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RSYS - Q4 2012 Radisys Corporation Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Radisys's fourth-quarter earnings conference call with Brian Bronson, Radisys's President and Chief Executive Officer, and Allen Muhich, Chief Financial Officer. As a reminder, this call is being recorded. Later we will conduct a question-and-answer session.

(Operator Instructions)

Mr. Bronson, you may begin.

Brian Bronson *- Radisys Corp - President, CEO*

Thanks, Paula, and good afternoon, everyone, and thanks for participating on the call today. Will be discussing fourth-quarter business and financial highlights, a strategic update, and our outlook for the first quarter. We will then open up the call for questions.

Before we get started, let me turn it over Allen for a caution about forward-looking statements.

Allen Muhich *- Radisys Corp - CFO*

Thanks, Brian. Any statements in this call regarding future expectations for the business of Radisys constitute forward-looking statements that involve a number of risks and uncertainties. We caution you not to place undue reliance on these statements. Factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in today's earnings release, and in our SEC filings, most recently in our quarterly report on Form-10 for the quarter ended September 30, 2012. All information provided in this call is as of today. Radisys undertakes no duty to update any forward-looking statement to conform to actual results or changes in the Company's expectations. In addition, during the call will discuss some non-GAAP measures. We have provided a GAAP to non-GAAP reconciliation of these measures in today's earnings release.

Now I will turn the call back over to Brian.

Brian Bronson *- Radisys Corp - President, CEO*

Thanks, Allen. Our fourth-quarter revenue of $69.3 million and non-GAAP EPS of $0.03 exceeded our expectations. We had good Q4 Media Resource Function, or MRF, shipments, which enabled us to finish the full-year with 23% year-on-year revenue growth. In ATCA, we've see market demand stabilize, when combined with the continued ramp of our new T-Series 40-gig ATCA products, resulted in 25% sequential quarterly revenue growth.

These new products accounted for nearly 30% of our total fourth quarter ATCA revenue and I have been particularly pleased with the passion our team has exhibited in meeting our customer demand. Taken together, our overall revenue increased 9% sequentially, and when combined with solid expense management resulted in a return to profitability.

Turning to design wins within our platforms business, our customers awarded us wins that spanned many of our targeted products, including femto gateways and edge routers, as well as our new network appliance, the RMS-220. Taken together, we added over $60 million in expected platforms revenue over the next five years to our design win portfolio. Additionally, we made great progress on the strategic objectives I outlined to you at the end of October. During the quarter, we conducted a very structured and thorough strategic planning process to confirm, and in some cases tighten, our strategy to focus our investments on our most important areas. These predominantly include software, full hardware systems, and complex solutions targeted primarily at the telecommunications infrastructure market. Our number one strategic focus is taking our MRF, the MPX-12000, and capturing the huge growth opportunity in voice-over LTE and moving video through the network. We have units in lab trials at over 10 significant global carriers, and a growing funnel of additional opportunities.

In 2013, we expect these trials will modestly build on our 2012 audio conferencing revenue growth, and will meaningfully add to revenue in 2014 as expected voice-over LTE deployments ramp. Our leadership position in audio conferencing makes us the incumbent, as we expand our capabilities into voice-over LTE. We also increasing our investment in the areas of video conferencing, as well as enabling rich communications services. By the way, we have renamed this product line from Media Server to Media Resource Function, or again MRF, to more clearly label its true capability of processing audio, video and other media throughout 3G and LTE networks. Another area focus will be leveraging our 150-plus employees in our professional service organization to uniquely combine our hardware and software technologies, to enable telecom solutions such as load balancers, edge routers and various types of telecom network gateways, including both LTE and femto gateways. We have strong design win traction in this area, and expect this to be an area of accelerating growth moving forward.

Our investment in providing software solutions into the small cell market will also continue to be a focus. While small cell LTE deployments have ramped more slowly than originally anticipated, they remain a key element of carrier plans to optimize spectrum utilization, and meet the expanding capacity requirements of moving data through wireless networks. Our TOTALeNodeB product is ideally positioned alongside our silicon partners to capture this growth as carriers deploy. We expect nice growth in 2013, accelerating into 2014 and beyond.

