

# FINAL TRANSCRIPT

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## **RSYS - Q1 2009 RadiSys Corporation Earnings Conference Call**

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**Holly Stephens**

*RadiSys Corporation - Manager IR*

**Brian Bronson**

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## CONFERENCE CALL PARTICIPANTS

**Matt Petkun**

*D.A. Davidson & Company - Analyst*

**Rajiv Jenveja**

*Jefferies & Company - Analyst*

**Ted Jackson**

*Cantor Fitzgerald - Analyst*

**Greg Mesniaeff**

*Needham & Company - Analyst*

**David Duley**

*Steelhead Securities - Analyst*

**Ted Moreau**

*Cardinal Research - Analyst*

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the RadiSys first quarter earnings conference call with Scott Grout, President and CEO of RadiSys. (Operator Instructions). Mr. Grout, please go ahead, sir.

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**Scott C. Grout - RadiSys Corporation - President & CEO**

Thank you, Maggie. Good afternoon, everybody, and thank you for participating in our first quarter conference call. In this call, we will review our results from the first quarter, as well as our outlook for the second quarter; and then as usual, will open the call up for questions. Participating on the call today are Holly Stephens, Finance and Investor Relations Manager; and Brian Bronson, our Chief Financial Officer; as well as myself, Scott Grout, President and CEO, Before we get started, I would like to turn the call over to Holly for a caution about forward-looking statements.

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

Thanks, Scott. 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 our earnings release today and in our SEC filings, most recently in our 2008 annual report on Form 10-K. All information provided in this call is as of today. RadiSys undertakes no duty to update any forward-looking statements or conform the statements to actual results or changes in the Company's expectations. In addition, during the call, we will refer to some non-GAAP measures.

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We provided a GAAP to non-GAAP reconciliation for these measures in our earnings release issued today. Now I'll turn the call back over to Scott.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Thanks, Holly. Overall, I'm pretty pleased that we delivered better than expected margins and operating results in the first quarter with continued strength in our next generation communications products. Revenue for the quarter was \$77.6 million. Importantly, our non-GAAP gross margin for the quarter was 33.5%, up 5.7 percentage points from a year ago. Our non-GAAP operating income for the first quarter was 6.7% of revenues, up 5.9 percentage points from a year ago. We continue to focus on our operating cash flow and generated 4 million in the quarter, increasing our ending cash and cash equivalents to \$79 million.

We had a particularly strong quarter for new design wins in Q1, with a number of customer awards across all three of our geographies; and we increased our traction across a number of different markets, including both communications and military markets. In the quarter, we brought in new wins that were aligned well with our strategic goals of increasing the value that we provide in improving our longer-term gross margin profile. We won new ATCA awards in wireless gateways, network load balancing, packet data nodes, converged messaging and military communications. Specifically, the wireless gateway award was a large award with an international equipment maker using some of our most advanced new ATCA products. Within our media server products, we won new awards in network voice services, conferencing, enterprise voice services, and IP call center applications in North America, in Asia and in Europe.

And with our commercial products, we won new awards in the quarter that included applications such as mobile compute platforms, medical imaging, and military. I'm pleased with several of the new military programs that we've been awarded. Specifically, one of the awards in the first quarter was for a military application involving small, unmanned ground vehicles that aid in high-risk functions like urban intelligence, surveillance, and hazardous material handling. Moving on to our customers, we continue to make good progress in diversifying our customer base. We continue to expand our top 10 customer list to include a new Tier 1 and Tier 2 customers in both Asia and North America.

Our top five customers in the first quarter in alphabetical order were: Danaher, Fujitsu, NEC, Nokia Siemens Networks and Philips Healthcare. Collectively, these top five customers represented 69% of our revenue for the quarter. Our revenues to Nokia Siemens Networks in the first quarter were 50% of total Company revenues, with a meaningful percentage now coming from our media server products. This percentage represents our total revenues with NSN, including traditional wireless revenues, media server and, over time, ATCA products. I would like to point out that starting this quarter, we made a change to the way we are reporting our quarterly communications revenue by end market to better represent our changing product categories and how we think about our business going forward.

