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RSYS - Q4 2011 RADISYS CORPORATION EARNINGS CONFERENCE CALL

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OVERVIEW:

RSYS reported 4Q11 non-GAAP revenues of $80.2m and non-GAAP EPS of $0.05. Expects 2012 non-GAAP revenue to be $345-355m. For 1Q12, expects non-GAAP revenue to be $75-81m and non-GAAP EPS to range from breakeven to $0.06.

CORPORATE PARTICIPANTS

Mike Dagenais *RadiSys Corp - CEO*

Allen Muhich *RadiSys Corp - VP Finance*

Brian Bronson *RadiSys Corp - President, CFO*

Michel Dagenais *RadiSys Corp - CEO*

CONFERENCE CALL PARTICIPANTS

Rich Valera *Needham & Company - Analyst*

George Notter *Jefferies & Company - Analyst*

Michael Engellant *D.A. Davidson & Co. - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the RadiSys fourth quarter earnings conference call with Mike Dagenais, CEO of RadiSys. As a reminder, today, January 31, 2012, this call is being recorded. Later we will conduct a question-and-answer session. (Operator Instructions) Mr. Dagenais, you may begin.

Mike Dagenais - *RadiSys Corp - CEO*

Good afternoon and thank you for joining our fourth quarter conference call. On this call, we will be discussing the results for the fourth quarter 2011, business highlights for the quarter and some insight on our traction in the market. We will follow this with guidance on the first quarter of 2012 and our full-year 2012 outlook. After the prepared material, we will open up the call for questions. Participating on the call with me today are Allen Muhich, Vice President of Finance; 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 Allen for our caution about forward-looking statements.

Allen Muhich - *RadiSys Corp - VP Finance*

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 quarterly report on form 10-Q for the quarter ended September 30, 2011. 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 for these measures in our earnings release issued today. Now I will turn the call back over to Mike.

Mike Dagenais - *RadiSys Corp - CEO*

I'd like to get started by summarizing our financial results. Our fourth quarter non-GAAP revenues were $80.2 million and came in as anticipated. Our non-GAAP EPS was $0.05. The EPS numbers exceeded our expectations, primarily due to favorable product mix and particularly strong media server revenue. We had next-generation communications revenue growth of 30% on a pro forma basis. This revenue stream is now over $200 million on an annualized basis and represents nearly two-thirds of the total revenue going into 2012. We also continued to see increased customer diversity in the quarter, with our top customer being less than 20% of total fourth quarter revenue. This is down from close to 50% single customer concentration in the first half of the year.

We had another fantastic design win quarter, with 17 different customers awarding us design wins totaling approximately $95 million of expected revenue over the next five years. This brings our second-half total to almost $200 million. The wins were diversified, coming from all our product lines in targeted applications such as traffic management, packet inspection and video optimization. With our media server products, we won incremental and voice quality enhancements, or VQE business, as well as business in audio and voice conferencing application. In COM Express and Rack Mount Server products, we won new business in medical imaging and military mobile vehicle networks applications. Our customers are recognizing our broad technology capabilities and I am pleased with the amount of new business we are winning. In particular, the strength we saw with our ATCA products at Asia is a validation that we are on the right strategic path. This will set us up nicely for strong revenues in the second half of 2012 and into 2013.

Now although we have had sequentially two strong design win quarters, the nature of our business is such that we don't expect our customer wins to always be of these kinds of levels as our funnel of opportunities fluctuates from quarter to quarter. As I stated previously, I don't expect to provide this level of design win details every quarter. But we are reevaluating alternatives to give you some color on our design win performance in the future, as I believe this is an important leading indicator of future revenue.

Now, I would like to give you an update our strategy and progress we have made in the last 90 days. As previously stated, our focus is to be the world's premier provider of embedded wireless infrastructure solutions, enabling our customers to solve the growing capacity challenge faced by today's wireless operators. We help our customers increase network capacity, generate new revenue opportunities while lowering their overall cost for services delivery. We create a time-to-market advantage by providing our customers critical network building blocks in parallel with their own development cycles.

