all accrued interest on Advances on or before a due date, then the Borrower need not make an additional interest payment. Excess Additional Payments will be applied against principal. However, if Additional Payments are not sufficient to pay all accrued interest on Advances on or before a due date, then the Bank may, in its sole discretion (1) capitalize unpaid interest as an additional Advance, or (2) require the Borrower to make payment of all accrued and unpaid interest.”

**Remedies**

5. The Agreement is amended by adding the following as Section 10 e):

“The Borrower agrees that in the event the Bank determines to liquidate or sell any Collateral, the Bank shall, to the fullest extent permitted by applicable law, have the right to do so in any manner, including, without limitation, the sale of Collateral individually or in a block, for cash or for credit, in a public or private sale, with or without public notice, through the use of sealed bids or otherwise, with the aid of any advisor or agent who may be an affiliate of the Bank or in any other manner as the Bank in its sole discretion shall choose. The Borrower acknowledges that the price the Bank obtains for Collateral in the Bank’s chosen method of sale may be lower than might be otherwise obtained in another method of sale, and the Borrower hereby agrees that any such sale shall not be considered to be not commercially reasonable solely because of such lower price. The Borrower understands that there may not be a liquid market for the Collateral and that, as a result, the price received for the Collateral upon liquidation or sale by the Bank may be substantially less than the Borrower paid for such Collateral or than the last market value available for it, if any. The Borrower further agrees that any sale by the Bank shall not be considered to be not commercially reasonable solely because there are few (including only one) or no third parties who submit bids or otherwise offer to buy the Collateral. The Borrower understands that the Bank’s sale of any of the Collateral may be subject to various state and federal property and/or securities laws and regulations, and that compliance with such laws and regulations may result in delays and/or a lower price being obtained for the Collateral. The Borrower agrees that the Bank shall have the right to restrict any prospective purchasers to those who, in the Bank’s sole discretion, the Bank deems to be qualified. The Borrower acknowledges that the Bank shall have sole authority to determine, without limitation, the time, place, method of advertisement and manner of sale and that the Bank may delay or adjourn any such sale in its sole discretion. The Borrower expressly authorizes the Bank to take any action with respect to the Collateral as the Bank deems necessary or advisable to facilitate any liquidation or sale, and the Borrower agrees that the Bank shall not be held liable for taking or failing to take any such action, regardless if a greater price may have been obtained for the Collateral if such action was or was not taken, as applicable. The Borrower hereby waives, to the fullest extent permitted by law, any legal right of appraisal, notice, valuation, stay, extension, moratorium or redemption that the Borrower would otherwise have with respect to a sale of the Collateral.”

**Representations, Warranties and Covenants by the Loan Parties**

6. The Agreement is amended by adding the following as Section 11 g):

“g) If at any time there are Credit Line Obligations outstanding under the Credit Line, then in connection with any ARS Collateral, if at any time any such ARS Collateral may be sold, exchanged, redeemed, transferred or otherwise conveyed by the Borrower for gross proceeds that are; in the aggregate, not less than the par value of such Auction Rate Securities to any party, including, without limitation, to UBS Financial Services Inc. and/or any of its affiliates (any such sale, exchange, redemption, transfer or conveyance referred to herein as an “ARS Liquidation”), the Borrower agrees (i) to immediately effect such ARS Liquidation to the extent necessary to satisfy all Credit Line Obligations in full and (ii) that the proceeds of any such ARS Liquidation so effected shall be immediately and automatically used to pay down any and all such outstanding Credit Line Obligations to the extent of such proceeds. The Borrower hereby acknowledges and agrees with the Bank and directs UBS Financial Services Inc. that to the extent permitted by applicable law, this Section 11 g) shall constitute an irrevocable instruction, direction and standing sell order to UBS Financial Services Inc. to effect an ARS Liquidation to the extent it is possible to do so at any time during the term of this Agreement. The Borrower further agrees with the Bank and UBS Financial Services Inc. to execute and deliver to the Bank and/or UBS Financial Services Inc. such further documents and agreements as may be necessary in the sole and absolute discretion of the Bank and/or UBS Financial Services Inc. to effect the foregoing irrevocable instruction, direction and standing sell order.”

**Waivers**

7. The Agreement is amended by adding the following as Section 21:

**“The Borrower hereby (i) acknowledges and admits its indebtedness and obligations to the Bank under the Agreement; and (ii) acknowledges, admits and agrees that it has no and shall assert no defenses, offsets, counterclaims or claims in respect of its obligations under the Agreement, in each case notwithstanding any claim or asserted claim that it may have, or purport to have, against any affiliate of the Bank.”**

**Schedules I and II**

8. a) Schedule I of the Agreement is amended in its entirety to read as follows:

\$25,001 to \$499,999	2.750%
\$500,000 to \$999,999	1.750%
\$1,000,000 to \$4,999,999	1.500%
\$5,000,000 and over	1.250%

b) Schedule II of the Agreement is deleted in its entirety and replaced with: “[Intentionally Deleted].”

**No Fixed Rate Advances/Prime Credit Lines**

9. The Bank and the Borrower acknowledge and agree that notwithstanding anything to the contrary in the Agreement: (a) the Borrower shall not request and the Bank shall not make a Fixed Rate Advance; and (b) there shall be no Prime Credit Line facilities available under the Agreement.

**Alternative Financing**

10. If at any time the Bank exercises its right of demand under Section 5 a), Section 5 b) and Section 10 b) of the Loan Agreement for any reason other than (i) the occurrence of an Event under Sections 10 a) (iv), (v), (vi), (ix) (if and to the extent any indebtedness specified thereunder is to the Bank or any of the Bank's affiliates), or (xi) of the Agreement; or (ii) in connection with any termination for cause by UBS Financial Services Inc. of the overall customer relationship between UBS Financial Services Inc. and the Borrower or its affiliates, then UBS Financial Services Inc. shall, or shall cause one or more of its affiliates, to provide as soon as reasonably possible, alternative financing on substantially the same terms and conditions as those under the Agreement and the Bank agrees that the Agreement shall remain in full force and effect until such time as such alternative financing has been established.

**Margin Calls; Interest Payments**

11. Notwithstanding anything to the contrary in the Agreement, the Bank and the Borrower acknowledge and agree that UBS Financial Services Inc. or any affiliate thereof may, in its sole and absolute discretion, elect to: (i) provide additional collateral to the Bank in the form of United States Treasury Securities if and to the extent that the Borrower does not maintain in a Collateral Account, Collateral having an aggregate lending value as specified by the Bank from time to time; and/or (ii) satisfy any and all amounts of accrued and unpaid interest that are otherwise due and payable by the Borrower to the Bank under the Agreement, to the extent that the amount of any Additional Payments under the Agreement are insufficient to satisfy any and all such amounts.

**Collateral Account Features**

12. Section 8 f) of the Agreement is deleted in its entirety and replaced with the following:  
"If a Collateral Account has margin features, the margin features will be removed by UBS Financial Services Inc. or UBS International Inc., as applicable, so long as there is no outstanding margin debit in the Collateral Account. If a Collateral Account has Resource Management Account® or Business Services Account BSA® features, such as check writing, cards, bill payment, or electronic funds transfer services, all such features shall be removed by UBS Financial Services Inc. or UBS International Inc., as applicable."

**No Credit Line Checks**

13. The Bank and the Borrower acknowledge and agree that notwithstanding anything to the contrary in the Agreement, the Credit Line shall not have Credit Line checks.

**Headings**

14. The headings of each of Section of this Addendum is for descriptive purposes only and shall not be deemed to modify or qualify the terms, conditions, rights or obligations described in such Section.
- B. This Addendum may be signed in multiple original counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

[Signature page(s) follows]





IMPORTANT NOTICE ON INTEREST RATES AND PAYMENTS

Credit Line Account

Radisys Corporation

5V

Account Number

65085

WI

Collateral Account

Radisys Corporation Attn: Barb Doolin

WI

Account Number

10802

WIJP

This document contains important information regarding the interest rate and interest payments on your Credit Line. You should carefully review this Notice and your Credit Line Application and Agreement, including the Addendum, (the "Agreement") and speak to your Financial Advisor regarding any questions or concerns you may have with your Agreement. Defined terms used in this Notice have the respective meanings set forth in the Agreement unless defined in this Notice.

The Agreement provides you with a "no net cost" Credit Line. This means that the interest that you pay on the Credit Line Obligations will not exceed the interest that you receive on the Auction Rate Securities that you have pledged to the Bank as security for the Credit Line and which are held in the Collateral Account. Although you may be able to capitalize interest you will not be charged interest on interest.

The Credit Line statements that you receive from the Bank while the Credit Line is outstanding are for information purposes only. The interest charge(s) on these statements are approximations due to timing and systems limitations. You will receive a final confirmation from the Bank of the interest charged on the Credit Line. This does not change the "no net cost" nature of the Credit Line.

If you have Taxable Student Loan Auction Rate Securities pledged as Collateral you may not receive an interest payment in months in which you are charged interest on the Credit Line. Certain taxable student loan ARS made high interest rate payments to UBSFS investors for several months during the first half of 2008, and then ceased making interest payments in subsequent months. These taxable student loan ARS will not make any further interest payments until a future date determined in accordance with the terms of the Auction Rate Securities. For the purpose of determining loan interest payments for loans against these Taxable Student Loan Auction Rate Securities, the high interest payments will be taken into consideration (and the interest rate annualized). For example, you will be charged (i) for the period from the date of the Addendum through and including January 21, 2009, the applicable coupon rate(s) on the Taxable Student Loan Auction Rate Securities and (ii) from January 22, 2009 and thereafter you will be charged that average annualized rate (e.g., T-bills plus 120 basis points), for each month in which your loan is outstanding, including months for which the annualized interest was paid in a prior month and for which no additional or current payment is being made to you.

