



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 third 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 business and 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 Q3, Tundra delivered exceptional profit growth. Revenue continued to gain on a year-over-year basis, even with continued volatility in communications infrastructure. Our core business remains strong and there is good momentum behind the roll out of our new products lines. And, after five months of the new management team

working together, we are pleased with the progress we have made to date. We have made substantial advances in formalizing our strategy, redefining our focus and implementing the required organizational changes and process improvements to make Tundra more competitive and customer focused and market-driven.

I will now review the business highlights for the quarter.

Today, we announced another significant RapidIO achievement. We have entered into a partnership with Enea, a leading provider of network software and services based in Sweden, to deliver the first RapidIO-based system level software for the wireless communications infrastructure market. Working with Tundra's serial RapidIO development platforms, Enea has implemented and verified complete support for their LINX product, an interprocess communications services over RapidIO platform that is interoperable with Tundra's RapidIO switches. Enea's real time operating system, OSE, is used in approximately 50% of the world's 3G base stations.

In response to customer demand, Tundra and Enea have worked together to offer this important industry first. Customers will benefit as RapidIO and LINX provide a reliable, scalable, high-performance interconnect platform for fast development and deployment of next-generation communications systems.

Also in the quarter, Tundra announced the transfer of the business and operations of RIOLAB, the world's first RapidIO Interoperability testing facility, to an independent third party. Fabric Embedded Tools is a valued vendor in the RapidIO ecosystem that provides RapidIO software, network management and diagnostic tools.

Established by Tundra in February 2006, RIOLAB was created to give commercial semiconductor vendors, FPGA and ASIC developers and OEMs, the ability to validate interoperability of their products and to test for specification compliance. With both the establishment and transfer of RIOLAB completed within one year, Tundra has again demonstrated leadership within the RapidIO ecosystem. This transaction had no material financial impact on Tundra.

Our core business remains strong. Several developments in the quarter demonstrate good momentum behind the execution of our product strategies in the short term. We are committed to maintaining our market leadership in core parts of the business such as VME.

In Q3, Tundra's VME bridge business was solid. In January, the Tundra Tsi148, the industry's next generation VME Bridge, was reduced in price to encourage greater adoption of this higher bandwidth bridge in critical embedded systems for the military and industrial markets. We are already seeing the results of this strategy in new design wins.

I had the opportunity in my keynote to the VME industry's annual event, Bus and Boards, to highlight the benefits of RapidIO as the right serial interconnect to complement VME-based designs. RapidIO provides the optimal performance and reliability for next-generation critical embedded systems such as medical imaging, military and aerospace applications. RapidIO increases system performance by offering a low latency high bandwidth connection for multiple processors and seamless support for globally shared memory. RapidIO also offers the lowest system cost when compared to other serial interconnects.

If you did not see our announcement dated January 15th issued from this event, I would encourage you to take a look. In the release, Ray Alderman, the Executive Director of VITA, which is the VMEBus International Trade Association, is quoted supporting the benefits of adopting RapidIO for the VME market. The steady penetration of RapidIO into the existing VME market is increasing Tundra's addressable market in embedded computing applications.

Now turning to developments in our Host Bridge portfolio.

Our Host Bridges are highly competitive in terms of performance, power and price, and in January, we reinforced this position with the announcement of the sampling of Tsi110 Host Bridge. This Bridge was redesigned for a range of high volume applications including; home gateways, video-over-IP and video surveillance, where cost and power are of primary concern. Further broadening our Host bridge portfolio, the Tsi110 fills a market opportunity for a higher volume, lower priced product. We are currently working with our partners to create bundled solutions combining industry-leading PowerPC processors and our Tsi110 to address high volume opportunities.

Building on the products gained in the Alliance Semiconductor acquisition last year, our PCI, PCI-X and PCI Express portfolio continues to expand. Launched last summer, the Tsi350 PCI Bridge is now in full production. This PCI-to-PCI Bridge provides communications and network equipment customers with a competitive, high quality bridge with low power consumption - a key differentiator in the market for this product.

We also launched the Tsi340 PCI Bridge in the quarter. This synchronous PCI-to-PCI Bridge complements our current PCI portfolio and targets a wide range of applications in the computing/storage and communications markets as well as some consumer and PC-related applications. The Tsi340 is expected to be in general sampling later this month.

Just a brief update on the progress of our new PCI Express Bridge. We recently received our first silicon and early qualification and testing results have been positive. We are ready to ship engineering samples to lead customers and are well on track for our upcoming launch this spring.

