



Quarterly Management Discussion of Financial Results

Check against delivery

Introduction

(conference call moderator)

David Long:

Thank you for joining us this afternoon. I am David Long, Vice President of Finance and Chief Financial Officer at Tundra and I am pleased to coordinate today's call.

Daniel Hoste, Tundra's President and Chief Executive Officer will begin with a brief review of our business highlights for the second quarter of fiscal year 2007. I will then discuss the details of the financial results. To close the call, Daniel will provide commentary on the ongoing strength of our System Interconnect strategy. To finish, we will open the call for your questions.

Before continuing the call, I must remind you that today's conference call may contain forward-looking statements related to and including customer demand for the Company's products and services, the Company's ability to maintain and enhance existing customer relationships, as well as the Company's ability to bring to market the products currently under development. The Company cautions that these statements are based on current expectations that are subject to risks and uncertainties. Actual results may differ due to factors such as customer demand, customer relationships, new product development, new services offerings, product shipping schedules, product mix, competitive products and services, pricing pressure, and changes in the embedded systems market specifically. Additional information identifying risks and uncertainties is contained in the Company's filings with the various provincial securities commissions.

I'll now turn the call over to Daniel. Daniel.

Daniel Hoste:

Thank you, David. Good afternoon everyone.

In the second quarter of fiscal year 2007, we had solid revenue and earnings performance. Revenues were up 13% over the previous quarter. We also delivered pro forma diluted earnings per share of \$0.12 which exceeded our revised per share earnings guidance largely as a function of three things; expense control, higher gross margins and some expenses that were planned for Q2 but will now occur in Q3. Overall, I am satisfied with the performance and improvement over the previous quarter.

I would like now to review the business highlights of the quarter.

First, I would like to address the latest management appointment. Robert Fischer, formerly the Director of Sales for North America, was promoted to the position of Vice President of Worldwide Sales. For those of you that joined the conference call on September 27th, you will recall my short-term focus is to reinforce our Sales and Marketing organizations and to move from a “pull” to a “push” model.

Robert’s appointment marks the beginning of this move with the intent in the short term, to maximize sales of our current products and over the long term, to accelerate our growth and market share. The sales and marketing organizations will undergo some changes in the short term. Disciplined investment in and a re-alignment of the teams’ structure and focus will ensure that we have the infrastructure in place to address every new opportunity and bring us closer to our customers.

We also had several positive customer, partner and product announcements in the quarter.

In August, we launched the Tundra Tsi350 PCI-to-PCI Bridge, an industry standard, low power 32-bit 66 MHz Bridge that targets new designs as well as existing board footprints. The Tsi350 is competitively priced and well suited for a wide range of communications and networking applications. Supported by Tundra’s world-class lead times, quality and technical support, this bridge will begin sampling in January 07.

In October, we announced the availability of the Tundra Tsi578 Serial RapidIO Development Platform which gives designers the ability to rapidly prototype and test interoperability of their RapidIO-based systems. The platform uses our Tsi578, a switch launched in February of this year which has multicast capability, essential for DSP aggregation. DSP aggregation is essential to a wide range of applications such as wireless base stations, media gateways, video infrastructure and DSP-intensive image processing. Available through Silicon Turnkey Express, one of our RapidIO partners, this platform provides another prototyping option in addition to the Tsi568 Serial RapidIO development platform which has been available since July 05.

In the quarter, we also shared some important customer endorsements for products from both our RapidIO switch and embedded host bridge portfolios. GE Fanuc Embedded Systems, formerly known as SBS Technologies, incorporated our Tsi109 Host Bridge into its new Telum processor Advanced Mezzanine Card. GE Fanuc’s selection of our bridge was based on of the product’s performance, power management and backed by our world-class design support. By partnering with us, GE Fanuc was able to shorten its design cycle, develop a highly competitive product and reduce their time-to-market.

Previously known as Artesyn Communication Products, Emerson Network Power’s new Embedded Computing business implemented the Tsi568 Serial RapidIO Switch into a Fat Pipe switch module in its new MicroTCA development system. Serial RapidIO is one of the technologies most desired for MicroTCA applications such as media gateways and wireless base stations. The selection of our switch was based on the product’s capabilities that enabled Emerson to provide the functionality required for its newest development system. With AdvancedTCA, AdvancedMC, and MicroTCA becoming the open architecture platforms of choice among network equipment providers, we offered a stable, scalable and high-performance interconnect solution that accelerated this development system’s time-to-market.

e2v Semiconductors, formerly Atmel Grenoble, released our Tsi109 Host Bridge with extended temperature and reliability specifications for military and aerospace applications. The announcement follows closely after the July signing of an agreement to provide a range of our System Interconnect products for the high-reliability markets. Our portfolio satisfies the most demanding system performance requirements of several critical embedded applications including; radar, aircraft displays, and electronic countermeasures, where performance, power and reliability are success factors for e2v’s customers.