As such, we will no longer report wireless or IP networking and messaging submarkets as we had in the past; but instead, we will provide revenues by product category, including our next generation communications revenue and traditional communications revenue. As a reminder, our next gen communication revenues currently include our ATCA and Media Server products. This information is included in our press release tables issued earlier today. I would now like to talk about a few of the product highlights from the quarter. We had a number of significant new ATCA product deployments in the first quarter. We began shipping ATCA systems in volume for a 3G Femtocell deployment with a top tier North American wireless carrier. Our ATCA systems also passed validation testing for an enterprise Femtocell solution to a leading telecom operator in France.

From a product standpoint, we announced continued developments with Cavium Networks to deliver OCTEON II-based ATCA solutions to customers. The OCTEON II packet processing smart front end ATCA solution has cutting edge performance, flexibility, and throughput to reduce our customers' time to market and enhance the performance of their systems. We also announced the release of the first ATCA processing blade using the new Intel 5500 series Xeon processor. That combines with higher performance and larger memory capacity and flexibility. This particular product is targeted at 4G applications, including LTE,

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WiMAX, and IMS, and has already resulted in several design wins in both Asia and North America. Within our Media Server product family, I'm pleased that we were named the media server market leader for the fifth consecutive year by Infonetics, and we held the number one spot in 2008 with 47% of the IP Media Server market. In the quarter, we also introduced Voice Quality Enhancement, or VQE, features to our Media Server products. These will improve voice quality in VoIP conferencing applications. This new feature set recently received the 2009 NGN leadership award from Next Generation Networks magazine.

Within our commercial product lines, we announced a new image processing embedded server with higher processing performance targeted at medical imaging, industrial automation and test and measurement. We also announced a new ruggedized extended temperature COM Express module targeted at industrial automation, transportation, military, aerospace, and government applications, using very low power Intel atom processors. And lastly, we announced a compact, low power PICO ITX single board computer for portable and handheld devices for medical, gaming, transaction and test and measurement. With that, I would now like to turn the call over to Brian, who will talk a little bit more about our first quarter results, as well as some projections for second quarter.

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**Brian Bronson - RadiSys Corporation - CFO**

Thanks, Scott. As Scott mentioned, our first quarter revenue was 77.6 million, which is down 9.8% from the prior year and 12.5% from the prior quarter. As we expected, revenues were lower due to reduced demand in our traditional wireless business, as well as softness in our commercial markets. These declines were partially offset by higher revenues and next generation communications products. Our GAAP gross margin percentage continues to grow and finished the quarter at 31%, up 8.3 percentage points year-over-year. Our non-GAAP gross margin rate was 33.5%, up 5.7 percentage points year-over-year and up 1.9 percentage points from the prior quarter.

The increases were mainly due to our improving mix of next generation higher margin products. We currently expect our second quarter gross margin percent to be down by about a point from the first quarter's rate at the midpoint of the guidance range due to fluctuations in product mix from quarter to quarter. Total GAAP, R&D and SG&A expenses totaled 23 million in the first quarter. Non-GAAP R&D and SG&A expenses totaled 20.8 million, which was down 2.4 million from the prior year and a little over \$1 million from the prior quarter. Our expenses were lower than originally planned due to our ongoing focus on controlling spending, as well as the timing of some expenses pushing out to the second quarter. We currently expect total non-GAAP R&D and SG&A expenses to be down sequentially by approximately 100,000 in the second quarter.

In the first quarter, we recorded a restructuring charge of 1.5 million that consisted of employee-related expenses associated with achieving our annual operating plan targets. We expect to see an ongoing benefit from the restructuring of around \$400,000 a quarter once fully implemented later this year. Our Q1 non-GAAP operating income was 5.2 million, or 6.7% of revenues, and was up 5.9 percentage points versus the same quarter last year. We continue to make nice progress on improving our operating model, despite the ongoing softness in most of our markets. Net non-operating expense, which includes interest income, interest expense, and other non-operating items, was 71,000 in the first quarter. We currently expect our non-operating line to be an expense of around 300,000 in the second quarter.