In addition to the progress we have made resulting from our Alliance Semiconductor acquisition, we were also pleased to see a significant announcement from our Design Services Division in the quarter.

Silicon Logic Engineering announced the availability of an Interlaken Intellectual Property Core. Developed jointly by Cisco and Cortina Systems, Interlaken is a scalable, high-speed chip-to-chip interconnect protocol. Designed and tested by SLE to be easily integrated into many ASIC and FPGA technologies, this high speed IP Core is designed to work with off-the-shelf components from most leading technology vendors. SLE is currently working with early customers and major ASIC and FPGA vendors to integrate Interlaken into their technology of choice. Interlaken is quickly establishing itself as a de facto interconnect standard in such applications as enterprise routers and switches.

On the corporate developments side, in November 2006, Terry Nickerson, former Chief Financial Officer of ATI, joined the Tundra board of directors bringing notable financial and business background and skills to the group. We are very pleased to have Terry join the Board and we look forward to his valuable contribution.

I would now like to take a few minutes to talk about an important and innovative development we are ready to announce regarding our RapidIO strategy.

Tundra will be shortly making a significant RapidIO announcement made possible by Tundra's design services division, SLE. In response to growing demand from strategic customers and leading vendors in the ecosystem, Tundra is developing RapidIO Endpoint Intellectual Property for licensing. Tundra's RapidIO offering will now extend to include its family of industry-leading switches, development platforms and now RapidIO endpoint IP.

The endpoint IP will be made commercially available to semiconductor manufacturers, ASIC and FPGA vendors and users willing to design RapidIO compliant systems. Furthermore, the IP will allow endpoints in customers' designs to be fully interoperable with Tundra's Serial RapidIO switches, this increasing the market opportunity for our products.

SLE's recent announcement of their Interlaken IP Core complements their already delivered and successful SPI2.4 interconnect offering. With a proven track record in developing, selling and supporting IP, SLE will be instrumental in bringing Tundra's RapidIO Endpoint IP to market.

In addition to the positive financial impact, this new IP offering will further position RapidIO for success as the serial interconnect of choice and positions Tundra as the supplier of choice for RapidIO system interconnect. Once again Tundra has enabled further development of the RapidIO ecosystem and has provided an innovative solution to customers' requirements.

In summary, we made good progress in the third quarter by continuing to expand our product and IP portfolio, leveraging our partnerships and rolling out our short term product strategies for the core business - 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. 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 third quarter of fiscal year 2007 was \$21.7M, a 16% increase over Q3 of fiscal year 2006, and a 1% decrease from Q2 of this year. Our SLE and Alliance Semiconductor acquisitions are contributing significantly to our revenue growth.

Pro forma earnings of \$3.0 million represent a 34% increase over Q3 of fiscal year 2006, and a 26% increase over Q2 of this year.

Pro forma diluted earnings per share of \$0.15 were at the top of the range of the Company's per share earnings guidance of \$0.11 to \$0.15. Strong gross margins and the tax impact of our Potentia acquisition continue to contribute to our earnings performance.

GAAP earnings for the quarter were \$1.3M or \$0.06 per diluted share, down from \$1.5M or \$0.08 in Q3 of fiscal year 2006 and up from a loss of \$0.2M or \$0.01 per diluted share in Q2 of this year.

In the quarter, we recorded a charge for stock-based compensation of \$0.6M.

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 quarter, we had no customer that accounted for more than 10% of revenue and for the quarter, the revenue split was 88% for products and 12% for design services.

Our blended gross margins for the quarter were 69% compared to 67% in Q2 of this year, and driven largely from the products side of the business.

Product gross margins for the quarter were 72%, up from 69% in Q2 of this year, largely as a function of product mix and continued cost improvements. We do not expect over the long term that these margins will be sustainable.

Design services gross margins for the quarter were 44%, down compared to 53% in Q2 of this year. This quarter's margins are however, more indicative of what we expect to see on an on-going basis as compared to

Q2 of this year, which was influenced by exceptionally high levels of utilization.

Turning now, to operating expenses.

Consistent with our expectations, total pro forma operating expenses for the quarter were \$12.7M, or 59% of revenue, up compared to \$9.8M in Q3 of fiscal 2006 and down slightly compared to \$12.8M in Q2 of this year. Similar to our revenue, our operating expenses have been materially impacted by our recent acquisitions. This is highlighted when we look at the year over year growth of our expenses.

Research and development costs were \$7.2M or 33% of revenue, up compared to \$5.8M in Q3 of fiscal 2006 and up compared to \$6.0M in Q2 of this year. As you may recall from our Q2 conference call, we mentioned that some development costs had been delayed in Q2, which now have materialized in Q3.

