

RADISYS CORP (RSYS)

10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filed on 11/04/2011

Filed Period 09/30/2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-26844

RADISYS CORPORATION

(Exact name of registrant as specified in its charter)

OREGON

(State or other jurisdiction of incorporation or organization)

93-0945232

(I.R.S. Employer Identification No.)

5435 N.E. Dawson Creek Drive, Hillsboro, OR

(Address of principal executive offices)

97124

(Zip Code)

(503) 615-1100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act) Yes No

Number of shares of common stock outstanding as of November 1, 2011 : 27,736,226

RADISYS CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RADISYS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts, unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues	\$ 97,876	\$ 75,167	\$ 251,359	\$ 217,485
Cost of sales:				
Cost of sales	66,610	50,740	173,777	147,089
Amortization of purchased technology	3,283	1,630	5,610	5,018
Total cost of sales	69,893	52,370	179,387	152,107
Gross margin	27,983	22,797	71,972	65,378
Research and development	12,955	9,863	31,562	29,174
Selling, general and administrative	15,610	11,225	37,520	34,030
Intangible assets amortization	1,234	192	1,618	538
Restructuring and acquisition-related charges, net	5,758	(228)	8,279	(203)
Gain on the liquidation of a foreign subsidiary	(2,081)	—	(2,081)	—
Income (loss) from operations	(5,493)	1,745	(4,926)	1,839
Interest expense	(458)	(462)	(1,410)	(1,578)
Interest income	6	59	97	566
Other income (expense), net	327	(55)	187	(34)
Income (loss) before income tax benefit	(5,618)	1,287	(6,052)	793
Income tax benefit	(8,383)	(884)	(8,478)	(920)
Net income	\$ 2,765	\$ 2,171	\$ 2,426	\$ 1,713
Net income per share:				
Basic	\$ 0.10	\$ 0.09	\$ 0.10	\$ 0.07
Diluted	\$ 0.10	\$ 0.09	\$ 0.09	\$ 0.07
Weighted average shares outstanding:				
Basic	26,432	24,212	25,038	24,088
Diluted	27,820	24,400	25,595	24,310

The accompanying notes are an integral part of these financial statements.

RADISYS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 55,902	\$ 129,078
Accounts receivable, net	58,805	42,855
Other receivables	4,643	1,665
Inventories, net	30,281	15,178
Inventory deposit, net	6,674	6,194
Other current assets	5,354	4,612
Deferred tax assets, net	5,151	551
Total current assets	166,810	200,133
Property and equipment, net	12,271	9,487
Goodwill	26,155	160
Intangible assets, net	89,086	7,088
Long-term deferred tax assets, net	13,166	16,005
Other assets	7,744	8,055
Total assets	\$ 315,232	\$ 240,928
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 52,762	\$ 29,190
Accrued wages and bonuses	9,600	6,556
Deferred income	9,437	4,424
Other accrued liabilities	15,836	12,914
Total current liabilities	87,635	53,084
Long-term liabilities:		
2013 convertible senior notes	50,000	50,000
Other long-term liabilities	8,515	450
Total long-term liabilities	58,515	50,450
Total liabilities	146,150	103,534
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common stock — no par value, 100,000 shares authorized; 27,735 and 24,351 shares issued and outstanding at September 30, 2011 and December 31, 2010	299,063	266,945
Accumulated deficit	(132,257)	(134,683)
Accumulated other comprehensive income:		
Cumulative translation adjustments	2,486	4,739
Unrealized gain (loss) on hedge instruments	(210)	393
Total accumulated other comprehensive income	2,276	5,132
Total shareholders' equity	169,082	137,394
Total liabilities and shareholders' equity	\$ 315,232	\$ 240,928

The accompanying notes are an integral part of these financial statements.

RADISYS CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, unaudited)

	Common stock		Accumulated Deficit	Accumulated Other Comprehensive Income	Total	Total Comprehensive Loss (1)
	Shares	Amount				
Balances, December 31, 2010	24,351	\$266,945	\$ (134,683)	\$ 5,132	\$137,394	
Shares issued pursuant to benefit plans	187	1,324		—	1,324	
Stock-based compensation associated with employee benefit plans	—	4,038		—	4,038	
Vesting of restricted stock units	67	—		—	—	
Restricted share forfeitures for tax settlements	(17)	(142)		—	(142)	
Repurchases of common stock	(518)	(3,920)		—	(3,920)	
Shares issued for acquisitions	3,665	30,818			30,818	
Net adjustment for fair value of hedge derivatives	—	—		(603)	(603)	(603)
Gain on liquidation of foreign subsidiary	—	—		(2,081)	(2,081)	(2,081)
Translation adjustments	—	—		(172)	(172)	(172)
Net income for the period	—	—	2,426	—	2,426	2,426
Balances, September 30, 2011	<u>27,735</u>	<u>\$299,063</u>	<u>\$ (132,257)</u>	<u>\$ 2,276</u>	<u>\$169,082</u>	
Total comprehensive loss for the nine months ended September 30, 2011						<u>\$ (430)</u>

(1) For the three and nine months ended September 30, 2011 and 2010, total comprehensive income (loss) consisted of the following:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income for the period	\$ 2,765	\$ 2,171	\$ 2,426	\$ 1,713
Net adjustment for fair value of hedge derivatives	(660)	134	(603)	(484)
Gain on liquidation of foreign subsidiary	(2,081)	—	(2,081)	—
Translation adjustments	(428)	301	(172)	24
Total comprehensive income (loss)	<u>\$ (404)</u>	<u>\$ 2,606</u>	<u>\$ (430)</u>	<u>\$ 1,253</u>

The accompanying notes are an integral part of these financial statements.

RADISYS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

For the Nine Months Ended
September 30,

	2011	2010
Cash flows from operating activities:		
Net income	\$ 2,426	\$ 1,713
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,199	9,337
Inventory valuation allowance	1,637	1,003
Deferred income taxes	(878)	158
Deferred tax valuation allowance reversal	(7,557)	—
Tax liability adjustments	—	(1,029)
Non-cash interest expense	336	336
Gain on the liquidation of a foreign subsidiary	(2,081)	—
Loss (gain) on disposal of property and equipment	121	(398)
Loss on ARS settlement right	—	7,833
Gain on ARS	—	(7,854)
Stock-based compensation expense	4,038	4,880
Other	1,286	366
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(2,514)	1,310
Other receivables	(1,781)	1,524
Inventories	(11,705)	1,497
Inventory deposit	(480)	(3,371)
Other current assets	254	(567)
Accounts payable	18,151	5,673
Accrued wages and bonuses	125	(1,180)
Accrued restructuring	1,958	(2,510)
Deferred income	2,574	1,649
Other accrued liabilities	(3,194)	(1,116)
Net cash provided by operating activities	<u>13,915</u>	<u>19,254</u>
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(79,298)	(3,385)
Proceeds from sale of auction rate securities	—	62,175
Capital expenditures	(4,289)	(3,283)
Purchase of long-term assets	(500)	(3,189)
Proceeds from the sale of property and equipment	—	450
Net cash provided by (used in) investing activities	<u>(84,087)</u>	<u>52,768</u>
Cash flows from financing activities:		
Borrowings on line of credit	—	13,738
Payments on line of credit	—	(55,025)
Repurchases of common stock	(3,920)	—
Proceeds from issuance of common stock	1,324	2,130
Other financing activities	(408)	(329)
Net cash used in financing activities	<u>(3,004)</u>	<u>(39,486)</u>
Effect of exchange rate changes on cash	—	49
Net increase (decrease) in cash and cash equivalents	<u>(73,176)</u>	<u>32,585</u>
Cash and cash equivalents, beginning of period	129,078	100,672
Cash and cash equivalents, end of period	<u>\$ 55,902</u>	<u>\$ 133,257</u>

Supplemental disclosure of cash flow information:

Cash paid during the year for:			
Interest	\$	1,375	\$ 1,375
Income taxes	\$	538	\$ 524

Supplemental disclosure of non-cash investing and financing activities:

Issuance of common stock for acquisitions	\$	30,818	\$ —
Capital lease obligation	\$	120	\$ —

Refer to Note 2 - *Acquisition of Continuous Computing Corporation* for other non-cash impacts associated with the acquisition

The accompanying notes are an integral part of these financial statements.

RADISYS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 — Significant Accounting Policies

Radisys Corporation (the “Company” or “Radisys”) has adhered to the accounting policies set forth in its Annual Report on Form 10-K for the year ended December 31, 2010 in preparing the accompanying interim consolidated financial statements. The preparation of these statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Additionally, the accompanying financial data as of September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

The financial information included herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for interim periods.

Contingent Consideration

Contingent consideration is recorded at the acquisition date estimated fair value of the contingent payment for all acquisitions. The fair value of the contingent consideration is remeasured each reporting period with any adjustments in fair value included in the Company’s Consolidated Statement of Income.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards,” that amends some fair value measurement principles and disclosure requirements. This ASU states that the concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets and prohibits the grouping of financial instruments for purposes of determining their fair values when the unit of account is specified in other guidance. The provisions of this ASU will be applied prospectively for interim and annual periods beginning after December 15, 2011, with early adoption prohibited. The standard is not expected to have a material impact on the Company’s financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income”. ASU 2011-05 requires that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present other comprehensive income in the statement of changes in stockholders’ equity. The provisions of this ASU will be applied retrospectively for interim and annual periods beginning after December 15, 2011, with early application permitted. The standard is not expected to have a material impact on the Company’s financial position or results of operations; however it will change the manner in which the Company presents comprehensive income.

In September 2011, the FASB issued ASU No. 2011-08, “Intangibles-Goodwill and Other” that will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The guidance is effective for fiscal years beginning after December 15, 2011 with early adoption permitted. The standard is not expected to have a material impact on the Company’s financial position or results of operations; however it will change the manner in which we assess goodwill for impairment.

Note 2 — Acquisition of Continuous Computing Corporation

On July 8, 2011, the Company acquired 100% of the outstanding shares of Continuous Computing Corporation ("Continuous Computing"), a developer of communications systems consisting of highly integrated ATCA platforms and Trillium protocol software. The Company expects the acquisition to accelerate our strategy to deliver more differentiated platforms and solutions. Continuous Computing also brings expansion into high growth markets with many new customers, creating meaningful customer diversification.

Under the terms of the acquisition agreement, the Company paid approximately \$81.5 million in cash and 2,321,016 in shares of our common stock. The aggregate cash amount consisted of \$73.0 million plus an \$8.5 million working capital adjustment. The Company also deposited an additional 1,344,444 shares of its common stock into an escrow account and subject to any indemnification claims, one-half of the shares held therein will be released one year after the closing of the acquisition with the remainder to be released six months thereafter. The common stock issued to former shareholders of Continuous Computing has a fair value of \$30.8 million, based on the closing price of the Company's common stock on July 8, 2011 of \$8.39 per share.

In addition, the Company has agreed to make certain earn-out payments based on the amount of product royalty revenues generated by a specified set of contracts associated with certain of Continuous Computing's products over a period of 36 months after closing. Earn-out payments will be made in cash in three installments following the 18-, 24- and 36-month anniversaries of the closing date, and in each case will equal the amount of such royalty revenues during the immediately preceding 18-month, six-month or 12-month period, as applicable, except that, in lieu of making any and all earn-out payments, the Company may elect at any time prior to the fifth business day following the 18-month anniversary of the closing date to make a one-time payment in cash and/or issuance of common stock with a combined aggregate value of \$15 million. The estimated fair value of this contingent consideration at the acquisition date was \$7.4 million and is included in other long-term liabilities in the Consolidated Balance Sheet at September 30, 2011. See Note 3 - *Fair Value of Financial Instruments* for additional information regarding the valuation of the contingent consideration liability.

In connection with the acquisition, the Company assumed Continuous Computing's stock incentive plan as to stock options held by continuing employees of Continuous Computing that were not vested on or prior to June 30, 2011, which were converted into options to acquire approximately 322,000 shares of the Company's common stock. See Note 12 - *Stock-based Compensation* for additional information regarding the valuation of the assumed options.

The total preliminary acquisition consideration is as follows (in thousands):

Cash paid for initial consideration	\$	73,009
Working capital adjustment		8,504
Fair value of contingent consideration (earn-out payments)		7,400
Share consideration payable upon closing:		
3.7 million Radisys common shares		30,753
Fair value of stock options		65
Total preliminary purchase price	\$	<u>119,731</u>

Preliminary Purchase Price Allocation

The Company accounted for the transaction using the acquisition method and, accordingly, the consideration has been allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price was allocated using the information available and is preliminary. The Company may adjust the preliminary purchase price allocation if additional information is obtained during the measurement period (up to one year from the acquisition date) regarding, among other things, assets valuations, liabilities assumed and revisions to preliminary estimates.

