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RSYS - Q1 2013 Radisys Corporation Earnings Conference Call

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PRESENTATION

Operator

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

Mr. Muhich, you may begin.

Allen Muhich - *Radisys Corporation - CFO*

Good afternoon, everyone, and thanks for participating on the call today. We will be discussing first quarter business and financial highlights, a strategic update and our outlook for the second quarter. We will then open up the call for questions.

Before I turn the call over to Brian, let me caution you that 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 Annual Report on Form 10-K for the year ended December 31, 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 we will discuss some non-GAAP measures. We have provided a GAAP to non-GAAP reconciliation of these measures in today's earnings release.

With that, I'll now turn the call over to Brian.

Brian Bronson - *Radisys Corporation - President & CEO*

Thanks, Allen.

We continue to make good progress on the strategic, operational and financial objectives I outlined to you over the last couple quarters and I'm pleased that we were able to meet financial expectations for the quarter. Let me give some first quarter highlights.

In MRF we recognized the first revenue for a new Media Resource Function, the MPX-12000. Our customer in Asia, a tier one carrier who is using our MRF to drive a rich communication services, or RCS, in a network being deployed in that region. We also announced a key partnership with Mavenir to utilize our MRF in support of Voice over LTE deployments on Mavenir's mOne Convergence Platform. Overall, we have 10-plus MRF



trials in Voice over LTE, as well as rich communication services in the IMS core. We expect the trials to continue throughout 2013 with ramping deployments and material revenue in 2014.

On the solutions front, where we uniquely bring our hardware and software assets together, we have refined our strategy to focus in four key areas. The first is edge routing, where we are currently partnering with a tier one telecom equipment manufacturer and are off to a good start.

The second is in load balancing, where we shipped our first solution to an important North American customer. We have jointly developed this cost-effective solution that provides the necessary load balancing functionality within their existing platform.

The third area is intelligent gateways. We have a number of design wins for femto, LTE and other intelligent gateways that leverage both our hardware and software expertise to enable the linkage between different elements of the network.

The fourth and final focus area is providing compact packet cores. We're uniquely positioned in this area to provide flexible, out-of-the-box solutions leveraging standard telecom functionality outside of traditional telecom markets. These solutions can be of particular use in defense and aerospace markets, or even within an enterprise or public safety deployment.

In Small Cells we are right in the middle of working with a significant Asian carrier to enable commercial residential deployment. And while overall ATCA revenue remained relatively flat with Q4, our new T-Series 40-gig ATCA revenue grew nearly 40% sequentially and now accounts for approximately 40% of our total ATCA revenue. ATCA represents about half of total company revenue and we continue to focus on full-system and higher-margin blade-based opportunities.

As many of you know, our ATCA products are the foundation for the software-rich solutions that leverage our professional service telecom expertise, as well as the platform that our MRF software sits on to make it the MPX-12000.

Turning to design wins within our platforms business, we had 19 customer wins, 8 of which were new to Radisys. These design wins are expected to generate approximately \$60 million in revenue over the next 5 years and were balanced across our product lines and applications, such as intelligent gateways, including both femto and media gateways, compact packet cores, as well as session border controllers.

We concluded the sale of our old embedded software business called OS-9 and stopped our security gateway investment. And we are also beginning to see the tangible fruits to our operational focus by reducing inventory close to \$5 million sequentially.

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

Allen Muhich - Radisys Corporation - CFO

Thanks, Brian.

As expected, our first quarter revenue was \$68.2 million and non-GAAP EPS was breakeven. Our [fourth] quarter top five customers were Arrow, Danaher, NEC, Nokia Siemens Networks and Philips Healthcare. As a reminder, we sell ATCA platforms to two different divisions of Danaher, both of which represent very strategic long-term relationships. Two customers, Nokia Siemens Networks and NEC, each accounted for more than 10% of first quarter revenue.

Q1 non-GAAP gross margin was 32.3%, right on the guidance we outlined last month, and approximately 1 percentage point lower than Q4. And reduction in higher-margin Trillium software revenue within our Software Solutions product category resulted in the decreased gross margins.

First quarter non-GAAP R&D and SG&A expense of \$21.7 million represented a \$300,000 reduction when compared to the fourth quarter.

I would also like to comment on several items that, due to their nonrecurring nature, have been excluded from our non-GAAP results.



