FINAL TRANSCRIPT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the RadiSys Third Quarter Earnings conference call with Mike Dagenais, CEO of RadiSys. As a reminder, today, October 27, 2011, this call is being recorded. Later we will conduct a question-and-answer session. (Operator Instructions)

Mr. Dagenais, you may begin.

Mike Dagenais - *RadiSys Corporation - CEO*

Thank you. Good afternoon and thank you for participating on our third quarter conference call.

This is our first quarter of combined results since the close of the Continuous Computing acquisition. As I will convey later in the call, the companies are coming together quite well. We delivered on the guidance provided last quarter, are seeing solid market acceptance of the new combined RadiSys, and great traction in our Next Generation portfolio. The integration is tracking to plan and we expect to deliver the operational synergies previously projected for 2012. I continue to be very excited about this combination.

On this call, we will be discussing the results of the third quarter, including outstanding design win performance and our outlook for the fourth quarter of 2011. We will also be providing our projections for 2012. After the prepared material, we will open up the call for questions.

Participating on the call with me today are Holly Stephens, Finance and Investor Relations Manager, Brian Bronson, President and Chief Financial Officer, and myself, Mike Dagenais, Chief Executive Officer.

Before we get started, I would like to turn the call over to Holly Stephens for our caution about forward-looking statements.

Holly?

Holly Stephens - *RadiSys Corporation - Finance and IR Manager*

Thanks Mike.

Any statements in this call regarding future expectations for the business of RadiSys constitute forward-looking statements that involve a number of risk 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 our earnings release today and in our SEC filings, most recently in our quarterly report on Form 10-Q for the quarter ended June 30, 2011.

All information provided in this call is as of today. RadiSys undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations.

In addition, during the call we will discuss some non-GAAP measures. We provided a GAAP to non-GAAP reconciliation for these measures in our earnings release issued today.

Now I will turn the call back over to Mike.

Mike Dagenais - *RadiSys Corporation - CEO*

Thank you, Holly.

I would like to start by summarizing our business results. Our third quarter revenues came in as expected and our earnings were better than expected. Our non-GAAP revenue was $99.3 million and our non-GAAP EPS was $0.22. The EPS performance was better than previous guidance and Brian will discuss this later in the call.

I am particularly excited about our Next Generation communications revenue. It came in at $54.9 million, which is a record for us. This business now accounts for over half of our total revenues.

The third quarter was also a very strong design win quarter for us. We closed over 20 new design wins across our portfolio of products -- record ATCA and commercial platform design wins, highest Trillium revenue in many years, and MSBU brought in a new carrier. This was the largest number of design wins in a single quarter in Company history. These wins total approximately $100 million in projected revenue over the next five years.

The wins came in virtually all of the major applications we support. Of particular note were several wins in the traffic management set segment and the LTE Packet Core area. This was really a testament to our previous technology investments and the leadership we have achieved in the market. $100 million is a big number for us and it came in our first quarter as a combined company.

I am extremely pleased with this performance as it lays the foundation for growth over the next several years. Although we think this is an important -- important information to provide periodically, we will not necessarily be providing this level of design win detail on a quarterly basis.

We also had some great examples of customer deployments in other interesting, high-growth applications in the quarter. I'll just mention a couple. One of our aerospace and defense customers passed a critical testing phase for Manned-Unmanned System Integration Capability or MUSIC with the US Army for using our ATCA product. This is an initiative by the US Army to improve efficiency of intelligence, reconnaissance, and surveillance by bringing together both manned and unmanned systems to interoperate and share a common operating picture among pilots, operators, and troops on the ground.

In a very different segment, the mobile video management customer started a key deployment of our full systems for video optimization with a global carrier. Mobile video is another area of massive potential growth in this market. We believe this is a real opportunity for more wins in this -- in these types of applications going forward.

Now I'd like to say a few words about the business as a whole. Since taking over the reins of the new RadiSys 90 days ago, I continue to be very excited about what I see, especially the significant potential of our Next Generation communications business.

Our new combined Next Generation business is projected to exit this year at a run rate of $200 million in revenue on an annual basis, growing at around 20% a year with aggregate gross margins of between 40% and 50%. This business grew 78% in our most recent quarter and now represents 55% of our total revenue.

We are the largest provider in this market and market leadership matters. This gives us a substantial foundation for robust growth going forward. And while we continue to monitor the decline in our lower margin legacy business, it shouldn't cloud the significant opportunity expectations for our core Next Generation business.

With this as a backdrop, I would like to outline the strategic vision I have for the Company. The vision was recently fully ratified by our Board and we are already aligning our investment decisions in this direction.

The strategy leverages the assets of the new combined Company and focuses on bringing embedded wireless infrastructure solutions. The strategy is aimed at providing our customers, the equipment providers, with innovative and cost-effective technologies necessary to solve the growing capacity challenge faced by the wireless carriers today. Be it cost per bit or traffic management or media resource functions or voice over LTE or LTE Enhanced Packet Core, our proposition is about accelerating the time to market of bringing new products to deployment.