Finally, our ATCA portfolio of products will continue to be the foundation for much of the above, plus will continue to be sold on a stand-alone basis. This product line remains the building block for many network elements and applications that carriers require, as they continue to optimize 3G and deploy LTE networks. We will continue to focus on leveraging our full systems, including the software layer necessary for the interoperability of the various components for Gateway, Deep Packet Inspection, and other network applications. By the way, 90% of our investments moving forward will be focused in driving growth in the areas I mentioned above. As part of our strategy, we have also made difficult decisions to stop doing things where the product was approaching end-of-life, or revenue and profit expectations were too far in the future, and the market opportunity was not material enough to warrant continued investment.

One such example is our Security Gateway, where we began investing a couple of years ago, had good initial traction with some important customers, yet shipping revenue generating units remained at risk, and didn't outweigh the continued necessary investments. So we have changed our go-to-market strategy on Security Gateway to aligns its development funding model with the rest of our solution portfolio, where we will require customers to fund the product development cost. This is a change for our customers, and puts future product volumes at risk, however is more aligned with our ability to fund and take the product to market. Another example is some older non-strategic software that was approaching end-of-life, and is used in highway traffic control, called OS-9, that we have now sold to our distributors for $1.7 million in cash over the next couple quarters, without materially affecting our ongoing business results. So both of these are examples of the types of difficult decisions we have made, and will continue to make, that help position us for improved execution and focus, by enabling us to do fewer things better.

Before I turn the call over to Allen, I want to say a few words about my time last week at Mobile World Congress. Overall, the show was a huge opportunity for us to demonstrate to our customers and partners the progress we've made in several key areas. Number one, one of the key themes of the show was voice-over LTE, and as I indicated earlier we are in a market leadership position with our MPX-12000, and after seeing real-time how product is aligned with our customers' deployment strategies, I'm more optimistic than ever that we've hit the mark in terms of features, cost and timing with this product. Number two, I remain confident that small cells will be an area of growth and profit for us, and we are well-positioned given our complete solution offering, and partnerships with key players such as we've announced just over the last two weeks which with Broadcom and Airspan. Number three, our unique ability to take our hardware and software capabilities and deliver solutions to our customers, such as femto and LTE gateways, load balancers and edge routers, are gaining significant traction with several different customers.

Number four, thought leadership matters, as our broad market is going through rapid technological changes. Manish Singh, our CTO, held a key speaking slot at the show talking small cells, and his leadership has helped position us with the right technology and product set to capitalize as carriers accelerate their small cell deployments. We have a unique opportunity to help our customers navigate this paradigm with our solutions capabilities. Number five, at the show we celebrated our 25 years in business by inviting 80 key customers and partners, as well as a number of executives from leading telecom equipment providers and carriers. I have to tell you we have come a long way as a Company, and given our tightened focus, robust product roadmap, established partnerships and key customer relationships, I'm confident we are well-positioned to capitalize as carriers continue to build out their global LTE networks and reduce network congestion.

With that I'll turn the call over to Allen, who will speak more about our fourth-quarter financial results and projections for the first quarter.

Allen Muhich - *Radisys Corp - CFO*

Thanks, Brian. Our fourth-quarter revenue was $69.3 million and non-GAAP EPS was $0.03. Our fourth-quarter top five customers were AAI, Arrow, NEC, Nokia Siemens Networks and Philips Healthcare. Most of these customers have regularly been in and out of our top five, however AAI may be a customer we have not discussed in the past. AAI purchases our ATCA products for use in defense and aerospace networking applications. Two customers, Nokia -Siemens Networks and NEC, each accounted for more than 10% of fourth-quarter revenue. Q4 non-GAAP gross margin was 33.4%, representing approximately a two percentage point increase when compared to Q3. An increase in higher-margin software solutions revenue, combined with improved overhead absorption on increased ATCA revenue, resulted in higher fourth-quarter gross margin. Fourth-quarter non-GAAP R&D and SG&A expense of $22 million represented an $800,000 reduction when compared to the third quarter.