The sales, marketing, general and administrative expenses were \$5.5M or 26% of revenue, up compared to \$4.1M in Q3 of fiscal 2006 and down from \$6.8M in Q2 of this year. Year over year is impacted by our acquisitions and Q2 was high as a result of the accounting impact of the executive changes that occurred.

Cash flow from operations was \$4.7M, up compared to \$2.5M in Q3 of fiscal year 2006, and up compared to \$4.5M in Q2 of this year. At the end of Q3, we had \$61.5M in cash and short-term investments.

Our Day Sales Outstanding position increased to 38 days, no change over Q3 of fiscal year 2006 and up compared to 33 days in Q2 of this year. Our receivables balance was impacted by the timing of customer demand in the quarter which was weighted towards the last few weeks of the quarter.

Inventory levels in Q3 were \$10.7M, up compared to \$4.5M in Q3 of fiscal year 2006, and up from \$9.8M in Q2 of this year. The year over year movement, as we described last quarter was driven by a number of things: first, our acquisitions of Alliance Semiconductor SSBU and Potentia. Second, a different supply chain model for our new products. We have now moved to a consignment model vs. the turnkey model that we had in place. Third, the introduction of leaded and lead-free versions of our products. And finally, the lack of predictability of communications product demand.

The change in inventory this quarter was mainly a function of build ups of wafers and substrates in response to customer demand for reduced turnaround times. With sufficient wafer and substrate inventories we can reduce our response time by about two-thirds while avoiding carrying higher cost finished goods. We have actions in place in the current quarter to effectively draw down on inventory as a whole.

With respect to guidance for the fourth 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.

Our guidance in Q4, similar to Q3, is largely reflective of the continued volatility in the communications market. While we are seeing good strength in the computing/storage side of the business, the communications side continues to reflect the softening in the end markets due to consolidation and high inventory levels. Given our limited visibility of the end customer demand in this market, we feel our guidance for Q4 is prudent.

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 continue to be guided by three important objectives.

In our Q2 conference call I indicated that the first objective was to reinforce the Sales and Marketing organizations. Incremental and disciplined investments in these organizations have been critical to supporting a change from a pull to a push model and to further develop our culture of customer focus.

Approximately half of Tundra's strategic customers are located in Europe, more specifically in the Nordic countries, Germany and France. Tundra has taken an important step to support its customer-focused strategy by opening a regional sales office in Germany and hiring a Sales Director for Europe. Tundra continues to work towards building a stronger presence and brand awareness in this key region.

The second objective was to implement a market-driven strategy. Over time, Tundra's products have allowed us to develop in-depth customer relationships and knowledge in the communications, storage and embedded computing markets. We are going to deliver our future market strategy on the foundations we have built.

Our strategy is to expand our addressable market in the Communications and the Computing/ Storage infrastructure markets and to pursue them with leadership products. Our Smart Interconnect Solutions approach will allow us to build greater differentiation in our portfolio while meeting the customer need for greater integrated value. In addition, we will sustain and build on our core product families such as RapidIO, PCI, and VME.

The third objective was to implement the organizational changes required to support the business strategy and goals. I am now pleased to announce that we have created two business units aligned with our core markets. In addition to expanding and supporting our current product lines, the Computing/Storage Business Unit and the Communications Business Unit will be responsible for defining our new Smart Interconnect Solutions strategy and maximizing our penetration in these key market segments.

The combination of a customer focused sales force, market-driven business units and leadership products designed by our world class engineering team creates a strong foundation from which we can accelerate future growth of the company.

We continue to invest in our System Interconnect portfolio with a strong focus on RapidIO. And we are seeing further 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.G through to 4G as well as WiMAX - and wireline infrastructure including media gateways and video. Very recent industry announcements continue to show this adoption.

In February, at 3GSM in Barcelona, Ericsson demonstrated its cutting edge 3G Long Term Evolution or LTE system. Embedded in this technology is serial RapidIO - the system interconnect of choice. The demonstration is important not only because Ericsson is a market leader in 3G wireless technology, but because LTE has been defined by the 3rd Generation Partnership Project (3GPP) to deliver high speed mobile broadband wireless services. And, with forecasted growth for 3G subscribers increasing from approximately 100 million in 2006 to 850 million in 2011, operators will migrate to 3G-LTE to meet their needs for capacity and for high speed wireless broadband services.

WiMAX is another very important wireless technology enabled by RapidIO. WiMAX is being deployed worldwide and will support more than 40 million subscribers by 2011. Sprint, for example, is building a US capability in 2007/2008.