Continuous Computing is subject to legal and regulatory requirements, including but not limited to those related to taxation in each of the jurisdictions in the countries in which it operated. The Company has conducted a preliminary assessment of liabilities arising from these tax matters in each of these jurisdictions, and has recognized provisional amounts in its initial accounting for the acquisition of Continuous Computing for the identified liabilities. However, the Company is continuing its review of these matters during the measurement period, and if new information is obtained about facts and circumstances that existed at the acquisition date identifies adjustments to the liabilities initially recognized, as well as any additional liabilities that existed at the acquisition date, the acquisition accounting will be revised to reflect the resulting adjustments to the provisional tax amounts initially recognized.

The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill. The preliminary allocation of the total purchase price is as follows (in thousands):

Total preliminary purchase price	\$	119,731
Fair value of net tangible assets acquired and liabilities assumed:		
Cash and cash equivalents	\$	2,214
Accounts receivable		13,433
Inventories		4,036
Prepaid expenses and other current assets		3,393
Fixed assets		2,304
Other assets		614
Accounts payable		(5,368)
Accrued expenses		(6,802)
Deferred revenue		(1,825)
Other long-term liabilities		(702)
		<u>11,297</u>
Fair value of identifiable intangible assets acquired		89,240
Net deferred tax liability		(6,801)
Goodwill	\$	<u>25,995</u>

The goodwill created by the transaction of \$26.0 million is not deductible for tax purposes. Key factors that make up the goodwill created by the transaction include expected synergies from the combination of operations and the knowledge and experience of the acquired workforce and infrastructure.

Valuation of Intangible Assets Acquired

The following table summarizes the intangible assets acquired in connection with the acquisition (in thousands):

	Fair Value	Estimated Life (yrs)
Developed technology:		
ATCA developed technology	\$ 33,600	7
Trillium developed technology	18,500	7
Software developed technology	1,850	7
Legacy developed technology	1,300	2
Total developed technology	<u>55,250</u>	
Customer relationships	25,500	6
Trade name	7,900	10
Backlog	590	0.5
Total intangible assets subject to amortization	<u>\$ 89,240</u>	

The Company is amortizing purchased technology and backlog to amortization of purchased technology in the Consolidated Income Statements over the respective estimated life of each intangible asset. Customer relationships and trade name are being amortized to intangible assets amortization in the Consolidated Statements of Income over the respective estimated life of each intangible asset.

Transaction-Related Expenses

The Company has incurred significant transaction costs directly related to the Continuous Computing transaction. The

incremental expenses related to legal, accounting and valuation services, and investment banking fees. During the three and nine months ended September, 2011, the Company incurred restructuring costs associated with severance and other related compensation charges. In addition, the Company has incurred significant integration-related costs which include expenses associated with operational consolidation, training, re-branding, and consulting. These charges are included in cost of sales and restructuring and acquisition-related charges, net on the Consolidated Statements of Income.

The table below presents the amounts related to these expenses included in our Consolidated Statements of Income (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Cost of sales	\$ 212	\$ —	\$ 212	\$ —
Restructuring and acquisition-related charges, net				
Transaction costs	1,719	—	3,347	—
Restructuring costs	3,411	—	4,311	—
Integration-related costs	644	—	644	—
Total restructuring and acquisition-related charges, net	5,774	—	8,302	—
Total transaction-related expenses	\$ 5,986	\$ —	\$ 8,514	\$ —

Unaudited Actual and Pro Forma Information

Our consolidated revenues for the three and nine months ended September 30, 2011 included \$15.3 million from Continuous Computing subsequent to the acquisition date. The following table presents the unaudited pro forma results for the periods set forth below. The unaudited pro forma financial information combines the results of operations as though the acquisition had occurred on January 1, 2010. No pro forma adjustments have been made for our incremental transaction, restructuring or integration-related costs. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had occurred on January 1, 2010: (in thousands, except per share data):

	Actual	Pro-Forma	Pro-Forma	
	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues	\$ 97,876	\$ 89,507	\$ 282,363	\$ 259,317
Net income (loss)	\$ 2,765	\$ (1,253)	\$ (5,126)	\$ (7,115)
Net income (loss) per share:				
Basic	\$ 0.10	\$ (0.05)	\$ (0.19)	\$ (0.27)
Diluted	\$ 0.10	\$ (0.05)	\$ (0.19)	\$ (0.27)

Note 3 — Fair Value of Financial Instruments

The Company measures at fair value certain financial assets and liabilities. GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

Level 1— Quoted prices for identical instruments in active markets;

Level 2— Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3— Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Foreign currency forward contracts are measured at fair value using models based on observable market inputs such as foreign currency exchange rates; therefore, they are classified within Level 2 of the valuation hierarchy. The cash surrender value of life insurance contracts is measured at fair value using quoted market prices for similar instruments; therefore, they are classified within Level 2 of the valuation hierarchy.

The contingent consideration liability represents future amounts we may be required to pay in conjunction with the acquisition of Continuous Computing and is based on the amount of royalty revenues generated by a specified set of contracts associated with certain of Continuous Computing's products over a period of 36 months after closing. The Company estimates the fair value of the contingent consideration liability using a probability-weighted scenario of estimated qualifying earn-out revenues calculated at net present value (level 3 of the fair value hierarchy).

The following table summarizes the fair value measurements for the Company's financial instruments (in thousands):

	Fair Value Measurements as of September 30, 2011			
	Total	Level 1	Level 2	Level 3
Cash surrender value of life insurance contracts	\$ 3,282	\$ —	\$ 3,282	\$ —
Foreign currency forward contracts	(264)	—	(264)	—
Contingent consideration liability	(7,446)	—	—	(7,446)
Total	\$ (4,428)	\$ —	\$ 3,018	\$ (7,446)

	Fair Value Measurements as of December 31, 2010			
	Total	Level 1	Level 2	Level 3
Cash surrender value of life insurance contracts	\$ 3,618	\$ —	\$ 3,618	\$ —
Foreign currency forward contracts	432	—	432	—
Total	\$ 4,050	\$ —	\$ 4,050	\$ —

The following table summarizes our Level 3 activity for the Company's contingent consideration liability (in thousands):

	Level 3
Balance at December 31, 2010	\$ —
Additions	7,400
Increase in liability due to re-measurement	26
Interest accretion	20
Balance at September 30, 2011	\$ 7,446

The Company records all gains and losses and interest accretion on the contingent consideration liability to restructuring and acquisition-related charges, net in the Consolidated Income Statements.

Note 4 — Accounts Receivable and Other Receivables

Accounts receivable consists of sales to the Company's customers which are generally based on standard terms and conditions. Accounts receivable balances consisted of the following (in thousands):

	September 30, 2011	December 31, 2010
Accounts receivable, gross	\$ 59,648	\$ 43,788
Less: allowance for doubtful accounts	(843)	(933)
Accounts receivable, net	\$ 58,805	\$ 42,855

As of September 30, 2011 and December 31, 2010, the balance in other receivables was \$4.6 million and \$1.7 million. Other receivables consisted primarily of non-trade receivables including receivables for inventory transferred to the Company's contract manufacturing partners. There is no revenue recorded associated with non-trade receivables.

Note 5 — Inventories

Inventories consisted of the following (in thousands):

	September 30, 2011	December 31, 2010
Raw materials	\$ 14,012	\$ 8,204
Work-in-process	121	—
Finished goods	21,011	10,521
	35,144	18,725
Less: inventory valuation allowance	(4,863)	(3,547)
Inventories, net	\$ 30,281	\$ 15,178

	September 30, 2011	December 31, 2010
Inventory deposit ^(A)	\$ 9,569	\$ 8,468
Less: inventory deposit valuation allowance	(2,895)	(2,274)
Inventory deposit, net	\$ 6,674	\$ 6,194

(A) The Company is contractually obligated to reimburse its contract manufacturers for the cost of excess inventory that has been purchased as a result of the Company's forecasted demand when there is no alternative use. The Company's inventory deposit represents a cash deposit paid to its contract manufacturers for inventory in excess of near term demand. The deposit is recorded net of adverse purchase commitment liabilities, and therefore the net balance of the deposit represents inventory the Company believes will be utilized. The deposit will be applied against future adverse purchase commitments owed to the Company's contract manufacturers or reduced based on the usage of inventory. See Note 9 - *Commitments and Contingencies* for additional information regarding the Company's adverse purchase commitment liability.

Consigned inventory is held at third-party locations, including the Company's contract manufacturing partners and customers. The Company retains title to the inventory until purchased by the third-party. Consigned inventory, consisting of raw materials and finished goods, was \$5.3 million and \$3.0 million at September 30, 2011 and December 31, 2010.

The Company recorded the following charges associated with the valuation of inventory, inventory deposit and the adverse purchase commitment liability (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Inventory, net	\$ 815	\$ 186	\$ 1,637	\$ 1,003
Inventory deposit, net	394	686	802	1,522
Adverse purchase commitments	28	203	825	264

Note 6 — Accrued Restructuring

Accrued restructuring, which is included in other accrued liabilities in the accompanying Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, consisted of the following (in thousands):

	September 30, 2011	December 31, 2010
2009 restructuring charges	\$ 78	\$ 240
Fourth quarter 2010 restructuring charge	427	1,814
Continuous Computing restructuring charge	3,507	—
Total accrued restructuring charges	<u>\$ 4,012</u>	<u>\$ 2,054</u>

The Company evaluates the adequacy of the accrued restructuring charges on a quarterly basis. The Company records certain reclassifications between categories and reversals to the accrued restructuring charges based on the results of the evaluation. The total accrued restructuring charges for each restructuring event are not affected by reclassifications. Reversals are recorded in the period in which the Company determines that expected restructuring obligations are less than the amounts accrued.

2009 Restructurings

During the second and fourth quarters of 2009, the Company undertook various restructuring activities. To date, the Company has incurred restructuring costs of \$3.7 million which has consisted primarily of severance and related payroll costs, healthcare benefits, relocation incentives, and equipment moving costs.

The following table summarizes the changes to the 2009 restructuring costs for the nine months ended September 30, 2011 (in thousands):

	Employee Termination and Related Costs
Balance accrued as of December 31, 2010	\$ 240
Additions	61
Reversals	(78)
Expenditures	(145)
Balance accrued as of September 30, 2011	<u>\$ 78</u>

Fourth Quarter 2010 Restructuring

During the fourth quarter of 2010, the Company initiated a restructuring plan that included the elimination of 67 positions at various locations throughout the company. The primary focus of this initiative was to align expenses with the Company's 2011 operating plan objectives, which included the need to reduce the Company's infrastructure associated with the maturity of the Company's legacy communication networks products, as well as the consolidation of its contract manufacturers. To date, the Company has incurred total fourth quarter 2010 restructuring costs of \$2.0 million, which consisted of severance and related payroll costs as well as healthcare benefits. The Company expects all activities associated with this restructuring plan to be substantially completed by the end of 2011.

During the three and nine months ended September 30, 2011, the Company recorded expense of \$21,000 and a net reversal of \$6,000 for previously estimated amounts associated with the fourth quarter 2010 restructuring plan. The activity reflects the re-assignment of employees initially included in the plan and changes in previously estimated amounts for employee severance and associated payroll costs.

The following table summarizes the changes to the fourth quarter 2010 restructuring costs during the nine months ended September 30, 2011 (in thousands):

	Employee Termination and Related Costs
Balance accrued as of December 31, 2010	\$ 1,814
Additions	248
Reversals	(254)
Expenditures	(1,381)
Balance accrued as of September 30, 2011	<u>\$ 427</u>

Continuous Computing Related Restructuring

During the second quarter of 2011, the Company initiated a restructuring plan associated with the acquisition of Continuous Computing. This plan includes multiple phases and the full scope of the plan is expected to be finalized by the end of the fourth quarter. At the end of the third quarter the plan included the identification of 114 positions at various locations that will be eliminated. The primary intent of these integration activities was to better align our operations and headcount with expected synergies to be realized as a direct result of the Company's acquisition of Continuous Computing, as more fully discussed in Note 2 - *Acquisition of Continuous Computing Corporation*. In addition, these integration activities align with the Company's corporate objective to transfer a significant portion of its research and development activities to offshore lower cost geographies. During the three and nine months ended September 30, 2011, the Company recorded restructuring costs of \$3.4 million and \$4.3 million, which consisted of severance, healthcare benefits, related payroll costs and legal fees. The Company expects additional charges associated with the restructuring plan to be substantially completed by the first quarter of 2012.