Our first quarter GAAP effective taxes included a non-cash charge of 42 million for evaluation allowance against our US deferred tax assets. This charge has no impact on our business operations, liquidity, credit facilities, or compliance with existing covenants. In addition, our ability to utilize the benefit of the DTAs is not impacted by this charge, and we in fact still believe we will be able to utilize our DTAs based on our current income projections and their expiration dates. This write-off was triggered by our projection of a three-year cumulative jurisdictional pre-tax book loss in the US, which included 2007 and 2008 actuals, plus 2009 projections. The bottom line is that more and more of our worldwide pretax booked income is coming from emerging geographies and foreign-owned IP, like our Media Server business. We also realize add 3.2 million tax benefit in Q1, as we were able to permanently lock in the foreign exchange rate used to value our Canadian dollar denominated deferred tax assets with the Canadian authorities.

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As many of you know, the quarterly valuation of these DTAs was creating significant volatility in our tax rate. With the lock-in of this favorable rate, we maximized the value of the DTAs while eliminating this specific quarterly rate volatility. Our non-GAAP tax rate, which excludes the two items I just discussed, was 3.8% versus the 20 that we had previously expected. The difference is mainly related to ongoing changes in our projected income by jurisdiction, as more of our income is generated overseas, which results in a lower overall tax rate. We currently expect our GAAP and non-GAAP tax rates to be around 15% in the second quarter. Our basic weighted average shares increased to 23.1 million in the first quarter from 22.9 million in the fourth quarter. First quarter non-GAAP diluted weighted average shares were 27.4 million, which includes 3.8 million shares related to our convertible notes.

As a reminder, the net income threshold is 1.8 million to require inclusion of the 3.8 million convertible shares, and associated interest add-back is 291,000. We project our weighted average basic shares to be 23.4 million for GAAP results and our diluted shares to be 27.7 million for non-GAAP results in the second quarter. DSO was 52 days in the first quarter compared to 47 days in the fourth quarter. Despite an increasingly difficult environment to collect receivables and some changes to our shipment linearity, we still had another great collection quarter. I expect DSO to stay in the 50s this year. Net inventory decreased 700,000 from the fourth quarter due to a combination of lower revenue and increasing scrutiny on supply and demand planning.

I expect to continue to see gradual improvement in our inventory position over the next few quarters. As Scott mentioned earlier, cash flow from operations in the quarter was 4.3 million, and we ended the quarter with approximately 79 million of cash and cash equivalents. We currently expect to generate operating cash flow in the second quarter. Our current EBITDA breakeven equates to revenue of between 61 and 64 million, depending on product mix. Given the continued tough economic climate and limited visibility, we will continue to closely monitor our spending levels to generate cash flow. Now I'll turn the call back over to Scott to talk about the revenue and per share outlook for the second quarter.

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**Scott C. Grout** - RadiSys Corporation - President & CEO

Thanks, Brian. Regarding our outlook for the second quarter, please note that this is our view as of today and is a forward-looking statement subject to risks and uncertainties as discussed previously and in our press release made available earlier today. As we indicated last quarter, given the ongoing economic global downturn, our estimates are subject to a higher level of uncertainty than usual. So we currently expect second quarter revenues to be between 72 and \$78 million, with projected growth in next generation communications revenues partially offset by lower expected traditional communications revenues and continued softness in our commercial markets. We currently expect first quarter GAAP net loss to be between \$0.08 and \$0.01 per share. Non-GAAP EPS is expected to be between \$0.08 and \$0.14 a share.

While our visibility continues to be limited and we are seeing ongoing softness in several of our end markets, we continue to win significant new business and are successfully deploying our next generation products with many new and existing customers. At the same time, we are driving continued improvements within our operations that we expect will further strengthen our operating model, as well as position us for growth in the longer term. Maggie, with that, I think we are ready to turn the call over to questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). Our first question comes from the line of Matt Petkun with D.A. Son and Company.

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**Matt Petkun** - D.A. Davidson & Company - Analyst

Hi, good afternoon. Nice quarter and Q1. Brian, I had a quick question for you just on the gross margin outlook for Q2.