We believe we have a real opportunity to leverage our well-known hardware and software expertise, our media server product with the professional services capability that Continuous Computing has developed over the last several years. Due to this combination, we can create a compelling and unique offering that our customers value and our competitors will find hard to duplicate.

This is different from the previous Company strategy in that we now have significantly more network infrastructure, software, and expertise with our Trillium portfolio. And by adding the professional services element, we're better able to work with our customers to accelerate bringing their solutions to market. This unique offering brings us true differentiation.

The wireless telecom market will remain our primary focus. However, we're also targeting additional markets where we can add value with our broad technology and product portfolio, markets like aerospace and defense and public safety. This includes police, fire, and security applications.

The public safety market is a new market -- a new target market for RadiSys, but has historically been a strong area of focus for our Trillium software business. The aerospace and defense market was a focus for both companies previously. We are now further increasing our investment to enable better penetration and growth. It is not only a great fit for our existing asset, but we believe that we have the right initial traction to take advantage of the industry shift to more off-the-shelf products.

In addition, we are opportunistically leveraging our core competencies in designing rugged, hardened, and high-availability solutions to invest and reengage customers in our medical and other commercial markets. This is a renewed investment. We expect to win new business in the next few quarters and reverse the decline in revenue in this segment. We expect the commercial business to once again be on a growth trajectory in 2013.

Overall these important changes in our strategy will change our trajectory, put us on a path to grow the total revenue and accelerate the earnings growth in 2013 and beyond.

With that, I'd now like to turn the call over to Brian, who will talk more about our third quarter financial results and projections for the fourth quarter.

Brian Bronson - *RadiSys Corporation - President and CFO*

Thanks Mike.

As Mike previously mentioned, our third quarter non-GAAP revenue was $99.3 million and our Next Generation comms revenue was $54.9 million or 55% of revenues. We delivered non-GAAP EPS of $0.22 and GAAP EPS of $0.10. Our top five customers in Q3 were Arrow Electronics, LG-Ericsson, NEI, Nokia Siemens Networks, and Phillips Healthcare. Our revenues to Arrow Electronics go into a variety of end markets and we sell full ATCA platforms LG-Ericsson that are used in both LTE Evolved Packet Core and Wireless Access Gateway applications.

Collectively our top customers represented 55% of our revenue in the quarter, which is down from 74% in the prior quarter. In addition, only 29% of our total revenue came from Nokia Siemens Networks in the third quarter, which is down from 52% in the prior quarter.

I expect the percentage of business with NSN to decline further to around 25% of our total revenue in 2012, half of it being legacy and half of it being our Next Generation products. So NSN continues to be a very important customer for us in our Next Gen business, but I'm excited about the meaningful progress on diversifying our customer base.

Our Q3 non-GAAP gross margin rate was 33.5%, up from 32.8% a year ago due to the increased mix of our margin-rich Next Generation revenues. Non-GAAP expenses totaled $26.9 million and were up $7 million from the prior quarter due to the added operating expenses for the acquisition of CCPU.

The total acquisition, integration, and restructuring charges were $6 million in the third quarter broken down as follows -- deal-related expenses of $1.7 million; integration expenses of $900,000; and restructuring charges of $3.4 million for employee-related severance expenses.

Now switching over to the balance sheet, DSO was 54 days in the third quarter, which was down from 56 days in the prior quarter. The collections team continues to do a very nice job managing receivables in a tough market.

Our total inventory and inventory deposit balance was $37 million at the end of the third quarter, which is up from $23 million at the end of the second quarter. As planned, we acquired inventory with the acquisition and we added buffer inventory to support the move from three contract manufacturers down to two.

By the way, John Major and our operations team were very successful in this transfer and now have shifted their focus on moving us down from two contract manufacturing partners to a sole source relationship with Jabil in Malaysia. This is critical work to derive the multimillion dollar synergies that we've disclosed.

On the cash front, we generated $4.4 million of operating cash flow in the third quarter and ended the quarter with $55.9 million of cash, which is down from $135.6 million at the end of the second quarter. This decrease includes cash payments of $79.3 million on July 8 for the deal, which includes the $73 million previously stated plus $6.3 million for working capital balances net of cash acquired.

I do also want everyone to know that we are in the process of finalizing a new line of credit of $40 million that will have a maturity date of September 2014.

Now looking to the fourth quarter, we're expecting non-GAAP revenue to be between $76 million and $82 million. We expect to see a sequential decrease at our Next Gen communications revenue of approximately 10%, which we think is consistent with softening in the macroeconomic environment.

That being said, these revenues are still expected to grow by up to 25% year-over-year on a pro-forma basis when you actually include the historic Continuous Computing revenues, so really nice growth.

We expect our commercial business to decline sequentially by $6 million. This was a business that up until the leadership change was in cash cow mode. This is a really good business. And as Mike outlined earlier as part of our updated strategy to the Board, we are going to make some additional investments in this business and therefore expect revenue to return to growth in 2013.