The following table summarizes activity associated with the Continuous Computing restructuring initiative during the nine months ended September 30, 2011 (in thousands):

	Employee Termination and Related Costs
Additions	\$ 4,316
Reversals	(5)
Expenditures	(804)
Balance accrued as of September 30, 2011	<u>\$ 3,507</u>

Note 7 — Short-Term Borrowings

Silicon Valley Bank

On November 1, 2011 the Company entered into a \$40.0 million secured revolving line of credit agreement (the "Agreement") with Silicon Valley Bank ("SVB") to replace the Company's existing line of credit with SVB. The new Agreement matures on September 30, 2014 and is subject to a borrowing base and secured by the Company's accounts receivable. The secured revolving credit facility is available for cash borrowings, with \$20.0 million of the Agreement available on a non-formula basis and the remaining \$20.0 million subject to a borrowing formula based upon eligible accounts receivable. Eligible accounts receivable (as defined in the Agreement) include 100% of US and 65% of foreign (including Continuous Computing) accounts receivable, limited to concentration by certain customers, not greater than 60 days past due and no greater than 120 days from original invoice date. Borrowings under the Agreement bear interest at the prime rate, which was 3.25% as of September 30, 2011, or LIBOR, which was 0.24% as of September 30, 2011, plus 1.25%, with either interest rate determined by the Company's election. The Company is required to make interest payments monthly. The Company is further required to pay a commitment fee equal to \$35,000 on the closing date of the agreement and annually thereafter and to pay quarterly in arrears an unused facility fee in an amount equal to 0.375% per year of the unused amount of the facility.

The Agreement requires the Company to make and maintain certain financial covenants, representations, warranties and other agreements that are customary in credit agreements of this type. The Agreement also requires the Company to maintain the following specific financial covenants:

- minimum quarterly liquidity ratio of 1.25 during the term of the agreement. The liquidity ratio is defined as cash, cash equivalents and short term investments (with cash and cash equivalents held by the Company's foreign subsidiaries not to exceed \$10.0 million and excluding any investments held by the Company's foreign

subsidiaries) plus eligible accounts receivable (as defined in the Agreement), divided by the sum of obligations to SVB;

- minimum two quarter positive rolling EBITDA (earnings before interest, taxes, depreciation, amortization, stock based compensation, goodwill impairment charges, and non cash restructuring and integration expenses associated with the acquisition of Continuous Computing) of \$3.0 million beginning with the quarter ending December 31, 2012. Prior to December 31, 2012, the minimum two quarter rolling EBITDA requirements increase on a quarterly basis with the quarter ending September 30, 2011 as follows: (\$8.3) million, (\$8.5) million, (\$2.1) million, (\$0.5) million and \$2.0 million; and
- capital expenditures may not exceed \$11.0 million in fiscal 2011 and \$8.0 million in subsequent fiscal years.

As of September 30, 2011 and December 31, 2010, the Company had no outstanding balances or letters of credit issued on its behalf under the agreement that existed on those dates.

Note 8 - Convertible Debt

2013 Convertible Senior Notes

During February 2008, the Company offered and sold in a public offering pursuant to the shelf registration statement \$55.0 million aggregate principal amount of 2.75% convertible senior notes due 2013 (the "2013 convertible senior notes"). Interest is payable semi-annually, in arrears, on each August 15 and February 15, beginning on August 15, 2008, to the holders of record at the close of business on the preceding August 1 and February 1, respectively. The 2013 convertible senior notes mature on February 15, 2013. Holders of the 2013 convertible senior notes may convert their notes into a number of shares of the Company's common stock determined as set forth in the indenture governing the notes at their option on any day to and including the business day prior to the maturity date. The 2013 convertible senior notes are initially convertible into 76,7448 shares of the Company's common stock per \$1,000 principal amount of the notes (which is equivalent to a conversion price of approximately \$13.03 per share), subject to adjustment upon the occurrence of certain events. Upon the occurrence of a fundamental change, holders of the 2013 convertible senior notes may require the Company to repurchase some or all of their notes for cash at a price equal to 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest, if any. In addition, if certain fundamental changes occur, the Company may be required in certain circumstances to increase the conversion rate for any 2013 convertible senior notes converted in connection with such fundamental changes by a specified number of shares of the Company's common stock. The 2013 convertible senior notes are the Company's general unsecured obligations and rank equal in right of payment to all of its existing and future senior indebtedness, and senior in right of payment to the Company's future subordinated debt. The Company's obligations under the 2013 convertible senior notes are not guaranteed by, and are effectively subordinated in right of payment to all existing and future obligations of its subsidiaries and are effectively subordinated in right of payment to its future secured indebtedness to the extent of the assets securing such debt.

In connection with the issuance of the 2013 convertible senior notes, the Company entered into a capped call transaction with a hedge counterparty. The capped call transaction is expected to reduce the potential dilution upon conversion of the 2013 convertible senior notes in the event that the market value per share of the Company's common stock, as measured under the terms of the capped call transaction, at the time of exercise is greater than the strike price of the capped call transaction of approximately \$13.03. The strike price of the capped call transaction corresponds to the initial conversion price of the 2013 convertible senior notes and is subject to certain adjustments similar to those contained in the notes. The capped call transaction provides for net-share settlement in the event that the volume-weighted average price per share of the Company's common stock on the settlement date exceeds the strike price of approximately \$13.03 per share. In such event, the hedge counterparty would deliver to the Company a number of shares equal to a formula determined by the quotient resulting from (a) the shares being settled times the difference between the volume-weighted average price on the settlement date and the strike price of approximately \$13.03 per share, divided by (b) the volume-weighted average price on the settlement date. If the volume-weighted average price on the settlement date equals or exceeds the cap price of \$23.085 per share, the difference in (a) would be \$23.085 minus \$13.03, or \$10.055. If the market value per share of the Company's common stock exceeds the cap price of the capped call transaction of \$23.085, as measured under the terms of the capped call transaction, the dilution mitigation under the capped call transaction will be limited, which means that there would be dilution to the extent that the then market value per share of the Company's common stock exceeds the cap price of the capped call transaction. Although the capped call transaction covers approximately 4.2 million shares, in order to facilitate an orderly settlement process, the shares are divided into tranches of approximately 211,000 shares each, settling on the twenty consecutive trading days prior to the date of maturity of the Company's convertible notes. Thus, on each settlement date, approximately 211,000 shares would be settled, assuming a volume-weighted average price on such settlement date of \$23.085. Assuming a volume-weighted average price of \$23.085, the

hedge counterparty would deliver to the Company approximately 91,904 shares on each settlement date, calculated as follows: $211,000 \times (\$23.085 - \$13.03) / \$23.085 = 91,904$.

The following table outlines the effective interest rate, contractually stated interest costs, and costs related to the amortization of issuance costs for the Company's 2013 convertible senior notes:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Effective interest rate	3.64%	3.64%	3.64%	3.64%
Contractually stated interest costs	\$ 344	\$ 344	\$ 1,032	\$ 1,032
Amortization of interest costs	\$ 112	\$ 112	\$ 336	\$ 336

As of September 30, 2011 and December 31, 2010, the Company had outstanding 2013 convertible senior notes with a face value of \$50.0 million. As of September 30, 2011 and December 31, 2010, the fair value of the Company's 2013 convertible senior notes was \$44.9 million and \$49.1 million.

Note 9 - Commitments and Contingencies

Adverse Purchase Commitments

The Company is contractually obligated to reimburse its contract manufacturers for the cost of excess inventory used in the manufacture of the Company's products, if there is no alternative use. This liability, referred to as adverse purchase commitments, is provided for in other accrued liabilities in the accompanying Consolidated Balance Sheets. Estimates for adverse purchase commitments are derived from reports received on a quarterly basis from the Company's contract manufacturers. Increases to this liability are charged to cost of goods sold. When and if the Company takes possession of inventory reserved for in this liability, the liability is transferred from other accrued liabilities to the excess and obsolete inventory valuation allowance. Adverse purchase commitments amounted to \$1.1 million and \$1.3 million at September 30, 2011 and December 31, 2010.

Guarantees and Indemnification Obligations

As permitted under Oregon law, the Company has agreements whereby it indemnifies its officers, directors and certain finance employees for certain events or occurrences while an officer, director or employee is or was serving in such capacity at the request of the Company. The term of the indemnification period is for the officer's, director's or employee's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a Director and Officer insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts paid. To date, the Company has not incurred any costs associated with these indemnification agreements and, as a result, management believes the estimated fair value of these indemnification agreements is minimal. Accordingly, the Company has not recorded any liabilities for these agreements as of September 30, 2011.

The Company enters into standard indemnification agreements in its ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company's business partners or customers, in connection with patent, copyright or other intellectual property infringement claims by any third party with respect to the Company's current products, as well as claims relating to property damage or personal injury resulting from the performance of services by us or the Company's subcontractors. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is generally limited. Historically, the Company's costs to defend lawsuits or settle claims relating to such indemnity agreements have been minimal and accordingly management believes the estimated fair value of the agreements is immaterial.

The Company provides for the estimated cost of product warranties at the time it recognizes revenue. Products are generally sold with warranty coverage for a period of 24 months after shipment. Parts and labor are covered under the terms of the warranty agreement. The workmanship of the Company's products produced by contract manufacturers is covered under warranties provided by the contract manufacturer for a specified period of time ranging from 12 to 15 months. The warranty provision is based on historical experience. The Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its components suppliers; however ongoing failure rates, material usage and service delivery costs incurred in correcting product failure, as well as specific product class failures out of the Company's baseline experience affect the estimated warranty obligation. If actual product failure rates, material usage or service delivery costs differ from estimates, revisions to the estimated warranty liability would be required.

The following is a summary of the change in the Company's warranty accrual reserve (in thousands):

	For the Nine Months Ended	
	September 30,	
	2011	2010
Warranty liability balance, beginning of the period	\$ 3,025	\$ 2,810
Product warranty accruals	2,205	2,739
Continuous Computing beginning balance	817	—
Utilization of accrual	(2,345)	(2,678)
Warranty liability balance, end of the period	<u>\$ 3,702</u>	<u>\$ 2,871</u>

The warranty liability balance is included in other accrued liabilities in the accompanying Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010.

Note 10 — Basic and Diluted Net Income per Share

A reconciliation of the numerator and the denominator used to calculate basic and diluted net income per share is as follows (in thousands, except per share amounts):

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Numerator — Basic				
Net income, basic	\$ 2,765	\$ 2,171	\$ 2,426	\$ 1,713
Numerator — Diluted				
Net income, basic	\$ 2,765	\$ 2,171	\$ 2,426	\$ 1,713
Interest on convertible notes, net of tax benefit ^(A)	—	—	—	—
Net income, diluted	<u>\$ 2,765</u>	<u>\$ 2,171</u>	<u>\$ 2,426</u>	<u>\$ 1,713</u>
Denominator — Basic				
Weighted average shares used to calculate net income per share, basic	<u>26,432</u>	<u>24,212</u>	<u>25,038</u>	<u>24,088</u>
Denominator — Diluted				
Weighted average shares used to calculate net income per share, basic	26,432	24,212	25,038	24,088
Effect of escrow shares	1,242	—	414	—
Effect of convertible notes ^(A)	—	—	—	—
Effect of dilutive restricted stock ^(B)	84	141	88	153
Effect of dilutive stock options ^(B)	62	47	55	69
Weighted average shares used to calculate net income per share, diluted	<u>27,820</u>	<u>24,400</u>	<u>25,595</u>	<u>24,310</u>
Net income per share				
Basic	<u>\$ 0.10</u>	<u>\$ 0.09</u>	<u>\$ 0.10</u>	<u>\$ 0.07</u>
Diluted ^{(A), (B)}	<u>\$ 0.10</u>	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.07</u>

(A) For the three and nine months September 30, 2011 and 2010, 3.8 million as-if converted shares associated with the Company's 2013 convertible senior notes were excluded from the calculation as their effect would have been anti-dilutive.