Interest on the Credit Line accrues daily and is charged in accordance with the Bank's regular interest billing cycle. The Bank's billing cycle may not be the same as the cycle on which the Auction Rate Securities pay interest.

Please acknowledge your receipt and review of this Notice by signing below.

December 12, 2008	Brian J. Bronson, Chief Financial Officer/CFO	/s/ Brian J. Bronson
Date	Print Name and Title	Signature
December 12, 2008	Scott C. Grout, Chief Executive Officer/CEO	/s/ Scott C. Grout
Date	Print Name and Title	Signature

Date: December 12, 2008

KM Rev 08/08 LTPV Important Notice



## EMPLOYEE SEVERANCE AGREEMENT

November 4, 2008

[Omitted]

**Employee**

RadiSys Corporation, an Oregon corporation  
5445 NE Dawson Creek Parkway  
Hillsboro, OR 97124

**the Company**

**1. Employment Relationship.** In order to induce Employee to become an employee of the Company, this Agreement sets forth the severance benefits that Company will provide to Employee in the event Employee's employment by the Company is terminated under the circumstances described herein. Employee will be employed by the Company as Vice President of Global Operations. Employee and the Company acknowledge that either party may terminate this employment relationship at any time and for any or no reason, provided that each party complies with the terms of this Agreement.

**2. Release of Claims.** In consideration for and as a condition precedent to receiving the severance benefits outlined in this Agreement, Employee agrees to execute a Release of Claims in the form attached as **Exhibit A** ("Release of Claims"). Employee promises to execute and deliver the Release of Claims to the Company within 21 days (or, if required by applicable law, 45 days) from the last day of Employee's active employment. Employee shall forfeit the severance benefits outlined in this Agreement in the event that he fails to execute and deliver the Release of Claims to the Company in accordance with the timing and other provisions of the preceding sentence or revokes such Release of Claims prior to the "Effective Date" (as such term is defined in the Release of Claims) of the Release of Claims.

**3. Additional Compensation Upon Involuntary Termination.**

**3.1 Involuntary Termination.** In the event of a Termination of Employee's Employment (as defined in Section 5.1) other than for Cause (as defined in Section 5.2), death or Disability (as defined in Section 5.3), and contingent upon the approval of the Chief Executive Officer or the President of the Company, and Employee's execution of the Release of Claims without revocation within the time period described in Section 2 above and compliance with Section 8, Employee shall be entitled to the following benefits:

(a) As severance pay and in lieu of any other compensation for periods subsequent to the date of termination, the Company shall pay Employee, in a lump sum, an amount equal to six (6) months of Employee's annual base pay at the rate in effect immediately prior to the date of termination; provided, such lump sum amount shall not exceed two times the lesser of (i) the sum of Employee's annualized compensation based upon the annual rate of pay for services provided to the Company as an employee for the calendar year preceding the calendar year of the Termination of Employee's Employment (adjusted for any increase during that year that was expected to continue indefinitely but for the Termination of Employee's

Employment), or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, for the year of the Termination of Employee's Employment. Severance pay that is payable under this Agreement shall be paid to Employee within 30 days following the "Effective Date" (as such term is defined in the Release of Claims) of the Release of Claims and in any event no later than the end of the second calendar year following the calendar year of the Termination of Employee's Employment.

(b) As an additional severance benefit, the Company will provide Employee with up to six (6) months of continued coverage (100% paid by the Company) pursuant to COBRA under the Company's group health plan at the level of benefits (whether single or family coverage) previously elected by Employee immediately before the Termination of Employee's Employment and to the extent that Employee elects to continue coverage during such 6-month period. Each month for which the Company pays COBRA premiums directly reduces the total number of months of Employee's COBRA continuation entitlement.

#### **4. Withholding; Subsequent Employment.**

**4.1 Withholding.** All payments provided for in this Agreement are subject to applicable withholding obligations imposed by federal, state and local laws and regulations.

**4.2 Offset.** The amount of any payment provided for in this Agreement shall not be reduced, offset or subject to recovery by the Company by reason of any compensation earned by Employee as the result of employment by another employer after termination.

#### **5. Definitions.**

**5.1 Termination of Employee's Employment.** Termination of Employee's Employment means that the Company has terminated Employee's employment with the Company (including any subsidiary of the Company) other than for Cause (as defined in Section 5.2), death or Disability (as defined in Section 5.3). A Termination of Employee's Employment is intended to mean a termination of employment which constitutes a "separation from service" under Code Section 409A.

**5.2 Cause.** Termination of Employee's Employment for "Cause" shall mean termination upon (a) the willful and continued failure by Employee to perform substantially Employee's reasonably assigned duties with the Company (other than any such failure resulting from Employee's incapacity due to physical or mental illness) after a demand for substantial performance is delivered to Employee by the Chief Executive Officer or the President of the Company, which specifically identifies the manner in which the Chief Executive Officer or the President of the Company believes that Employee has not substantially performed Employee's duties or (b) the willful engaging by Employee in illegal conduct which is materially and demonstrably injurious to the Company. No act, or failure to act, on Employee's part shall be considered "willful" unless done, or omitted to be done, by Employee without reasonable belief that Employee's action or omission was in, or not opposed to, the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors shall be conclusively presumed to be done, or omitted to be done, by Employee in the best interests of the Company.

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5.3 **Disability.** “Disability” means Employee’s absence from Employee’s full-time duties with the Company for 180 consecutive calendar days as a result of Employee’s incapacity due to physical or mental illness, as determined by Employee’s attending physician and in accordance with the Company’s Medical Leave of Absence Policy, unless within 30 days after notice of termination by the Company following such absence Employee shall have returned to the full-time performance of Employee’s duties. This Agreement does not apply if the Employee is terminated due to Disability.

6. **Successors; Binding Agreement.** This Agreement shall be binding on and inure to the benefit of the Company and its successors and assigns. This Agreement shall inure to the benefit of and be enforceable by Employee and Employee’s legal representatives, executors, administrators and heirs.

7. **Entire Agreement.** The Company and Employee agree that the foregoing terms and conditions constitute the entire agreement between the parties relating to the matters covered by this Agreement, that this Agreement supersedes and replaces any prior agreements relating to the matters covered by this Agreement, and that there exist no other agreements between the parties, oral or written, express or implied, relating to any matters covered by this Agreement; provided, however, this Agreement does not supersede or replace the Executive Change of Control Agreement by and between Employee and the Company dated November 4, 2008.

8. **Resignation of Corporate Offices.** Employee will resign Employee’s office, if any, as a director, officer or trustee of the Company, its subsidiaries or affiliates and of any other corporation or trust of which Employee serves as such at the request of the Company, effective as of the date of termination of employment. Employee agrees to provide the Company such written resignation(s) upon request and that no severance pay or other benefits will be paid until after such resignation(s) are provided.

9. **Governing Law.** This Agreement shall be construed in accordance with and governed by the laws of the State of Oregon, without regard to its conflicts of laws provisions.

10. **Amendment.** No provision of this Agreement may be modified unless such modification is agreed to in writing signed by Employee and the Company.

11. **Severability.** If any of the provisions or terms of this Agreement shall for any reason be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other terms of this Agreement, and this Agreement shall be construed as if such unenforceable term had never been contained in this Agreement.

12. **Code Section 409A.** This Agreement and the severance pay and other benefits provided hereunder are intended to qualify for an exemption from Code Section 409A, provided, however, that if this Agreement and the severance pay and other benefits provided hereunder are not so exempt, they are intended to comply with Code Section 409A to the extent applicable thereto. Notwithstanding any provision of the Agreement to the contrary, the Agreement shall be interpreted and construed consistent with this intent, provided that the Company shall not be



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**EXHIBIT A**  
**RELEASE OF CLAIMS**

1. **Parties.**

The parties to Release of Claims (hereinafter "Release") are John Major and RadiSys Corporation, an Oregon corporation, as hereinafter defined.

1.1 **Employee and Releasing Parties.**

For the purposes of this Release, "Employee" means John Major, and "Releasing Parties" means Employee and his attorneys, heirs, legatees, personal representatives, executors, administrators, assigns, and spouse.

1.2 **The Company.**

For the purposes of this Release, the "Company" means RadiSys Corporation, an Oregon corporation, and "Released Parties" means the Company and its predecessors and successors, affiliates, and all of each such entity's officers, directors, employees, insurers, agents, attorneys or assigns, in their individual and representative capacities.

2. **Background And Purpose.**

Employee was employed by the Company. Employee's employment is ending effective \_\_\_\_\_ under the conditions described in Section 3.1 of the Employee Severance Agreement ("Agreement") by and between Employee and the Company dated \_\_\_\_\_, 2008.

The purpose of this Release is to settle, and the parties hereby settle, fully and finally, any and all claims the Releasing Parties may have against the Released Parties, whether asserted or not, known or unknown, including, but not limited to, claims arising out of or related to Employee's employment, any claim for reemployment, or any other claims whether asserted or not, known or unknown, past or future, that relate to Employee's employment, reemployment, or application for reemployment.