Switching over to the balance sheet, fourth-quarter DSO of 67 days represents a five-day improvement when compared to the third quarter. We made some progress in the quarter smoothing out our shipments, which enabled more of our fourth-quarter shipments to be collectible before December 31. Total inventory and associated inventory deposit decreased by $1.1 million to $28.9 million, as we continue to focus on reducing overall inventory levels. Our cash balance at the end of December increased by $1.4 million to $33.2 million. We generated $3 million in cash from operations and added $2 million in capital expenditures.

Moving over to the first-quarter outlook. We expect Q1 revenue of between $66 million and $71 million. At the midpoint, revenue is expected to remain relatively flat when compared to Q4, and reflects the stabilizing demand environment Brian mentioned earlier. We expect first-quarter non-GAAP gross margin to approximate 32%, representing a one percentage point decrease when compared to the fourth quarter. A modest decrease in our higher-margin software solutions revenue that is offset by an increase in ATCA revenue, is expected to adversely affect overall gross margin rates. Q1 non-GAAP R&D and SG&A expenses are expected to remain relatively flat. In Q1, nonoperating expense and non-GAAP taxes are each expected to approximate $200,000. We expect first-quarter non-GAAP EPS to range from a loss of $0.05 to a profit of $0.03 per diluted share.

I should also mention that, as a result of the strategic decisions Brian mentioned earlier, we anticipate taking a first-quarter non-cash charge of approximately $3 million to write off prepaid licensing fees associated with our Security Gateway product. Somewhat offsetting this will be a $1.7 million gain on the sale of our OS-9 assets. Given the nonrecurring nature of both these items, we intend to exclude the net $1.3 million dollar charge from our first-quarter non-GAAP income. I anticipate our net cash balance will increase in the quarter, reflecting positive cash flow net of changes in debt. Capital expenditures will approximate $2 million.

As I mentioned earlier, our cash balance at the end of December was $33.2 million. On February 14, we retired $16.9 million of maturing convertible debt, leaving $18 million outstanding with a maturity date of February 2015. As of December 31, our borrowing base supported $25.1 million in unused and available credit from our Silicon Valley Bank line.

With that, I will hand the call back over to Brian.

Brian Bronson - *Radisys Corp - President, CEO*

Thanks, Allen. In summary, I'm pleased with the progress and the tightening focus we've brought to the business over the last five months. I believe our employees have responded well to the direction we've set on focusing the Company, improving the customer experience, and driving increased accountability throughout the organization. We beat fourth-quarter financial expectations top to bottom, returned the Company to non-GAAP profitability, and generated positive cash flow. We completed a structured strategic evaluation of all our product lines. The organization has responded well to the strategic clarity, as well as to the additional focus again we placed on accountability. We do what we say we're going to do.

I continue to be extremely excited by the market opportunities and the acceptance of MRF within the voice-over LTE market and then into the video market. The market opportunity for our product is significant. And while our small cell opportunity has pushed to the right, we are absolutely poised for profitable growth moving forward, and our unique solutions play has exceeded my expectations and will be a fundamental differentiator for Radisys moving forward. And last but not least, I'm encouraged by the improved market stability for our ATCA business.

And with that, we are ready to open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

You have a question from Richard Valera of Needham & Company.

Rich Valera - *Needham & Company - Analyst*

Thanks, good afternoon, gentlemen.

Brian Bronson - *Radisys Corp - President, CEO*

Hey, Rich.

Rich Valera - *Needham & Company - Analyst*

Let's talk about what I consider your noncore businesses at this point, COM Express and the legacy other. I think in the past you've talked about the potential for maybe divesting them to make yourselves sort of a more pure higher-margin growth play. Just wanted to get any sense as to if you had any updated ideas on that front?