(B) For the three and nine months ended September 30, 2011 and 2010, the following equity awards, by type, were excluded from the calculation, as their effect would have been anti-dilutive (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Stock options	2,953	2,183	2,962	2,260
Restricted stock	1,404	—	1,400	—
Total equity award shares excluded	4,357	2,183	4,362	2,260

Note 11 — Income Taxes

The Company's effective tax rate for the three months ended September 30, 2011 and 2010, differs from the statutory rate primarily due to a full valuation allowance provided against its United States ("U.S.") net deferred tax assets, Canadian research and experimental development claims, the impact of stock option expense, the amortization of goodwill for tax purposes and taxes on foreign income that differ from the U.S. tax rate. In addition to the aforementioned items, the effective tax rate for the three months ended September 30, 2011 differs from the statutory rate due to a partial release of the Company's valuation allowance provided against its U.S. net deferred tax assets as a result of the purchase accounting associated with the acquisition of Continuous Computing. Purchase accounting includes the establishment of a deferred tax liability due to the book tax basis differences related to specifically identified non-goodwill intangibles resulting from the acquisition. The net liability from the acquisition created an additional source of income to utilize our deferred tax assets. As such, authoritative guidance requires the Company to record the impact on the Company's deferred tax assets outside of purchase accounting. An income tax benefit of \$7.6 million was recognized upon the partial valuation allowance release.

The Company utilizes the asset and liability method of accounting for income taxes. The Company records deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Based upon the Company's review of all positive and negative evidence, including its projected three year U.S. cumulative pre-tax book loss and taxable loss, it concluded that a full valuation allowance should continue to be recorded against its U.S. net deferred tax assets at September 30, 2011. In certain other foreign jurisdictions, where the Company does not have cumulative losses or other negative evidence, the Company had net deferred tax assets of \$18.3 million at September 30, 2011 and \$16.6 million at December 31, 2010. In the future, if the Company determines that it is more likely than not that it will realize its U.S. net deferred tax assets, it will reverse the applicable portion of the valuation allowance and recognize an income tax benefit in the period in which such determination is made.

The Company's unrecognized tax benefits and related interest and penalties during the three months ended September 30, 2011 increased by \$2.2 million due to uncertain tax positions associated with the acquisition of Continuous Computing as part of the purchase accounting adjustments which was partially offset by a \$1.1 million decrease related to the effective settlement of an examination by the Canadian Revenue Agency ("CRA"). The ending balance for the unrecognized tax benefits was approximately \$2.0 million at September 30, 2011. The related interest and penalties were \$180,000 and \$154,000, respectively. The uncertain tax positions that are reasonably possible to decrease in the next twelve months are insignificant.

The CRA completed an examination of the Company for tax years 2006 through 2008 during the three months ended September 30, 2011. During the three months ended December 31, 2010, the CRA issued proposed adjustment notices. During the three months ended June 30, 2011, the CRA reissued the proposed adjustments and the Company, as of June 30, 2011, was in the process of reaching an agreement with CRA with respect to the tax carry-forward attributes to be utilized in future tax years. The Company agreed to the proposed adjustments and effectively settled the examination during the three months ended September 30, 2011. The effective settlement did not have a significant impact on the Company's financial statements. The Company is not currently under examination by tax authorities in any other jurisdictions.

The Company is currently under tax examination in India from the acquisition of Continuous Computing. The periods covered under examination are the Company's financial years 2004 through 2008. The examination is in various stages of appellate proceedings and all material uncertain tax positions associated with the examination have been taken into account in the ending balance of the unrecognized tax benefits at September 30, 2011. The Company is not under examination by tax authorities in any other jurisdictions.

Note 12 — Stock-based Compensation

On June 15, 2011 the Company's stockholders approved an amendment to the RadiSys Corporation 2007 Stock Plan. The amendment increased the number of shares of the Company's common stock reserved and authorized for issuance under the

plan from 3.7 million to 4.7 million.

On May 3, 2011 the Company registered 600,000 shares of its common stock under the RadiSys Corporation Inducement Stock Plan for CCPU Employees (the "CCPU Plan"). The CCPU Plan was adopted without shareholder approval in reliance upon the exception provided under Nasdaq Listing Rule 5635(c)(4) relating to awards granted in connection with the hiring of new employees, including grants to transferred employees in connection with a merger or acquisition. Awards under the CCPU Plan are made only to employees of Continuous Computing or its subsidiaries and became effective upon the completion of the acquisition. The CCPU Plan provides for the issuance of stock options, restricted shares and restricted stock units.

The Company assumed the stock plans of Continuous Computing during the three and nine months ended September 30, 2011. Under the terms of the Company's merger agreement with Continuous Computing, options outstanding under these plans were converted to options to purchase shares of the Company's common stock. Options issued under these plans vest over four years from the original grant date and have an expiration date of 10 years from the original grant date. The exercise price of each converted option is equal to the product of the original exercise price and the original number of options granted divided by the number of converted options received. These stock plans have been suspended and no future awards will be granted under these plans. A total of 322,000 shares of common stock have been authorized and issued under the Continuous Computing plans.

In accordance with the merger agreement the options were required to be converted into multiple awards on the acquisition date, with the resulting awards being non-contingent and contingent options. Both the non-contingent and contingent awards continue to vest under the original service conditions of the awards. However, the contingent awards contain post-vesting restrictions tied to payment of certain merger contingencies such as the earn-out and indemnification agreements. The assumed options were valued using a Black-Scholes option-pricing model. In addition, we utilized the Finnerty Asian Put Option Approach to estimate the discount associated with the post-vesting restrictions for the contingent options. The resulting discount applied was 10%.

The following table summarizes awards granted and assumed under all of the Company's stock plans (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Stock options	242	20	303	78
Restricted stock	497	79	693	113
Continuous Computing assumed options	322	—	322	—
Total	1,061	99	1,318	191

Stock-based compensation was recognized and allocated as follows (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Cost of sales	\$ 217	\$ 194	\$ 572	\$ 640
Research and development	464	302	1,070	1,010
Selling, general and administrative	1,220	944	2,396	3,230
Total	\$ 1,901	\$ 1,440	\$ 4,038	\$ 4,880

Note 13 — Common Stock Repurchase Program

In December 2010, the Board of Directors authorized the repurchase of up to \$20 million of the Company's common stock through open-market transactions and privately negotiated transactions from time to time at the discretion of management. The duration of the repurchase program is two years, although it may be extended, suspended or discontinued without prior notice, at the discretion of the Board. Under the program, the Company repurchased common stock with a value of \$3.9 million during the nine months ended September 30, 2011, leaving \$16.1 million available for future repurchases of the Company's common stock.

Note 14 — Hedging

The Company's activities expose it to a variety of market risks, including the effects of changes in foreign currency exchange rates. The Company manages these risks through the use of forward exchange contracts, designated as foreign currency cash flow hedges, in an attempt to reduce the potentially adverse effects of foreign currency exchange rate fluctuations that occur in the normal course of business. As such, the Company's hedging activities are all employed solely for risk management purposes. All hedging transactions are conducted with, in the opinion of management, financially stable and reputable financial institutions. For the year ended December 31, 2010 and for the nine months ended September 30, 2011, the only hedge instruments executed by the Company are associated with its exposure to fluctuations in the Canadian Dollar which result from obligations such as payroll and rent paid in Canadian Dollars.

These derivatives are recognized on the balance sheet at their fair value. Unrealized gain positions are recorded as other current assets and unrealized loss positions are recorded as other current liabilities. Changes in the fair values of the outstanding derivatives that are highly effective are recorded in other comprehensive income (loss) until net income is affected by the variability of the cash flows of the hedged transaction. Typically, hedge ineffectiveness could result when the amount of the Company's hedge contracts exceed the Company's forecasted or actual transactions for which the hedge contracts were designed to hedge. Once a hedge contract matures the associated gain (loss) on the contract will remain in other comprehensive income (loss) until the underlying hedged transaction affects net income (loss), at which time the gain (loss) will be recorded to the expense line item being hedged, which is primarily R&D. The Company only enters into derivative contracts in order to hedge foreign currency exposure. If the Company entered into a contract for speculative reasons or if the Company's current hedge position becomes ineffective, changes in the fair values of the derivatives would be recognized in earnings in the current period.

During the three months ended September 30, 2011, the Company did not enter into any new foreign currency contracts, while during the nine months ended September 30, 2011, the Company entered into 12 new foreign currency forward contracts, with total contractual values of \$2.2 million. During the three and nine months ended September 30, 2010, the Company entered into 12 and 44 new foreign currency forward contracts, with total contractual values of \$2.3 million and \$6.8 million. As of September 30, 2011, the maximum term over which the Company is hedging exposures to the variability of cash flows for its forecasted and recorded transactions is 14 months.

The Company assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives are expected to remain highly effective in future periods. For the three and nine months ended September 30, 2011 and for the year ended December 31, 2010, the Company had no hedge ineffectiveness.

A summary of the aggregate contractual or notional amounts, balance sheet location and estimated fair values of derivative financial instruments designated as cash flow hedges at September 30, 2011 is as follows (in thousands):

Type of Cash Flow Hedge	Contractual/Notional Amount	Consolidated Balance Sheet Classification	Estimated Fair Value	
			Asset	(Liability)
Foreign currency forward exchange contracts	\$ 8,281	Other accrued liabilities	\$ —	\$ (264)

A summary of the aggregate contractual or notional amounts, balance sheet location and estimated fair values of derivative financial instruments designated as cash flow hedges at December 31, 2010 is as follows (in thousands):

Type of Cash Flow Hedge	Contractual/Notional Amount	Consolidated Balance Sheet Classification	Estimated Fair Value	
			Asset	(Liability)
Foreign currency forward exchange contracts	\$ 12,547	Other current assets	\$ 432	\$ —

The effect of derivative instruments on the consolidated financial statements for the three months ended September 30, 2011 was as follows (in thousands):

<u>Type of Cash Flow Hedge</u>	Effective Portion			Ineffective Portion	
	Hedge Loss Recognized in Other Comprehensive Income	Consolidated Statement of Operations Classification of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Hedge Gain Reclassified from Accumulated Other Comprehensive Income	Consolidated Statement of Operations Classification of Gain (Loss) Recognized	Hedge Gain (Loss) Recognized
Foreign currency forward exchange contracts	\$ (660)				
		Cost of sales	\$ 18	None	\$ —
		Research and development	109	None	—
		Selling, general and administrative	52	None	—

The effect of derivative instruments on the consolidated financial statements for the nine months ended September 30, 2011 was as follows (in thousands):

<u>Type of Cash Flow Hedge</u>	Effective Portion			Ineffective Portion	
	Hedge Loss Recognized in Other Comprehensive Income	Consolidated Statement of Operations Classification of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Hedge Gain Reclassified from Accumulated Other Comprehensive Income	Consolidated Statement of Operations Classification of Gain (Loss) Recognized	Hedge Gain (Loss) Recognized
Foreign currency forward exchange contracts	\$ (603)				
		Cost of sales	\$ 53	None	\$ —
		Research and development	339	None	—
		Selling, general and administrative	126	None	—

The effect of derivative instruments on the consolidated financial statements for the three months ended September 30, 2010 was as follows (in thousands):

<u>Type of Cash Flow Hedge</u>	Effective Portion			Ineffective Portion	
	Hedge Gain Recognized in Other Comprehensive Income	Consolidated Statement of Operations Classification of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Hedge Gain Reclassified from Accumulated Other Comprehensive Income	Consolidated Statement of Operations Classification of Gain (Loss) Recognized	Hedge Gain (Loss) Recognized
Foreign currency forward exchange contracts	\$ 134				
		Cost of sales	\$ 21	None	\$ —
		Research and development	145	None	—
		Selling, general and administrative	34	None	—

The effect of derivative instruments on the consolidated financial statements for the nine months ended September 30, 2010 was as follows (in thousands):

<u>Type of Cash Flow Hedge</u>	<u>Effective Portion</u>			<u>Ineffective Portion</u>	
	<u>Hedge Loss Recognized in Other Comprehensive Income</u>	<u>Consolidated Statement of Operations Classification of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income</u>	<u>Hedge Gain Reclassified from Accumulated Other Comprehensive Income</u>	<u>Consolidated Statement of Operations Classification of Gain (Loss) Recognized</u>	<u>Hedge Gain (Loss) Recognized</u>
Foreign currency forward exchange contracts	\$ (484)				
		Cost of sales	\$ 80	None	\$ —
		Research and development	543	None	—
		Selling, general and administrative	125	None	—

Over the next twelve months, the Company expects to reclassify into earnings a loss of approximately \$218,000, currently recorded as other comprehensive income, as a result of the maturity of currently held forward exchange contracts.

The bank counterparties in these contracts expose the Company to credit-related losses in the event of their nonperformance. However, to mitigate that risk, the Company only contracts with counterparties who meet its minimum requirements regarding counterparty credit worthiness. In addition, the Company monitors credit ratings, credit spreads and potential downgrades prior to entering into any new hedging contracts.

Note 15 — Segment Information

The Company is one operating segment. This is because results of operations are provided and analyzed at a company-wide level. Key resources, decisions, and assessment of performance are also analyzed on a company-wide level. This is the way management organizes the Company for making operating decisions and assessing financial performance by the chief operating decision maker.