3. **Release.**

In consideration for the payments and benefits set forth in Section 3.1 of the Agreement and other promises by the Company all of which constitute good and sufficient consideration, Employee, for and on behalf of the Releasing Parties, waives, acquits and forever discharges the Released Parties from any obligations the Released Parties have and all claims the Releasing Parties may have as of the Effective Date (as defined in Section 4 below) of this Release, including but not limited to, obligations and/or claims arising from the Agreement or any other document or oral agreement relating to employment, compensation, benefits, severance or post-employment issues. Employee, for and on behalf of the Releasing Parties, hereby releases the Released Parties from any and all claims, demands, actions, or causes of action,

whether known or unknown, arising from or related in any way to any employment of or past failure or refusal to employ Employee by the Company, or any other past claim that relates in any way to Employee's employment, compensation, benefits, reemployment, or application for employment, with the exception of any claim Employee may have against the Company for enforcement of the Agreement. This Release includes any and all claims, direct or indirect, which might otherwise be made under any applicable local, state or federal authority, including but not limited to any claim arising under state statutes dealing with employment, discrimination in employment, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans With Disabilities Act, the Family and Medical Leave Act of 1993, the Equal Pay Act of 1963, Executive Order 11246, the Rehabilitation Act of 1973, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Age Discrimination in Employment Act ("ADEA"), the Older Workers Benefit Protection Act, the Fair Labor Standards Act, the Oregon Fair Employment Practices Act, OR ST Section 659.030 et seq., Oregon wage and hour laws, OR ST Section 652.010 et seq., the Oregon Family Leave Act, OR ST Section 659A.150 et seq., state wage and hour statutes, all as amended, any regulations under such authorities, and any applicable contract (express or implied), tort, or common law theories. Further, Employee, for and on behalf of the Releasing Parties, waives and releases the Released Parties from any claims that this Release was procured by fraud or signed under duress or coercion so as to make the Release not binding. Employee is not relying upon any representations by the Company's legal counsel in deciding to enter into this Release. **Employee understands and agrees that by signing this Release Employee, for and on behalf of the Releasing Parties, is giving up the right to pursue any legal claims that Employee or the Releasing Parties may have against the Released Parties.** Provided, nothing in this provision of this Release shall be construed to prohibit Employee from challenging the validity of the ADEA release in this Section of the Release or from filing a charge or complaint with the Equal Employment Opportunity Commission or any state agency or from participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission or state agency. However, the Released Parties will assert all such claims have been released in a final binding settlement.

3.1 **IMPORTANT INFORMATION REGARDING ADEA RELEASE.** Employee understands and agrees that:

- a. this Release is worded in an understandable way;
- b. claims under the ADEA that may arise after the date of this Release are not waived;
- c. the rights and claims waived in this Release are in exchange for additional consideration over and above any consideration to which Employee was already undisputedly entitled;
- d. Employee has been advised to consult with an attorney prior to executing this Release and has had sufficient time and opportunity to do so;

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- e. Employee has been given a period of time of 21 days (or, if required by applicable law, 45 days) (the "Statutory Period"), if desired, to consider this Release and understands that Employee may revoke his waiver and release of any ADEA claims covered by this Release within seven (7) days from the date Employee executes this Release. Notice of revocation must be in writing and received by RadiSys Corporation, 5445 NE Dawson Creek Drive, Hillsboro, Oregon 97124 Attention: Vice President, Human Resources within seven (7) days after Employee signs this Release;
  - f. any changes made to this Release, whether material or immaterial, will not restart the running of the Statutory Period.

### **3.2 Reservations Of Rights.**

This Release shall not affect any rights which Employee may have under any medical insurance, disability plan, workers' compensation, unemployment compensation, indemnifications, applicable company stock incentive plan(s), or the 401(k) plan maintained by the Company.

### **3.3 No Admission Of Liability.**

It is understood and agreed that the acts done and evidenced hereby and the release granted hereunder is not an admission of liability on the part of Employee or the Company or the Released Parties, by whom liability has been and is expressly denied.

## **4. Effective Date.**

The "Effective Date" of this Release shall be the eighth calendar day after it is signed by Employee.

## **5. No Disparagement.**

Employee agrees that henceforth Employee will not disparage or make false or adverse statements about the Company or the Released Parties. The Company should report to Employee any actions or statements that are attributed to Employee that the Company believes are disparaging. The Company may take actions consistent with breach of this Release should it determine that Employee has disparaged or made false or adverse statements about the Company or the Released Parties.

The Company agrees that henceforth the Company's officers and directors will not disparage or make false or adverse statements about Employee. Employee should report to the Company any actions or statements that are attributed to the Company's officers and directors that Employee believes are disparaging. Employee may take actions consistent with breach of this Release should it determine that the Company's officers and directors have disparaged or made false or adverse statements about Employee.

## **6. Confidentiality, Proprietary, Trade Secret And Related Information**

Employee acknowledges the duty and agrees not to make unauthorized use or disclosure of any confidential, proprietary or trade secret information learned as an employee about the Company, its products, customers and suppliers, and covenants not to breach that duty.

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Moreover, Employee acknowledges that, subject to the enforcement limitations of applicable law, the Company reserves the right to enforce the terms of Employee's Employee Agreement with the Company and any section(s) therein. Should Employee, Employee's attorney or agents be requested in any judicial, administrative, or other proceeding to disclose confidential, proprietary or trade secret information Employee learned as an employee of the Company, Employee shall promptly notify the Company of such request by the most expeditious means in order to enable the Company to take any reasonable and appropriate action to limit such disclosure.

7. **Scope Of Release.**

The provisions of this Release shall be deemed to obligate, extend to, and inure to the benefit of the parties; the Company's parents, subsidiaries, affiliates, successors, predecessors, assigns, directors, officers, and employees; and each party's insurers, transferees, grantees, legatees, agents, personal representatives and heirs, including those who may assume any and all of the above-described capacities subsequent to the execution and Effective Date of this Release.

8. **Entire Release.**

This Release and the Agreement signed by Employee contain the entire agreement and understanding between the parties and, except as reserved in Sections 3 and 6 of this Release, supersede and replace all prior agreements, written or oral, prior negotiations and proposed agreements, written or oral. Employee and the Company acknowledge that no other party, nor agent nor attorney of any other party, has made any promise, representation, or warranty, express or implied, not contained in this Release concerning the subject matter of this Release to induce this Release, and Employee and the Company acknowledge that they have not executed this Release in reliance upon any such promise, representation, or warranty not contained in this Release.

9. **Severability.**

Every provision of this Release is intended to be severable. In the event any term or provision of this Release is declared to be illegal or invalid for any reason whatsoever by a court of competent jurisdiction or by final and unappealed order of an administrative agency of competent jurisdiction, such illegality or invalidity should not affect the balance of the terms and provisions of this Release, which terms and provisions shall remain binding and enforceable.

10. **References.**

The Company agrees to follow the applicable policy(ies) regarding release of employment reference information.

11. **Parties May Enforce Release.**

Nothing in this Release shall operate to release or discharge any parties to this Release or their successors, assigns, legatees, heirs, or personal representatives from any rights, claims, or causes of action arising out of, relating to, or connected with a breach of any obligation of any party contained in this Release.

12. **Governing Law.**

This Release shall be construed in accordance with and governed by the laws of the State of Oregon, without regard to its conflicts of laws provisions.

Dated: \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
John Major

STATE OF OREGON        )  
                                  )  
County of \_\_\_\_\_  )

Personally appeared the above named John Major and acknowledged the foregoing instrument to be his voluntary act and deed.

Before me:

\_\_\_\_\_  
NOTARY PUBLIC - OREGON  
My commission expires: \_\_\_\_\_

**RADISYS CORPORATION**

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
      On Behalf of RadiSys Corporation and "Company"

Dated: \_\_\_\_\_

**AMENDED AND RESTATED  
EXECUTIVE SEVERANCE AGREEMENT**

December 29, 2008

Anthony Ambrose  
Portland, Oregon

**Executive**

RadiSys Corporation, an Oregon corporation  
5445 NE Dawson Creek Parkway  
Hillsboro, OR 97124

**the Company**

**1. Employment Relationship.** In order to induce Executive to become an employee of the Company, this Agreement sets forth the severance benefits that Company will provide to Executive in the event Executive's employment by the Company is terminated under the circumstances described herein. Executive will be employed by the Company as Vice President and General Manager of the Communication Networking Business Unit. Executive and the Company acknowledge that either party may terminate this employment relationship at any time and for any or no reason, provided that each party complies with the terms of this Agreement.

**2. Release of Claims.** In consideration for and as a condition precedent to receiving the severance benefits outlined in this Agreement, Executive agrees to execute a Release of Claims in the form attached as **Exhibit A** ("Release of Claims"). Executive promises to execute and deliver the Release of Claims to the Company within 21 days (or, if required by applicable law, 45 days) from the last day of Executive's active employment. Executive shall forfeit the severance benefits outlined in this Agreement in the event that he fails to execute and deliver the Release of Claims to the Company in accordance with the timing and other provisions of the preceding sentence or revokes such Release of Claims prior to the "Effective Date" (as such term is defined in the Release of Claims) of the Release of Claims.

**3. Additional Compensation Upon Involuntary Termination.**

**3.1 Involuntary Termination.** In the event of a Termination of Executive's Employment (as defined in Section 5.1) other than for Cause (as defined in Section 5.2), death or Disability (as defined in Section 5.3), and contingent upon the approval of the Compensation Committee of the Company's Board of Directors and Executive's execution of the Release of Claims without revocation within the time period described in Section 2 above and compliance with Section 8, Executive shall be entitled to the following benefits:

(a) As severance pay and in lieu of any other compensation for periods subsequent to the date of termination, the Company shall pay Executive, in a lump sum, an amount equal to six (6) months of Executive's annual base pay at the rate in effect immediately prior to the date of termination; provided, such lump sum amount shall not exceed two times the lesser of (i) the sum of Executive's annualized compensation based upon the annual rate of pay for services provided to the Company as an employee for the calendar year preceding the calendar year of the Termination of Executive's Employment (adjusted for any increase during that year that was expected to continue indefinitely but for the Termination of Executive's

Employment), or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, for the year of the Termination of Executive's Employment. Severance pay that is payable under this Agreement shall be paid to Executive within 30 days following the "Effective Date" (as such term is defined in the Release of Claims) of the Release of Claims and in any event no later than the end of the second calendar year following the calendar year of the Termination of Executive's Employment.