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**Brian Bronson** - RadiSys Corporation - CFO

Sure.

**Matt Petkun** - D.A. Davidson & Company - Analyst

You said maybe about 100 basis points down sequentially.

**Brian Bronson** - RadiSys Corporation - CFO

Right.

**Matt Petkun** - D.A. Davidson & Company - Analyst

If you were to obtain the high end of your revenue guidance, 78 million, I guess I'm trying to understand why the margin would need to be down, given the statements that Scott made about the mix actually -- it looks like mix shift would be improving based on your commentary, lower traditional, higher next gen.

**Brian Bronson** - RadiSys Corporation - CFO

Yes, that -- in general, that's correct. But there's enough -- as you know, Matt, there's not -- it doesn't take much revenue with some of our products in the next gen space to move the needle up or down. And I would say that there is wiggle room up or down inside the range for gross margin to be higher -- not so much lower, knock on wood, but there's definitely elasticity inside the range. So I wouldn't read into anything. I mean, the mix of business is roughly the same, and I think you're going to see potentially this -- particularly in the mid to high 70s from quarter to quarter -- it ranging plus or minus a point.

**Matt Petkun** - D.A. Davidson & Company - Analyst

Is there a more cautious outlook for Media Server?

**Brian Bronson** - RadiSys Corporation - CFO

No, I wouldn't read into that necessarily on Q1 to Q2. But in general, I would say that there's going to be quarters, given the timing and the nature of that business, where it's going to be higher or lower quarter to quarter and that's going to impact gross margins. But I wouldn't tell you that's the case from Q1 to Q2.

**Matt Petkun** - D.A. Davidson & Company - Analyst

Okay. And then the other question I had was kind of focused on your largest customer. That number you guys put out this quarter was a bit of a surprise to me and still near historical highs. How should we -- obviously, that's got to be one of the things that's probably -- maybe down for you guys next quarter. But can you share a little bit of your thoughts on the trajectory of that customer throughout the remainder of this year?

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**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes, a couple thoughts on that. So it definitely was a high quarter for us with NSN, which is a good thing. The revenues for NSN have definitely diversified across a number of different products for us -- so traditional, Media Server, and ATCA. So in general, that's a good thing for us to have this big customer, good relationship and diversify the products with them. I would have to say in terms of outlook for the full year, second half continues overall across all customers to look a little less certain and a little less clear. But in general, I think our position with customer remains strong, and we're diversifying across a number of different products now. The other point I would make is we're definitely seeing other new customers, particularly for ATCA and Media Server, starting to pick up in revenue as well. So -- but the other side of that equation of new customer revenue starting to come to fruition will be there as well.

**Matt Petkun** - D.A. Davidson & Company - Analyst

Okay, great. And one other follow-up just on Nokia Siemens, it sounds like you guys have been winning both on the Media Server side and maybe even perhaps in this gateway business with them, which is fantastic. You know, from what it sounds like, you guys have deemphasized the CPU board business with them on the ATCA side. And I'm just wondering -- it's going to take a while before they move to new vendors on the CPU boards. But how rapidly do you think that they are making a move to ATCA and maybe to their next generation platforms?

**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes. So as you would expect, our relationship and work with them is under MDA and kind of confidential. I can tell you that I wouldn't expect a fast move of all the different products that we do today to ATCA. There's a few products that they have identified that sort of lead the pack, and I would expect to start to see revenue -- meaningful revenue -- from that in '10 timeframe; and then over the next several years, I think, starting to migrate some of the other applications over to ATCA.

**Matt Petkun** - D.A. Davidson & Company - Analyst

Okay, fantastic. And again, congratulations on a nice quarter in Q1.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Thanks, Matt.

**Brian Bronson** - RadiSys Corporation - CFO

Thanks, Matt

**Operator**

Our next question comes from the line of George Notter with Jefferies & Company.

**Rajiv Jenveja** - Jefferies & Company - Analyst

Thanks, guys. This is Rajiv Jenveja in for George.

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**Scott C. Grout** - RadiSys Corporation - President & CEO

Hey, Rajiv.

