



• Partnership • Total Solutions • Seamless Integration • Interoperability • Convergence • Virtual Division • Connections • Leading Technology • Time-to-Market Advantage • Collaboration

2001 FINANCIAL OVERVIEW

(In thousands, except per share data)

Consolidated Statement of Operations Data

	2001	2000	1999	1998	1997
Revenues	\$227,752	\$340,676	\$251,090	\$186,548	\$191,814
Gross margin	\$ 35,172	\$116,897	\$ 92,297	\$ 62,684	\$ 70,549
(Loss) income from operations	\$(60,332)	\$ 34,005	\$ 16,604	\$ 8,569	\$ 21,165
(Loss) income before extraordinary item	\$(34,486)	\$ 29,345	\$ 18,997	\$ 7,818	\$ 14,272
(Loss) income before extraordinary item per share (diluted)*	\$ (2.00)	\$ 1.62	\$ 1.11	\$ 0.48	\$ 0.88
Weighted average shares outstanding (diluted)*	17,249	18,161	17,110	16,129	16,212

Consolidated Balance Sheet Data

	2001	2000	1999	1998	1997
Working capital	\$141,940	\$ 205,357	\$ 68,863	\$ 83,083	\$ 78,744
Total assets	\$304,860	\$ 334,003	\$ 187,563	\$131,727	\$130,200
Long term obligations, excluding current portion	\$104,180	\$ 97,191	\$ —	\$ 88	\$ 399
Total shareholder's equity	\$150,711	\$ 179,331	\$ 134,255	\$106,827	\$ 99,422

Note: The selected financial data as of the two years ended December 31, 1998 and 1997 has been restated to reflect the merger with Texas Micro Inc., which was accounted for as a pooling of interests.

*Reflects the three-for-two stock split on November 29, 1999

Building blocks, platforms and application

RadiSys designs and manufactures building blocks, platforms and application subsystems for next-generation communications equipment. As the leading independent provider to OEMs, RadiSys delivers a time-to-market advantage in a tight "virtual division" relationship with its customers. The span of products ranges from board-level components such as processors, network interfaces, and packet processing engines, to communications middleware software such as signaling and networking protocol stacks, to platforms based on PCI, CompactPCI, and switch-fabrics, to services such as NEBS certification and software and microcode professional services, all the way up to private-label gateway systems. RadiSys' highly differentiated position in the market is a result of its intense focus on Intel-based technology, having the broadest array of building blocks, and a "perfect fit" product development strategy using its intellectual property to design customer subsystems.

subsystems for next-generation communications equipment



From the unconscionable evil acts that occurred on September 11 to the high-tech and telecom downturn that affected the livelihoods of hundreds of thousands of employees in the industry, 2001 was a year that many of us might want to strike from our minds. But rather than stick our heads in the sand, we need to be learning continually from the past and using this insight to improve the future.

2001 was a tough year financially for RadiSys, although perhaps the silver lining is I believe that it was much tougher on our competitors. Our revenue decreased 33% from a \$341 million record year in 2000 to \$228 million in 2001. And where we earned \$33 million in 2000, we had a loss excluding one-time charges of \$10 million in 2001, or \$34 million including one-time charges, the largest of which was an inventory write-down. The meager silver lining is that we believe we've gained market share from our competitors.

Despite the downturn and resulting cost reductions we put into place, we were able to maintain our momentum toward our long-term vision and even launch some key new initiatives toward that end.

FOUR STEPS AHEAD IN NEW TECHNOLOGY

In 2001 we made significant leaps forward in four areas of technology: switch-fabric system architectures, network processors, signaling over IP networks, and complete system solutions. In switch fabric, the most-visible event was our major announcement in December of a complete set of building blocks for what is called the 2.16 standard for CompactPCI, or the introduction of a packet-switched backplane. Not only was the scope of our announcement the most extensive for this architecture, but each of the building blocks is also an advancement in technology. The not-so-visible events were several large switch-fabric solutions we implemented for specific customers on more of a proprietary basis.