Brian Bronson - *Radisys Corp - President, CEO*

Yes, I will tell you that -- I mentioned in my prepared remarks that there more focus to think through. I think it is still a possibility. That being said this business, and Rich you know this, is a contributor. It is a flat business today, going from a decline, right? So the business has been stabilized, design wins have been good, it adds quote-unquote profit, but I'm not done with focus yet. So you'll have to stay tuned on what that means, but it could mean that we are running it, and it is a different cost structure moving forward, or it could mean that we're going to continue to sharpen the focus of the Company. But I'm sort of four months into those remarks at this point in time.

Rich Valera - *Needham & Company - Analyst*

Great. And then at the public presentation in January, or conference actually, you gave some color on kind of expected growth rates for your four existing business segments for 2013, and wondering if you're reaffirming them? How should we think about that commentary you had given on those segments, which included I think about 10%, 15% growth for ATCA and 20% for software solutions?

Brian Bronson - *Radisys Corp - President, CEO*

Yes, I would say still my point of view hasn't changed, and what I don't want to do is get into the specific quarters out in 2013 because my visibility really hasn't changed. But for the year you're quite right, ATCA I think over time 10%,15%. I'm not sure it gets to the higher end of that, but were still driving towards growth, and I absolutely see 10 points of growth there. We really need our software business to grow 20%.

I mentioned that our MRF business was ahead of that in 2012. I expect more of that this year. We need to get Trillium growing at the same clip, and our Solutions business helps. Small cells will start to deploy. That will add some where we thought originally would add in 2012. I think our COM E and Rack Mount Server business is flat, plus or minus, so again no change. And then the good news is our legacy business is smaller now, but it still looks to be $25 million, is it $30 million, and that will be a haircut from what Allen, close to $50 million I think in 2012.

Rich Valera - *Needham & Company - Analyst*

Right. Okay. That's helpful. And then on the -- just want to get a feel for this MRF pipeline, and your thoughts on the conversion of that pipeline to revenue. I guess one thing history has shown is that whatever you tend to think the conversion timing will be, push it out 6 months or 12 months and you -- maybe you're right.

Brian Bronson - *Radisys Corp - President, CEO*

Yes.

Rich Valera - *Needham & Company - Analyst*

But so I just want to get your feel for that, and what kind of conviction you have that some of that converts to revenue this year? Because it seems like you'd need a pretty healthy back-half ramp in -- probably in MRF to get to that kind of 20% type of growth rate for software solutions? Thanks.

Brian Bronson - *Radisys Corp - President, CEO*

Yes, really good question, and the good news about -- you know, cross your fingers, right, on MRF we delivered 23% growth in 2012, and again a bulk of that was our existing audio conferencing business. That will continue to be to same in 2013, so we aren't expecting and needing big growth in Voice-over LTE to deliver the growth rates that I've been mentioning. So hopefully get to have our cake and eat it, too, around enjoying ongoing audio conferencing and audio-related MRF sales, and then start moving from trials into real POs in the case of Voice-over LTE.

What does that mean for 2013? Maybe only plus or minus 10% of our revenue will be Voice-over LTE, and then expected to be more meaningful in 2014, which means I don't expect our audio business to decline, but Voice-over LTE and then into video conferencing, et cetera, I'm hoping to -- will allow us to accelerate our growth rates in 2014 and beyond. And that's the intent, and that's what we see.

Rich Valera - *Needham & Company - Analyst*

That's helpful. Thank you. And Allen, just one question for you. How did you fund the payment of the convert? Was that on your credit line or out of cash or some of both?

Allen Muhich - *Radisys Corp - CFO*

So at the end of the quarter, at the end of the fourth quarter, Rich, we did not have any of our line drawn from Silicon Valley Bank. In the quarter, we have drawn on the line. We are into the line today. But at the end of our quarter we may be ourside of the line. We tend to have some cash consumption, specifically in our US entity mid-quarter, that requires us to get into our SVB line. But at the end of the quarter, here at the end of the first quarter we likely will be all of it, or maybe have $5 million to $10 million drawn on it. But essentially we wrote a check with the cash that we have in the US, utilizing some of SVB.

Rich Valera - *Needham & Company - Analyst*

Got it, perfect. Thanks, gentlemen.

Brian Bronson - *Radisys Corp - President, CEO*

You bet, thank you.