**Rajiv Jenveja** - Jefferies & Company - Analyst

Hey. I guess I wanted to start by asking about the commercial side of the business, and in particular the medical products division. Over the last quarter or two, it sounds like you've had some good traction there. You've had that win in China last quarter. You've got some big name customers in there. And I guess I'm just wondering, when do we start to see that revenue really start to ramp -- or what needs to happen for that revenue to start to move? It's kind of been in this \$7 million a quarter range for a little bit now. And -- yes, just any color there would be helpful.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes, the biggest catalyst for us is sort of end market beginning to lift up a little bit. I'm really happy with the traction the new customers are winning, bringing those design wins actually into revenue has actually gone pretty well; but their end market demand is probably softer than what general economy looks like. So a big thing for us right now is to go in there, take share, get the award, get the product executed; and as their end market picks up, I think we're in a pretty good position.

**Rajiv Jenveja** - Jefferies & Company - Analyst

Okay, okay. And then on -- kind of related to that in China -- well, I guess I want to ask about China and then India. China -- it sounds like a bright spot in the COM equipment space right now. There are a lot of different vendors out there that are pretty excited about 3G in them. I'm just wondering about, you know, what's your outlook there? How do you guys think about that business? And then kind of contrary to that, we've heard some pretty negative data points in India, and some of the carriers there are having a hard time getting financing. And I'm wondering if you're seeing any of that right now? Are you seeing the softness yet in that market?

**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes, I think in general -- so certainly you had very significant network deployments taking place in India over the last three or four years. Our point of view is that will be down in 2009 -- probably 2010 is our own view. Some of that is because there's been a significant amount of network equipment deployed already and some of it is the point you made, financing getting a little bit tighter. China, on the flipside -- so we are starting to see some real deployments take place and real traction there. We have a couple of different ways to win today across our ATCA and Media Server product; and then some wins that we've got over the last 6 to 12 months, and funnel looks pretty good going forward. So I'd say in general, China for us as an end market is pretty strategic and I like the progress that we're making.

**Rajiv Jenveja** - Jefferies & Company - Analyst

Okay. Okay. And then I guess my last question is just on the manufacturing -- and I can't remember if there's been any update here, but I remember in the -- I guess it was back in August, you -- at the analyst event -- the manufacturing was 90% outsourced. And I'm wondering if there's anything new there. How do we think about manufacturing as the year goes by, and are we going to reach a point where it's entirely outsourced?

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**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes, so we're still finalizing our plans, so we've made progress against that. So I would expect next quarter we'll probably talk a little bit more specifically about it, but it's reasonable to think about it going out sooner rather than later.

**Rajiv Jenveja** - Jefferies & Company - Analyst

Okay, and what would be, what -- I guess what would be the upside scenario there from a margin perspective?

**Brian Bronson** - RadiSys Corporation - CFO

Formulated right now, but you're right. You're hitting on the -- until you get fully outsourced, you don't enjoy some of the semi-variable and fixed costs, but it's half a point plus.

**Rajiv Jenveja** - Jefferies & Company - Analyst

Okay. Okay, great.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Okay. Thanks, Rajeev.

**Rajiv Jenveja** - Jefferies & Company - Analyst

Thank you.

**Operator**

Next question comes from the line of Ted Jackson with Cantor Fitzgerald.

**Ted Jackson** - Cantor Fitzgerald - Analyst

Hey, Scott, hey, Brian.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Hi, Ted.

**Brian Bronson** - RadiSys Corporation - CFO

Hi, Ted.

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**Ted Jackson** - *Cantor Fitzgerald - Analyst*

Hey Brian, one question -- which it's not really a question, it's a request -- is since you're changing the structure of how you're breaking out your revenue, is there any way you could provide some historical data to help us with rejiggering the drivers for our revenue models?

**Brian Bronson** - *RadiSys Corporation - CFO*

Definitely. So plan is to do that. Can give you by quarter for 2008 and full-year for '07.

**Ted Jackson** - *Cantor Fitzgerald - Analyst*

That would be great.