As Brian mentioned earlier, we stopped our Security Gateway investment, which puts at risk future product shipments and required us to record a \$3.1 million first quarter non-cash charge to write off prepaid technology license fees.

Also, we completed the divestiture of our older, non-strategic highway traffic control software called OS-9 for a cash consideration of \$1.7 million, which resulted in a net \$1.6 million gain.

We recorded a \$700,000 non-cash gain associated with a reduction in the Continuous Computing earnout liability. Small cell deployments, that would have resulted in earnout eligible royalty revenues, have been lower than Continuous management originally expected. As a reminder, royalty revenues under certain customer agreements existing at the time of our July 2011 continuous acquisition are eligible for a dollar-for-dollar earnout payment on revenues recognized before September, 2014.

Finally, we recorded a \$500,000 cash restructuring charge associated with our continued efforts to reduce our cost structure.

Switching over to the balance sheet, [fourth] quarter DSO of 69 days represented a 2-day increase when compared to the fourth quarter. Given the Chinese New Year holiday, shipments are generally later than normal in the first quarter, pushing invoice due dates beyond March 31st. Together with our manufacturing partner, we have increased focus on maximizing early quarter shipments to enable improved collection timing and return more cash to the balance sheet.

As Brian mentioned, our operations team made great progress in Q1, reducing inventory on a sequential basis by nearly \$5 million to \$24 million. This is the third straight quarter we've reduced inventory and marks our lowest level in nearly two years. I'm particularly pleased with these efforts as it's tangible evidence of the focus we're placing on operational improvements and returning cash to the business.

Net of a reduction in our outstanding debt, we generated \$500,000 in cash during the quarter. On February 14th we retired \$16.9 million of our maturing convertible debt, leaving \$18 million outstanding and due in February of 2015. Additionally, we drew down and exited the first quarter with \$15 million outstanding on our Silicon Valley Bank line. Taken together, total outstanding debt decreased by \$1.9 million in the quarter. I anticipate maintaining this level of debt through the next several quarters. As an additional note, our borrowing base support \$29 million in total SDB availability at quarter end, of which \$14 million was unused and available.

Moving over to the second quarter outlook, we expect Q2 revenue of between \$63 million and \$69 million, which at the midpoint reflects a sequential quarterly decrease in COMe, RMS and other legacy revenue that is expected to be somewhat offset by a meaningful increase in Software Solutions.

We anticipate ATCA revenue to remain relatively flat in the second quarter with modest increases in the second half coming from deployments in China, as well as from our single largest customer.

Q2 non-GAAP gross margin is expected to approximate 34% to 36%. An expected sequential quarterly increase in our higher-margin Software Solutions revenue should positively affect overall gross margin rates.

Q2 non-GAAP R&D and SG&A expenses are expected to remain relatively flat.

In Q2 non-operating expense and non-GAAP taxes are each expected to approximate \$300,000.

We expect second quarter non-GAAP EPS to range from a loss of \$0.03 to a profit of \$0.09 per diluted share.

I should mention that our guidance range is relatively wide, reflecting some of the high gross margin products we have in our portfolio. As an example, our new MRS has approximately 80% gross margin and a relatively high selling price, implying it only takes a few units to materially move our earnings.

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



Brian Bronson - *Radisys Corporation - President & CEO*

Thanks, Allen.

I'm really pleased with the progress and the tightening focus that the team has brought to the business over the last seven 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've met first quarter financial expectations top to bottom and, net of changes in debt, we generated positive cash flow. Our significantly reduced inventory, again, is tangible evidence of the operational improvements we're driving.

I continue to be extremely excited by the market opportunities and acceptance of our MRF within the Voice-over-LTE market in providing rich communication services and then into the broader video market. The market opportunity here is significant.

We are announcing some initial traction with our Small Cell products, and our unique solutions play has exceeded my expectations and we'll begin a fundamental -- and will be a fundamental differentiator for Radisys moving forward.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions.) Our first question comes from the line of Rich Valera with Needham & Co.

Rich Valera - *Needham & Co. - Analyst*

Thank you. Good afternoon.

Brian Bronson - *Radisys Corporation - President & CEO*

Hi, Rich.

Rich Valera - *Needham & Co. - Analyst*

Hi. So, last quarter you said that the quarter was sort of back-end loaded from a linearity perspective. I'm wondering if that's in fact how it played out and how you're set up this quarter from a linearity perspective relative to last quarter.