(b) As an additional severance benefit, the Company will provide Executive with up to six (6) months of continued coverage pursuant to COBRA under the Company's group health plan at the level of benefits (whether single or family coverage) previously elected by Executive immediately before the Termination of Executive's Employment and to the extent that Executive elects to continue coverage during such 6-month period.

#### **4. Withholding; Subsequent Employment.**

**4.1 Withholding.** All payments provided for in this Agreement are subject to applicable withholding obligations imposed by federal, state and local laws and regulations.

**4.2 Offset.** The amount of any payment provided for in this Agreement shall not be reduced, offset or subject to recovery by the Company by reason of any compensation earned by Executive as the result of employment by another employer after termination.

#### **5. Definitions.**

**5.1 Termination of Executive's Employment.** Termination of Executive's Employment means that the Company has terminated Executive's employment with the Company (including any subsidiary of the Company) other than for Cause (as defined in Section 5.2), death or Disability (as defined in Section 5.3). A Termination of Executive's Employment is intended to mean a termination of employment which constitutes a "separation from service" under Code Section 409A.

**5.2 Cause.** Termination of Executive's Employment for "Cause" shall mean termination upon (a) the willful and continued failure by Executive to perform substantially Executive's reasonably assigned duties with the Company (other than any such failure resulting from Executive's incapacity due to physical or mental illness) after a demand for substantial performance is delivered to Executive by the Board of Directors, the Chief Executive Officer or the President of the Company which specifically identifies the manner in which the Board of Directors believes that Executive has not substantially performed Executive's duties or (b) the willful engaging by Executive in illegal conduct which is materially and demonstrably injurious to the Company. No act, or failure to act, on Executive's part shall be considered "willful" unless done, or omitted to be done, by Executive without reasonable belief that Executive's action or omission was in, or not opposed to, the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors shall be conclusively presumed to be done, or omitted to be done, by Executive in the best interests of the Company.

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5.3 **Disability.** “Disability” means Executive’s absence from Executive’s full-time duties with the Company for 180 consecutive days as a result of Executive’s incapacity due to physical or mental illness, as determined by Executive’s attending physician and in accordance with the Company’s Medical Leave of Absence Policy, unless within 30 days after notice of termination by the Company following such absence Executive shall have returned to the full-time performance of Executive’s duties. This Agreement does not apply if the Executive is terminated due to Disability.

6. **Successors; Binding Agreement.** This Agreement shall be binding on and inure to the benefit of the Company and its successors and assigns. This Agreement shall inure to the benefit of and be enforceable by Executive and Executive’s legal representatives, executors, administrators and heirs.

7. **Entire Agreement.** The Company and Executive agree that the foregoing terms and conditions constitute the entire agreement between the parties relating to the matters covered by this Agreement, that this Agreement supersedes and replaces any prior agreements relating to the matters covered by this Agreement, specifically the Executive Severance Agreement by and between Executive and the Company dated February 27, 2007, and that there exist no other agreements between the parties, oral or written, express or implied, relating to any matters covered by this Agreement.

8. **Resignation of Corporate Offices.** Executive will resign Executive’s office, if any, as a director, officer or trustee of the Company, its subsidiaries or affiliates and of any other corporation or trust of which Executive serves as such at the request of the Company, effective as of the date of termination of employment. Executive agrees to provide the Company such written resignation(s) upon request and that no severance pay or other benefits will be paid until after such resignation(s) are provided.

9. **Governing Law.** This Agreement shall be construed in accordance with and governed by the laws of the State of Oregon, without regard to its conflicts of laws provisions.

10. **Amendment.** No provision of this Agreement may be modified unless such modification is agreed to in writing signed by Executive and the Company.

11. **Severability.** If any of the provisions or terms of this Agreement shall for any reason be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other terms of this Agreement, and this Agreement shall be construed as if such unenforceable term had never been contained in this Agreement.

12. **Code Section 409A.** This Agreement and the severance pay and other benefits provided hereunder are intended to qualify for an exemption from Code Section 409A, provided, however, that if this Agreement and the severance pay and other benefits provided hereunder are not so exempt, they are intended to comply with Code Section 409A to the extent applicable thereto. Notwithstanding any provision of this Agreement to the contrary, this Agreement shall be interpreted and construed consistent with this intent, provided that the Company shall not be required to assume any increased economic burden in connection therewith. Although the Company intends to administer this Agreement so that it will comply with the requirements of



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**EXHIBIT A**  
**RELEASE OF CLAIMS**

1. **Parties.**

The parties to Release of Claims (hereinafter "Release") are Anthony Ambrose and RadiSys Corporation, an Oregon corporation, as hereinafter defined.

1.1 **Executive and Releasing Parties.**

For the purposes of this Release, "Executive" means Anthony Ambrose, and "Releasing Parties" means Executive and his attorneys, heirs, legatees, personal representatives, executors, administrators, assigns, and spouse.

1.2 **The Company.**

For the purposes of this Release, the "Company" means RadiSys Corporation, an Oregon corporation, and "Released Parties" means the Company and its predecessors and successors, affiliates, and all of each such entity's officers, directors, employees, insurers, agents, attorneys or assigns, in their individual and representative capacities.

2. **Background And Purpose.**

Executive was employed by the Company. Executive's employment is ending effective \_\_\_\_\_ under the conditions described in Section 3.1 of the Amended and Restated Executive Severance Agreement ("Agreement") by and between Executive and the Company dated \_\_\_\_\_, 2008.

The purpose of this Release is to settle, and the parties hereby settle, fully and finally, any and all claims the Releasing Parties may have against the Released Parties, whether asserted or not, known or unknown, including, but not limited to, claims arising out of or related to Executive's employment, any claim for reemployment, or any other claims whether asserted or not, known or unknown, past or future, that relate to Executive's employment, reemployment, or application for reemployment.

3. **Release.**

In consideration for the payments and benefits set forth in Section 3.1 of the Agreement and other promises by the Company all of which constitute good and sufficient consideration, Executive, for and on behalf of the Releasing Parties, waives, acquits and forever discharges the Released Parties from any obligations the Released Parties have and all claims the Releasing Parties may have as of the Effective Date (as defined in Section 4 below) of this Release, including but not limited to, obligations and/or claims arising from the Agreement or any other document or oral agreement relating to employment, compensation, benefits, severance or post-employment issues. Executive, for and on behalf of the Releasing Parties, hereby releases the Released Parties from any and all claims, demands, actions, or causes of action,

whether known or unknown, arising from or related in any way to any employment of or past failure or refusal to employ Executive by the Company, or any other past claim that relates in any way to Executive's employment, compensation, benefits, reemployment, or application for employment, with the exception of any claim Executive may have against the Company for enforcement of the Agreement. This Release includes any and all claims, direct or indirect, which might otherwise be made under any applicable local, state or federal authority, including but not limited to any claim arising under state statutes dealing with employment, discrimination in employment, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans With Disabilities Act, the Family and Medical Leave Act of 1993, the Equal Pay Act of 1963, Executive Order 11246, the Rehabilitation Act of 1973, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Age Discrimination in Employment Act ("ADEA"), the Older Workers Benefit Protection Act, the Fair Labor Standards Act, the Oregon Fair Employment Practices Act, OR ST Section 659.030 et seq., Oregon wage and hour laws, OR ST Section 652.010 et seq., the Oregon Family Leave Act, OR ST Section 659A.150 et seq., state wage and hour statutes, all as amended, any regulations under such authorities, and any applicable contract (express or implied), tort, or common law theories. Further, Executive, for and on behalf of the Releasing Parties, waives and releases the Released Parties from any claims that this Release was procured by fraud or signed under duress or coercion so as to make the Release not binding. Executive is not relying upon any representations by the Company's legal counsel in deciding to enter into this Release. **Executive understands and agrees that by signing this Release Executive, for and on behalf of the Releasing Parties, is giving up the right to pursue any legal claims that Executive or the Releasing Parties may have against the Released Parties.** Provided, nothing in this provision of this Release shall be construed to prohibit Executive from challenging the validity of the ADEA release in this Section of the Release or from filing a charge or complaint with the Equal Employment Opportunity Commission or any state agency or from participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission or state agency. However, the Released Parties will assert all such claims have been released in a final binding settlement.

3.1 **IMPORTANT INFORMATION REGARDING ADEA RELEASE.** Executive understands and agrees that:

- a. this Release is worded in an understandable way;
- b. claims under the ADEA that may arise after the date of this Release are not waived;
- c. the rights and claims waived in this Release are in exchange for additional consideration over and above any consideration to which Executive was already undisputedly entitled;
- d. Executive has been advised to consult with an attorney prior to executing this Release and has had sufficient time and opportunity to do so;

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- e. Executive has been given a period of time of 21 days (or, if required by applicable law, 45 days) (the “Statutory Period”), if desired, to consider this Release and understands that Executive may revoke his waiver and release of any ADEA claims covered by this Release within seven (7) days from the date Executive executes this Release. Notice of revocation must be in writing and received by RadiSys Corporation, 5445 NE Dawson Creek Drive, Hillsboro, Oregon 97124 Attention: Vice President, Human Resources within seven (7) days after Executive signs this Release;
  - f. any changes made to this Release, whether material or immaterial, will not restart the running of the Statutory Period.