Operator

The next question comes from James Kisner at Jefferies & Company.

James Kisner - *Jefferies & Company - Analyst*

Hi, guys. So, just first question, just on the software being down seasonally, is there -- is it purely -- or I should have said down sequentially, is that partly seasonality? Is there anything connected to the divestiture there that would have that down sequentially? Can you put a little more texture on the decline in software quarter-over-quarter that is expected?

Brian Bronson - *Radisys Corp - President, CEO*

Yes, so nothing about the divestiture, answer to your easy question first, but nothing has changed in our MRF business around audio conferencing. It comes in lumps. Sometimes it is in the first half, sometimes in the second half. It's really when our biggest customer wants to roll out a node, or when our other top three audio conferencing customers decide they want to upgrade their current infrastructure. So, I would say that's shaping up to be another, probably, second half. And I speak with conviction, because that's just the way particularly since we owned the business, right, and sometimes again it is first half, sometimes it is second half. I feel very good about the yearly projection for MRF.

James Kisner - *Jefferies & Company - Analyst*

Okay, and so just related to that, I am trying to think intuitively how that MRF business scales? I mean I think about VoLTE, it scales with a ratio of subscribers to live sessions. Is there way to think about that for the MRF business, is there ratio of subs to audio conferences, or some way to just try to scale that business in our minds?

Brian Bronson - *Radisys Corp - President, CEO*

Yes, it is a good question. I'm not sure I'm quite ready to articulate what the right measure is. We're -- I mentioned we are in ten trials. Both of those, by the way, go through a couple of big channels. Well it is now public, one of them, our partner is Mavenir, is one of those channels. But it is more about port pricing, and it's about the upgrades, and give us then a couple quarters to give us the right -- give you the right metric to say here's progress or not. Because right now I can tell you as to counted trials, we have received some POs, it is real. We're in the network in at least one situation, and maybe middle of the year I can provide some better color.

James Kisner - *Jefferies & Company - Analyst*

Fair enough, okay. So just turning to your commentary on small cells, I guess I'm just trying to understand. I mean small cells has pushed out in the past. So I am just wondering if it has pushed out yet again in your expectations, or if that's just a sort of reiteration of what you previously said. And again, I'd ask a question in a similar way on small cells, but how do we think about the scaling of that? Do get paid on a per unit basis? Is it just an overall license? Like how do we think about small cells and timing, and the business model there?

Brian Bronson - *Radisys Corp - President, CEO*

Yes, so really good questions and thanks for the clarification of calibration. So nothing new for me on pushing to the right, so I'm reconciling that we originally had expectations for very, very nice growth in the back end of 2011 and in through 2012. And it now starts to be looking to ramp in 2013. Still not meaningful, but it is a technology access fee upfront, and then royalty model on the back end. So what I'm talking about deploying is more upfront licensing deals, but more importantly starting to see widgets or actual units being shipped, where we get a royalty per unit shipped from our customers. And that's pretty much pure profit, and so even $2 million, $3 million of ROI makes a big difference for us.

James Kisner - *Jefferies & Company - Analyst*

Okay, that's helpful. I'm going to go back to something Rich asked about. You guys have given growth expectations by business. Did you give an expectation for the legacy businesses, and what those decline rates, I assume they are decline rates, might be for '13?

Brian Bronson - *Radisys Corp - President, CEO*

I did, but it is important to punctuate it right. So, in the case of COM Express and Rack Mount Server, I expect it to be flat plus or minus from 2012. So, the good news is we're no longer declining. It's flattened out, thanks to the design wins we've won over the last couple of years. Then I do expect it to start to grow a bit in 2014. So that's the trajectory for that business. In other, still expected to be $25 million, maybe $30 million this year, and what is that Allen, down what? 40%?

Allen Muhich - *Radisys Corp - CFO*

45% to 50%.

Brian Bronson - *Radisys Corp - President, CEO*

Yes.