Finally, our low margin legacy revenue that is roughly 90% related to one customer is expected to decrease by around $9 million sequentially. We planned for much of this reduction to happen in early 2012. However, the rate of decline is now accelerating due to the softening conditions in the macro environment.

So in total, at the midpoint of our range we expect Next Gen revenue to be upwards of over 60% of total revenue, commercial just under 20%, and legacy to decline to around 20% of total revenue.

On gross margins, we expect fourth quarter gross margin to range from 34% to 35%, reflecting, again, the ongoing mix shift towards our higher margin Next Gen products.

Non-GAAP operating expenses are expected to remain relatively flat with Q3. I actually expect OpEx to start to decline in the first quarter as we begin to enjoy the $8 million to $10 million of integration-related synergies.

Non-op expense should be around $450,000 in Q4. And we currently expect that our fourth quarter tax rate will be around 5% for non-GAAP results and around 10% for GAAP results. And then looking out to 2012, we currently expect a similar non-GAAP tax rate of around 5%.

So non-GAAP EPS is expected to range from a loss of $0.03 to a gain of $0.03. We expect our basic shares to be around 26.6 million and our diluted shares to be around 28.9 million, which excludes the convert shares.

As a reminder, when you calculate EPS for net income over $3 million, the convert shares of $3.8 million, and the interest income add-back to income of $456,000 also should be included in the calculation. If net income is under $3 million, the inclusion of the convert would be anti-dilutive and should be excluded from the calc.

As it relates to the balance sheet, I do expect our inventory balance to stay around the same level in the fourth quarter and start to decline in the first quarter and then materially decline as we get past the final contract manufacturing transition. And I expect a cash outflow from operations in the fourth quarter related to working capital timing. Then going into the first half of 2012, we do project minimal cash generation as we pay out the remaining restructuring payments and integration costs, but I do expect that we will get back to generating meaningful IE, around $5 million to $8 million a quarter, by the second half of 2012.

Overall we continue to believe our cash will bottom out at approximately $50 million, which is consistent with my previous expectations.

So with that, I'll turn the call back over to Mike.

Mike Dagenais - *RadiSys Corporation - CEO*

Thank you, Brian. As mentioned in my integration, the integration of the two companies is proceeding as planned. We remain on track to realize the previously projected operating expense synergies of at least $8 million to $10 million from post-acquisition levels in 2012 plus approximately $5 million in synergies reported in cost of goods sold.

As these plans have unfolded, I wanted to make you aware of two key changes in the leadership team. First, I recently promoted Fred Barden to VP of Worldwide Sales for RadiSys. Fred brings 20 years of experience from peers in the industry, most recently was the VP of Sales at Continuous Computing. He brings great customer relationships. And having worked with him for over two -- for the last two years, I'm extremely confident he'll drive the right actions to enable growth.

Second, I have appointed Andrew Alleman to VP of Platforms Engineering at RadiSys. Andrew was formerly the Chief Technology Officer of RadiSys and brings tremendous knowledge on the technology, market, and our products. I'm confident that he and his team will continue to deliver the technology necessary for the design wins required to fuel our Next Generation growth.

While I am disappointed with our aggregate fourth quarter revenue levels and the resulting profitability performance that Brian outlined, the reductions of both commercial and legacy revenue streams were known to us. We've been clear that the timing of the legacy decline would be difficult to predict and the recent softening in the macro environment is accelerating the change.

However, I remain bullish on our Next Generation communication revenue. I am confident that the 10% Q4 sequential reduction is attributable to macro demands is not a result of share loss. Even with this reduction, our 2011 pro forma non-GAAP Next Generation revenue growth is still close to 20%. Our outstanding third quarter design win performance announced today is further evidence of the acceptance of our product offering. Given this, we're confirming our previous 2012 guidance of $345 million to $355 million in revenue and $0.80 to $0.85 in non-GAAP EPS. I'm convinced that we have the right strategy for delivering meaningful long-term shareholder return.

With that, I would like to thank you for participating on our call today and we are ready to open up for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) We'll pause for just a moment to compile the Q&A roster. And your first question comes from the line of Torin Eastburn, CJS Securities.

Torin Eastburn - *CJS Securities - Analyst*

You were mentioning a softening a little bit in the markets that you're in. How much does that factor into your 2012 outlook?

Mike Dagenais - *RadiSys Corporation - CEO*

So at this time we actually -- we've looked at our 2012. We may have some slight softening in the top line, but actually with the change in the mix, we actually believe we're going to be able to deliver on the earnings side of the equation. None of the business that we've seen has actually disappeared. It's just shifted to the right. so it's all there. And it's going to -- it's essentially teed up to happen. But at this point in time I'm -- we're not projecting any slide any further outside of 2012.

Torin Eastburn - *CJS Securities - Analyst*

And can you actually talk a little bit more about how much of your revenue for 2012 is in the books in one way or another so to speak and how much is going to be day-to-day sales?