### **3.2 Reservations Of Rights.**

This Release shall not affect any rights which Executive may have under any medical insurance, disability plan, workers’ compensation, unemployment compensation, indemnifications, applicable company stock incentive plan(s), or the 401(k) plan maintained by the Company.

### **3.3 No Admission Of Liability.**

It is understood and agreed that the acts done and evidenced hereby and the release granted hereunder is not an admission of liability on the part of Executive or the Company or the Released Parties, by whom liability has been and is expressly denied.

## **4. Effective Date.**

The “Effective Date” of this Release shall be the eighth day after it is signed by Executive.

## **5. No Disparagement.**

Executive agrees that henceforth Executive will not disparage or make false or adverse statements about the Company or the Released Parties. The Company should report to Executive any actions or statements that are attributed to Executive that the Company believes are disparaging. The Company may take actions consistent with breach of this Release should it determine that Executive has disparaged or made false or adverse statements about the Company or the Released Parties.

The Company agrees that henceforth the Company’s officers and directors will not disparage or make false or adverse statements about Executive. Executive should report to the Company any actions or statements that are attributed to the Company’s officers and directors that Executive believes are disparaging. Executive may take actions consistent with breach of this Release should it determine that the Company’s officers and directors have disparaged or made false or adverse statements about Executive.

## **6. Confidentiality, Proprietary, Trade Secret And Related Information**

Executive acknowledges the duty and agrees not to make unauthorized use or disclosure of any confidential, proprietary or trade secret information learned as an employee about the Company, its products, customers and suppliers, and covenants not to breach that duty.

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Moreover, Executive acknowledges that, subject to the enforcement limitations of applicable law, the Company reserves the right to enforce the terms of Executive's Employee Agreement with the Company and any section(s) therein. Should Executive, Executive's attorney or agents be requested in any judicial, administrative, or other proceeding to disclose confidential, proprietary or trade secret information Executive learned as an employee of the Company, Executive shall promptly notify the Company of such request by the most expeditious means in order to enable the Company to take any reasonable and appropriate action to limit such disclosure.

7. **Scope Of Release.**

The provisions of this Release shall be deemed to obligate, extend to, and inure to the benefit of the parties; the Company's parents, subsidiaries, affiliates, successors, predecessors, assigns, directors, officers, and employees; and each party's insurers, transferees, grantees, legatees, agents, personal representatives and heirs, including those who may assume any and all of the above-described capacities subsequent to the execution and Effective Date of this Release.

8. **Entire Release.**

This Release and the Agreement signed by Executive contain the entire agreement and understanding between the parties and, except as reserved in Sections 3 and 6 of this Release, supersede and replace all prior agreements, written or oral, prior negotiations and proposed agreements, written or oral. Executive and the Company acknowledge that no other party, nor agent nor attorney of any other party, has made any promise, representation, or warranty, express or implied, not contained in this Release concerning the subject matter of this Release to induce this Release, and Executive and the Company acknowledge that they have not executed this Release in reliance upon any such promise, representation, or warranty not contained in this Release.

9. **Severability.**

Every provision of this Release is intended to be severable. In the event any term or provision of this Release is declared to be illegal or invalid for any reason whatsoever by a court of competent jurisdiction or by final and unappealed order of an administrative agency of competent jurisdiction, such illegality or invalidity should not affect the balance of the terms and provisions of this Release, which terms and provisions shall remain binding and enforceable.

10. **References.**

The Company agrees to follow the applicable policy(ies) regarding release of employment reference information.

11. **Parties May Enforce Release.**

Nothing in this Release shall operate to release or discharge any parties to this Release or their successors, assigns, legatees, heirs, or personal representatives from any rights, claims, or causes of action arising out of, relating to, or connected with a breach of any obligation of any party contained in this Release.

12. **Governing Law.**

This Release shall be construed in accordance with and governed by the laws of the State of Oregon, without regard to its conflicts of laws provisions.

Dated: \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
Anthony Ambrose

STATE OF OREGON        )  
                                  )  
County of \_\_\_\_\_  )

Personally appeared the above named Anthony Ambrose and acknowledged the foregoing instrument to be his voluntary act and deed.

Before me:

\_\_\_\_\_  
NOTARY PUBLIC - OREGON  
My commission expires: \_\_\_\_\_

**RADISYS CORPORATION**

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
      On Behalf of RadiSys Corporation and "Company"

Dated: \_\_\_\_\_

## EXECUTIVE CHANGE OF CONTROL AGREEMENT

December 30, 2008

[Omitted]

**Executive**

RadiSys Corporation, an Oregon corporation  
5445 NE Dawson Creek Parkway  
Hillsboro, OR 97124

**the Company**

**1. Employment Relationship.** Executive is currently employed by the Company as Vice President of Global Operations. Executive and the Company acknowledge that either party may terminate this employment relationship at any time and for any or no reason, provided that each party complies with the terms of this Agreement.

**2. Release of Claims.** In consideration for and as a condition precedent to receiving the severance benefits outlined in this Agreement, Executive agrees to execute a Release of Claims in the form attached as **Exhibit A** ("Release of Claims"). Executive promises to execute and deliver the Release of Claims to the Company within 21 days (or, if required by applicable law, 45 days) from the last day of Executive's active employment. Executive shall forfeit the severance benefits outlined in this Agreement in the event that he fails to execute and deliver the Release of Claims to the Company in accordance with the timing and other provisions of the preceding sentence or revokes such Release of Claims prior to the "Effective Date" (as such term is defined in the Release of Claims) of the Release of Claims.

**3. Additional Compensation Upon Certain Termination Events.**

**3.1 Change of Control.** In the event of a Termination of Executive's Employment (as defined in Section 6.1) (i) by the Company other than for Cause (as defined in Section 6.2), death or Disability (as defined in Section 6.4), or (ii) by Executive as a result of a requirement to accept a position greater than twenty-five (25) miles from Executive's current work location or a position of less total compensation (*i.e.* base salary plus bonus target), and provided any of the events identified in the preceding clauses (i) and (ii) occurs within 12 months following a Change of Control (as defined in Section 6.3 of this Agreement) or within three months preceding a Change of Control, and contingent upon Executive's execution of the Release of Claims without revocation within the time period described in Section 2 above and compliance with Section 9, Executive shall be entitled to the following benefits:

(a) As severance pay and in lieu of any other compensation for periods subsequent to the date of termination, the Company shall pay Executive, in a lump sum, an amount equal to nine (9) months of Executive's annual base pay at the highest annual rate in effect at any time within the 12-month period preceding the date of termination. Severance pay that is payable under this Agreement shall be paid to Executive on the date that is six months and one day following Termination of Executive's Employment.

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(b) As an additional severance benefit, the Company will provide Executive with up to nine (9) months of continued coverage pursuant to COBRA under the Company's group health plan at the level of benefits (whether single or family coverage) previously elected by Executive immediately before the Termination of Executive's Employment and to the extent that Executive elects to continue coverage during such 9-month period.

3.2 **Parachute Payments.** Notwithstanding the foregoing, if the total payments and benefits to be paid to or for the benefit of Executive under this Agreement would cause any portion of those payments and benefits to be "parachute payments" as defined in Code Section 280G(b)(2), or any successor provision, the total payments and benefits to be paid to or for the benefit of Executive under this Agreement shall be reduced by the Company to an amount that would not cause any portion of those payments and benefits to constitute "parachute payments."

#### 4. **Withholding; Subsequent Employment.**

4.1 **Withholding.** All payments provided for in this Agreement are subject to applicable withholding obligations imposed by federal, state and local laws and regulations.

4.2 **Offset.** The amount of any payment provided for in this Agreement shall not be reduced, offset or subject to recovery by the Company by reason of any compensation earned by Executive as the result of employment by another employer after termination.

5. **Other Agreements.** If cash severance pay is payable to Executive under this Agreement, cash severance pay shall not be payable to Executive under any other agreement with the Company in effect at the time of termination (including but not limited to any employment agreement, but excluding for this purpose any stock option, stock appreciation right, restricted stock, restricted stock unit, performance share, performance unit or other similar award agreement that may provide for accelerated vesting or related benefits).

#### 6. **Definitions.**

6.1 **Termination of Executive's Employment.** Termination of Executive's Employment means that (i) the Company has terminated Executive's employment with the Company (including any subsidiary of the Company) other than for Cause (as defined in Section 6.2), death or Disability (as defined in Section 6.4), or (ii) Executive, by written notice to the Company, has terminated his employment as a result of a requirement by the Company (including any subsidiary of the Company) that he accept a position requiring a relocation of greater than twenty-five (25) miles from his current work location or a position of less total compensation (*i.e.* base salary plus bonus target). A Termination of Executive's Employment is intended to mean a termination of employment which constitutes a "separation from service" under Code Section 409A.

**6.2 Cause.** Termination of Executive's Employment for "Cause" shall mean termination upon (a) the willful and continued failure by Executive to perform substantially Executive's reasonably assigned duties with the Company (other than any such failure resulting from Executive's incapacity due to physical or mental illness) after a demand for substantial performance is delivered to Executive by the Board of Directors, the Chief Executive Officer or the President of the Company which specifically identifies the manner in which the Board of Directors believes that Executive has not substantially performed Executive's duties or (b) the willful engaging by Executive in illegal conduct which is materially and demonstrably injurious to the Company. No act, or failure to act, on Executive's part shall be considered "willful" unless done, or omitted to be done, by Executive without reasonable belief that Executive's action or omission was in, or not opposed to, the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors shall be conclusively presumed to be done, or omitted to be done, by Executive in the best interests of the Company.