We are continuously expanding our channels to market through partnerships with recognized industry leaders.

And, we strive to provide the highest levels of local support and service through regionally-based technical and support teams. In the quarter, we completed a distribution agreement with Nu Horizons Electronics Asia. Under the agreement, Nu Horizons will promote, distribute and support our full range of System Interconnect products throughout the Asia Pacific region, with the exception of Japan.

This partnership is highly complementary as it combines our product portfolio with Nu Horizons' leading distribution capability for advanced technology active components, system solutions, and multiple product lines. Our Asia Pacific customers will now benefit from the choice of two industry-leading distributors in the region with both Nu Horizons and Future Electronics, our existing distribution partner. Both distributors will help us expand our Asia Pacific customer base and revenues.

The design wins and agreements announced in the quarter are strong endorsements that our System Interconnect products are delivering the functionality and performance that our customers need to differentiate themselves and rapidly bring their products to market.

In summary, we made good progress in the second quarter by continuing to expand our product portfolio and leveraging our partnerships, a solid combination designed to bring greater value to our customers.

I will now turn it over to David to provide the details on our financial results for the quarter.

David.

David Long:

Thanks Daniel.

It is important to state that we use pro forma measures internally to evaluate and manage operating performance as well as to forecast and plan. We believe that pro forma measures provide a more representative measure of on-going corporate performance.

The difference between pro forma and GAAP earnings is the exclusion of extraordinary items, stock-based compensation expense, and the amortization of intangibles and other assets associated with Tundra's acquisitions.

Revenue for the second quarter of fiscal 2007 was \$22.0M, a 13% increase over the previous quarter, and an 18% increase over the same quarter in fiscal 2006.

Pro forma earnings of \$2.4M represent a 21% increase quarter-over-quarter, and a 7% increase compared to the second quarter of fiscal 2006. Pro forma diluted earnings per share of \$0.12 exceeded our revised earnings per share earnings guidance for the quarter.

GAAP earnings for the quarter was a loss of \$0.2M or \$0.01 per diluted share compared to a loss of \$0.7M or \$0.03 per diluted share in the previous quarter. This is down from positive earnings of \$1.4M or \$0.07 in the second quarter of last year.

We recorded a charge for stock-based compensation of \$1.4M. The amortization of intangibles and other assets associated with prior acquisitions represented a pre-tax charge of \$1.2M.

In terms of sales for the second quarter, we had no customers that accounted for more than 10% of revenue. Going forward, we will report revenue in two categories. Revenue associated with all PRODUCTS, and revenue associated with our DESIGN SERVICES. For the quarter, the revenue split was 87% for products and 13% for design services.

Blended gross margins for the quarter were 67%, up from 64% in the previous quarter.

Product gross margins for the second quarter were 69%, up from 67% in the previous quarter. The difference can be attributed to a change in product mix and cost improvements.

Design services gross margins for the quarter were 53%. Margins on design services will vary from quarter to quarter depending on the level of resource utilization.

Turning to operating expenses, total pro forma operating expenses were \$12.8M or 58% of revenue. Higher operating expenses in the quarter were impacted by charges relating to management changes.

Research and development costs were \$6.0M similar to the previous quarter, and 27% of revenue as we continue to focus on our product development activities.

The sales, marketing, general and administrative expenses were \$6.8M or 31% of revenue. Again, the increase can be largely attributed to costs associated with management changes.

Cash flow from operations was \$4.5M, compared to \$2.3M in the previous quarter. And, at the end of the quarter, we had \$58.4M in cash and short-term investments.

Our Day Sales Outstanding position for trade accounts receivable decreased to 33 days as compared to 39 days in the previous quarter.

Inventory levels during the quarter increased to \$9.8M, up from \$7.9M in the previous quarter.

With respect to guidance for the third quarter of fiscal year 2007, we offer the following outlook. We expect revenue to be in the range of \$20.0M to \$23.0M, and we expect pro forma earnings per share to be in the range of \$0.11 to \$0.15. Overall gross margins we expect to be in the mid-sixties.

During the last two months we have worked diligently to assess our opportunities and growth potential. This has resulted in greater clarity with respect to our longer term financial outlook. We feel it is important to share with you, in fairly broad terms, our top line organic growth potential for the next two fiscal years. Please recognize this not necessarily a view that we intend to update on an ongoing basis.

Our top line projections are based on an assumed market growth rate of 10% per year for each year of the forecast.

FY07 - mid to high teens - obviously our recent acquisitions play a significant part in that growth.

FY08 - we expect our top line growth to outpace that of the broader market

FY09 - we expect the gap between our own growth rate and that of the broader market to increase considerably

Thank you and now I'll turn the call back over to Daniel.

Daniel Hoste:

Thanks David.

I would now like to take a few minutes to address our business strategy and the intent to build on our current System Interconnect leadership. In the short-term, we are guided by three important strategic objectives.