Allen Muhich - *Radisys Corporation - CFO*

Yes, Rich, this is Allen. Yes, given the lateness of the -- of our earnings call last quarter, we -- it came in pretty much exactly as we had anticipated it to. And so much of our revenue came in a little bit later, as I indicated, which again somewhat adversely affected our A/R collections.

What I would also say is that in the second quarter here things through the first several weeks are modestly better. Again, I think in Q1 it was somewhat driven by our Chinese New Year and the timing of getting shipments out of the factory and we don't have that dynamic in the second quarter. So, things are a little bit better. I don't want to over-emphasize it, but modestly better.



Rich Valera - *Needham & Co. - Analyst*

Great.

Brian Bronson - *Radisys Corporation - President & CEO*

And Rich, I would also say, too, that with Bobby, who's our VP of Operations and the business unit guys and Allen, it'll take a couple of quarters, but we're trying to change the behavior of our customers as well. Because some of it is just simply securing the POs sooner, moving from sort of non-binding forecast to loading into the -- into [Jayville] so we can actually ship sooner. And that ultimately is going to improve the cash cycle time and that's one of our key operational focus areas.

Rich Valera - *Needham & Co. - Analyst*

Well, that's helpful. Thank you. And I was wondering if you could cut it a little finer with respect to the guidance that Software and Solutions would be up meaningfully in Q2. Any sense of magnitude there percentage-wise or otherwise would be helpful.

Brian Bronson - *Radisys Corporation - President & CEO*

Well, I would say, first and foremost, I mean, the bigger driver inside of that in MRF.

Rich Valera - *Needham & Co. - Analyst*

Sure.

Brian Bronson - *Radisys Corporation - President & CEO*

So, some business color there. And then, Allen, sequentially--?

Allen Muhich - *Radisys Corporation - CFO*

We think it's going to be up somewhere on the order of 10% to 15%, Rich. And again, it's -- part of the reason for the wider guidance range is some of those shipments could end up happening a little bit later in the quarter.

Rich Valera - *Needham & Co. - Analyst*

Sure.

Allen Muhich - *Radisys Corporation - CFO*

But somewhere in that range.



Brian Bronson - Radisys Corporation - President & CEO

And maybe another way to cut it, too, is that for our -- Rich, for our conferencing business, more predictable than the quarter we are on and very close to POs with MPX-12000 in Voice-over-LTE, but also in IMS core opportunities. So, is that -- does it -- do we ship it in June? Do we ship it in July? That's the sort of bid and ask that we're working on right now.

Rich Valera - Needham & Co. - Analyst

That's helpful. And then wanted to follow through on the back half of the year for that business. Clearly, that will be the big driver, I think, of margin expansion and earnings growth for you guys. And you'd had a pretty, I guess, ambitious target of maybe growing the entire business 20% this year. And given the first -- what looks like is going to happen in the first half, it would seem to take a very strong second half, certainly from a year-over-year perspective, to get to like a 20% level.

But, just wonder if you can give color around what you think of -- for that business in the second half. I mean, the big components sound like they're the traditional voice conferencing, plus obviously some of the MPX opportunities and some of the Trillium stuff. But, just talk about how you're thinking about the second half. What are the drivers there? And any color you can give on how you think that's going to play out would be very helpful. Thank you.

Brian Bronson - Radisys Corporation - President & CEO

Yes, you bet. So, let me unpack it again. So, in the case of MRF, I still feel very good about the ability to drive 20% growth. In the case of Trillium and, again, particularly Small Cells, it's TBD. It's TBD timing-wise. I don't -- right now, I don't see 20% growth there. And I need to see more deployments. I need to see more real activity to be able to call it.

Our Solutions business, by the way, which is also inside Trillium, and how we talk about it, as I mentioned in my prepared remarks all is good there. In the case of Trillium Small Cell, it continues to be a timing question for me.

Rich Valera - Needham & Co. - Analyst

Sure.

Brian Bronson - Radisys Corporation - President & CEO

So, that's not completely clear, Rich but, again, good on MRF, not clear to uncertain on being able to deliver that growth in Trillium.

Rich Valera - Needham & Co. - Analyst

And when you say MRF, are you including the Voice Conferencing component as well?

Brian Bronson - Radisys Corporation - President & CEO

Yes. (Inaudible)

Rich Valera - Needham & Co. - Analyst

So that lumps it all together?

Brian Bronson - Radisys Corporation - President & CEO

I do. I do lump that --.