Network processors are a whole new approach to designing equipment that does packet processing, and RadiSys has a strong leadership position in developing solutions using Intel's IXP network processors at the core. In addition to our hardware products, our acquisition of Microware in 2001 gives us a strong offering of IXP-based software and software professional services. Similarly, another acquisition of a software-oriented company, S-Link, gave us an industry-leading position in the use of next-generation packet networks for SS7-type signaling. This software forms the core of a set of complete system products we have to offer, such as the Savvi ST SS7/IP Tunneling Gateway and Savvi SX Signaling Extender Gateway.

The fourth significant advance for us in 2001 was the emergence of complete system solutions. The gateways mentioned above are of course an example. A number of our largest design wins in 2001 are situations where our customers, generally the major telecommunications equipment manufacturers, are looking to RadiSys to deliver complete system solutions, where we provide everything that is needed, from systems engineering, to the hardware pieces, to the software, to the agency certifications such as NEBS.

DESIGN WINS DO A YEAR-END TURNAROUND

One of the disappointments in 2001 was the effect on the strong set of design wins we achieved the year before; a significant number of design wins were simply "wiped out" because the customers' product lines they were a future part of ceased to exist due to massive downsizings and product pruning by our major customers. Design win behavior is of key importance to us because it is a strong predictor of future business. The sheer number of new design wins was also down in 2001, although we finished the year with a strong fourth quarter. One of the aspects of design wins we measure and track is the forecasted lifetime revenue of each win, using a forecast that originally comes from the customer and then is typically judged downward by us depending on a number of factors. From the perspective of future revenue potential, the fourth quarter was the largest design-win quarter in our history (the previous high was the fourth quarter of 2000). Our wins spanned a healthy array of applications, including 3G wireless infrastructure equipment (the highest percentage), 2.5G wireless, packet-network switches, optical switches, routers, gateways, video packet systems, network-analyzer test equipment, and others.

OUR STRATEGY EVOLVES

We described our strategy for the last few years as one revolving around building blocks used by our customers to build next-generation communications equipment. Building blocks are still fundamentally important to us, but we see an opportunity to be even closer to our customers, as well as enlarging our total available market, by "moving up the food chain" with significantly more value we contribute to our customers' products. So today we talk more with our customers about our providing applications subsystems and platforms as a core offering, and go one step further and provide complete system solutions that our customers might take to market very quickly on an OEM or private-label basis. By an applications subsystem we mean something that is a complex part of an even more-complex system, where our part typically deploys a high degree of software and hardware value and is viewed as a "black box" by our customer. In a sense it is a vertical cut through a system definition. An applications platform, more of a horizontal cut, is typically a package of hardware and lower-level software (e.g., "communications middleware") on which our customers would develop their application software prior to selling the whole product as a piece of communications equipment.

The reason this enlarges the available market to us is that we plan to sell solutions at all levels. For instance, we will continue to sell our board or blade-level building blocks to customers who wish to buy at this level. We will sell our software capabilities as such to customers who are developing their own hardware building blocks. We will, of course, continue to sell at the subsystem and platform level when we can. And, in more limited way, we will sell complete system solutions, such as our signaling gateways, to equipment makers who see these as rapid time-to-market opportunities.

STRONG RELATIONSHIPS PROVE EVEN MORE VALUABLE IN 2001

When times are tough and everyone is belt-tightening, you realize that your strong relationships are worth more than ever. Our strategy necessitates a strong bond with Intel, and this already solid bond improved significantly in 2001. As a few examples, we conducted four web-based technology seminars co-sponsored by Intel and RadiSys, Intel moved their equity investment in RadiSys into their Intel Communications Fund, a number of our design wins involved Intel as a partner, some where Intel is actually doing some development with us, and especially in the area of network processors, Intel and RadiSys are working very closely together with both current-generation and future-generation silicon.