Brian Bronson - *RadiSys Corporation - President and CFO*

Yes, so hey, Torin, this is Brian. So in general for our Next Gen business, particularly in the case of ATCA, we head into the following year I would characterize about 85% or 90% booked from a design win perspective. So to give you an example, if you have $150 million worth of business projected, we'd have all but maybe $15 million or $20 million of it to go. And that would come in and fill in through newer design wins that we would win either this quarter or early next year that would just start to come into production. So pretty good visibility in the case of ATCA. And then the media server and Trillium, our software businesses, not quite as much. But if you think about where the revenue is, same thing goes for commercial, which is also a design win model, so pretty good predictability. Don't -- again, don't ask me to talk about the out quarters in 2012, but for the year pretty good.

Torin Eastburn - *CJS Securities - Analyst*

Sure. And in the release you mentioned $5 million of synergies in cost of goods sold.

Brian Bronson - *RadiSys Corporation - President and CFO*

Yes.

Torin Eastburn - *CJS Securities - Analyst*

Was that -- is that something new or was that baked into gross margin expectations previously?

Brian Bronson - *RadiSys Corporation - President and CFO*

A little bit of both actually. So we did have some savings baked in before and we had some actions that were identified, but we hadn't vetted them out to see what was possible in 2012, so that's what we did over the last quarter. And so that $5 million firmed up.

And that's why, you know, another reason why we firmed up or closed in on the gross margin range for next year of that, you know, what is it going to be? It's 36% to 37%.

Torin Eastburn - *CJS Securities - Analyst*

Mm-hm. Okay. And last question, your operating expense synergies, can you give a sense of a schedule for how those will fall out through the year?

Mike Dagenais - *RadiSys Corporation - CEO*

So there's -- it's a combination of some things happening in the fourth quarter, but the bulk of these synergies are going to be implemented in the first quarter and some sprinkling into the second quarter. The bulk of it is essentially going to happen in -- like I said, in the next two quarters is really where I would say 80% of these synergies are going to take place. And as we transition to the -- to our contract manufacturer, Jabil, there's obviously some things that we have to manage very carefully with those relationships. And those are going to phase out a little bit longer.

Torin Eastburn - *CJS Securities - Analyst*

Sure.

Brian Bronson - *RadiSys Corporation - President and CFO*

If you're looking to model $26.89 million, let's call it $27 million this quarter, you know, in Q1 it probably goes down $1 million plus or minus. And then you get to that $25 million, $24.5 million that ultimately gets to the operating expense guide for next year, which is somewhere between $98 million and $100 million.

Torin Eastburn - *CJS Securities - Analyst*

Right. All right. Thank you.

Brian Bronson - *RadiSys Corporation - President and CFO*

Yes.

Operator

Your next question comes from the line of Aalok Shah, DA Davidson.

Aalok Shah - *DA Davidson - Analyst*

Hi guys.

Brian Bronson - *RadiSys Corporation - President and CFO*

Hi.

Aalok Shah - *DA Davidson - Analyst*

A couple of quick questions. In terms of the traditional networking business, it seems like it fell off quite a bit this quarter. Was there anything -- one major thing in particular that really led to the decline sequentially?

Mike Dagenais - *RadiSys Corporation - CEO*

Nothing in particular. I mean, it's -- it -- obviously based on what I thought about it in July versus now, it's down more. But thought it would melt away into Q1, so really an acceleration of that. That particular customer did stop taking orders and so we did see it over the last four or five weeks or so. At the same time, I think we felt like it's bottomed, so not one particular item or a lost deal from their perspective, but chalk it up a little more to softening a little bit to just an acceleration of the end of life of some of these codes.

Aalok Shah - *DA Davidson - Analyst*

Okay. And was there -- is there a particular geography that you're seeing this weakness? I mean, do you know where this might be going into? Is not North America, is it China, is it Europe?

Mike Dagenais - *RadiSys Corporation - CEO*

Well, we know that we have -- Mike here. We know that we have one of the North American carriers has decided to slow down a little bit on their CapEx spending. But for our larger customer, it's mostly deployments in the -- I believe it's in the Asia area is where they're seeing some slowdown.

Aalok Shah - *DA Davidson - Analyst*

Okay. And then in terms of CCPU, Brian, can you remind us what CCPU did last quarter and just so we can have a little bit of a compare?

Brian Bronson - *RadiSys Corporation - President and CFO*

Well, what I can tell you, in the first half they did a little over $30 million. And we had them as part of the results all but a week of the quarter. And I think I mentioned to you in prior calls that their $56 million, $57 million in revenue in 2010 would grow nicely, 20%-plus. So think about them still in that range for the full year. And it could be off plus or minus a couple million bucks, but our -- how that's proceeding relative to my own internal expectations is pretty close to being in synch.

Aalok Shah - *DA Davidson - Analyst*

Okay. Okay. And then in terms of CCPU, is there seasonality associated with CCPU that's different from the RadiSys Next Gen kind of --

Mike Dagenais - *RadiSys Corporation - CEO*

No. This is -- yes, no, Aalok, this is Mike. I think we -- we're in the same business. We serve many of the same customers. And we generally see a pretty soft first quarter from a seasonality perspective, first calendar quarter for us all. The largest part of our business is in the telecom segment. And that has historically been a weak segment for most businesses in this market.