James Kisner - *Jefferies & Company - Analyst*

Okay. Sorry, I'm going to get into my questions, here. Just expenses, how should we think about the trajectory assuming. I know you're trying not to talk about quarters. I'm assuming that you see revenues moving up sequentially through the year, at least directionally, and so is there some opportunity to get leverage on those expenses, or even maybe in some quarters decline? What do you think about expenses?

Allen Muhich - *Radisys Corp - CFO*

Yes, that's really good question, James. So again, in our fourth quarter we had $22 million worth of expense. We guided that in Q1 we would stay at that $22 million, and I think frankly that $22 million level is a reasonable level to assume for the balance of the year, and we'll have a couple of different dynamics going on.

We will certainly have some merit increases that we have to provide our employees. A significant number of our employees are in higher-cost -- or excuse me, low-cost, high-inflationary geographies like India and China, and so those changes tend to be a little bit material for us in terms of the percentage change. So we've got that dynamic.

We also in 2012, and in Q4 specifically, did not have any variable compensation. We would like to pay our employees some variable compensation moving forward, so that will be a little bit of a headwind. But Brian and I are going to continue to focus on taking additional cost out of the organization, and so therefore we believe that will be able to offset those other natural increases to keep our operating expenses relatively flat through the balance of the quarter -- or through the balance of the year. We might see a little bit of an increase in some quarters and a little bit of a lower number in other quarters, but again relatively flat.

James Kisner - *Jefferies & Company - Analyst*

Okay, great. I've asked enough questions, I guess. I'll go ahead and put -- pass it. Thanks very much, guys.

Allen Muhich - *Radisys Corp - CFO*

Thank you.

Operator

You next question comes from Aalok Shah of D.A. Davidson.

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

Hey, guys, couple quick questions. Can you hear me?

Brian Bronson - *Radisys Corp - President, CEO*

You bet.

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

So just a couple quick questions, first around Nokia Siemens. We've heard from some of your other customers essentially, or competitors, talk about Nokia Siemens being down quite a bit in Q1. And I'm curious as to what you think your visibility at Nokia Siemens looks like, for not only this quarter, but going forward, and do see an AT&T CapEx ramp helping you this year?

Brian Bronson - *Radisys Corp - President, CEO*

Yes, I will qualitatively speak to NSN, and again I just spent lots and lots of time with the folks at PakaKor and Small Cell, and some of the other areas within NSN last week, and to be honest with you, our numbers and our forecast looks plus or minus to me. I don't get the sense at all, insinuate they are going to be down meaningfully.

Again, we are no barometer, but again is our largest customer. More importantly, really impressed with the transformation of the organization. The kind of things that their focused on, their willingness to embrace enabling technology. Their ongoing focus on cost, quality, customer experience. Again very, very bullish on them, particularly relative to even just a year ago. They are winning in the market

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

Okay. And then in terms of AT&T, should your funnel through Nokia Siemens then improve, if Nokia -- if we do see the AT&T CapEx rise, as they have kind of indicated that it should, on the wireless front?

Brian Bronson - *Radisys Corp - President, CEO*

Yes, I think it -- we can see higher though -- I'm pausing a little bit because at the end of the day, I still think biggest upside for us relative to AT&T in the context of our current picture is MRF. And the existing business their revenue looks solid, and the opportunities to do incremental business with AT&T look very, very good. So, but my best barometer probably for them is not so much, even on the ATCA, the platform side, as it is on the MRF side.

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

Then Brian, can you walk me through the Trillium software licensing? How does that work? Is a one-year kind of license agreement, is it multi-year? How do you guys typically structure deals around Trillium?

Brian Bronson - *Radisys Corp - President, CEO*

Every deal, as you mentioned, is different, so that being said you enter into a conversation with a customer, and you ultimately settle on a TAF, a technology access fee, that can be, let's just say for the purpose of the conversation $500,000 or $250,000. You then also get some maintenance, ongoing maintenance from that, and then you agree on a royalty rate out in time, when widgets or when units deploy.

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

Are these licenses kind of on a rolling basis? Is there a quarter or two that really are strong for you guys in terms of licensing?