Rich Valera - Needham & Co. - Analyst

Okay.

Brian Bronson - Radisys Corporation - President & CEO

Together now.

Rich Valera - Needham & Co. - Analyst

Okay.

Brian Bronson - Radisys Corporation - President & CEO

Yes. Yes.

Rich Valera - Needham & Co. - Analyst

So, you feel good about that business in aggregate growing 20%. And presumably, the big -- bigger component of that is the Voice Conferencing or just whatever you -- what are your thoughts there?

Brian Bronson - Radisys Corporation - President & CEO

Yes, I would -- in the beginning of the year I would have told you call it 90% of that business, that meaning again MRF, would be our conferencing customers and the features we're deploying in that space. And the remaining 10% would be VoLTE/IMS core opportunities. I would say that that could be even higher, that MRF portion and IMS core and VoLTE could be a bit higher; call it like even 15%, which means -- and derives comfort for me overall in the MRF growth side.

Rich Valera - Needham & Co. - Analyst

Gotcha. Okay. Very helpful color. Actually, that's it for me. Thanks very much, guys.

Brian Bronson - Radisys Corporation - President & CEO

Yes. Thank you.

Allen Muhich - Radisys Corporation - CFO

Thanks, Rich.



Operator

Our next question comes from the line of Aalok Shah with D.A. Davidson.

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

Hey, guys, just a couple quick questions. In terms of how I should think about your Software and Services revenue for the upcoming quarter, is that a recurring revenue stream? Is that just licenses being renewed? How do we think about your licensing model itself and how much that has an impact to the next quarter?

Allen Muhich - *Radisys Corporation - CFO*

Well, there is a meaningful amount of recurring revenue there, Aalok. So, if you -- again, if you kind of go down the path that Brian was talking about in terms of separating out the MRF versus the Trillium piece, I would say that within MRF, call it 15% to 20% of that revenue stream is recurring, is more of the maintenance revenue on the products that are installed and some of the new products that are heading out into the market.

Then if you look at the Trillium side of things, the license revenue, obviously, is not recurring and it's a relatively, for us, again, out of the total of call it -- in the first quarter it was a little bit north of \$11 million, almost \$12 million, a very -- a relatively small portion of it was license.

The maintenance revenue is a little bit bigger. Call it maybe 10% to 15% of the total. That is recurring. And then the Professional Service revenue is also recurring. So, there's a reasonable blend of recurring versus what needs to be booked fresh in the quarter.

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

Okay. So, Allen, thank you. That's good color. If I could expand on it just a little further then. Last year you saw revenues pick up in Q2 and then Q3 started to fade again and Q4 started to fade. I know a lot of that was timing based. But, am I to understand that maybe there's a -- there's some cyclical or some seasonality to your software reoccurring business and maybe some licensing business that gets renewed at this time of the year and maybe it starts to fall off then in Q3 and Q4?

Brian Bronson - *Radisys Corporation - President & CEO*

No. That's a really good question. And by the way, I'll just say it now. So, Allen and I are talking about -- we're not -- absolutely not being -- trying to be coy at all between the two pieces in Software and Solutions. So, we may entertain the idea of breaking these two out so it's completely clear moving forward.

But no, the Q2 '12, last year's big revenue was MRF. It had nothing to do with Trillium. And it was particularly that one customer, our biggest MRF customer, who can take nodes at different times of the year, depending on the year.

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

Okay. Okay.

Brian Bronson - *Radisys Corporation - President & CEO*

And so, from -- yes. So from that perspective it is lumpy.

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

Okay. And Brian, your biggest end customer, just to take CapEx again. So I mean, what kind of -- what kind of ability do you think you have in seeing kind of that business return? I know you talked about MRF already, but I'm just trying to get from an end market perspective where you think (inaudible) is going to come from?

Brian Bronson - *Radisys Corporation - President & CEO*

Well -- again, are you talking about -- just to make sure I'm clear. So, in MRF with our largest customer there?

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

Yes. Yes.

Brian Bronson - *Radisys Corporation - President & CEO*

Yes. Yes. So actually, I feel pretty good about the business for the year relative to 2012. So, it'll come -- I think -- it looks like it's going to come smoother, if I can use that word, relative to the lumpiness that happened in 2012. So, we've got great visibility there. We're in -- as you would appreciate, we're in very, very deep interactions with them on our strategic initiatives as well in that business. So, feel very, very good about visibility; very, very good about the relationship in that account.