Brian Bronson - *RadiSys Corporation - President and CFO*

And I just want to make sure back on the first questions it's incredibly clear because in the case of the legacy it's dropped off really frankly as planned. I thought that the old piece would stick around at maybe high teens to $20 million, $18 million to $20 million. And it's going to end up being at around $10 million, which is what I thought it was going to be in Q1, right? So other than a quarter in advance steady as she goes and really now focusing the business and the conversations around this $50 million-plus with the Next Gen revenue. It's now exiting at $200 million a year into 2012.

Aalok Shah - *DA Davidson - Analyst*

And, Brian, your top-five customer list now that you have CCPU, how has it changed? I'm just -- I can go back to my notes, but I was wondering if you can just kind of verify who the new customers would be?

Brian Bronson - *RadiSys Corporation - President and CFO*

Well, as it relates to a top five, though, not much has changed per se. But I would tell you that there, you know, our Japanese customers were also meaningful to Continuous Computing, so expect to see the NECs and the Fujitsus continue to be strong customers for both of us. But I think other than that, the names that I dropped were associated with the RadiSys prior to the acquisition, but no doubt, I mean, think about 54% top five. And I would tell you right now Q4 the top five will be less than 50%. And that's what really the acquisition and the merger brought was just a strong collection of multimillion dollar accounts that may not hit the top five yet, but nice diversification.

Aalok Shah - *DA Davidson - Analyst*

And then in terms of Arrow being a distributor, we've heard distributors kind of cutting back on their inventory levels. Are you guys seeing a similar trend? And is Arrow holding a lot of your goods on a sell-in basis or is it sell-through for them?

Brian Bronson - *RadiSys Corporation - President and CFO*

Well, it's a little bit of both. But it's mostly sell-to versus sell-through. And I would tell you that Arrow predominately is with our commercial business. And so that's -- we would see some sequential declines there, but no one particular customer or market to point out, just general softening.

Aalok Shah - *DA Davidson - Analyst*

Okay. So if we're looking -- if we look at your guidance then for the next quarter, is most of the weakness then related to just Next Gen being weak? Or is it going to be kind of across the board kind of softness, about the same magnitude of softness?

Mike Dagenais - *RadiSys Corporation - CEO*

Yes, I mean, there's obviously three -- probably three areas. We've seen our largest customer has softened its fourth quarter on the ATCA side. That's mostly legacy. We've seen on the commercial side a little bit of softening there as well. And on our media server business, we have had a similar experience as last year where a carrier has reduced its CapEx spending and it may trickle that deal into the first quarter.

Brian Bronson - *RadiSys Corporation - President and CFO*

Yes.

Aalok Shah - *DA Davidson - Analyst*

Okay. And last question, in terms of that one carrier that's using your Next Gen -- or your media servers, is there any kind of visibility that you have in terms of them increasing their spend maybe in the first half of the year? Or are you getting any sense that they're dedicated towards increasing their spend in the first half of next year?

Brian Bronson - *RadiSys Corporation - President and CFO*

I would say that they're -- what I can tell you is that they're dedicated to a level of spend. So for a year ago to now I still think the dynamics have changed where we don't have as quite as good of visibility into how much it's going to be. We do know that there's going to be ongoing deployments. What I can't call is the quarter.

You probably know that we have an ongoing quarterly amount with them, but it's -- or more maintenance than ongoing and then it has nodes deploy. That's where you get those multimillion dollar pops. So I expect it to continue to be lumpy as it relates to that particular customer. But I do know that they're planning on spending a certain level with us next year.

Aalok Shah - *DA Davidson - Analyst*

And sorry, one more last one just to follow up on that. What are your typical lead times with a particular customer, say, you know, with even an end customer in this case?

Brian Bronson - *RadiSys Corporation - President and CFO*

On the ATCA business I think our lead times are almost a quarter. We generally have visibility at the end of the quarter or very early in the new quarter --

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Mike Dagenais - *RadiSys Corporation - CEO*

Yes.

Brian Bronson - *RadiSys Corporation - President and CFO*

-- with respect to orders that are being placed. We generally have visibility beyond that, but when the actual quarter comes in, it's around that 10, 12, 14 weeks.

On the commercial business, because a lot of that is redistribution, that is actually pretty fast. The other deals, the -- on the media server and the software side, these are pretty well transaction-oriented. And media server has more visibility than the Trillium, but Trillium is a software business and it doesn't take lead time. It turns over very quickly.

Aalok Shah - *DA Davidson - Analyst*

Okay, great. Thank you very much.

Mike Dagenais - *RadiSys Corporation - CEO*

Thank you.

Operator

Your next question comes from the line of Rich Valera, Needham & Company.