**Brian Bronson** - *RadiSys Corporation - CFO*

We could do that offline; I'd be more than happy to do that.

**Ted Jackson** - *Cantor Fitzgerald - Analyst*

Okay. And then the other thing is, you had given a share count number for second quarter and I had missed that.

**Brian Bronson** - *RadiSys Corporation - CFO*

I'm sorry, Ted?

**Ted Jackson** - *Cantor Fitzgerald - Analyst*

Didn't you give a projected share count for second quarter?

**Brian Bronson** - *RadiSys Corporation - CFO*

Yes.

**Ted Jackson** - *Cantor Fitzgerald - Analyst*

I think I missed that.

**Brian Bronson** - *RadiSys Corporation - CFO*

Yes, 27.4 -- 27.7.

**Ted Jackson** - *Cantor Fitzgerald - Analyst*

And that's for proforma?

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**Brian Bronson** - RadiSys Corporation - CFO

Correct.

**Ted Jackson** - Cantor Fitzgerald - Analyst

Okay. And then kind of jumping over to Nokia, am I reading you right, where you've got -- you made a comment, and -- if it wasn't the last question, the question before -- that you had good visibility into 2Q, but when you got in the back half of the year that you didn't have as good of visibility?

**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes, yes. And I wouldn't say it's specific to Nokia. I think in general across all our markets that's a true statement.

**Ted Jackson** - Cantor Fitzgerald - Analyst

To be honest, nothing else anyone else isn't saying either.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Exactly.

**Ted Jackson** - Cantor Fitzgerald - Analyst

And then jumping over to the Media Server side of the house, you've had a relationship with ZTE in the past that you felt pretty good about. Wondering if you could give us some level of update as it relates to that relationship.

**Scott C. Grout** - RadiSys Corporation - President & CEO

So still feels good and there are a number of things in the funnel for some new applications and sort of expanded work with them. So relationship is progressing pretty nicely.

**Ted Jackson** - Cantor Fitzgerald - Analyst

Is there a play for you with the Media Server through ZTE and some of the 3G network deployments?

**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes.

**Ted Jackson** - Cantor Fitzgerald - Analyst

Okay. And then on the commercial side, do you see -- is there -- I mean, just out of curiosity, is there anything relative to government initiatives that would lead you to believe that you could see some kind of investment or recovery on that front? And to be honest, the same thing with the broadband stimulus package on the comp side? And then I'll step out of line.

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**Scott C. Grout** - RadiSys Corporation - President & CEO

So potentially, I think it's early in understanding how that's going to trickle down and what markets it's going to hit. I would say there's probably been one or two or three specific applications that we can kind of trace back and say that's related to government stimulus. So medical records within some of the end markets that they support would be an example of that. So simple answer is, I think there is potential for that. It's still trickling down, and hope to be able to share more.

**Ted Jackson** - Cantor Fitzgerald - Analyst

Okay, great. And Brian, I just want to tell you, great job in terms of balance sheet management.

**Brian Bronson** - RadiSys Corporation - CFO

Thanks, Ted. Appreciate it.

**Ted Jackson** - Cantor Fitzgerald - Analyst

Some good heavy lifting there.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Thanks, Ted.

**Operator**

And our next question comes from the line of Greg Mesniaeff with Needham & Company.

**Greg Mesniaeff** - Needham & Company - Analyst

Yes, thank you. Question for you, Scott. Could you tell us what percentage of your Media Server customers are outside the US?

**Scott C. Grout** - RadiSys Corporation - President & CEO

I don't know if I know that off the top of my head.

**Brian Bronson** - RadiSys Corporation - CFO

Well, the difference is between ship to and actual physical location, too, right? So --

**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes, so maybe that's something we can do a little bit of rummaging on. I can tell you in general, it started with strong North America position when we acquired two years ago. Asia and Europe are starting to grow nicely for us.

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**Brian Bronson** - RadiSys Corporation - CFO

Yes. And in fact, Europe going from really nonexistent, because the bandwidth for them into funnel band pretty robust.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes.