Revenues on a product and services basis are as follows (in thousands):

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Hardware	\$ 89,751	\$ 68,770	\$ 231,349	\$ 198,169
Software royalties and licenses	3,543	4,029	9,534	12,470
Software maintenance	1,635	722	4,763	2,758
Engineering and other services	2,947	1,646	5,713	4,088
Total revenues	\$ 97,876	\$ 75,167	\$ 251,359	\$ 217,485

Generally, the Company's customers are not the end-users of its products. The Company ultimately derives its revenues from two end markets as follows (in thousands):

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Next Generation Communication Networks Products	\$ 53,626	\$ 30,857	\$ 116,155	\$ 90,093
Legacy Communication Networks Products	23,717	24,575	76,711	71,073
Total Communication Networks Products	77,343	55,432	192,866	161,166
Medical Products	8,447	8,403	21,291	24,738
Other Commercial Products	12,086	11,332	37,202	31,581
Total Commercial Products	20,533	19,735	58,493	56,319
Total revenues	\$ 97,876	\$ 75,167	\$ 251,359	\$ 217,485

Information about the Company's geographic revenues and long-lived assets by geographical area is as follows (in

thousands):

Geographic Revenues

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
United States	\$ 29,693	\$ 24,468	\$ 72,050	\$ 74,019
Other North America	495	271	1,087	712
North America	30,188	24,739	73,137	74,731
Europe, the Middle East and Africa ("EMEA")	21,337	20,937	63,133	59,961
Asia Pacific	46,351	29,491	115,089	82,793
Total	\$ 97,876	\$ 75,167	\$ 251,359	\$ 217,485

Long-lived assets by Geographic Area

	September 30, 2011	December 31, 2010
Property and equipment, net		
United States	\$ 7,929	\$ 6,404
Other North America	610	716
EMEA	696	30
Asia Pacific	3,036	2,337
Total property and equipment, net	\$ 12,271	\$ 9,487
Goodwill		
United States	\$ 25,995	\$ —
EMEA	160	160
Total goodwill	\$ 26,155	\$ 160
Intangible assets, net		
United States	\$ 86,845	\$ 1,552
Other North America	432	912
EMEA	1,809	4,624
Total intangible assets, net	\$ 89,086	\$ 7,088

The following customers accounted for more than 10% of the Company's total revenues:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Nokia Siemens Networks	29.1%	42.0%	40.2%	39.2%
NEI	NA	NA	NA	10.0%

As of September 30, 2011 and December 31, 2010, Nokia Siemens Networks accounted for 31.6% and 32.0% of the Company's total accounts receivable balance.

Note 16 — Subsequent Event

On November 1, 2011, the Company entered into a \$40.0 million secured revolving line of credit agreement with Silicon Valley Bank to replace the Company's existing line of credit agreement with Silicon Valley Bank. Refer to Note 7 - *Short-Term Borrowings* for a complete description of the terms and conditions of the new line of credit.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction and Overview

Radisys Corporation is a leading provider of innovative hardware and software platforms for Next Generation IP-based wireless, wireline and video networks. Our products include our market leading Advanced Telecommunications Computing Architecture ("ATCA") and Internet Protocol ("IP") Media Server platforms as well as application software for new IP-based communications services. These products enable customers to bring new high-value products and services to market with speed and flexibility using the latest technologies and with a lower investment. Radisys products are used in a wide variety of applications including 3G/4G/long term evolution ("LTE") wireless voice, data and video, Femtocell, Voice over Internet Protocol ("VoIP") and Video over IP communications and conferencing, Voice Quality Enhancement ("VQE"), and secure defense communications. Unless required by context, or as otherwise indicated, "we," "us," "our" and similar terms, as well as references to the "Company" and "Radisys" refer to Radisys Corporation and include all of our consolidated subsidiaries.

In July 2011, we acquired Continuous Computing Corporation ("Continuous Computing"), a developer of communications systems consisting of highly integrated ATCA platforms and Trillium protocol software coupled with software Professional Services to complement their full solution offering. Continuous Computing's key customer applications include 3G and 4G Wireless infrastructure, Small Cell base stations, Traffic Management, Internet Offload and Network Security. The acquisition is expected to accelerate the Company's strategy to deliver more differentiated platforms and solutions. Continuous Computing also brings expansion into high growth markets with many new customers, creating meaningful customer diversification.

The acquisition also brings us a new combined leadership team. Mike Dagenais, previously Continuous Computing's President and CEO, is now the Company's Chief Executive Officer. Mr. Dagenais brings over 25 years of experience in driving transformational change in the telecommunications industry, including prior executive and management positions at Optical Solutions, Convergent Networks, Lucent, and Nortel.

Our Markets

We provide application-ready software and hardware platforms to the following two markets:

Communication Networks

The communications networks market is comprised of two product categories: Next Generation and Legacy Communication Networks products. Included in the Next Generation Communication Networks product group are our ATCA, Media Server, Trillium Software, and corresponding professional services. Included in the Legacy Communication Networks product group are our legacy wireless products and all other Communication Networks revenues that are not included in the Next Generation Communication Networks group.

We enable applications in the ATCA market such as 3G/4G/LTE wireless voice, data and video, deep packet inspection ("DPI"), Femtocell, mobile video, VoIP and Video over IP communications and conferencing, VQE, worldwide interoperability for microwave access ("WiMax"), IP Video ("IPTV"), satellite, security and secure defense communications, among others.

We enable applications in the media server market such as conferencing, interactive voice and video network services, transcoding and VQE.

Our Trillium software protocols are the underlying signaling infrastructure that enables the communication between core network products and wireless communications devices. Trillium software protocols encompass all of the wireless communications software required for mobile devices to interwork with 3G and 4G/LTE core network providers.

Commercial Systems

The commercial market consists primarily of solutions and systems for the medical imaging, test and measurement, and aerospace and defense submarkets. Specific applications include:

- Aerospace and defense: ruggedized terminals, small unmanned ground vehicles and other military applications
- Small form factor communications
- Medical imaging: X-Ray machines, MRI scanners, CT scan imaging equipment and ultrasound equipment

Market Drivers

We believe there are a number of fundamental drivers for growth in our target markets, including:

- The increasing desire by original equipment manufacturers (“OEMs”) to utilize standards-based, merchant-supplied platforms to develop their systems. We believe more OEMs will see the advantage of combining their internal development efforts with merchant-supplied platforms from partners like Radisys to deliver a larger number of more valuable new products to get to market faster at a lower total cost.
- Meaningful traffic growth in the network will require high density, high speed, and high performance systems. Radisys' ATCA 10G and 40G systems provide 2 to 10 times the density when compared to legacy systems.
- The industry structure is changing in that Telecommunications Equipment Manufacturers (“TEMs”) are focusing more on applications and network operations, while operators and carriers are focusing more on service and content delivery. Radisys is benefiting from these market shifts and is providing more platforms and solutions to TEMs.
- Continued emergence, growth and evolution of applications utilizing 4G or LTE, WiMAX networks, Femtocell Gateways, VoIP, IP Communications, Mobile Video, Video Gateways, Video Conferencing, IPTV, IP interactive voice response (“IVR”)/ Voice-to-text, IP Messaging, Network Surveillance, Network Security, Aerospace and Defense and Packet Inspection, all of which are supported by ATCA.

Our Solutions

We provide our customers with advanced software and hardware platforms that enable them to focus their resources and development efforts on their key areas of differentiation, bring more products and services to market with speed and flexibility, using the latest technologies with reduced product and delivery costs.

Our customers select our solutions because we provide:

Superior technology. We have been the first to market with many technological advancements such as the industry's first 10G common managed platforms, and we are a leader in areas such as IP conferencing and COM Express new product development. Our design capabilities extend to media processing and central processing units (“CPUs”), graphics processing units and network processing units (“NPUs”), digital signal processing and integrated software managed platforms, such as media and application servers, as well as many other areas.

Experienced technical resources. Our research and development (“R&D”) staff has extensive experience in designing complex hardware and software solutions for the communications and commercial markets. We believe that our customers benefit from the broad array of IP and solutions that our R&D staff develop and support.

Reduced time to market. We offer standards-based, turn-key solutions such as ATCA and media server solutions for the communication networks market and COM Express solutions for the commercial market. These standards-based solutions combined with our strong technical resources provide our OEM customers with more flexibility and reduced time-to-market than if they developed these solutions internally.

Broad portfolio of products. Our product lines include a large portfolio of solutions including fully integrated platforms and application-ready systems with software rich content. Our product portfolio addresses a large range of customer requirements and applications. We believe that over time many of our customers will increasingly rely on a smaller set of suppliers who can address a broader set of their solution needs.

Long-term customer relationships. We understand what our customers need and work closely with them. Accordingly, we have developed and maintained long-term relationships with many Tier 1 and Tier 2 customers.

Our Strategy

To provide embedded wireless infrastructure solutions aimed at enabling our customers with the innovative and cost effective technologies necessary to solve growing capacity challenges. We believe that our combination of hardware and software expertise, along with our professional service capabilities, creates a compelling and unique offering that our customer's value and our competitors will find hard to duplicate. Our primary focus is the wireless telecom market; however,

we are also targeting other markets where we can add value with our product breadth. These include the defense and aerospace market and the public safety market, which includes police, fire, and security applications. As part of our strategy we will also further leverage our core competencies in hardware design by making renewed investments in medical and other commercial markets, which we expect will provide compelling solutions to our targeted customers while maximizing our infrastructure and developed technologies in these markets.

To develop our offering of higher value platform solutions and services. We continue to focus our investments in developing application-ready platform solutions that incorporate hardware and software developed by us. We intend to increasingly focus our development efforts on providing more software content, positioning us to provide more complete application-ready platforms that provide more value for our customers. The addition of our Trillium product offerings significantly increases the software and network expertise we can provide to our customers. We believe this, combined with our new professional services, will further enhance our strategy to accelerate our customer's efforts to bring their solutions to market as quickly as possible. These new offerings provide an additional revenue opportunity for us as well as new ways for us to collaborate with our customers. We believe revenues from these products have the potential to generate higher average selling prices and higher gross margins relative to the sale of boards or hardware centric platforms.

To leverage our professional service capabilities. We believe we can bring additional value to our customers across all of our product categories by leveraging our unique professional service capabilities. Our tier 2 and tier 3 customer base can benefit significantly by partnering with us as they seek to develop technologies and solutions to the growing wireless capacity issues.

To expand our global customer base. We continue to expand the number of customers that we work with, particularly as more customers become aware of the benefits of standards-based solutions. Our global reach allows us to market our solutions to most of the leading system vendors in our target markets. We are also expanding our customer base through entrance into adjacent markets like aerospace and defense.

To explore new partnerships and strategic acquisitions as a means to build leadership in our target markets. We continue to investigate partnerships and strategic relationships, which can expand the number of solutions we offer and increase our market reach. We also continue to evaluate potential acquisition opportunities to acquire new capabilities, which can help us achieve our strategic goals. For example, in the last five years, we acquired:

- Continuous Computing, a developer of communications systems consisting of highly integrated ATCA platforms and Trillium protocol software coupled with software professional services;
- the assets of privately-held Pactolus Communications Software Company ("Pactolus"), a developer of Next Generation IP communications solutions for converged time-division multiplexing/internet protocol ("TDM/IP") and session initiation protocol ("SIP") enabled VoIP networks;
- certain assets of the Modular Communications Platform Division ("MCPD") business from Intel Corporation ("Intel"), which included ATCA and compact peripheral component interconnect ("PCI") product lines; and
- Convedia Corporation or Convedia®, a closely-held vendor of IP media servers.

Financial Results

For the three and nine months ended September 30, 2011, the acquisition of Continuous Computing had a significant impact on our financial results. The increase in revenues for the three and nine months ended September 30, 2011 was largely attributable to revenues of \$15.3 million contributed by Continuous Computing. Operating expenses increased significantly compared to the prior periods as a result of the acquisition; however, we expect these to decrease materially over the next twelve months as we finalize integration activities. Integration activities are proceeding as planned and we expect to continue to incur material restructuring and acquisition-related charges through the first quarter of 2012.

Total revenue for the threeand ninemonths ended September 30, 2011was \$97.9 millionand \$251.4 millionas compared to total revenue of \$75.2 millionand \$217.5 millionfor the threeand ninemonths ended September 30, 2010. Backlog grew 26.0%during the ninemonths ended September 30, 2011to \$55.3 millionat September 30, 2011from \$43.9 millionat December 31, 2010 . Backlog includes all purchase orders scheduled for delivery within 12 months. The increase in revenues for the threeand ninemonths ended September 30, 2011compared to the same period in 2010was due to increased revenues

from our Next Generation Communication Networks products, the acquisition of Continuous Computing, and Other Commercial products.