**6.3 Change of Control.** A Change of Control shall mean that one of the following events has taken place:

(a) The shareholders of the Company approve one of the following:

(i) Any merger or statutory plan of exchange involving the Company ("Merger") in which the Company is not the continuing or surviving corporation or pursuant to which Common Stock would be converted into cash, securities or other property, other than a Merger involving the Company in which the holders of Common Stock immediately prior to the Merger continue to represent more than 50 percent of the voting securities of the surviving corporation after the Merger; or

(ii) Any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company.

(b) A tender or exchange offer, other than one made by the Company, is made for Common Stock (or securities convertible into Common Stock) and such offer results in a portion of those securities being purchased and the offeror after the consummation of the offer is the beneficial owner (as determined pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), directly or indirectly, of securities representing more than 50 percent of the voting power of outstanding securities of the Company.

(c) The Company receives a report on Schedule 13D of the Exchange Act reporting the beneficial ownership by any person, or more than one person acting as a group, of securities representing more than 50 percent of the voting power of outstanding securities of the Company, except that if such receipt shall occur during a tender offer or exchange offer described in (b) above, a Change of Control shall not take place until the conclusion of such offer.

Notwithstanding anything in the foregoing to the contrary, no Change of Control shall be deemed to have occurred for purposes of this Agreement by virtue of any transaction which results in Executive, or a group of persons which includes Executive, acquiring, directly or indirectly, securities representing 20 percent or more of the voting power of outstanding securities of the Company.

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**6.4 Disability.** “Disability” means Executive’s absence from Executive’s full-time duties with the Company for 180 consecutive days as a result of Executive’s incapacity due to physical or mental illness, as determined by Executive’s attending physician and in accordance with the Company’s Medical Leave of Absence Policy, unless within 30 days after notice of termination by the Company following such absence Executive shall have returned to the full-time performance of Executive’s duties. This Agreement does not apply if the Executive is terminated due to Disability.

**7. Successors; Binding Agreement.** This Agreement shall be binding on and inure to the benefit of the Company and its successors and assigns. This Agreement shall inure to the benefit of and be enforceable by Executive and Executive’s legal representatives, executors, administrators and heirs.

**8. Entire Agreement.** The Company and Executive agree that the foregoing terms and conditions constitute the entire agreement between the parties relating to the termination of Executive’s employment with the Company under the conditions described in Section 3.1, that this Agreement supersedes and replaces any prior agreements relating to the matters covered by this Agreement, and that there exist no other agreements between the parties, oral or written, express or implied, relating to any matters covered by this Agreement.

**9. Resignation of Corporate Offices; Reasonable Assistance.** Executive will resign Executive’s office, if any, as a director, officer or trustee of the Company, its subsidiaries or affiliates and of any other corporation or trust of which Executive serves as such at the request of the Company, effective as of the date of termination of employment. Executive further agrees that, if requested by the Company or the surviving company following a Change of Control, Executive will continue his employment with the Company or the surviving company for a period of up to six months following the Change of Control in any capacity requested, consistent with Executive’s area of expertise, provided that Executive receives the same salary and substantially the same benefits as in effect prior to the Change of Control. Executive agrees to provide the Company such written resignation(s) and assistance upon request and that no severance will be paid until after such resignation(s) or services are provided.

**10. Governing Law.** This Agreement shall be construed in accordance with and governed by the laws of the State of Oregon, without regard to its conflicts of laws provisions.

**11. Amendment.** No provision of this Agreement may be modified unless such modification is agreed to in writing signed by Executive and the Company.

**12. Severability.** If any of the provisions or terms of this Agreement shall for any reason be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other terms of this Agreement, and this Agreement shall be construed as if such unenforceable term had never been contained in this Agreement.



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**EXHIBIT A**  
**RELEASE OF CLAIMS**

**1. Parties.**

The parties to Release of Claims (hereinafter "Release") are John Major and RadiSys Corporation, an Oregon corporation, as hereinafter defined.

**1.1 Executive and Releasing Parties.**

For the purposes of this Release, "Executive" means John Major, and "Releasing Parties" means Executive and his attorneys, heirs, legatees, personal representatives, executors, administrators, assigns, and spouse.

**1.2 The Company and the Released Parties.**

For the purposes of this Release the "Company" means RadiSys Corporation, an Oregon corporation, and "Released Parties" means the Company and its predecessors and successors, affiliates, and all of each such entity's officers, directors, employees, insurers, agents, attorneys or assigns, in their individual and representative capacities.

**2. Background And Purpose.**

Executive was employed by the Company. Executive's employment is ending effective \_\_\_\_\_ under the conditions described in Section 3.1 of the Executive Change of Control Agreement ("Agreement") by and between Executive and the Company dated \_\_\_\_\_, 2008.

The purpose of this Release is to settle, and the parties hereby settle, fully and finally, any and all claims the Releasing Parties may have against the Released Parties, whether asserted or not, known or unknown, including, but not limited to, claims arising out of or related to Executive's employment, any claim for reemployment, or any other claims whether asserted or not, known or unknown, past or future, that relate to Executive's employment, reemployment, or application for reemployment.

**3. Release.**

In consideration for the payments and benefits set forth in Section 3.1 of the Agreement and other promises by the Company all of which constitute good and sufficient consideration, Executive, for and on behalf of the Releasing Parties, waives, acquits and forever discharges the Released Parties from any obligations the Released Parties have and all claims the Releasing Parties may have as of the Effective Date (as defined in Section 4 below) of this Release, including but not limited to obligations and/or claims arising from the Agreement or any other document or oral agreement relating to employment compensation, benefits, severance or post-employment issues. Executive, for and on behalf of the Releasing Parties, hereby releases the Released Parties from any and all claims, demands, actions, or causes of action, whether known

or unknown, arising from or related in any way to any employment of or past failure or refusal to employ Executive by the Company, or any other past claim that relates in any way to Executive's employment, compensation, benefits, reemployment, or application for employment, with the exception of any claim Executive may have against the Company for enforcement of the Agreement. This Release includes any and all claims, direct or indirect, which might otherwise be made under any applicable local, state or federal authority, including but not limited to any claim arising under state statutes dealing with employment, discrimination in employment, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans With Disabilities Act, the Family and Medical Leave Act of 1993, the Equal Pay Act of 1963, Executive Order 11246, the Rehabilitation Act of 1973, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Age Discrimination in Employment Act ("ADEA"), the Older Workers Benefit Protection Act, the Fair Labor Standards Act, the Oregon Fair Employment Practices Act, OR ST Section 659.030 et seq., Oregon wage and hour laws, OR ST Section 652.010 et seq., the Oregon Family Leave Act, OR ST Section 659A.150 et seq., state wage and hour statutes, all as amended, any regulations under such authorities, and any applicable contract (express or implied), tort, or common law theories. Further, Executive, for and on behalf of the Releasing Parties, waives and releases the Released Parties from any claims that this Release was procured by fraud or signed under duress or coercion so as to make the Release not binding. Executive is not relying upon any representations by the Company's legal counsel in deciding to enter into this Release. **Executive understands and agrees that by signing this Release Executive, for and on behalf of the Releasing Parties, is giving up the right to pursue any legal claims that Executive or the Releasing Parties may have against the Released Parties.** Provided, nothing in this provision of this Release shall be construed to prohibit Executive from challenging the validity of the ADEA release in this Section of the Release or from filing a charge or complaint with the Equal Employment Opportunity Commission or any state agency or from participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission or state agency. However, the Released Parties will assert all such claims have been released in a final binding settlement.

3.1 **IMPORTANT INFORMATION REGARDING ADEA RELEASE.** Executive understands and agrees that:

- (a) this Release is worded in an understandable way;
- (b) claims under the ADEA that may arise after the date of this Release are not waived;
- (c) the rights and claims waived in this Release are in exchange for additional consideration over and above any consideration to which Executive was already undisputedly entitled;
- (d) Executive has been advised to consult with an attorney prior to executing this Release and has had sufficient time and opportunity to do so;
- (e) Executive has been given a period of time of 21 days (or, if required by applicable law, 45 days) (the "Statutory Period"), if desired, to consider this Release and understands that Executive may revoke his waiver and release of any ADEA claims covered by this Release

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within seven (7) days from the date Executive executes this Release. Notice of revocation must be in writing and received by RadiSys Corporation, 5445 NE Dawson Creek Drive, Hillsboro, Oregon 97124 Attention: Vice President, Human Resources within seven (7) days after Executive signs this Release;

(f) any changes made to this Release, whether material or immaterial, will not restart the running of the Statutory Period.

### **3.2 Reservations Of Rights.**

This Release shall not affect any rights which Executive may have under any medical insurance, disability plan, workers' compensation, unemployment compensation, indemnifications, applicable company stock incentive plan(s), or the 401(k) plan maintained by the Company.

### **3.3 No Admission Of Liability.**

It is understood and agreed that the acts done and evidenced hereby and the release granted hereunder is not an admission of liability on the part of Executive or the Company or the Released Parties, by whom liability has been and is expressly denied.

## **4. Effective Date.**

The "Effective Date" of this Release shall be the eighth day after it is signed by Executive.

## **5. No Disparagement.**

Executive agrees that henceforth Executive will not disparage or make false or adverse statements about the Company or the Released Parties. The Company should report to Executive any actions or statements that are attributed to Executive that the Company believes are disparaging. The Company may take actions consistent with breach of this Release should it determine that Executive has disparaged or made false or adverse statements about the Company or the Released Parties.