**Greg Mesniaeff** - Needham & Company - Analyst

Got you. Now, switching to the US, I was wondering if you could just share with us some of the data points that you're hearing from your larger carrier customers regarding spending. Has there been any indication that spending is looking more robust in the second half of this year, or is it too early to make those types of statements?

**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes, I don't think we're hearing anything different than you might see as the major carriers come out with their earnings call and sort of chat a little bit about CapEx budget. So I would say start of year, it kind of fell 5, 10% down over '08. Right now, it seems to be hanging in there okay.

**Greg Mesniaeff** - Needham & Company - Analyst

Right. Thank you.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Okay. Great, thanks, Greg.

**Operator**

(Operator Instructions). Our next question comes from the line of David Duley with Steelhead Securities.

**David Duley** - Steelhead Securities - Analyst

Good afternoon.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Hello, David.

**Brian Bronson** - RadiSys Corporation - CFO

Mr. Duley.

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**David Duley** - *Steelhead Securities - Analyst*

Hey, a couple questions from me. I guess first of all, did you have any other 10% customers besides Nokia?

**Scott C. Grout** - *RadiSys Corporation - President & CEO*

No.

**David Duley** - *Steelhead Securities - Analyst*

Okay, and then when you decided to change the revenue breakout, could you explain exactly kind of why you're going from -- I guess you had three buckets before and now you're moving to two, and how do those three buckets collapse into the two?

**Scott C. Grout** - *RadiSys Corporation - President & CEO*

Yes, it's a good question. So reason why we moved -- and for folks that have followed us for a while -- we had wireless IP networking and messaging and then other. Wireless over time became ultimately our largest customer in the proper form, and so that became irrelevant. IP networking and messaging historically was our enterprise business that -- traditional enterprises -- and IPB Xs, et cetera, that we have intentionally moved away from, and so that became irrelevant. And then the other was getting big, because it was all of our investments around ATCA, et cetera. So we changed to next gen COM, and we'll be willing to give 2007, in total for that -- by the way, it's 36 million, right, Holly?

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

Right.

**Brian Bronson** - *RadiSys Corporation - CFO*

-- for '07. And then 2008 by quarter, take it offline; and then, of course, we'll start reporting every quarter here in 2009. And the rest of it's just traditional. It's the rest of business, which still predominantly makes up our largest customer in the old way that you think about it, David.

**Scott C. Grout** - *RadiSys Corporation - President & CEO*

And although we haven't talked about it, just to make sure we're clear, so we have also commercial. So it would be three buckets.

**Brian Bronson** - *RadiSys Corporation - CFO*

Absolutely. And then still break out medical as well. Thanks, Scott.

**David Duley** - *Steelhead Securities - Analyst*

So just to review again, you collapsed three buckets inside communication into two and you eliminated wireless. So what -- I guess a better way to ask it now is what's left in the two buckets? In one bucket is next generation -- that's ATCA and Nokia?

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**Brian Bronson** - RadiSys Corporation - CFO

ATCA and Media Server, David, for next gen. And the traditional is everything is else, which given the stage that we're at and some of the end-of-lifting of the old enterprise businesses, is our traditional wireless bucket.

**Scott C. Grout** - RadiSys Corporation - President & CEO

And you can think of those as sort of custom solutions versus ATCA and Media Server next gen solutions. And that's how we're driving our investments internally and tracking our progress internally.

**David Duley** - Steelhead Securities - Analyst

Okay.

**Scott C. Grout** - RadiSys Corporation - President & CEO

So for example, ATCA goes into wireless, goes into wireline, goes into data networking, goes into a bunch of different applications. So the real bucket that we're watching and driving growth in is ATCA across lots of different end markets.

**David Duley** - Steelhead Securities - Analyst

So to basically to track ATCA going forward, we're going look at this next generation COM line.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Correct -- the combination of ATCA and Media server together.

**Brian Bronson** - RadiSys Corporation - CFO

Yes. And to be clear, this is the same number that we started rolling out early last year. It began with 80, revised to 90, ended up doing 100 million in 2008, right? So that's the same way to think about it.