Rich Valera - *Needham & Company - Analyst*

Thank you. We don't have a lot of history with the seasonal changes in the business, so wonder if you could give us a little more color on the magnitude of the expected seasonal drop in the first quarter?

Brian Bronson - *RadiSys Corporation - President and CFO*

Well, it's tough to call. I mean, Mike could weigh in here, too, but I think that it's mid single digits in terms of sequential, but it's all across the board. It could be Chinese New Year, it could be product cutover. So I still argue that we don't have traditional seasonality like other companies do, but I do expect because of our Asia footprint as an example that it would be down a little bit Q4 to Q1. We're not looking at magnitudes, though.

Rich Valera - *Needham & Company - Analyst*

Right, understood. And I guess that kind of puts you at I'm going to say still probably somewhere around breakeven for the quarter ballpark, which would suggest kind of a mid -- of a mid $0.20 type of EPS average run rate for the balance of the year. So just wondering how we should think of how that's going to play out through the year? I mean, presumably not linear, you know, likely some kind of ramp, but is it dramatically back-half-weighted or is there any kind of color you could give us on how that might play out through the year?

Brian Bronson - *RadiSys Corporation - President and CFO*

Well, it is. I mean, just given what you painted in Q1, which I think is right, what I also will say, too, up front is that some of it is based on the timing of the synergy work we're doing as well, so -- but that's easier to model. But I do expect it to ramp pretty meaningfully throughout the year and maybe not as much in Q2, but really ramp in Q3 and on into Q4, largely driven off the timing of design wins and the deployment ramp there and the bottoming of our commercial business if you will, and then, of course, we all know about the legacy piece.

Rich Valera - *Needham & Company - Analyst*

Sure. And I guess that sort of begs the question what drives your conviction that, you know, to sort of not change the revenue number? Again, there's clearly a big back half implied ramp on the revenue side and yet macro conditions have clearly worsened. What is it that gives you that conviction? Are you assuming macro conditions get better? Or is it just such a level of design win visibility that are expected to ramp that drives that conviction? Any color on sort of what's driving that back half expected ramp would be helpful.

Mike Dagenais - *RadiSys Corporation - CEO*

Well, so, Rich, this is Mike. We have actually three customers that are actually doing major LTE Core deployments starting in the first half of the year, targeted for commercial deployments in their regions in the third and fourth quarter of next year. These are fairly significant, very large nation-building type of deployments where they're going to be pretty significant footprints that have to go down.

One of the characteristics of this market, even though we've not seen a -- there has been a slight slowdown in some of the orders at the consumer level, the smartphones and all of these challenges that it's creating for backhaul capacity and the necessary -- or the need to build out LTE is continuing. So we are actually seeing customers committing to deploying their LTE over-build.

With that, we're also seeing customers having to manage the bandwidth in their 3G networks. And so we're still seeing a lot of solutions from a traffic management, policy management, and, you know, in those segments trying to actually manage that level of bandwidth.

So, I mean, I do believe there are some very strong commitments to building out these networks. And at this point in time based on the forecasts they've given us, they're still projecting cutovers to commercial deployment with their carriers in the third and fourth quarter. So we are actually fairly bullish on that part of the business.

Brian Bronson - *RadiSys Corporation - President and CFO*

And, Mike, just to layer on, so with that, too, we also see meaningful gross margin expansion throughout the year. So as that deploys and ramps, you go from a gross margin at the beginning of the year closer probably to 34% and then exit in the high thirties, so.

Mike Dagenais - *RadiSys Corporation - CEO*

Yes, most of these large deployments are on our ATCA platforms. So that's a pretty significant part of that earnings projections that we have. We're also seeing some good traction in the -- on the software side of our business with Trillium. If you look at a lot of the historic sales in the Trillium business have been in the small sale, both LTE-Bs and the Femto markets. We're actually seeing quite a few customers starting commercial deployments right now. So we are actually expecting to see some meaningful royalties coming out of those deployments over the course of the latter half -- well, actually probably starting in the second quarter, but also the latter half of next year.

Rich Valera - *Needham & Company - Analyst*

And is it fair to say, Mike, that most of that ATCA product that's being deployed in those LTE Core deployments is Continuous product?

Mike Dagenais - *RadiSys Corporation - CEO*

No, it is not. Continuous had some traction in a couple of key accounts, but RadiSys had some great traction in a couple of other major regions as well. So I actually think both companies together are actually driving some of that growth. So I'd say one, maybe two carriers were based on RadiSys -- or on Continuous. There was probably about three carriers that are based on RadiSys product. So the products are coming together actually quite well.

Rich Valera - *Needham & Company - Analyst*

Okay. That's helpful. And then with respect to your cash levels, you said you expected cash still to trough at around $50 million, which would kind of imply no more than I guess $5 million to $6 million of cash used in 4Q. Is that fair?

Brian Bronson - *RadiSys Corporation - President and CFO*

Right. Exactly.

Rich Valera - *Needham & Company - Analyst*

And I guess just hoping you guys can talk about the convert and how you're thinking about the convert that'll be coming short term in the not-too-distant future. Just if you could talk sort of out loud about how you're thinking about that, how you plan to pay that off or refinance that, that would be great.