Gross margin as a percentage of revenues was 28.6% for the three and nine months ended September 30, 2011 as compared to 30.3% and 30.1% for the three and nine months ended September 30, 2010 . Gross margin as a percentage of revenues was unfavorably impacted by increased amortization of purchased technology, an expected decline in gross margins on our Legacy products, and increased excess and obsolete inventory charges, which was partially offset by increased margins from our Next Generation Communication Networks products .

Net income for the three and nine months ended September 30, 2011 was \$2.8 million and \$2.4 million compared to net income of \$2.2 million and \$1.7 million for the three and nine months ended September 30, 2010. For the three and nine months ended September 30, 2011, net income was impacted by increased operating expenses and offset by a higher income tax benefit. Increased operating expenses primarily reflect expenses associated with our acquisition of Continuous Computing and increased restructuring activities. The increase in the income tax benefit reflects the partial reversal of the valuation allowance recorded on our deferred tax assets. The reversal is the direct result of the addition of deferred tax liabilities associated with the acquisition of Continuous Computing during the third quarter of 2011.

Cash and cash equivalents amounted to \$55.9 million and \$129.1 million at September 30, 2011 and December 31, 2010 . The decrease in cash and cash equivalents was primarily due to \$81.5 million used for the acquisition of Continuous Computing, capital expenditures of \$4.3 million , and repurchases of our common stock for \$3.9 million . These cash outflows were offset by cash generated from operating activities of \$13.9 million .

Critical Accounting Policies and Estimates

We reaffirm our critical accounting policies and use of estimates as reported in our Annual Report on Form 10-K for the year ended December 31, 2010. There have been no significant changes during the nine months ended September 30, 2011 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2010 except as discussed below.

Contingent Consideration

Contingent consideration is recorded at the acquisition date estimated fair value of the contingent payment for all acquisitions. The fair value of the contingent consideration is remeasured each reporting period with any adjustments in fair value included in our Consolidated Statements of Income.

Results of Operations

The following table sets forth certain operating data as a percentage of revenues for the three and nine months ended September 30, 2011 and 2010 :

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales:				
Cost of sales	68.0	67.5	69.2	67.6
Amortization of purchased technology	3.4	2.2	2.2	2.3
Total cost of sales	71.4	69.7	71.4	69.9
Gross margin	28.6	30.3	28.6	30.1
Research and development	13.2	13.1	12.6	13.4
Selling, general, and administrative	15.9	14.9	14.9	15.6
Intangible assets amortization	1.3	0.3	0.6	0.3
Restructuring and acquisition-related charges, net	5.9	(0.3)	3.3	—
Gain on the liquidation of a foreign subsidiary	(2.1)	—	(0.8)	—
Income (loss) from operations	(5.6)	2.3	(2.0)	0.8
Interest expense	(0.4)	(0.6)	(0.5)	(0.7)
Interest income	—	0.1	—	0.3
Other income (expense), net	0.3	(0.1)	0.1	—
Income (loss) before income tax benefit	(5.7)	1.7	(2.4)	0.4
Income tax benefit	(8.5)	(1.2)	(3.4)	(0.4)
Net income	2.8 %	2.9 %	1.0 %	0.8 %

Comparison of the Three and Nine Months Ended September 30, 2011 and 2010

Revenues

Revenues increased \$22.7 million to \$97.9 million in the three months ended September 30, 2011 from \$75.2 million in the three months ended September 30, 2010. Revenues increased \$33.9 million to \$251.4 million in the nine months ended September 30, 2011 from \$217.5 million in the nine months ended September 30, 2010.

For the three months ended September 30, 2011 and 2010 one customer, Nokia Siemens Networks, accounted for 29.1% and 42.0% of revenues. For the nine months ended September 30, 2011 Nokia Siemens Networks accounted for 40.2% of revenues and no other customers accounted for greater than 10% of revenues. For the nine months ended September 30, 2010 two customers, Nokia Siemens Networks and NEI accounted for 39.2% and 10.0% of revenues. Due to our growing design wins with new customers and acquisitions we expect a continued decline in customer concentration in future periods.

The following table sets forth our revenues by market (in thousands):

	For the Three Months Ended			For the Nine Months Ended		
	September 30,			September 30,		
	2011	2010	Change	2011	2010	Change
Next Generation Communication Networks Products	\$ 53,626	\$ 30,857	73.8 %	\$ 116,155	\$ 90,093	28.9 %
Legacy Communication Networks Products	23,717	24,575	(3.5)	76,711	71,073	7.9
Total Communication Networks Products	77,343	55,432	39.5	192,866	161,166	19.7
Medical Products	8,447	8,403	0.5	21,291	24,738	(13.9)
Other Commercial Products	12,086	11,332	6.7	37,202	31,581	17.8
Total Commercial Products	20,533	19,735	4.0	58,493	56,319	3.9
Total revenues	\$ 97,876	\$ 75,167	30.2 %	\$ 251,359	\$ 217,485	15.6 %

Communication Networks Product Group

Revenues in the Communication Networks market increased \$21.9 million to \$77.3 million for the three months ended September 30, 2011, from \$55.4 million for the three months ended September 30, 2010. The increase in revenue for the three months ended September 30, 2011 reflects a \$22.8 million increase in Next Generation Communication Networks products and an \$858,000 decrease in Legacy Communication Network products. Increased revenues from the Next Generation Communication Networks products reflect a \$12.8 million increase in revenues from ATCA products as the result of increased 3G and 4G/LTE infrastructure deployments and a \$12.2 million increase in revenue due to the acquisition of Continuous Computing, offset by a \$2.5 million decline in revenues from our media server products. Revenues from the Legacy Communication Networks products decreased as the expected decline in revenue from customers migrating to ATCA products more than offset a \$3.1 million increase in revenue due to the acquisition of Continuous Computing.

For the ninemonths ended September 30, 2011, revenues in the Communication Networks market increased \$31.7 million to \$192.9 million from \$161.2 million for the ninemonths ended September 30, 2010. The increase in revenue reflects a \$26.1 million increase in Next Generation Communication Networks products and a \$5.6 million increase in Legacy Communication Networks products. Increased revenues from the Next Generation Communication Networks products was due to a \$17.9 million increase in revenues from ATCA products as the result of increased 3G and 4G/LTE infrastructure deployments and the continued migration within our largest customer from Legacy Communication Networks products as well as, a \$12.2 million increase in revenue due to the acquisition of Continuous Computing. These increases were offset by a \$4.3 million decline in revenues from our media server products. Increased revenues from the Legacy Communication Networks products reflect a near-term increase in market share with an existing customer during the first half of 2011 and a \$3.1 million increase in revenue due to the acquisition of Continuous Computing.

Commercial Products Group

Revenues in the Commercial Products market increased \$798,000 to \$20.5 million for the three months ended September 30, 2011 from \$19.7 million for the three months ended September 30, 2010. Revenues in the Commercial Products market increased \$2.2 million to \$58.5 million for the nine months ended September 30, 2011 from \$56.3 million in the same period in 2010. The increase in revenue for the three months ended September 30, 2011 reflects a \$754,000 increase in Other Commercial products. Increased revenues for the nine months ended September 30, 2011 were the result of a \$5.6 million increase in revenues from our Other Commercial products and partially offset by a \$3.4 million decline in revenues from our Medical products. Revenues from our Other Commercial products reflect increased sales of our COM Express products to a customer in the telecommunications industry. Revenues from our Medical products decreased primarily due to a decline in revenues from our RackMount Server product line. We expect revenues from our RackMount Server product line to continue to decline through 2012; however, we are reinvesting in this product line and expect revenue growth to resume again in 2013.

Given the dynamics of these markets, we may experience general fluctuations in the percentage of revenue attributable to each market. As a result, the quarter to quarter and year to year comparisons of our markets often are not indicative of overall economic trends affecting the long-term performance of our markets.

Revenue by Geography

The following tables outline overall revenue dollars and the percentage of revenues, by geographic region, for the three and nine months ended September 30, 2011 and 2010 :

	For the Three Months Ended			For the Nine Months Ended		
	September 30,			September 30,		
	2011	2010	Change	2011	2010	Change
North America	\$ 30,188	\$ 24,739	22.0%	\$ 73,137	\$ 74,731	(2.1)%
Europe, the Middle East and Africa ("EMEA")	21,337	20,937	1.9	63,133	59,961	5.3
Asia Pacific	46,351	29,491	57.2	115,089	82,793	39.0
Total	\$ 97,876	\$ 75,167	30.2%	\$ 251,359	\$ 217,485	15.6 %

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
North America	30.8%	32.9%	29.1%	34.3%
EMEA	21.8	27.9	25.1	27.6
Asia Pacific	47.4	39.2	45.8	38.1
Total	100.0%	100.0%	100.0%	100.0%

North America. Revenues from the North America region for the three months ended September 30, 2011 compared to the same period in 2010 increased \$5.4 million to \$30.2 million from \$24.7 million . The increase is primarily due to the acquisition of Continuous Computing which contributed \$5.4 million to revenues. Revenues from the North America region decreased \$1.6 million to \$73.1 million for the nine months ended September 30, 2011 from \$74.7 million for the nine months ended September 30, 2010 . The decrease in overall revenues from North America was primarily attributable to decreases in revenue from our ATCA blades that are used in telecommunication network monitoring equipment due to the timing of carrier deployment during the first half of 2011 which accelerated in third quarter of 2011 and is expected to continue to increase in the fourth quarter of 2011. This decrease was offset by a \$5.4 million increase in revenue due to the acquisition of Continuous Computing and an increase in revenue from our Other Commercial products, which primarily reflects an increase in revenue from our COM Express products.

EMEA. Revenues from the EMEA region increased \$400,000 to \$21.3 million for the three months ended September 30, 2011 from \$20.9 million for the three months ended September 30, 2010. The increase is primarily due to the acquisition of Continuous Computing which contributed \$1.4 million to revenues. Revenues from the EMEA region increased \$3.2 million to \$63.1 million for the nine months ended September 30, 2011 from \$60.0 million for the nine months ended September 30, 2010. For the nine months ended September 30, 2011, the increase reflects a \$2.1 million increase in revenues from Next Generation Communication Networks products and a \$1.4 million increase due to the acquisition of Continuous Computing. These increases were offset by decreased revenues from our Medical products.

Asia Pacific. Revenues from the Asia Pacific region increased \$16.9 million to \$46.4 million for the three months ended September 30, 2011 from \$29.5 million in the same period of 2010. Revenues from the Asia Pacific region increased \$32.3 million to \$115.1 million for the nine months ended September 30, 2011 from \$82.8 million in the same period of 2010. The increase was the result of increased revenues from our Next Generation Communication Networks products as the result of increased 3G and 4G/LTE infrastructure deployments and a near-term increase in market share from an existing customer during the first half of 2011 from our Legacy Communication Networks products. In addition, revenues for the three and nine months ended September 30, 2011 benefited from the acquisition of Continuous Computing which contributed \$8.5 million to revenues.

We currently expect continued fluctuations in the percentage of revenue from each geographic region. Additionally, we expect non-U.S. revenues to remain a significant portion of our revenues.

Gross Margin

Gross margin as a percentage of revenues decreased 1.7 percentage points to 28.6% for the three months ended September 30, 2011 from 30.3% for the three months ended September 30, 2010. Gross margin as a percentage of revenues decreased 1.5 percentage points to 28.6% for the nine months ended September 30, 2011 from 30.1% in the same period in 2010. Gross margin was unfavorably impacted for the three and nine months ended September 30, 2011 compared to the same periods in 2010 due to higher amortization of purchased technology, the continued deterioration of gross margin for Legacy Communication Networks products, and increased charges for excess and obsolete inventory primarily associated with rationalizing product overlap associated with our acquisition of Continuous Computing.

Amortization of purchased technology increased \$1.7 million and \$592,000 for the three and nine months ended September 30, 2011 compared to the same periods in 2010 due to the acquisition of Continuous Computing and offset by decreased amortization due to MCPD purchased-technology licenses that have become fully amortized. The decline in gross margin for Legacy Communication Network products is due to the end of life for our higher margin Legacy Communication Networks products combined with competitive pricing pressure on our newer Legacy Communication Networks products. For the three and nine months ended September 30, 2011, excess and obsolete charges increased \$193,000 and \$217,000 compared to the same periods in 2010 attributable to product overlap associated with our acquisition of Continuous Computing and product build in excess of customer demand associated with a range of products near end of life.