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

Okay. So, I know you don't want to give me forward guidance beyond one quarter, but how should I think about the back half of this year? Should we expect to see maybe Software and Services maybe kind of flatten out a little bit and maybe the growth is really going to come from MRF at that point? Or do we kind of flatten out in general at this point?

Brian Bronson - *Radisys Corporation - President & CEO*

I would say, because it's -- well, the law of averages, too. So, the MRF business is bigger than the Trillium business, right, too. So, I would say most of the growth comes with MRF.

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

Okay. Okay.

Brian Bronson - *Radisys Corporation - President & CEO*

And I'll take the action with Allen offline to talk about maybe preparing us to give at least more explicit color, because it -- again, we're not trying to be coy.

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

Sure. And then the last question for me. In terms of the balance sheet itself, the \$1.7 million, can you just go over -- was that recorded in the quarter you just reported or was that -- is that still to come?



Allen Muhich - *Radisys Corporation - CFO*

The gain we recorded actually in this quarter and we got the majority of the cash in this quarter. We got a little bit of the cash, actually, in the fourth quarter. So, it's --.

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

Okay.

Allen Muhich - *Radisys Corporation - CFO*

Pretty much behind us at this point in time.

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

Okay.

Allen Muhich - *Radisys Corporation - CFO*

And it's -- again, it's excluded from our non-GAAP results.

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

Okay. So -- and I'm -- again, I'm not trying to split hairs here, but it looks like --.

Allen Muhich - *Radisys Corporation - CFO*

Sure.

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

Your cash balance continues to dwindle and you're A/R went down, your inventory went down. You're not generating much cash at this point. So, are you concerned? Where do you think that cash flow can go through the rest of this year?

Allen Muhich - *Radisys Corporation - CFO*

Yes. Look, I guess the way I look at it is, is you have -- again, we increased our cash balance by about \$0.5 million net of the changes that we made in debt. I think that if you exclude some of the one-time items, it's still very close to breakeven. But, that also includes some incremental payments that we made for variable compensation as we exited 2012. It includes some commission payments that we made at the end of 2012. And so I think, everything else is held constant, we would have been a much more meaningful cash generator. And then, as we start talking about MRF expansion and we start talking about some additional -- maintaining our cost structure and improving our cost structure, I think you'll see us generating more meaningful cash in the back half of the year.

The other thing I guess I would say is that we did show a \$5 million reduction in our inventory but, frankly, we didn't benefit too much from it on our cash flow statement just simply based upon the timing of cash going out the door. So, what I would expect is, in the second quarter we should



see a little bit of an uptick in our cash generation simply reflecting the fact that we're going to write fewer checks reflecting that decreased inventory. Again, it's fewer invoices that we actually received in Q1 that have to be paid in Q2. So again, we should see a nice uptick, I think, in cash in the second quarter and then throughout the balance of the year.

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

Okay. And the last question, just if I could. I know you -- I don't want to beat a dead horse again, but in terms of how we should be thinking about the rest of the year, if we start to think Software and Services is kind of flattish from here on after Q2, really, the sequential growth is going to have to come from MRF. And MRF on a year-over-year basis, we are still going to see pretty decent growth. So, should we expect to see good sequential growth in Q3 and Q4? Is that what you're implying?

Brian Bronson - *Radisys Corporation - President & CEO*

Yes, definitely.

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

Okay. Okay.

Brian Bronson - *Radisys Corporation - President & CEO*

Definitely.

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

Alright.

Brian Bronson - *Radisys Corporation - President & CEO*

Yes. And the normal caveats apply, right? But, I -- it's -- it definitely will be a driver for growth. By the way, I do expect to see sequential growth in ATCA as well, right? I mean, so that'll be a driver. And then, of course, you know the offsets can be, the old legacy, etc., right, the same old story.

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

Okay. Thank you.

Operator

(Operator Instructions.) Our next question comes from the line of James Kisner with Jefferies, LLC.

James Kisner - *Jefferies & Company - Analyst*

Yes, thank you for taking my question.



So, just to touch basically on this -- the other divisions that you just alluded to, I mean, I think -- in the past I think you said that you thought COME could be flattish year over year and that other products might be \$25 million to \$30 million. I'm just curious. Is that kind -- or down maybe 50% I think is another thing you said on other products. Like, how are you feeling about those kind of longer range forecasts on the other products? Do those still sound reasonable to you? Do I have those right?