Brian Bronson - *RadiSys Corporation - President and CFO*

Yes, yes, that's no problem. So, yes, for everybody, it's February 2013 is the convert date. So a couple of things -- one, I think that the existing cash position will bottom out at $50 million. We have $37 million of inventory. And I think by the time it would get to if we had to pay that back, we'll have taken inventory down at least $10 million, $15 million at that point in time. On top of that, I expect to generate north of $20 million in cash flow next year. You layer all of things on plus we've got a $40 million line of credit. We'll be in a position just naturally to pay that off if we need to. That doesn't mean that I won't go off in the spring of next year and take a look at what's the convert trading at, are there ways to extend it out. And, of course, I still hope that the stock is $13 at that point in time in February of 2013, that it converts. But I think that's really what you're asking about is dealing with it if doesn't get to $13.

Rich Valera - *Needham & Company - Analyst*

Right. Exactly.

Brian Bronson - *RadiSys Corporation - President and CFO*

But I'm not going to -- no plan to deal with it this quarter as an example.

Mike Dagenais - *RadiSys Corporation - CEO*

Right.

Brian Bronson - *RadiSys Corporation - President and CFO*

Or next. I want to see how things play out. And, again, we're teed up to start to generate meaningful cash flow. Then we'll have access to cash if we need to pay it off.

Rich Valera - *Needham & Company - Analyst*

Right. But I guess the concern, and I think you would agree that you wouldn't want to be doing anything with equity at these kind of levels when there are other options, whether it's your credit line or whatever it might be.

Brian Bronson - *RadiSys Corporation - President and CFO*

Definitely. Cash on hand, credit line, negotiating with the current holders, raising a new convert -- I'm not advocating that, but there was a lot of avenues to cure this. But, yes, raising money at 6 and change is not something that I want to do.

Rich Valera - *Needham & Company - Analyst*

Right, understood. Okay, thank you.

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Operator

(Operator Instructions). Your final question comes from the line of Ted Moreau, WJB Capital.

Ted Moreau - *WJB Capital. - Analyst*

Thanks. Good afternoon, guys.

Brian Bronson - *RadiSys Corporation - President and CFO*

Hey Ted.

Ted Moreau - *WJB Capital. - Analyst*

Apologize if any of these were asked earlier because I joined just a little late here, but -- so congrats on the $100 million in design wins. How does that compare with any other, you know, recent history? I mean, is this like drastically above recent history? Or is it just nicely above?

Mike Dagenais - *RadiSys Corporation - CEO*

So I don't have the compete history, but if I look at the diversity of customers, it's 20 customers, that design wins spread across 20 customers. That is probably the most significant aspect of it. It's diversity of customers and a big number. I think historically there have been cases where there's been some big design wins, but it's been focused on one or two, maybe four customers. And this is really where I think this is -- it creates a much stronger -- from my perspective a much stronger prospect for actual materialization simply because it gets away from the lumpiness of a few customers. It is 20 customers. It's actually more than 20 customers that have signed up. And as they deploy, some will deploy in nine months, some will deploy in 18 months. But as they phase through their deployment cycle, we're going to get less lumpiness in that.

And it -- I actually think we also do a factoring on the design win number as well. So we've also taken a risk adjustment on that number as well. I mean, if we listened to the customers, it would be much larger than that. We just feel that that's a good risk-adjusted number. And the diversity of the customer base is really what's impressive here.

Ted Moreau - *WJB Capital. - Analyst*

Okay. Okay. And then so would you imagine another opportunity for similar levels down the road? Or have we kind of exhausted our design win momentum for a little bit and then maybe a couple of quarters down the road we pick back up again?

Mike Dagenais - *RadiSys Corporation - CEO*

Well, in any design win business, it takes a long time to get us to that level. But I actually would say that we have a very strong funnel in the fourth quarter going into the first quarter. I think we have almost that opportunity -- that level of opportunity over the next two quarters, this quarter and next. Whether they come in this quarter or phase out into the other is a possibility, but we have probably the strongest funnel that I've seen. And I know that the folks that are here have also indicated that the visibility we have of opportunities is tremendous. So I think, you know, whether it's this quarter or next or in the -- or is a combination of spread over a couple of quarters, we have that level of opportunity ahead of us.

Ted Moreau - *WJB Capital. - Analyst*

That's fantastic. That's great.

Okay, so then there was discussion about some LTE Core deployments starting for next year. And I just was a little confused by some of the commentary. I think there was discussion about I think a total of maybe four or five total carriers, but going through three customers. Is that how I think about it? Or can you kind of walk through that again?

Mike Dagenais - *RadiSys Corporation - CEO*

So there are major customers. I mean, our customers serve multiple carriers, all right? So in some of the geographies where we sell, you may have three carriers in a particular region, three or four carriers. And we happen to have a solution that our customer is selling to all three carriers. So there are a few instances like that where we're seeing the carriers have made a commitment to deploy LTE. Our customers are the provider of the Enhanced Packet Core [T gateway] or whatever gateway they're putting out for MME, and we are actually supplying the product for the equipment provider. So, I mean, we have one particular customer who has three deployments, three different carriers in one market that they plan to deploy over the next three quarters.