To further accelerate the introduction of these new products, we have created a new solutions business that sells integrated hardware, software and professional services into specific targeted growth markets. Our solutions include many different combinations of our existing assets, and bring more value, more differentiation and more stickiness with our customers. Some examples of these integrated solutions are the SEG, or security gateway, that provide data encryption between network access points and the core. We have a new femto gateway that handles security, traffic aggregation for both voice and data from femtocells and other small-celled products into the core of the wireless network. We have a solution based on our media server platform that will provide voice and [VoLTE] capabilities to next-generation LTE generations as a multimedia resource function, or MRF, that will support, deliver and monetize mobile video services.

While our core focus remains on the wireless telecom market, we're also leveraging our telecom expertise in other markets like aerospace and defense and public safety. With aerospace and defense, we believe we have the right initial traction to take advantage of the industry's shift to more off-the-shelf commercial products. As we mentioned in our last earnings report, our revised strategy also entails reinvestment in our COM Express, and Rackmount service products. These were previously reported within our commercial products group. These reinvestments leverages our core capabilities in designing rugged, hardened and high-availability solutions into medical and other target markets. With this renewed investment, we have already won new business with existing customers for follow-on and new programs. We are confident that we can reverse the decline in revenue seen in 2011 to again be in a growth trajectory in 2013 for this business.

Overall, we're very excited about the market's initial reaction to our strategy. We've had some great early success as evidenced by our strong design win performance. The unique offerings bring us true sustainable differentiation and add more value to our customers, and ultimately will return greater profitability to our shareholders. We believe this strategy puts us on a path to grow the total Company revenue and accelerate our 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 fourth quarter financial results and projections for 2012.

Brian Bronson - *RadiSys Corp - President, CFO*

As Mike previously mentioned, our fourth quarter non-GAAP revenue was $80.2 million and our next-generation COMs revenue was $51 million or 64% of revenues. We delivered non-GAAP EPS of $0.05. Our top five customers in Q4 were Danaher, LG Ericsson, NEC, Nokia Siemens Networks, and Philips Healthcare. We sell full-force ATCA to LG Ericsson used in both LTE Evolved Packet Core and wireless access gateway applications. Our sales to NEC go into several different applications within the 3G and next-gen LTE network.

As Mike noted earlier, I'm extremely pleased with the meaningful progress we have made to diversify our customer base. Collectively our top five customers represented 48% of our revenue in the quarter, which is down from the 60% to 65% range historically. And while Nokia Siemens Networks is an extremely important customer for us, they represented only 19% of our total revenue in the fourth quarter, which is down from around 30% in the prior quarter and over 50% in the first half. I expect the percentage of business with NSN to be around 20% or 25% of our total revenue in 2012, with about half of the revenue coming from older products and the other half coming from our ATCA and media server product lines.

Our Q4 non-GAAP gross margin rate was 35.5%, up from 33.5% in Q3, primarily due to the favorable mix towards our margin-rich ATCA and software and solutions revenues. Our Q4 non-GAAP gross margin rate was at the highest level it's been in over seven years. As anticipated, non-GAAP operating expenses totaled $26.9 million and were flat with the prior quarter. Our integration costs remain on track relative to original expectations, with integration and restructuring charges totaling $1.7 million in the quarter.

Switching over to the balance sheet, DSO was 56 days in the fourth quarter, compared to 54 days in the prior quarter. I expect DSO to gradually rise throughout the year as we anticipate increased pressure by some of our customers to extend out payment terms. Our total inventory and deposit balance was $35.5 million at the end of the fourth quarter, down from $37 million at the end of the third quarter. Our contract manufacturer transitions continue to progress well, and we currently anticipate being down to a sole-source relationship with Jabil in Malaysia by late spring. At that point we can expect inventory levels to begin declining and our goal is to get inventory down to the mid-20s by the end of the year and then again, more work to do in 2013.