Our customer bonds, and certainly our concept of behaving as a virtual division of our customers, were a source of strength during the downturn. Consistently, for all four quarters, our four top customers were Nortel, Nokia, Comverse, and IBM, with both Nokia and Nortel being above 10% of our revenue. During the year, we developed relationships in new product areas with these four customers as well as many others important to us, such as Siemens, Avaya, Cisco, Alcatel, Lucent, Tektronix, and Agilent. Emerging companies with exciting prospects, such as Skystream Networks and Cyneta Networks, represent new growing relationships for us.

GETTING BACK ON A GROWTH TRACK

I believe the wisest move we made in 2001 was our approach to spending. We started cutting early in the year, with our biggest initiative being the decision to close our manufacturing facility in Houston and consolidate manufacturing in Oregon. We made other cutbacks throughout the year, and in the end reduced our spending and thus our break-even point considerably. We made a conscious decision to leave our R&D programs pretty much intact, meaning that our approach was to invest for the long term. As much as many of us are uncomfortable having an unprofitable year, we all realize that it is far more beneficial to our stakeholders to optimize our growth potential two-to-three years out than to be marginally profitable today. I believe that we'll see increasing evidence of the impact of our investments as we progress through 2002.

Glen Myers
Chairman and CEO

MANAGEMENT

- Dr. Glenford J. Myers***
Chairman of the Board, President
and Chief Executive Officer

Stuart F. Cohen
Vice President of Strategic Alliances

Ronald A. Dilbeck*
Senior Vice President and General Manager,
Telecommunications Division

Seamus Gilchrist
Vice President, Signaling Products
Design Center

Julia Harper*
Chief Financial Officer and
Vice President of Finance and Administration

Arif Kareem*
Senior Vice President of Corporate Marketing
and Strategic Business Development

Keith Lambert
Vice President of Manufacturing Operations

Chris Melson
Vice President and General Manager,
Communications Software Division

Richard Smith
Vice President of Applications Equipment
Division

Terri Timberman
Vice President of Human Resources
and Administration

Frederick Yentz*
Vice President and General Manager,
Enterprise Systems Division

* Executive officer of the Company under Section 16
of the Security Exchange Act of 1934

ANNUAL MEETING
The annual meeting of shareholders for RadiSys Corporation will be held on May 21, 2002 at 8:30 a.m. at 5445 NE Dawson Creek Drive, Hillsboro, Oregon.

BOARD OF DIRECTORS

- James F. Dalton**
Vice President, Corporate Development,
General Counsel, and Secretary
Tektronix, Inc.

Richard J. Faubert
President and CEO,
SpeedFam International
Member of Board of Directors of SpeedFam-IPEC, Inc. and
the North American Board of Semiconductor Equipment and
Materials International.

C. Scott Gibson
Co-founder and Former President,
Sequent Computer Systems
President of Gibson Enterprises
Member of the Board of Directors for Triquint Semiconductor,
Inc., Cenquest, Inc., etrieve, Inc., LiveBridge, Inc., Oregon
Health Sciences University, Flatrock, Inc., and the Oregon
Community Foundation

Dr. Glenford J. Myers
Chairman of the Board, President and CEO
RadiSys Corporation

Carl W. Neun
Member of the Board of Directors for
Planar Systems, Inc., Powerwave Technologies, Inc.,
SpeedFam-IPEC, Inc., and Sabrix, Inc.

Jean-Pierre D. Patkay
Chief Operations Officer
Tollbridge Technologies, Inc.

Jean-Claude Peterschmitt
Independent Consultant

CORPORATE HEADQUARTERS
5445 NE Dawson Creek Drive
Hillsboro, OR 97124
1-503-615-1100
1-800-950-0044

TRANSFER AGENT
Mellon Investor Services LLC
PO Box 3315
South Hackensack, NJ 07606
1-800-522-6645

FORM 10-K
The Company's financial statements are also
available on the Securities and Exchange
Commission's EDGAR system "www.sec.gov"



5445 NE Dawson Creek Drive
Hillsboro, OR 97124

Toll-Free: 1-800-950-0044

Phone: 1-503-615-1100

FAX: 1-503-615-1121

Internet E-Mail:
info@radisys.com

World Wide Web:
<http://www.radisys.com/>