The first objective is to reinforce the Sales and Marketing organizations. Incremental and disciplined investments in these organizations are critical to supporting the change from a pull to a push model. Having the right resources in the key geographies will provide greater coverage and a closer alignment of the global sales and marketing teams to the key strategic decision makers, allowing us to create a stronger differentiation strategy against our competition.

The second objective is to implement the change from a product or technology-driven strategy to a market-driven strategy. We will pursue this type of strategy to become more market and applications focused in order to build and reinforce our leadership position. And, we will support this change by creating a more attractive value proposition for our System Interconnect portfolio. Our focus will be on developing and bringing to market Smart Interconnect Solutions on top of sustaining the RapidIO Interconnect investment.

What do I mean by Smart Interconnect Solutions or SIS? I am referring to developing new products that remain standard-based but are application specific. We want to integrate more value into our product portfolio through the addition of intelligence to the interconnect versus simple connectivity between system components. There is an opportunity for us to tailor our standards-based, off-the-shelf products to meet the needs of specific high growth applications and the next-generation requirements of our key customers. This new SIS approach will allow us to build greater differentiation in our portfolio while meeting the customer need for greater integrated value in the system interconnect.

The third objective is to implement the organizational changes required to support the business strategy and goals. The success of this strategy is anchored in the alignment of our resources to better support the new strategic focus. Although we are continuously improving to remain competitive and to increase productivity, we will be making organizational changes to support the achievement of the new system interconnect strategy in the beginning of the New Year. I am confident that the new organization will generate greater momentum behind achieving our vision to be the undisputed leader in System Interconnect.

We will continue to invest in our broad System Interconnect portfolio with a strong focus on RapidIO and all the PCI variations. Our RapidIO strategy is to deliver a broad portfolio of high-performance Serial RapidIO solutions for a wide range of wireless and wireline applications. We currently have multiple RapidIO switches in production, which combined with commercially-available development platforms and a strong product roadmap, position us for continued growth and market share in key applications leveraging RapidIO technology.

We are increasingly seeing evidence that the value proposition of RapidIO is being adopted and realized in both current and future deployments of high bandwidth applications. These applications include wireless infrastructure - from 2.5G through to 4G as well as WiMAX - and wireline infrastructure including media gateways and video.

Recent product announcements from RapidIO ecosystem partners such as Freescale Semiconductor who, launched their new digital signal processor with serial RapidIO in July, indicate that the ecosystem is focused on product developments to address these high bandwidth applications.

It is important to describe the picture we are seeing with respect to our customers' deployment of their RapidIO-based systems. Currently, most of the customers are at different stages of designing and implementing our RapidIO switches into their systems. After taking upwards of six months to a year to carry out verification and testing, customers then move these systems into production. It is at this point that customers begin to place volume orders in order to bring their systems to market. Given the staggered timeline our customers' design and deployment activities, we expect the initial ramp-up to be at first, somewhat inconsistent from one quarter to the next and for the next few quarters.

Through our internal research and analysis and with the data provided by current industry reports, we estimate that the Total Available Market opportunity for RapidIO or "TAM" for calendar year 2009 is approximately

\$130M US. RapidIO is obviously a smaller market and currently has fewer competitors than PCI Express, and therefore is an excellent opportunity for Tundra.

In this quarter, we continued to see good indications of the revenue we have modeled for our RapidIO portfolio. We shipped first production orders and although the revenue dollars are small, the rate of growth quarter over quarter shows a very steep growth trajectory. As a result we expect RapidIO's proportion of our total revenue to be somewhere in the mid teens by the middle of next fiscal year.

What impact does this targeted focus on RapidIO mean for the balance of our System Interconnect portfolio and our investment in future product roadmaps? Simply, we will continue to support those product lines that provide a high degree of value to our customers.

We remain committed to maintaining our market leadership in VME with our industry-leading Universe II and Tsi148 bridges. In the near term, our PowerPC Host Bridge portfolio remains highly competitive in terms of performance, power and price. And finally with the recent launch of our PCI products combined with an expected launch of our PCI Express Bridge in the spring of 07, we look forward to gaining greater market share with the expansion of our PCI, PCI-X and PCI Express portfolio.

By leveraging our broad library of IP, our innovative R&D team, our strong partnerships with suppliers and a new sales and marketing organization, we are confident we can deliver products with the industry's best performance, cost, and support, exactly when our customers need them.

In closing, we will continue to target high growth markets and key architectures with our system interconnect portfolio and we intend to further enhance the value provided to our customers through the development of our SIS.

I look forward to working with the global Tundra team as well as our partners and customers to accomplish our short term strategic goals and to ensure we realize our longer term vision to be the undisputed leader in System Interconnect.

Now, back to you David.

David Long:

Thanks Daniel.

This concludes our formal presentation and I will now open the call for questions.

We will close the call at this time and invite anyone who requires clarification on the information shared in today's conference call to contact me or Daniel.

We appreciate your continued interest in our Company and thank you for your time this afternoon.



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