The Company agrees that henceforth the Company's officers and directors will not disparage or make false or adverse statements about Executive. Executive should report to the Company any actions or statements that are attributed to the Company's officers and directors that Executive believes are disparaging. Executive may take actions consistent with breach of this Release should it determine that the Company's officers and directors have disparaged or made false or adverse statements about Executive.

## **6. Confidentiality, Proprietary, Trade Secret And Related Information.**

Executive acknowledges the duty and agrees not to make unauthorized use or disclosure of any confidential, proprietary or trade secret information learned as an employee about the Company, its products, customers and suppliers, and covenants not to breach that duty. Moreover, Executive acknowledges that, subject to the enforcement limitations of applicable

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law, the Company reserves the right to enforce the terms of Executive's Employee Agreement with the Company and any section(s) therein. Should Executive, Executive's attorney or agents be requested in any judicial, administrative, or other proceeding to disclose confidential, proprietary or trade secret information Executive learned as an employee of the Company, Executive shall promptly notify the Company of such request by the most expeditious means in order to enable the Company to take any reasonable and appropriate action to limit such disclosure.

**7. Scope Of Release.**

The provisions of this Release shall be deemed to obligate, extend to, and inure to the benefit of the parties; the Company's parents, subsidiaries, affiliates, successors, predecessors, assigns, directors, officers, and employees; and each party's insurers, transferees, grantees, legatees, agents, personal representatives and heirs, including those who may assume any and all of the above-described capacities subsequent to the execution and Effective Date of this Release.

**8. Entire Release.**

This Release and the Agreement signed by Executive contain the entire agreement and understanding between the parties and, except as reserved in Sections 3 and 6 of this Release, supersede and replace all prior agreements, written or oral, prior negotiations and proposed agreements, written or oral. Executive and the Company acknowledge that no other party, nor agent nor attorney of any other party, has made any promise, representation, or warranty, express or implied, not contained in this Release concerning the subject matter of this Release to induce this Release, and Executive and the Company acknowledge that they have not executed this Release in reliance upon any such promise, representation, or warranty not contained in this Release.

**9. Severability.**

Every provision of this Release is intended to be severable. In the event any term or provision of this Release is declared to be illegal or invalid for any reason whatsoever by a court of competent jurisdiction or by final and unappealed order of an administrative agency of competent jurisdiction, such illegality or invalidity should not affect the balance of the terms and provisions of this Release, which terms and provisions shall remain binding and enforceable.

**10. References.**

The Company agrees to follow the applicable policy(ies) regarding release of employment reference information.

**11. Parties May Enforce Release.**

Nothing in this Release shall operate to release or discharge any parties to this Release or their successors, assigns, legatees, heirs, or personal representatives from any rights, claims, or causes of action arising out of, relating to, or connected with a breach of any obligation of any party contained in this Release.

12. **Governing Law.**

This Release shall be construed in accordance with and governed by the laws of the State of Oregon, without regard to its conflicts of laws provisions.

\_\_\_\_\_  
John Major

Dated: \_\_\_\_\_

STATE OF OREGON            )  
  )ss.  
County of \_\_\_\_\_        )

Personally appeared the above named John Major and acknowledged the foregoing instrument to be his voluntary act and deed.

Before me:

\_\_\_\_\_  
NOTARY PUBLIC - OREGON  
My commission expires: \_\_\_\_\_

**RADISYS CORPORATION**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Dated: \_\_\_\_\_

On Behalf of RadiSys Corporation and  
"Company"

**2ND AMENDMENT  
AND LIMITED WAIVER TO  
LOAN AND SECURITY AGREEMENT**

THIS 2ND AMENDMENT AND LIMITED WAIVER TO LOAN AND SECURITY AGREEMENT (this "*Amendment*") is entered into this \_\_\_ of February, 2009, by and among RADISYS CORPORATION, an Oregon corporation ("*Borrower*"), and SILICON VALLEY BANK ("*Bank*"). Capitalized terms used herein without definition shall have the same meanings given them in the Loan Agreement (as defined below).

**RECITALS**

- A. Borrower and Bank have entered into that certain Loan and Security Agreement dated as of August 7, 2008 (as may be amended, restated, or otherwise modified, the "*Loan Agreement*"), pursuant to which the Bank has extended and will make available to Borrower certain advances of money.
- B. Borrower is in default of the minimum EBITDA covenant set forth in Section 6.7(b) for the period ending December 31, 2008 (the "*Existing Default*");
- C. Borrower desires that Bank waive the Existing Default and amend the Loan Agreement upon the terms and conditions more fully set forth herein.
- D. Subject to the representations and warranties of Borrower herein and upon the terms and conditions set forth in this Amendment, Bank is willing to provide the limited waiver and amendment contained herein.

**AGREEMENT**

NOW, THEREFORE, in consideration of the foregoing Recitals and intending to be legally bound, the parties hereto agree as follows:

1. **WAIVER.** Subject to the terms of Section 5 below, Bank hereby waives the Existing Default.
2. **AMENDMENT.** Subject to the terms of Section 5 below, the definition of "EBITDA" in Section 13.1 of the Loan Agreement is amended and restated in its entirety and replaced with the following:

"EBITDA" shall mean, for any period, (a) Net Income plus (b) to the extent deducted in the calculation of Net Income, (i) Interest Expense, (ii) income tax expense, and (iii) depreciation and amortization plus (c) non-cash stock based compensation to the extent reflected as a charge in the statement of Net Income for such period; provided however, to the extent that the Borrower took an impairment charge on the goodwill as required by FAS 142 fair value testing for the fiscal quarter ending December 31, 2008, such charge shall be added back to EBITDA in an amount not to exceed \$67,256,000.

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**3. BORROWER'S REPRESENTATIONS AND WARRANTIES.** Borrower represents and warrants that:

(a) immediately upon giving effect to this Amendment (i) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (ii) no Event of Default has occurred and is continuing;

(b) Borrower has the corporate power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

(c) the certificate of incorporation, bylaws and other organizational documents of Borrower delivered to Bank on the Effective Date remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

(d) the execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized by all necessary corporate action on the part of Borrower;

(e) this Amendment has been duly executed and delivered by the Borrower and is the binding obligation of Borrower, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights; and

(f) as of the date hereof, it has no defenses against the obligations to pay any amounts under the Obligations. Borrower acknowledges that Bank has acted in good faith and has conducted in a commercially reasonable manner its relationships with such Borrower in connection with this Amendment and in connection with the Loan Documents.

Borrower understands and acknowledges that Bank is entering into this Amendment in reliance upon, and in partial consideration for, the above representations and warranties, and agrees that such reliance is reasonable and appropriate.

**4. LIMITATION.** The limited waiver and amendment set forth in this Amendment shall be limited precisely as written and shall not be deemed (a) to be a forbearance, waiver or modification of any other term or condition of the Loan Agreement or of any other instrument or agreement referred to therein or to prejudice any right or remedy which Bank may now have or may have in the future under or in connection with the Loan Agreement or any instrument or agreement referred to therein; (b) to be a consent to any future consent or modification, forbearance or waiver to any instrument or agreement the execution and delivery of which is consented to hereby, or to any waiver of any of the provisions thereof; or (c) to limit or impair Bank's right to demand strict performance of all terms and covenants as of any date.

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**5. EFFECTIVENESS.** This Amendment shall become effective upon the satisfaction of all the following conditions precedent:

**5.1 Amendment.** Borrower and Bank shall have duly executed and delivered this Amendment to Bank; and

**5.2 Payment of Bank Expenses.** Borrower shall have paid all Bank Expenses (including all reasonable attorneys' fees and reasonable expenses) incurred through the date of this Amendment.

**6. COUNTERPARTS.** This Amendment may be signed in any number of counterparts, and by different parties hereto in separate counterparts, with the same effect as if the signatures to each such counterpart were upon a single instrument. All counterparts shall be deemed an original of this Amendment.

**7. INTEGRATION.** This Amendment and any documents executed in connection herewith or pursuant hereto contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements, understandings, offers and negotiations, oral or written, with respect thereto and no extrinsic evidence whatsoever may be introduced in any judicial or arbitration proceeding, if any, involving this Amendment; except that any financing statements or other agreements or instruments filed by Bank with respect to Borrower shall remain in full force and effect.

**8. GOVERNING LAW; VENUE.** THIS AMENDMENT SHALL BE GOVERNED BY AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first written above.

**BORROWER:**

**RADISYS CORPORATION**  
an Oregon corporation

By:           /s/ Brain Bronson            
Printed Name:           Brain Bronson            
Title:           Chief Financial Officer          

**BANK:**

**SILICON VALLEY BANK**

By:           /s/ Ron Sherman            
Printed Name:           Ron Sherman            
Title:           Senior Relationship Manager

**THIRD AMENDMENT  
TO  
LOAN AND SECURITY AGREEMENT**

THIS THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "**Amendment**") is entered into this \_\_\_ of February, 2009, by and among RADISYS CORPORATION, an Oregon corporation ("**Borrower**"), and SILICON VALLEY BANK ("**Bank**"). Capitalized terms used herein without definition shall have the same meanings given them in the Loan Agreement (as defined below).

**RECITALS**

A. Borrower and Bank have entered into that certain Loan and Security Agreement dated as of August 7, 2008 (as may be amended, restated, or otherwise modified, the "**Loan Agreement**"), pursuant to which the Bank has extended and will make available to Borrower certain advances of money.