Ted Moreau - *WJB Capital. - Analyst*

Okay. Okay. And so then when say -- I think you said there were three customers, so that's three OEMs that you've won. Are these -- I'm assuming that one, maybe two of them are on your top five customer list today? Or are there any outside that list?

Mike Dagenais - *RadiSys Corporation - CEO*

Actually as of right now I think all three are outside --

Brian Bronson - *RadiSys Corporation - President and CFO*

Yes.

Mike Dagenais - *RadiSys Corporation - CEO*

-- the -- our top five list.

Ted Moreau - *WJB Capital. - Analyst*

Okay. And were any of these brand new customers to the company overall?

Mike Dagenais - *RadiSys Corporation - CEO*

No.

Brian Bronson - *RadiSys Corporation - President and CFO*

No.

Mike Dagenais - *RadiSys Corporation - CEO*

They were either continuous customers or RadiSys customers existing. Their level of deployment hadn't been at the level that would've brought them to the top five level. But these major deployments that they're having could probably get them close to that level next year.

Brian Bronson - *RadiSys Corporation - President and CFO*

And these customers have been top five in the past or recently. I think you're asking consistent top five. I mean, these are all -- have been meaningful accounts for us in the past.

Ted Moreau - *WJB Capital. - Analyst*

Okay. Okay. That's helpful. And then getting back to Nokia Siemens, can you just kind of give us a status update? Like how many of their platforms have been -- have migrated over to ATCA? And like how many are inclusive in the total opportunity and like when do you think that's -- that wraps up?

Mike Dagenais - *RadiSys Corporation - CEO*

So I -- the easiest way to answer that is we're selling to their common platform group and serve many applications. So they have actually migrated a lot of their products and are planning to continue to do so. We still have some legacy products. As they decline, they're going to be cut over to ATCA. We actually have some of their ATCA business. So I can't tell you specifically. I don't think we have all of the -- or at least I don't have all of the specific products that they're going into. But it is forming the basis of their common platform as they deploy into multiple markets.

Brian Bronson - *RadiSys Corporation - President and CFO*

Yes, it's definitely still ramping, Ted. I mean, it's --

Mike Dagenais - *RadiSys Corporation - CEO*

Yes, the ATCA side of their business is ramping.

Brian Bronson - *RadiSys Corporation - President and CFO*

Definitely ramping. Probably it's in production now, the extent that we're shipping them product, but really it starts in next year along with some of the other customers and the applications that Mike was talking about earlier with other companies. So -- and NSN is also an ATCA driver for us next year.

Ted Moreau - *WJB Capital. - Analyst*

Right, right, okay. Okay, great. Thanks guys.

Brian Bronson - *RadiSys Corporation - President and CFO*

Hey, Ted, I know that you popped on later. I just wanted to punctuate a few things for you. We did deliver record Next Generation revenue of $55 million. We had a record ATCA design -- or ATCA revenue quarter. We had a record Trillium software quarter, record design win quarter. So in the past we've talked a lot about strong design win quarters, but didn't have the revenue behind it. You're seeing a situation where we've got north of $50 million. And while it's going to be down a little bit in Q4, it's still going to be in and around $50 million at Next Gen, so that's really the punch line.

Ted Moreau - *WJB Capital. - Analyst*

Right. And then I think you said earlier that the decline or the deterioration in ATCA for Q4 was from your largest customer I believe.

Brian Bronson - *RadiSys Corporation - President and CFO*

Yes. And it's -- they're -- Mike mentioned there's a little bit of softness, but there's also a technical piece, too, that it's not RadiSys technical, but working with their customer, so a bit of a timing issue there as well.

Ted Moreau - *WJB Capital. - Analyst*

Okay. So we -- so with that timing suggests that Q1, would that pop into Q1? Or is it undetermined --

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Brian Bronson - *RadiSys Corporation - President and CFO*

It would pop into Q1, more into Q2, that's the current schedule. We are going to be shifting revenue, no question about it, but it's the levels of revenue I think is what you're asking about.

Ted Moreau - *WJB Capital. - Analyst*

Right, right, okay. Okay, sounds good. Thanks a lot, guys.

Brian Bronson - *RadiSys Corporation - President and CFO*

Thanks Ted.

Operator

This concludes our question-and-answer session. Mr. Dagenais, are there any closing remarks?

Mike Dagenais - *RadiSys Corporation - CEO*

So thank you, Holly. In closing we're very excited about the Company's strategy and the new opportunities ahead, especially for our Next Generation products and we're looking forward to meaningful earning expansion in 2012. So with that I want to thank you for your support and I look forward to talking to you throughout the quarter.

Thank you.

Operator

Thank you for participating in today's conference call. You may now disconnect.

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