On the cash front, we generated $900,000 of operating cash flow in the fourth quarter and ended the year with the $47.8 million of cash. This is down from $55.9 million at the end of the third quarter, due to capital expenditures of $3.9 million in the quarter, largely tied to the integration. We also bought back $5 million of our convertible bonds in December, leaving us with $45 million of debt that is due in February of 2013. Also, in November we finalized the amendment to our line of credit and we now have a $40 million line available.

I would now like to discuss changes to how we will be reporting our product revenue moving forward. This new reporting is more closely aligned with how we view our revenue internally and believe it will provide investors with greater visibility to our underlying revenue trends. Our revenue will be disclosed in the following four categories. ATCA; COMe and Rackmount Server, or RMS, products; software and solutions; and other products. For comparison purposes, our ATCA revenue plus our software and solutions revenue represents the previously-disclosed next-generation communication networks revenue. COMe and RMS revenue represents the majority of the previously-disclosed commercial products revenue. And the other products revenue represents the previously-disclosed legacy communications revenue combined with previously-reported commercial revenue that is not related to COM Express, or Rack Mount Server products. For your reference, 2011 revenue by quarter in the new revenue breakout is included in our earnings release tables issued today. Q4 was the last quarter that we will disclose the old revenue reporting categories.

Moving over to the outlook for the first quarter and the full year of 2012. We expect Q1 non-GAAP revenue to be between $75 million and $81 million, which at the midpoint is slightly down from the fourth quarter and in line with our previous expectations. Our software and solutions revenue is expected to be down sequentially due to a strong fourth quarter of media server revenues, while all other revenue categories are expected to remain relatively flat when compared to the fourth quarter. We do expect nice revenue growth in the second quarter and continued into the second half of this year, and are reaffirming our full-year outlook of $345 million to $355 million.

To break that down based on our new revenue reporting buckets, on a pro forma basis, ATCA revenues are expected to increase from the prior year by approximately 20% to close to 55% of total revenue; software and solutions revenues are expected to increase by approximately 20% and represent over 15% of our total revenue; COM Express and Rack Mount Service revenues are expected to decrease by approximately 10% and represent again around 15% of our revenue, but we do expect that the new investments we are making this year will drive revenue growth in these products beginning in 2013; and lastly, our other product revenues are expected to be down by up to 50% in line with our previous expectations. These products are expected to be only about 15% of our total revenue for the year.

On to gross margins. We expect our first quarter gross margin to range from the 33% to 34%., which is down from the 35.5% in the fourth quarter as we again experienced higher-margin media server revenues last quarter. For the full year, we expect our gross margin rate to go up between 36% and 37%, which represents significant growth of close to 4 percentage points from the prior year. This increase comes from the growth in our ATCA and software and solutions products, along with the realization of the $5 million of acquisition-related synergies that we have been talking about over the last six months. [G1] non-GAAP operating expenses are expected to decrease by around $2 million from the fourth quarter.

I continue to expect our non-GAAP operating expense will be down by $8 million to $10 million from our run rate levels in the fourth quarter to between $97 million and $99 million in 2012, resulting from our integration synergies. Note that our incentive compensation expenses are based on our operating income performance, so as we've grow profitability we will incur more compensation expense. Non-operating expense is expected to be around $450,000 in Q1. We currently expect that our first quarter and full-year tax rate will be around 5% for non-GAAP results and around 10% for GAAP results.

Looking out for the full-year 2012, we currently expect a similar non-GAAP tax rate of around 5%. We expect Q1 non-GAAP EPS to range from breakeven to $0.06. We expect our basic shares to be around $26.7 million and fully-diluted shares to be around $29 million, which excludes the convert shares. Note that our diluted EPS calculation has changed this quarter as we purchased $5 million of the converts. So now when you calculate diluted EPS, the threshold is net income over $3.5 million and the added convert shares are now $3.5 million, with interest income add-back to net income of $420,000. If net income is under $3.5 million, the inclusion of the convert will be anti-diltutive and should be excluded from the calculation.