B. Borrower desires that Bank amend the Loan Agreement upon the terms and conditions more fully set forth herein.

C. Subject to the representations and warranties of Borrower herein and upon the terms and conditions set forth in this Amendment, Bank is willing to provide the amendment contained herein.

**AGREEMENT**

NOW, THEREFORE, in consideration of the foregoing Recitals and intending to be legally bound, the parties hereto agree as follows:

**1. AMENDMENT TO SECTION 2.1.3 OF THE LOAN AGREEMENT.** Subject to the terms of Section 6 below, Section 2.1.3 of the Loan Agreement is amended and restated in its entirety and replaced with the following:

**2.1.3 Foreign Exchange Sublimit.** As part of the Revolving Line, Borrower or any of its Subsidiaries may enter into foreign exchange contracts with Bank under which Borrower or any of its Subsidiaries commits to purchase from or sell to Bank a specific amount of Foreign Currency (each, a "**FX Forward Contract**") on a specified date (the "**Settlement Date**"). FX Forward Contracts shall have a Settlement Date of at least one (1) FX Business Day after the contract date and shall be subject to a reserve of ten percent (10%) of each outstanding FX Forward Contract (the "**FX Reserve**"), the FX Reserve to be in a maximum aggregate amount equal to the Sublimit Amount. The aggregate amount of FX Forward Contracts at any one time may not exceed ten (10) times the amount of the FX Reserve. The obligations of Borrower and its Subsidiaries relating to this section may not exceed the Availability Amount.

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**2. AMENDMENT TO SECTION 8.9 OF THE LOAN AGREEMENT.** Subject to the terms of Section 6 below, Section 8.9 of the Loan Agreement is amended and restated in its entirety and replaced with the following:

**8.9 Other Debt.** A default or breach occurs under (a) any agreement between Borrower and any creditor of Borrower that signed a subordination, intercreditor, or other similar agreement with Bank, or any creditor that has signed such an agreement with Bank breaches any terms of such agreement, (b) the 2013 Indenture or the 2023 Indenture or (c) any foreign exchange contract between any of Borrower's Subsidiaries and the Bank; or

**3. AMENDMENT TO DEFINITION OF "FX BUSINESS DAY", "LOAN DOCUMENTS" AND "OBLIGATIONS" IN SECTION 13.1 OF THE LOAN AGREEMENT.** Subject to the terms of Section 5 below, the definitions of "FX Business Day", "Loan Documents" and "Obligations" in Section 13.1 of the Loan Agreement are amended and restated in their entirety and replaced with the following:

**"FX Business Day"** is any day when (a) Bank's Foreign Exchange Department is conducting its normal business and (b) the Foreign Currency being purchased or sold by Borrower or any of its Subsidiaries is available to Bank from the entity from which Bank shall buy or sell such Foreign Currency.

**"Loan Documents"** are, collectively, this Agreement, the Disclosure Schedule, the Perfection Certificate(s), any note, or notes or guaranties executed by Borrower or any Guarantor, any foreign exchange contracts entered into by Borrower's Subsidiaries with Bank, and any other present or future agreement between Borrower any Guarantor (or Borrower's Subsidiaries with respect to any foreign exchange contracts) and/or for the benefit of Bank in connection with this Agreement, all as amended, restated, or otherwise modified.

**"Obligations"** are Borrower's and/or Guarantors' (or Borrower's Subsidiaries with respect to any foreign exchange contracts with Bank) obligation to pay when due any debts, principal, interest, Bank Expenses and other amounts Borrower and/or Guarantors (or Borrower's Subsidiaries with respect to any foreign exchange contracts with Bank) owe Bank now or later, whether under this Agreement, the Loan Documents, or otherwise, including, without limitation, all obligations relating to letters of credit, cash management services, and foreign exchange contracts, if any, and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower and/or Guarantor (or Borrower's Subsidiaries with respect to any foreign exchange contracts with Bank) assigned to Bank, and the performance of Borrower's and/or Guarantors' (or Borrower's Subsidiaries with respect to any foreign exchange contracts with Bank) duties under the Loan Documents.

**4. BORROWER'S REPRESENTATIONS AND WARRANTIES.** Borrower represents and warrants that:

(a) immediately upon giving effect to this Amendment (i) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (ii) no Event of Default has occurred and is continuing;

(b) Borrower has the corporate power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

(c) the certificate of incorporation, bylaws and other organizational documents of Borrower delivered to Bank on the Effective Date remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

(d) the execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized by all necessary corporate action on the part of Borrower;

(e) this Amendment has been duly executed and delivered by the Borrower and is the binding obligation of Borrower, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights; and

(f) as of the date hereof, it has no defenses against the obligations to pay any amounts under the Obligations. Borrower acknowledges that Bank has acted in good faith and has conducted in a commercially reasonable manner its relationships with such Borrower in connection with this Amendment and in connection with the Loan Documents.

Borrower understands and acknowledges that Bank is entering into this Amendment in reliance upon, and in partial consideration for, the above representations and warranties, and agrees that such reliance is reasonable and appropriate.

**5. LIMITATION.** The amendment set forth in this Amendment shall be limited precisely as written and shall not be deemed (a) to be a forbearance, waiver or modification of any other term or condition of the Loan Agreement or of any other instrument or agreement referred to therein or to prejudice any right or remedy which Bank may now have or may have in the future under or in connection with the Loan Agreement or any instrument or agreement referred to therein; (b) to be a consent to any future consent or modification, forbearance or waiver to any instrument or agreement the execution and delivery of which is consented to hereby, or to any waiver of any of the provisions thereof; or (c) to limit or impair Bank's right to demand strict performance of all terms and covenants as of any date.

**6. EFFECTIVENESS.** This Amendment shall become effective upon the satisfaction of all the following conditions precedent:

**6.1 Amendment.** Borrower and Bank shall have duly executed and delivered this Amendment to Bank; and

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**6.2 Payment of Bank Expenses.** Borrower shall have paid all Bank Expenses (including all reasonable attorneys' fees and reasonable expenses) incurred through the date of this Amendment.

**7. COUNTERPARTS.** This Amendment may be signed in any number of counterparts, and by different parties hereto in separate counterparts, with the same effect as if the signatures to each such counterpart were upon a single instrument. All counterparts shall be deemed an original of this Amendment.

**8. INTEGRATION.** This Amendment and any documents executed in connection herewith or pursuant hereto contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements, understandings, offers and negotiations, oral or written, with respect thereto and no extrinsic evidence whatsoever may be introduced in any judicial or arbitration proceeding, if any, involving this Amendment; except that any financing statements or other agreements or instruments filed by Bank with respect to Borrower shall remain in full force and effect.

**9. GOVERNING LAW; VENUE.** THIS AMENDMENT SHALL BE GOVERNED BY AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first written above.

**BORROWER:**

**RADISys CORPORATION**  
an Oregon corporation

By:           /s/ Brain Bronson            
Printed Name:           Brain Bronson            
Title:           Chief Financial Officer          

**BANK:**

**SILICON VALLEY BANK**

By:           /s/ Ron Sherman            
Printed Name:           Ron Sherman            
Title:           Senior Relationship Manager

## RADISYS CORPORATION

## LIST OF SUBSIDIARIES

<u>SUBSIDIARY</u>	<u>JURISDICTION OF INCORPORATION</u>
Nihon RadiSys K.K.	Japan
RadiSys Systems Technology (Shanghai) Co. Ltd.	China
RadiSys (Malaysia) Sdn. Bhd.	Malaysia
RadiSys Canada ULC	Canada
RadiSys (UK) Limited	United Kingdom
RadiSys Convedia (Ireland) Limited	Ireland
RadiSys Technology (Ireland) Limited	Ireland
RadiSys Ireland Limited	Ireland
RadiSys GmbH	Germany
RadiSys B.V.	Netherlands
RadiSys Israel Ltd.	Israel

## Consent of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
RadiSys Corporation:

We consent to the incorporation by reference in the registration statement No. 333-49092 and 333-146977 on Form S-3 and registration statement No. 333-80577, 333-00514, 333-46473, 333-137060, 333-80087, 333-80089, 333-85093, 333-38966, 333-38988, 333-50582, 333-50584, 333-68362, 333-106670, 333-111520, 333-116570, 333-126189, 333-142968 and 333-142969 on Form S-8 of RadiSys Corporation of our reports dated March 6, 2009, with respect to the consolidated balance sheets of RadiSys Corporation as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2008, and the effectiveness of internal control over financial reporting as of December 31, 2008, which reports appear in the December 31, 2008 annual report on Form 10-K of RadiSys Corporation.

/s/ KPMG LLP

Portland, Oregon  
March 6, 2009

## CERTIFICATIONS

I, Scott C. Grout, certify that:

1. I have reviewed this Annual Report on Form 10-K of RadiSys Corporation for the fiscal year ended December 31, 2008;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2009

/s/ Scott C. Grout

Scott C. Grout

Chief Executive Officer

## CERTIFICATIONS

I, Brian Bronson, certify that:

1. I have reviewed this Annual Report on Form 10-K of RadiSys Corporation for the fiscal year ended December 31, 2008;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2009

/s/ Brian Bronson

Brian Bronson  
*Chief Financial Officer*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of RadiSys Corporation (the "Company") on Form 10-K for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott C. Grout, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Scott C. Grout

\_\_\_\_\_  
Scott C. Grout

*Chief Executive Officer*

March 6, 2009

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of RadiSys Corporation (the "Company") on Form 10-K for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian Bronson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian Bronson

\_\_\_\_\_  
Brian Bronson  
*Chief Financial Officer*

March 6, 2009

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