These broadband wireless technologies share a number of performance, scalability and flexibility requirements that are directly addressed by RapidIO and its growing ecosystem. High performance processors such as those

announced by Texas Instruments and Freescale Semiconductor, FPGAs and System Interconnect from Tundra are enabling these technologies to come to market to meet the increasing demand for high value mobile voice and data services.

Also at 3GSM, Texas Instruments introduced a new 6488 DSP targeted for wireless Infrastructure. TI's goal is to reduce a multi-line card base station to a single board in which multiple 6488 DSPs are linked via a RapidIO switch.

Tundra switches provide both the performance and latency required for this type of application and are already proven to be interoperable with TI's serial RapidIO DSPs. You will recall in 2003, that Tundra entered into a development agreement with TI to share its industry-leading RapidIO endpoint IP.

It is these significant industry announcements and others that demonstrate the market demand and momentum behind RapidIO. These announcements also lend support to our projections that wireless and wireline communications are adopting RapidIO and will be important addressable markets for Tundra's RapidIO products.

As indicated last quarter, we are still at the very early stages of the growth trajectory for our RapidIO portfolio. We continue to ship production orders to a steadily increasing number of RapidIO customers. In keeping with our expectations, the Q3 RapidIO revenue dollars were small and of similar value compared to Q2 of this year.

In addition to our RapidIO product leadership which is anchored in our superior features, performance and support, our competitive advantage continues to be our first to market strategy. Responding to ecosystem demand, the innovative addition of RapidIO endpoint IP to our expanding portfolio is a key competitive differentiator for Tundra. Given the guaranteed interoperability of the IP with Tundra switches and other key endpoints, we expect to see more demand for our switches driven by the licensing of our IP. We are confident in our RapidIO strategy and in the short term, we expect to leverage our strong leadership position in the ecosystem, our partnerships, and our interoperability to drive more customer wins for our RapidIO products.

Over the next quarter, we will be pushing to maximize opportunities in the core business, while deploying our RapidIO strategy and working hard to increase our penetration in PCI and PCI Express-based applications. In parallel, we will move into the next phases of executing our smart Interconnect Solutions strategy while benefiting from the increased focus driving our new organization.

Now, back to you David.

David Long:

Thanks Daniel.

Going forward we will be reporting revenue for the two business units, which Daniel just described, in addition to reporting the design services revenue.

The main product lines under the Computing/Storage Business Unit will be the VME Bridges and PCI, PCI-X and PCI Express Bridges. The main product lines under the Communications Business Unit will be the Host Bridges for PowerPC and RapidIO Switches.

For the quarter, revenue for the Computing/Storage Business Unit was \$11.4M, up compared to \$9.5M in Q3 of fiscal 2006 and up compared to \$10.2M in Q2 of this year.

For the Communications Business Unit, revenue for the quarter was \$7.7M, down from \$9.2M in Q3 of fiscal 2006 and, down from \$8.9M in Q2 of this year.

Our intent with introducing this revenue split is to provide you with more visibility in how we are segmenting our business in alignment with our new strategy and core market approach.

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

IF NO FURTHER QUESTIONS

David Long:

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 Daniel or I.

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



Tundra Semiconductor Corporation
603 March Road, Ottawa, Ontario, Canada K2K 2M5
Phone 1 613 592 0714 Toll-Free 800 267 7231
Fax 1 613 592 1320 Email sales@tundra.com

TUNDRA is a registered trademark of Tundra Semiconductor Corporation (Canada, U.S. and U.K.). TUNDRA and the Tundra logo are registered marks of Tundra Semiconductor Corporation in Canada, the European Union and the People's Republic of China (Registration is pending in the United States). Tsi301, Tsi308, Tsi310, Tsi350, Tsi352, Tsi148, Universe II, Tsi110, Tsi109, Tsi108, Tsi107, PowerSpan, QSpan, PowerPro, Tsi574, Tsi578, Tsi564A, Tsi568A, and Tsi500 and DESIGN.CONNECT.GO. are registered trademarks of Tundra Semiconductor Corporation. Other registered and unregistered trademarks are the property of their respective owners. Development of the Tsi574, Tsi578 and Tsi576 was made possible in part with the assistance of the Technology Partnerships Canada Program. RapidIO® is a registered trademark of the RapidIO Trade Association. The PowerPC name, Power Architecture name, and the PowerPC logotype are trademarks of International Business Machines Corporation, used under license therefrom.

© Copyright 2006 Tundra Semiconductor Corporation.
All rights reserved. Information subject to change without notice. 9000000_MC055_01