As it relates to the balance sheet, I expect our inventory balance to go down by about $1 million in the first quarter, and again materially decline as we get past the final contract manufacturing transition. I currently expect that we will consume about $5 million of cash in the first half of the year due to expected restructuring payments, integration costs and higher-than-average capital expenditures. Specifically, capital expenditures will be approximately $7 million in the first half resulting from the continued integration efforts, as well as for key test equipment for the launch of our new 40-gig products.

For the second half of the year, I expect to generate meaningful cash flow of $25 million, plus or minus, resulting from earnings acceleration, inventory reductions and lower capital expenditures more in line with our normal levels of $1.5 million a quarter. With the expected cash generation, our line of credit of $40 million, I'm comfortable with our position and ability to pay off the remaining converts in February 2013. With that, I will hand the call over to Mike.

Mike Dagenais - *RadiSys Corp - CEO*

I'm very pleased with the progress we have made on our strategy over the last six months as we focus our investment on key target growth areas. Along with our newly-created solutions business we are bringing nice growth, high-margin revenues to our portfolio. Our excellent design win performance over the past two quarters is a testament to the positive response we are getting from our customers on our strategy and the directions we're pursuing. Overall, the team is quite energized about our strategy, is executing very well and our customers are responding positively. I continue to believe we have the right strategy for delivering meaningful long-term shareholder returns. With that, I would like to thank you for participating on the call today, and believe we are ready to open this up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Rich Valera, Needham & Company.

Rich Valera - *Needham & Company - Analyst*

Mike, I was wondering if you could give us an update on the LTE deployments that you're expecting to drive a lot of that second-half ramp?

Michel Dagenais - *RadiSys Corp - CEO*

As we mentioned before, we have a couple of key customers that we mentioned in our top five today that are actually actively deploying in their regions. Korea has made some fairly significant announcements in terms of the deployment of LTE, as well as in the Japan geography, there is a substantial investment going on there in the increased capacity requirements being driven by their customer bases. So we are seeing some acceleration in those deployments, strong traction. We're starting to see the order flow.

In the local press, they've made major announcements and commitments to delivery of these LTE networks going forward, so they're all on track right now and are aggressively being deployed or starting the ramp for deployment. In addition, Nokia Siemens has recently announced some pretty significant design wins in other geographies. And again, a lot of the technology and products they are using are underpinned by our portfolio.

Rich Valera - *Needham & Company - Analyst*

Great, that's helpful. And on the media server side, a couple of questions there. First, last year in the fourth quarter, you had a very large North American customer that deferred some shipments and it was an uncertain outlook with them in terms of the timing and magnitude of future business. So just wondering how business is with that large North American customer on the media server side?

And then, wondering if you could talk about the usage, what your media servers are being used for? As I understand, the vast majority, historically, have been for conference applications, but it can be part of an IMS core implementation. So just wondering how much today is conferencing versus IMS core stuff and how you see that changing over the next several quarters or year or so.

Michel Dagenais - *RadiSys Corp - CEO*

So to answer your first question with respect to the large North American customer. They've continued to actually show strong growth in that area. We didn't have quite the same lumpiness we had last year, and we continue to have some pretty good visibility of additional nodes that are being added to the network going into 2012. So that looks quite positive.

With respect to the actual media server applications, I would say about half our deployments are approximately conferencing applications. The other half are actually in voice quality or ring-back tone or some of those other applications. Transcoding is another one which are used in the voice domain. One of the primary focuses of our investment, though, going into this year, have been into creating, as I mentioned, this media resource function. It will fit into the IMS multimedia, the IP multimedia domain of the network and will be used for both the transcoding and voice quality in this next generation of LTE-type deployments. So we anticipate, with the new products that we are developing in those areas, to have a pretty strong presence in the Voice over LTE and the upcoming video-conferencing-type of applications that we believe are just going to be an extension of the voice capabilities we have in the product today.