For the three and nine months ended September 30, 2011, gross margin was favorably impacted due to an increase in the share of Next Generation Communication Networks products as a percentage of our total revenues as compared to prior periods. In addition to the increase in share of overall revenues, gross margin on Next Generation Communication Networks products increased as a result of reduced customer concentration coupled with the acquisition of Continuous Computing.

Operating Expenses

The following table summarizes our operating expenses (in thousands):

	For the Three Months Ended			For the Nine Months Ended		
	September 30,			September 30,		
	2011	2010	Change	2011	2010	Change
Research and development	\$ 12,955	\$ 9,863	31.3%	\$ 31,562	\$ 29,174	8.2%
Selling, general and administrative	15,610	11,225	39.1	37,520	34,030	10.3
Intangible assets amortization	1,234	192	542.7	1,618	538	200.7
Restructuring and acquisition-related charges, net	5,758	(228)	NM	8,279	(203)	NM
Gain on the liquidation of a foreign subsidiary	(2,081)	—	NM	(2,081)	—	NM
Total	<u>\$ 33,476</u>	<u>\$ 21,052</u>	59.0%	<u>\$ 76,898</u>	<u>\$ 63,539</u>	21.0%

Research and Development

R&D expenses consist primarily of salary, bonuses and benefits for product development staff, and cost of design and development supplies and equipment, net of reimbursements for nonrecurring engineering services. R&D expenses increased \$3.1 million to \$13.0 million for the three months ended September 30, 2011 from \$9.9 million for the same period in 2010. R&D expenses increased \$2.4 million to \$31.6 million for the nine months ended September 30, 2011 from \$29.2 million for the nine months ended September 30, 2010. These increases are primarily due to the acquisition of Continuous Computing which contributed \$3.2 million to R&D expense for the three and nine months ended September 30, 2011. This increase was offset by lower payroll and payroll-related costs of \$326,000 and \$1.1 million for the three and nine months ended September 30, 2011 resulting from a reduction in overall headcount and the transition of R&D activities to lower cost geographies. These cost savings were partially offset by an increase in expenses for temporary labor of \$186,000 and \$439,000 for the three and nine months ended September 30, 2011.

Selling, General, and Administrative

Selling, general and administrative (“SG&A”) expenses consist primarily of salary, commissions, bonuses and benefits for sales, marketing, executive and administrative personnel, as well as professional services and costs of other general corporate activities. SG&A expenses increased \$4.4 million to \$15.6 million for the three months ended September 30, 2011 from \$11.2 million for the same period in 2010. The increase in SG&A expenses for the three months ended September 30,

2011 was due to the acquisition of Continuous Computing which contributed an additional \$3.8 million to SG&A expenses. In addition, SG&A expense was impacted by increased commissions of \$508,000 and stock-based compensation expense of \$276,000. The increase in commissions expense was primarily the result of strong design win performance during the third quarter of 2011 as well as increased third-party commissions. Stock-based compensation expense increased for the three months ended September 30, 2011 compared to the same period in 2010 and primarily reflects expense for new grants and options assumed as part of our acquisition of Continuous Computing.

SG&A expenses increased \$3.5 million to \$37.5 million for the nine months ended September 30, 2011 from \$34.0 million for the same period in 2010. The increase in SG&A expenses for the nine months ended September 30, 2011 was due to the acquisition of Continuous Computing which contributed an additional \$3.8 million to SG&A expenses. In addition SG&A expense increased as a result of an increase in commissions of \$790,000 and temporary labor of \$248,000. Increased commissions are the result of increased design win activity as well as an increase in third party commissions. These increases were offset by a decrease in stock-based compensation of \$834,000. Stock-based compensation expense decreased due to the reversal of LTIP expense for a named executive officer who forfeited shares upon his departure as a result of not completing the requisite service period which was partially offset by increased expense for new grants and assumed options associated with the acquisition of Continuous Computing.

Intangible Assets Amortization

Intangible assets amortization increased \$1.0 million to \$1.2 million for the three months ended September 30, 2011 from \$192,000 for the same period in 2010. Intangible assets amortization increased \$1.1 million to \$1.6 million for the nine months ended September 30, 2011 from \$538,000 for the same period in 2010. Intangible assets amortization increased primarily due to the acquisition of Continuous Computing in July 2011 which contributed \$1.2 million to amortization expense. The increase associated with Continuous Computing intangible assets was offset by a decrease of \$109,000 resulting from final amortization of intangible assets associated with our acquisition of Convedia. We perform reviews for impairment of the purchased intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Restructuring and Acquisition-Related Charges, Net

Restructuring and acquisition-related charges, net include expenses associated with restructuring activities as well as integration, transaction and legal fees, and retention bonuses incurred in connection with our acquisition of Continuous Computing. We evaluate the adequacy of the accrued restructuring and other charges on a quarterly basis. As a result, we record reversals to the accrued restructuring in the period in which we determine that expected restructuring and other obligations are less than the amounts accrued.

The increase in restructuring and acquisition-related charges, net for the three and nine months ended September 30, 2011 is due to expenses associated with our acquisition of Continuous Computing including legal and investment banking fees of \$2.6 million and \$4.2 million and restructuring activities associated with the acquisition. During the second quarter of 2011, we initiated a restructuring plan associated with the acquisition of Continuous Computing, and for the three and nine months ended September 30, 2011, we have recorded charges of \$3.4 million and \$4.3 million under this plan. This plan includes multiple phases and the full scope of the plan is expected to be finalized by the end of the fourth quarter. At the end of the third quarter, the plan included the identification of 114 positions at various locations that will be eliminated. The restructuring plan is ongoing and we expect to incur additional charges under the plan through the first quarter of 2012.

Stock-based Compensation Expense

Included within costs of sales, R&D and SG&A are expenses associated with stock-based compensation. Stock-based compensation expense consists of amortization of stock-based compensation associated with unvested stock options, restricted stock units issued to employees under the 2007 stock plan, the 1998 Continuous Computing plan, the Continuous Computing inducement stock plan and the long-term incentive plan ("LTIP"), and the employee stock purchase plan ("ESPP").

We incurred and recognized stock-based compensation expense as follows (in thousands):

	For the Three Months Ended			For the Nine Months Ended		
	September 30,			September 30,		
	2011	2010	Change	2011	2010	Change
Cost of sales	\$ 217	\$ 194	11.9%	\$ 572	\$ 640	(10.6)%
Research and development	464	302	53.6	1,070	1,010	5.9
Selling, general and administrative	1,220	944	29.2	2,396	3,230	(25.8)
Total	<u>\$ 1,901</u>	<u>\$ 1,440</u>	32.0%	<u>\$ 4,038</u>	<u>\$ 4,880</u>	(17.3)%

Stock-based compensation expense for the three months ended September 30, 2011 increased over the comparable period due to new grants and assumed options associated with the acquisition of Continuous Computing. For the nine months ended September 30, 2011 stock-based compensation expense decreased over the comparable period due to the reversal of LTIP expense for a named executive officer and offset by additional expense associated with the acquisition of Continuous Computing.

Non-Operating Expenses

The following table summarizes our non-operating expenses (in thousands):

	For the Three Months Ended			For the Nine Months Ended		
	September 30,			September 30,		
	2011	2010	Change	2011	2010	Change
Interest expense	\$ (458)	\$ (462)	(0.9)%	\$ (1,410)	\$ (1,578)	(10.6)%
Interest income	6	59	(89.8)	97	566	(82.9)
Other income (expense), net	327	(55)	NM	187	(34)	NM
Total	<u>\$ (125)</u>	<u>\$ (458)</u>	(72.7)%	<u>\$ (1,126)</u>	<u>\$ (1,046)</u>	7.6 %

Interest Expense

Interest expense includes interest incurred on our convertible notes and our lines of credit. The decrease in interest expense during the three and nine months ended September 30, 2011, compared to the same periods in 2010, was due to a decrease in the outstanding balance on our revolving line of credit. During 2011, we had no outstanding balances on our line of credit.

Interest Income and Other Income (Expense), Net

Interest income decreased for the three and nine months ended September 30, 2011 due to a decline in the weighted average balance of interest bearing investments held as a result of cash paid for the acquisition of Continuous Computing coupled with a decline in the average yield on investments.

Other income (expense), net increased for the three and nine months ended September 30, 2011 as a result of the strengthening of the US Dollar ('USD') against currencies of our non-USD functional currency subsidiaries. Specifically, as a result of our acquisition of Continuous Computing, we now have exposure to the Indian Rupee ("INR"), which, as a result of weakening against the USD gave rise to a substantial portion of the gain recognized in other income (expense) for the three months ended September 30, 2011. We are currently evaluating strategies to limit our exposure to fluctuations in exchange rates between the INR and USD and expect to begin hedging this currency exposure in the fourth quarter of 2011.

Income Tax Provision

We recorded tax benefits of \$8.4 million and \$884,000 for the three months ended September 30, 2011 and 2010. We recorded tax benefits of \$8.5 million and \$920,000 for the nine months ended September 30, 2011 and 2010. Our effective tax rate for the three months ended September 30, 2011 and 2010 was 149.2% and (68.7)%. The effective tax rate fluctuations are due to the jurisdictions in which pretax income (loss) is being earned and income tax rate differences between the jurisdictions. Additionally, the effective tax rate for the three months ended September 30, 2011 was increased by a partial release of the Company's valuation allowance provided against its U.S. net deferred tax assets as a result of the purchase accounting

associated with the acquisition of Continuous Computing. An income tax benefit of \$7.6 million was recognized upon the partial valuation allowance release.

Liquidity and Capital Resources

The following table summarizes selected financial information as of the dates indicated and for the three months ended September 30, 2011 and 2010 and for the year ended December 31, 2010:

	September 30, 2011	December 31, 2010	September 30, 2010
	(Dollar amounts in thousands)		
Cash and cash equivalents	\$ 55,902	\$ 129,078	\$ 133,257
Working capital	\$ 79,175	\$ 147,049	\$ 147,009
Accounts receivable, net	\$ 58,805	\$ 42,855	\$ 43,647
Inventories, net	\$ 30,281	\$ 15,178	\$ 12,881
Accounts payable	\$ 52,762	\$ 29,190	\$ 34,781
2013 convertible senior notes	\$ 50,000	\$ 50,000	\$ 50,000
Days sales outstanding ^(A)	55	55	53

(A) Based on ending net trade receivables divided by daily revenue (quarterly revenue, annualized and divided by 365 days).

Cash Flows

Cash and cash equivalents decreased by \$73.2 million to \$55.9 million at September 30, 2011 from \$129.1 million at December 31, 2010. As of September 30, 2011, the amount of cash held by foreign subsidiaries was \$23.8 million. If these funds are needed for our operations in the U.S., we would be required to accrue U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not require us to repatriate them to fund our U.S. operations. Any repatriation may not result in actual cash payments as the taxable event would likely be offset by the utilization of the then-available net operating losses and tax credits.

Activities impacting cash and cash equivalents are as follows:

	For the Nine Months Ended	
	September 30,	
	2011	2010
	(In thousands)	
Operating Activities		
Net income	\$ 2,426	\$ 1,713
Non-cash adjustments	8,101	14,632
Changes in working capital	3,388	2,909
Cash provided by operating activities	13,915	19,254
Cash provided by (used in) investing activities	(84,087)	52,768
Cash used in financing activities	(3,004)	(39,486)
Effects of exchange rate changes	—	49
Net increase (decrease) in cash and cash equivalents	\$ (73,176)	\$ 32,585

Cash provided by operating activities in the nine months ended September 30, 2011 was \$13.9 million and consisted of net income of \$2.4 million, adjustments for non-cash items of \$8.1 million and cash provided by working capital and other activities of \$3.4 million. For the nine months ended September 30, 2011 primary drivers to changes in our working capital, net of changes attributable to the acquisition of Continuous Computing, consisted of the following:

- Net trade accounts receivable increased primarily as the result of increased revenues, the timing of our shipments and customer payments. Days sales outstanding decreased from 59 days at December 31, 2010 to 54 days at September 30, 2011.
- Inventories increased significantly due to the build-up of buffer stock and end of life products as we finalize our transition to one contract manufacturer.
- Accounts payable increased as a direct result of our build in inventories as well as timing of vendor payments.

Days to pay increased from 54 days at December 31, 2010 to 69 days at September 30, 2011.

- Deferred income increased as the result of customer billings not recognized as revenues due to undelivered elements or acceptance provisions contained in certain arrangements.