**David Duley** - Steelhead Securities - Analyst

Okay. And then just kind of a 30,000-foot view, regarding the 3G -- the structure rollout in China, could you give us any commentary about how you see that progressing? And the reason I ask is a lot of other chip companies -- and I realize that's a different slot than you fit -- but a lot of chip companies have seen a big uptick in Q1 and are more cautious about the second half of the year, and there seems to be less commentary about what exactly's going to happen in Q2. So I was just wondering if you could throw your two cents in here as to what you're seeing about -- regarding the 3G rollout in China.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Yes, I think that's a relatively similar situation with what we're in. So we definitely saw a little bit of a tick in Q1, probably see a little bit of a tick in Q2 second half, what the deployment rollout looks like falls into that same uncertain bucket. So we're not getting "absolutely this is what deployment is going look like" in the second half related to 3G. I personally believe investment will continue. I think it's a thesis that the government in China is committed to.

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**David Duley** - *Steelhead Securities - Analyst*

Yes, I mean, they talk about spending like \$43 billion. I doubt they spent all of that in Q1 or Q2, right?

**Scott C. Grout** - *RadiSys Corporation - President & CEO*

Exactly, exactly. That would be a lot of equipment to install.

**David Duley** - *Steelhead Securities - Analyst*

Well, good luck. Congratulations on a nice quarter.

**Scott C. Grout** - *RadiSys Corporation - President & CEO*

Thanks, David.

**Brian Bronson** - *RadiSys Corporation - CFO*

Thanks, David.

**Operator**

The last question comes from the line of Ted Moreau with Cardinal Research.

**Ted Moreau** - *Cardinal Research - Analyst*

Thanks for taking my call. How are you doing, guys?

**Brian Bronson** - *RadiSys Corporation - CFO*

Good, Ted.

**Ted Moreau** - *Cardinal Research - Analyst*

Just have a quick question. On the top five -- or outside of the top five customers, it looked like it was down a little bit sequentially. Is there anything going on there? Is that correlated to -- looks like North America was also down rather significantly, so can you tie that together at all, or --

**Brian Bronson** - *RadiSys Corporation - CFO*

Oh, boy, not really, Ted. I mean, I think that you're just going to continue to see as we get more and more new customers, they roll into deployment, from quarter to quarter, you're potentially going to have a different top five list. Another way to say it, our top 20 customers represent 80 to 90% of our revenue from quarter to quarter, so it's really about getting these Tier 1s and emerging Tier 2 customers online here.

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**Ted Moreau** - Cardinal Research - Analyst

Sure. Are you ever going to break out the ATCA versus Media Server business at all within that next generation bucket?

**Brian Bronson** - RadiSys Corporation - CFO

Well, it's hard to say never, but for the foreseeable future, I think not. And a critical issue for us is just the competitive nature of the information.

**Ted Moreau** - Cardinal Research - Analyst

Sure. And then similar question on the Nokia Siemens, was -- are you going to disclose, or give us a feel for -- you said Media Server was relevant or significant for Nokia Siemens. Are you going to -- can you give us a little color there on -- I mean, was the upside largely on the traditional wireless business or -- ?

**Brian Bronson** - RadiSys Corporation - CFO

Yes, so we're going to do it moving forward; but just to get you calibrated; so again, the traditional business that you're talking about -- the wireless business is hanging in there, similar numbers to prior quarter, et cetera. And then when you layer on the AT&T business, you know, 5%, 7% on average.

**Ted Moreau** - Cardinal Research - Analyst

Okay, great. Thanks.

**Brian Bronson** - RadiSys Corporation - CFO

They can move around.

**Ted Moreau** - Cardinal Research - Analyst

Okay. Thanks for taking the questions, and congrats on a great quarter.

**Scott C. Grout** - RadiSys Corporation - President & CEO

Thanks, Ted.

**Operator**

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

**Scott C. Grout** - RadiSys Corporation - President & CEO

So thank you, everybody, for participating on the call, and talk to you -- most of you -- over the next couple of weeks. Thank you very much, Maggie, and everybody have a good day.

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**Operator**

Thanks for joining today's conference call. You may now disconnect.

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