Rich Valera - *Needham & Company - Analyst*

When will those products be ready for market, the new media resource function capabilities?

Michel Dagenais - *RadiSys Corp - CEO*

We are making a product announcement at the Mobile World Congress. So I would like to actually defer that question to that point in time. We are having a launch of some significant new things that we are going to be coming out for that portfolio at that time. So stay tuned.

Rich Valera - *Needham & Company - Analyst*

Fair enough. Then, Brian, a question on the cash. I thought we would be seeing cash troughing around where it is today, but it sounds like we have another $5 million or so you expect to use in the first half. So just wondering if that is accurate, if this is a little bit of an update versus prior expectations. Then the other thing you mentioned, which I didn't know about, you said you expected your customers to be demanding more generous terms, I think on payment terms, which you thought to be a use of cash. Is that something relatively new as well?

Brian Bronson - *RadiSys Corp - President, CFO*

Yes. Good questions. So on the cash piece of it, I would tell you what is changed is frankly our inventory levels. So restructuring integration going along as planned and thus goes the cash outflow tied to that, but I would have told you a couple of quarters ago that our inventory balance would be lower than it is today. So and we've already started to see that decline. As you know, we went through the transition out of Foxconn into Jabil, doing the same with Sanmina, and given some of our product mixes as well, we are carrying $4 million, $5 million, $6 million more in inventory than I thought we would. So again, that comes back to us, but I would tell you that's a couple of quarters later than I would have liked and originally expected.

Then on the second piece, I would best say that particularly the Tier 1 customers, our larger customers, we've done a nice job holding the line in exchange with pricing on terms, but at the end of the date, particularly as they are working with the carriers, they are going to be demanding 15-, 20-, 25-day-longer payment terms. I think overall, DSOs staying in the 60s, low- to mid-60s is fine, but it is definitely going to inch up four to six days from where it's at today, at least.

Allen Muhich - *RadiSys Corp - VP Finance*

It's Allen, just one other comment on the cash. I think the previous expectations that we had provided did not include the $5 million repurchase of convertible notes as well. I think when you adjust for that, you get back up to the same level of cash that we had been talking about previously.

Rich Valera - *Needham & Company - Analyst*

Right, understood. In terms of the cash generation, though, I think you'd talked about potentially generating about $25 million of cash I think over the next 12 months or so, prior to the convert coming due. Is that still an active number or should we think of that being a little bit lower?

Allen Muhich - *RadiSys Corp - VP Finance*

No, it's still an active umber. It is a little bit -- exactly when does it come in. Depending on, Rich, where you are at in your models, I think the second half needs to be north of $20 million in cash flow and then some of that could be incremental tied to how much inventory we take down. But then a month or two early in 2013, before the convert comes due, that's still the expectation.

Rich Valera - *Needham & Company - Analyst*

Okay, thank you very much.

Operator

George Notter, Jefferies.

George Notter - *Jefferies & Company - Analyst*

I wanted to ask about the design win metric. I think you guys said 17 wins, $95 million, five years. Can you talk about what goes in to the calculation there? How are you guys triangulating on $95 million over five years? Is there some sort of factoring of those opportunities in terms of probabilities of those being successful ultimately?

Michel Dagenais - *RadiSys Corp - CEO*

So, George, let me start off by saying, if we actually listened to what our customers were forecasting, it would be a much larger number. But clearly we've got some experience with what's been happening over the course of the last 10, 12 years in this business. So there are essentially three parameters that we look at when we look at a design win and what the customer gives us. We look at the product that it is going in, and is this a refresh of a product or a brand-new product that is being launched in a new market. We look at the credibility of that particular customer in terms of whether they are a start-up or an established customer or a Tier 1. We actually look at the geography in which they are deploying, which also has a factor in terms of how they are actually going to deploy. And we actually provide a little bit of a management judgment on top of that in terms of how we feel this customer is likely to perform in the market.