Brian Bronson - Radisys Corporation - President & CEO

Yes. They -- I think plus or minus I think you have those right. Yes. So call it, again, flat with COME rack-mount server plus or minus, again, \$25 million to \$30 million to your point in other. Yes.

James Kisner - Jefferies & Company - Analyst

That's good to know. Okay. And then sort of a house -- a couple minor housekeeping questions around applications. Is this the first time you ever mentioned SBC application?

Brian Bronson - Radisys Corporation - President & CEO

Well, it's in the context of enabling technology, right? So, think about it with us selling our product to somebody who builds an SBC.

James Kisner - Jefferies & Company - Analyst

Okay. So, is that -- I guess is that new or is it just -- it just doesn't really --?

Brian Bronson - Radisys Corporation - President & CEO

No.

James Kisner - Jefferies & Company - Analyst

Matter what the end application is from your perspective?

Brian Bronson - Radisys Corporation - President & CEO

It's not new. No, it's -- think about in the same context as us providing enabling technology and gateways and switches, etc.

James Kisner - Jefferies & Company - Analyst

Okay. So, just -- here's a thought. On Software and Solutions' margin trajectory -- I guess this question would be relevant for ATCA as well. Could you -- what do you think about -- I mean 80% margins is pretty high. I mean, it sounds like perhaps the margins could get better through the year in Software and Solutions. I kind of want to verify that. And I guess I'd just love to get a sort of a similar sort of trajectory question on the ATCA gross margins.



Allen Muhich - *Radisys Corporation - CFO*

So, I think, James, you nailed it. As MRF continues to grow and becomes a larger component of the Software Solutions category, I do think you should see some margin expansion in Software Solutions from an overall standpoint.

I think within ATCA you should see margins remain relatively flat, with potentially some modest increase as we see expansion in full system shipments as -- and a decrease, frankly, in some of the lower margin blade-based systems.

So I think overall, directionally, we should see some nice margin expansion. And we indicated a couple of points of improvement in the second quarter. I think you should continue to see that expansion as we go throughout the year; again, as MRF continues to grow and as we continue to transition to more system level sales within ATCA.

Brian Bronson - *Radisys Corporation - President & CEO*

Yes. And Allan's bang on. I would just say that the one caveat would be -- and you guys even did end up seeing this in 2012. I think that we had a low in one quarter of 32 and we had a high of 37. And I do believe that our mix of our business has changed to the point now where it's a more linear path to high 30s and that should be the direction for the rest of the year.

James Kisner - *Jefferies & Company - Analyst*

That's great. And on OpEx I believe you said in the past that you thought you could kind of keep it flattish through the years. Is that also something that you think you can keep -- can stick to?

Allen Muhich - *Radisys Corporation - CFO*

Absolutely, James. Again, we came down a little bit in the first quarter relative to the -- relative to, excuse me, Q4. We expect it to remain flat in the second quarter. And actually, frankly, for the second half of the year it should stay relatively flat.

James Kisner - *Jefferies & Company - Analyst*

That's great. Alright. Thanks for taking my questions.

Brian Bronson - *Radisys Corporation - President & CEO*

Yes. And maybe -- I'll add some additional color as you sign off. But just to reiterate, so, when I took over as CEO I think about -- I thought about it in some compartments. So, call it the first quarter or two. Radisys was a business that was losing money. It didn't have the focus that it needed. And so we spent a lot of time as a leadership team and as a team in general thinking through that and right sizing and moving forward.

In the first half of 2013, it was about breakeven or better, bringing cash back to the balance sheet, putting ourselves in a position for the second half of this year, both from top-line growth, as well as cost structure refinements and decisions made to start to deliver more meaningful cash flow and more meaningful profit.

Other questions?

James Kisner - *Jefferies & Company - Analyst*

(Inaudible.)

Brian Bronson - Radisys Corporation - President & CEO

Yes. Thank you.

Operator

(Operator Instructions.) And this concludes our question-and-answer session. Mr. Bronson, are there any closing remarks?

Brian Bronson - Radisys Corporation - President & CEO

Yes, thank you. And again, thank you for participating in the call and I look forward to providing another update to you in either late July or early August. Have a good rest of the day.

Operator

Ladies and gentlemen, this concludes today's conference call. We thank you for your participation. You may all disconnect.

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