Brian Bronson - *Radisys Corp - President, CEO*

Not so much. It's been -- that piece has been pretty consistent. What we are really, again, looking forward to is to get those royalties starting to ramp. So, our guys get -- and win new licensing deals or access fee deals every quarter. That makes up quote-unquote a bulk of the revenue on the non-professional service side of Trillium and solutions, and then again maintenance is a chunk, and then over time we need royalty to be growing piece of that Trillium revenue stream.

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

Then two last questions. There is only 25 days left in the quarter, and you guys are giving a pretty wide range for revenue. Is it dependent on one big deal or two big deals or something that we should be thinking about, or is it just you guys are trying to be a bit conservative with the guidance at this point, because it does seem like a pretty wide range for guidance?

Brian Bronson - *Radisys Corp - President, CEO*

Well, it's a good question, and there's been better quarters that not from the linearity perspective. But the reality, Aalok, is that we're shipping half our revenue in the last month, and that's just the way the linearity has played out. It is not -- there's been quarters again where it's closer to one-third/one-third/one-third, but we have quite a bit to ship in margin. That's not -- don't walk away with a signal that's bad, but with Chinese New Year, and POs come in, et cetera, we've got a lot to ship, and you know the margin variability even inside of our Platforms business is a pretty wide swing. So thus the wider EPS range than idealistically I think you and others might want to have.

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

Then last question, maybe Allen this might be for you, but in terms of the working capital needs of the Company on a quarterly basis, are we -- I know it doesn't sound like you're sounding a panic button, but it does seem like you've got cash that's dwindling right now, especially with the pay-off of debt. Are you concerned about that?

Allen Muhich - *Radisys Corp - CFO*

Certainly we are not concerned about it tremendously. We are paying attention to it. We are very focused on it. I would say that our cash is not necessarily dwindling, I would say that we did pay back some of our convert, but we are actually generating cash. Again, we generated overall $1.4 million this quarter. We expect to be positive in the first quarter.

We also touched on some of the divestiture activity that we've talked about, so Brian mentioned OS-9 being one of the areas where we were able to divest something to realize and bring some cash back onto the balance sheet. We've got a number of other areas that we're looking at in terms of selling off some older inventory, et cetera, that will not affect our ongoing operations, but should generate another $7 million, $8 million worth of cash outside of operations over the next 12-ish months. So we are -- we're certainly managing it carefully.

We're -- I don't think concerned is the right word, but we are certainly, again, managing it carefully, and optimizing everything that we can to make sure that we bring more cash on the balance sheet, leveraging inventory, trying to address the linearity that Brian referenced earlier. Because again if you are shipping 50% of your revenue in the back half of the quarter, it makes it very difficult to collect, and you can see that in our DSO numbers. So, we're managing it carefully, but feel like we've got adequate liquidity to be able to manage through this cycle.

Brian Bronson - *Radisys Corp - President, CEO*

And Aalok, too, I will just reiterate that we in this five months, and of course I'm obviously not new to Radisys, but new in the gig here, and a piece of the accountability is we're getting our act together, and cleaning up things, and in the meantime generating cash flow. You should expect that we're not going to be hovering around and around break-even, right? The intention is to generate profit in this business or else, right? So in the second half, you'll start to see more meaningful cash flow from operations, and then we're off and running again. That's the plan.

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

And Brian, since you bring that up, can I just ask one quick question on the margin mix of --?

Brian Bronson - *Radisys Corp - President, CEO*

Sure.

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

It seems like you've been taking a little bit of a hit this quarter because of the mix. Do think the back half of the year, we get back to kind of the high 30s, maybe the low 40s even possible?

Brian Bronson - *Radisys Corp - President, CEO*

Fall sort of 40, definitely higher. I speak with conviction because, again, software business growing nicely, that's a natural mix benefit, and also the other piece, as you know, is painfully low from a gross margin perspective. Not losing a lot of money on it, right, but again painfully low from a gross margin rate perspective. And so as that goes to zero obviously that helps the optics and the rate, but most importantly the overall mix moving toward software will help a lot. But it won't be 40.