So each one of these is a weighting factor and we handicap every one of the design wins and roll them all up and project where we think this is going to take us in the coming years. We've been doing this for probably the last -- well for as long as I know in this business, that's been pretty typical in terms of how you project what design wins are going to really be worth. We always have, in this business, there's going to be a few of them that don't go anywhere. There's going to be a few that are mid-lings, and then there's a few that are going to be home runs. Overall, you put all this together through a pretty large financial model that we create that the finance team here holds and works with the business units and we come up with a weighted number. So I'm sorry for the long-winded answer, but it really is a fairly weighted number based on what we expect the risk, the market and the geography and then the customer itself are going to be.

George Notter - *Jefferies & Company - Analyst*

Got it. Then if you guys step back and look at your entire backlog of design wins, do you care to disclose what kind of numbers those would translate into over the next five years?

Michel Dagenais - *RadiSys Corp - CEO*

Let me answer it in a backhanded way. I think we can actually sustain 20% growth for this business over the next three years with the existing design flow that we've had over the last two to three years and with our current business. The design win business is not only to sustain the existing revenue rates, but also to grow our business. So we believe we can actually maintain a 20% growth across the entire portfolio starting in 2013 and going into the next few years, based on the momentum we received from those design wins.

Brian Bronson - *RadiSys Corp - President, CFO*

I was going to add a couple of more things. I know you know, this but for others. For the 2012 revenue projections, particularly in the case of ATCA, the guidance that we just outlined is 80% or 85% won, meaning from prior years' design wins. So that doesn't mean there is not risk in the timing of ramp and all of that, but these design wins that we are talking about are longer-term, to Mike's point, longer-term 20% growth, plus or minus drivers. The last thing I would say is that Allen is going to work with the team on trying to figure out what the next right measure is for the Company.

The combined organization knocked the cover off the ball in the second half. I mean, 36 design wins and close to $200 million of factored business is something that I have not seen internally at RadiSys since I've been here. Some of it is just highlighting how the team performs, some of it is just talking about how the integration is going, meaning it is going well from that perspective. But we don't need this sort of design win performance in 2012 to drive the growth that Mike is talking about. And read that there's normal peaks and valleys and funnel, there was just a robust funnel for us to go off and get in the second half.

George Notter - *Jefferies & Company - Analyst*

Got it. Was there something about the second half of the year that drove such a high design win rate? Was it your win/loss ratio? Was it just an unusual amount of activity among the OEMs. Is there something behind that in your eyes?

Michel Dagenais - *RadiSys Corp - CEO*

I think there are two factors. One of them clearly is there was a lot of activity because we are seeing a transition from 10-gig to 40-gig, particularly in the platform side of the business. We're also seeing the start of proliferation of small cells on the software side of the business. But the other factor that we need to bring into his consideration here is, really we are taking two companies like Continuous and RadiSys that in many cases were going after the same business, and combined, we both won. So, separately, we may not have done as well because we were competing against each other, but combined we're bringing that growth. We were in the leading positions in most of the accounts that we won. It was either a Continuous or a RadiSys customer or the customer was leaning that way.

So I think we got it an inordinate percentage of the deals that were out there. I think we had some great new technology, we are right at the right point in the transition of the technology, and as I indicated, when we first talked about the transition bringing together the Companies, we had very, very little customer overlap. So you bring all of those factors together, I think we did a pretty clean sweep of most of the deals that were out there. So I think it was a great performance by combining the teams, driving the right kind of behavior within the organization, but focusing on this because we believe this is the engine for future growth.

George Notter - *Jefferies & Company - Analyst*

Got it. Just last question on the design wins that you have. If you step back and look at the backlog of projects you have. And you guys parsed some of this out in the monologue, but can you step back and give us top-of-mind the dominant applications that you guys see in that backlog now?

Michel Dagenais - *RadiSys Corp - CEO*

Well, I mean I would actually say in the last half, the second half of 2011, 75% of our design wins were in wireless infrastructure market. So either 3G, or LTE Core or products associated with supporting products within that domain. So either in the EPC or even into the next generation of 3G -- or some enhancements to the 3G core. So the bulk of our business new design wins, like I said, I think we have done the analysis, 75% could relate to wireless infrastructure.