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

Okay, but the -- and the Royalties and Licensing businesses also should be pretty much stronger (multiple speakers) --?

Brian Bronson - *Radisys Corp - President, CEO*

Yes, exactly. Absolutely.

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

Okay, great, thank you so much.

Brian Bronson - *Radisys Corp - President, CEO*

Thank you.

Operator

(Operator Instructions)

Your next question comes from David Duley of Steelhead Securities.

David Duley - *Steelhead Securities - Analyst*

Thanks for taking my question. Just a couple of follow-ups from me. Could you just help us understand what the size of the audio conferencing market was, or your addressable market in 3G, and how -- perhaps how much bigger it could be as LTE is rolled out?

Brian Bronson - *Radisys Corp - President, CEO*

Yes. Hey, Dave, by the way. So, in the traditional audio conferencing space, we are market-leading there, and you of course now know the bulk of our revenue, 90%-plus of our revenue is in that space. I think that market then represents something in the order of $60 million, $70 million, and that market will continue to have slight growth. But that's not the exciting piece of the story. So now take that chunk of revenue that we're shipping to the west, the premiers, the Ultima, the AT&T's, et cetera, and then layer on top our Voice-over LTE revenue that comes on, partnering with Mavenir and other channel partners, and that market is -- let's just say it is exponentially higher than the audio conferencing market.

But it is going to be out in 2015, right? So we go from 10% of revenue being Voice-over LTE, more meaningful in '14, and then a significant opportunity in 2015, and layered on top of audio conferencing. Then start talking about video conferencing, and then other things on top of that. So, it is a much larger market size than our traditional Media Server business has been.

David Duley - *Steelhead Securities - Analyst*

So, just help me explain -- is it more just because the audio side is getting much bigger or you are just adding or bolting on some other applications in video and these other areas that you're talking about that you see the exponential growth?

Brian Bronson - *Radisys Corp - President, CEO*

It is -- you know, a bulk of our original Media Server business, now called MRF, was really putting our media resource function into closets at these conferencing providers running this bridge that we are talking on today. That has nothing to do with us now baking in our MRF into the IMS core, and making it a key network element moving voice over the LTE network. That's apples and oranges, but we take our basic foundation and knowledge, and deliver that same basic knowledge and functionality into the LTE network with Voice-over LTE.

David Duley - *Steelhead Securities - Analyst*

Then could you just make a general comment about what you are seeing in the end-market demand? Just any other qualitative comments that you can talk about? I think you mentioned things stabilizing. Do you see any of the big folks deploying their CapEx dollars yet, or where are we there?

Brian Bronson - *Radisys Corp - President, CEO*

Yes, good question. It is mixed, right, so I see strength with -- NEC, for example, is a big customer of ours, a top-five customer of ours, and they are very, very strong; very, very strong, as and example. ELG, Ericsson-LG, is strong. NSN, while it may not show up, as I mentioned earlier in a Q&A, in Q1 for example, I'm very bullish around that piece of the business for us, and ATCA growing as we progress through the year, simply based on the mood, what they're winning, and the timing of their deployments.

But that being said, for the rest of the Business, I've got to be honest with you, it's still plus or minus, thus this whole stabilizing commentary. Not really ready to say that we can go off and deliver that 10% to 15% ATCA growth. I think we can get on the bottom end, but I need to see more data first. Then in the overall froth of our Software business, again around small cells, around MRF, around our solutions, we have to make sure that we are careful from the actual revenue performance in 2013 and the opportunity out in '14 and '15. So, we see meaningful progress around the opportunity. But I would say our existing forecasts around our ability to deliver that 20 points of growth is holding. I don't see it growing, I don't see our forecast growing.

David Duley - *Steelhead Securities - Analyst*

Okay, thank you.

Operator

At this time, there are no further questions. I would like to turn the floor back over to management for any additional or closing remarks.

Brian Bronson - *Radisys Corp - President, CEO*

Yes, just want to thank everybody again for participating in the call, and I know it is March but I look forward to providing another update to you guys late in April. Thank you.

Operator

Thank you. This concludes your conference. You may now disconnect.