George Notter - *Jefferies & Company - Analyst*

Got it. Great, thanks very much.

Operator

Aalok Shah, D.A. Davidson

Michael Engellant - *D.A. Davidson & Co. - Analyst*

This is Michael Engellant in for Aalok. A few quick questions for you guys. First one, can you just give a little more clarity on how quickly you think you can get your cost improvements down?

Brian Bronson - *RadiSys Corp - President, CFO*

On the case of the operating expenses, we went from a $27 million number. We will do $25 million in Q1, then it will go down a little bit again. But as profitability improves, as I mentioned, the compensation expense increases. For the year, it ends up being $97 million, $99 million overall, so flat to slightly down from Q1 levels.

Michael Engellant - *D.A. Davidson & Co. - Analyst*

Okay. Just another quick one. A little more clarity on how confident you guys are in your guidance, especially going into 2012?

Michel Dagenais - *RadiSys Corp - CEO*

So what I would like to answer, Michael, is really the customer design wins that we have had over the last couple of years, plus some of the ones earlier in 2011, are actually starting to announce deployment. When I answered the question from Rich, was really we see those deployments happening now. So these are going to take place.

The other thing is, we are also seeing some historical design wins that are continuing to be used to actually address for capacity challenge, even in today's 3G networks, were they haven't made yet the commitment to go to 4G. There is just a capacity challenge and it's continuing to drive business. So if we look at our existing businesses, the past two to three years of design wins, they are fueling our revenue. This new design win is actually going to give us some incremental growth on revenue, but it's principally driving our 2013, 2014 growth. We've spent a lot of time with our customers understanding the applications, understanding their network deployment plans, talking to the carriers that they are actually servicing. And at this point in time, we have yet to see anybody withdraw or back up or melt from the commitments they've made in the marketplace.

Michael Engellant - *D.A. Davidson & Co. - Analyst*

Okay. Then I was just wondering if I could get a little more just like your timeline on when you're seeing LTEs being a big growth driver and what the market is out there right now for your LTE products?

Michel Dagenais - *RadiSys Corp - CEO*

A couple of data points. I actually don't remember the reference, but in the last three weeks there was an announcement there are 45 to 49 active deployments that are going on that were started in 2011. Then there are 180 carriers, 185 carriers, that have announced trials in 2012, or the initial launch of their networks. So LTE is happening, it is not going to stop.

So by the end of 2012 we are going to see over 230 carriers that are actually going to be in certain phases of deployment on LTE. We are also seeing the introduction, Verizon has already announced that they are going to be doing trials of Voice over LTE. Active deployment of that kind of technology is not going to happen until 2013, 2014, but again it's going to drive growth in that market. And I think we are quite well-positioned with our media servers portfolio, our MRF function, to actually address those kind of opportunities.

So LTE is an unstoppable fact. It is going to happen, and with all of the market announcements that have taken place, I think it is going to continue to happen. The other interesting part that also what we are seeing a little more exposure to right now is really the accelerated deployment of small cells for LTE. And we are seeing a tremendous amount of customers that have announced plans to introduce some sort of small-cell topology within their networks. So I feel pretty confident that is going to happen.

Michael Engellant - *D.A. Davidson & Co. - Analyst*

Okay, thanks guys.

Operator

(Operator Instructions) At this time, there are no further questions. Mr. Dagenais, are there any closing remarks?

Michel Dagenais - *RadiSys Corp - CEO*

In closing, as I mentioned, as you could probably gauge, we are quite excited about our strategy. The opportunities are ahead of us -- our software and new solutions, and we see meaningful expansion of our earnings in 2012. So with that, I would like to thank you all for your support, and I look forward to talking to you throughout the quarter. Thank you.

Operator

Thank you for participating in RadiSys' fourth-quarter earnings conference call. You may now disconnect.