Cash provided by operating activities in the nine months ended September 30, 2010 was \$19.3 million and consisted of net income of \$1.7 million , adjustments for non-cash items of \$14.6 million and cash provided by working capital and other activities of \$2.9 million . For the nine months ended September 30, 2010 primary drivers to changes in our working capital consisted of the following:

- Net trade accounts receivable decreased slightly primarily as a result of the timing of shipments and customer payments. Days sales outstanding decreased from 54 days at December 31, 2009 to 53 days at September 30, 2010.
- Inventories decreased due to an increase in inventory turns as the result of the outsourcing of our manufacturing function as well as timing of customer shipments.
- Accounts payable increased as a result of our cash management and timing of vendor payments. Days to pay increased from 50 days at December 31, 2009 to 61 days at September 30, 2010.
- Deferred income increased as the result of an increase in the base of customer maintenance contracts as well as an increase in contract-specific deferrals for contracts containing undelivered elements.

Cash used in investing activities in the nine months ended September 30, 2011 of \$84.1 million was primarily attributable to \$79.3 million used for the acquisition of Continuous Computing and to capital expenditures of \$4.3 million related principally to infrastructure to support our contract manufacturing model as well as our transfer to one contract manufacturer.

Cash provided by investing activities in the ninemonths ended September 30, 2010 of \$52.8 million was attributable to \$62.2 million of gross proceeds from the settlement of auction rate securities. Additional uses of cash included \$3.4 million for the acquisition of Pactolus, \$3.2 million for the purchase of other assets, and \$3.3 million in capital expenditures principally related to office equipment and software.

Cash used in financing activities in the nine months ended September 30, 2011 of \$3.0 million was primarily driven by repurchases of our common stock of \$3.9 million under the Company's repurchase program and partially offset by cash received for net payments related to stock-based award activities of \$1.2 million. As more fully discussed in Note 13 - *Common Stock Repurchase Program* of the Notes to the Unaudited Consolidated Financial Statements, we are authorized to repurchase an additional \$16.1 million of common stock.

Cash used in financing activities in the nine months ended September 30, 2010 of \$39.5 million was primarily related to \$41.3 million in net repayments on our revolving UBS line of credit and partially offset by cash received for net payments related to stock-based award activities of \$1.8 million.

As of September 30, 2011 and December 31, 2010, working capital was \$79.2 million and \$147.0 million, respectively. Working capital decreased \$67.9 million as our current assets decreased \$33.3 million and our current liabilities increased \$34.6 million. The decrease in our current assets balance was primarily due to \$81.5 million cash used for the July 2011 acquisition of Continuous Computing which was partially offset by Continuous Computing's current assets. Current liabilities increased primarily to the acquisition of Continuous Computing and an increase in our accounts payable balance resulting from increased inventory levels and timing of vendor payments.

Lines of Credit

Silicon Valley Bank

On November 1, 2011 the Company entered into a \$40.0 million secured revolving line of credit agreement (the "Agreement") with Silicon Valley Bank ("SVB") to replace the Company's existing line of credit with SVB. The new Agreement matures on September 30, 2014 and is subject to a borrowing base and secured by the Company's accounts receivable. The secured revolving credit facility is available for cash borrowings, with \$20.0 million of the Agreement available on a non-formula basis and the remaining \$20.0 million subject to a borrowing formula based upon eligible accounts receivable. Eligible accounts receivable (as defined in the Agreement) include 100% of US and 65% of foreign (including Continuous Computing), limited to concentration by certain customers, accounts receivable not greater than 60 days past due and no greater than 120 days from original invoice date. Borrowings under the Agreement bear interest at the prime rate, which was 3.25% as of September 30, 2011, or LIBOR, which was 0.24% as of September 30, 2011, plus 1.25%, with either interest rate determined by the Company's election. The Company is required to make interest payments monthly. The Company is

further required to pay a commitment fee equal to \$35,000 on the closing date of the agreement and annually thereafter and to pay quarterly in arrears an unused facility fee in an amount equal to 0.375% per year of the unused amount of the facility.

The Agreement requires the Company to make and maintain certain financial covenants, representations, warranties and other agreements that are customary in credit agreements of this type. The Agreement also requires the Company to maintain the following specific financial covenants:

- minimum quarterly liquidity ratio of 1.25 during the term of the agreement. The liquidity ratio is defined as cash, cash equivalents and short term investments (with cash and cash equivalents held by the Company's foreign subsidiaries not to exceed \$10.0 million and excluding any investments held by the Company's foreign subsidiaries) plus eligible accounts receivable (as defined in the Agreement), divided by the sum of obligations to SVB;
- minimum two quarter positive rolling EBITDA (earnings before interest, taxes, depreciation, amortization, stock based compensation, goodwill impairment charges, and non cash restructuring and integration expenses associated with the acquisition of Continuous Computing) of \$3.0 million beginning with the quarter ending December 31, 2012. Prior to December 31, 2012, the minimum two quarter rolling EBITDA requirements increase on a quarterly basis with the quarter ending September 30, 2011 as follows: (\$8.3) million, (\$8.5) million, (\$2.1) million, (\$0.5) million and \$2.0 million;
- capital expenditures may not exceed \$11.0 million in fiscal 2011 and \$8.0 million in subsequent fiscal years.

As of September 30, 2011 and December 31, 2010, the Company had no outstanding balances or letters of credit issued on its behalf under the agreement that existed on those dates.

2013 Convertible Senior Notes

During February 2008, we offered and sold in a public offering pursuant to the shelf registration statement \$55.0 million aggregate principal amount of 2.75% convertible senior notes due 2013 (the "2013 convertible senior notes"). Interest is payable semi-annually, in arrears, on each August 15 and February 15, beginning on August 15, 2008, to the holders of record at the close of business on the preceding August 1 and February 1, respectively. The 2013 convertible senior notes mature on February 15, 2013. Holders of the 2013 convertible senior notes may convert their notes into a number of shares of our common stock determined as set forth in the indenture governing the notes at their option on any day up to and including the business day prior to the maturity date. The 2013 convertible senior notes are initially convertible into 76,7448 shares of our common stock per \$1,000 principal amount of the notes (which is equivalent to a conversion price of approximately \$13.03 per share), subject to adjustment upon the occurrence of certain events. Upon the occurrence of a fundamental change, holders of the 2013 convertible senior notes may require us to repurchase some or all of their notes for cash at a price equal to 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest, if any. In addition, if certain fundamental changes occur, we may be required in certain circumstances to increase the conversion rate for any 2013 convertible senior notes converted in connection with such fundamental changes by a specified number of shares of our common stock. The 2013 convertible senior notes are our general unsecured obligations and rank equal in right of payment to all of our existing and future senior indebtedness, and senior in right of payment to our future subordinated debt. Our obligations under the 2013 convertible senior notes are not guaranteed by, and are effectively subordinated in right of payment to all existing and future obligations of our subsidiaries and are effectively subordinated in right of payment to our future secured indebtedness to the extent of the assets securing such debt.

In connection with the issuance of the 2013 convertible senior notes, we entered into a capped call transaction with a hedge counterparty. The capped call transaction is expected to reduce the potential dilution upon conversion of the 2013 convertible senior notes in the event that the market value per share of our common stock, as measured under the terms of the capped call transaction, at the time of exercise is greater than the strike price of the capped call transaction of approximately \$13.03. The strike price of the capped call transaction corresponds to the initial conversion price of the 2013 convertible senior notes and is subject to certain adjustments similar to those contained in the notes. The capped call transaction provides for net-share settlement in the event that the volume-weighted average price per share of our common stock on the settlement date exceeds the strike price of approximately \$13.03 per share. In such event, the hedge counterparty would deliver to us a number of shares equal to a formula determined by the quotient resulting from (a) the shares being settled times the difference between the volume-weighted average price on the settlement date and the strike price of approximately \$13.03 per share, divided by (b) the volume-weighted average price on the settlement date. If the volume-weighted average price on the settlement date equals or exceeds the cap price of \$23.085 per share, the difference in (a) would be \$23.085 minus \$13.03, or \$10.055. Because the maximum number of shares deliverable under the capped call transaction is less than the number of shares issuable upon conversion of the 2013 convertible senior notes, we refer to this effect as "dilution mitigation." If the market value per share of our common stock exceeds the cap price of the capped call transaction of \$23.085, as measured under the terms of the capped

call transaction, no additional shares would be delivered under the capped call transaction, and correspondingly, the dilution mitigation under the capped call transaction will be limited, which means that there would be dilution to the extent that the then market value per share of our common stock exceeds the cap price of the capped call transaction. Although the capped call transaction covers approximately 4.2 million shares, in order to facilitate an orderly settlement process, the shares are divided into tranches of approximately 211,000 shares each, settling on the twenty consecutive trading days prior to the date of maturity of our convertible notes. Thus, on each settlement date, approximately 211,000 shares would be settled, assuming a volume-weighted average price on such settlement date of \$23.085. Assuming volume-weighted average price of \$23.085, the hedge counterparty would deliver to us approximately 91,904 shares on each settlement date, calculated as follows: $211,000 \times (\$23.085 - \$13.03) / \$23.085 = 91,904$.

We were advised by the hedge counterparty that, in order to hedge or manage its risk of having to deliver shares under the capped call transaction, depending on whether our stock price rises or falls, the counterparty may purchase our common stock in the open market or enter into derivative transactions equivalent to purchasing our stock (in which case its derivative counterparty would be expected to purchase common stock or accomplish the equivalent in derivative transactions) and/or may sell our common stock, enter into derivative transactions equivalent to selling our stock or unwind (that is, cancel upon payment of agreed consideration) previous derivative transactions (which would be the equivalent of selling our common stock). These types of transactions are commonly referred to as “modifying hedge positions.” Such modifications to our counterparty’s hedge positions may have an effect on our stock price.

As of September 30, 2011 and December 31, 2010, we had outstanding 2013 convertible senior notes with a face value of \$50.0 million.

Contractual Obligations

The following summarizes our contractual obligations at September 30, 2011 and the effect of such on its liquidity and cash flows in future periods (in thousands):

	Total	2011*	2012 - 2013	2014 - 2015	2016 & Thereafter
Operating leases	\$ 25,064	\$ 1,387	\$ 9,785	\$ 8,319	\$ 5,573
Capital leases	108	10	82	16	—
Purchase obligations ^(A)	15,031	15,031	—	—	—
2013 convertible senior notes	50,000	—	50,000	—	—
Interest on convertible senior notes	2,063	—	2,063	—	—
Total	\$ 92,266	\$ 16,428	\$ 61,930	\$ 8,335	\$ 5,573

* Remaining three months of 2011.

(A) Purchase obligations include agreements or purchase orders to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. These purchase obligations are entered into in the ordinary course of business and are expected to be funded by cash flows from continuing operations.

In addition to the above, we have approximately \$2.4 million associated with unrecognized tax benefits. These liabilities are primarily included as a component of “other accrued liabilities” in our Consolidated Balance Sheet as we do not anticipate that settlement of the liabilities will require payment of cash within the next twelve months. We are not able to reasonably estimate when we would make any cash payments required to settle these liabilities, but do not believe that the ultimate settlement of our obligations will materially affect our liquidity.

Off-Balance Sheet Arrangements

We do not engage in any activity involving special purpose entities or off-balance sheet financing.

Liquidity Outlook

At September 30, 2011, our cash and cash equivalents amounted to \$55.9 million. We believe that our current cash and cash equivalents, the cash generated from operations and our line of credit facility will satisfy our short and long-term expected working capital needs, capital expenditures, acquisitions, stock repurchases, and other liquidity requirements associated with our existing business operations.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements including:

- expectations and goals for revenues, gross margin, R&D expenses, SG&A expenses and profits;
- the impact of our restructuring events on future operating results;
- our projected liquidity;
- future operations and market conditions;
- industry trends or conditions and the business environment;
- future levels of inventory and backlog and new products introductions;
- expected synergies and other expense savings and operational and administrative efficiencies, opportunities, timing, expense and effects of the acquisition of Continuous Computing;
- financial performance, revenue growth, management changes or other attributes of Radisys following the acquisition; and
- other statements that are not historical facts.

All statements that relate to future events or to our future performance are forward-looking statements. In some cases, forward-looking statements can be identified by terms such as “may,” “will,” “should,” “expect,” “plans,” “seeks,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue,” “seek to continue,” “intends,” or other comparable terminology. These forward-looking statements are made pursuant to safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results or our industries’ actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

These factors include, among others, the Company's high degree of customer concentration, the Company's transition to one contract manufacturer and use of the single contract manufacturer in the future for the significant portion of the production of our products, the anticipated amount and timing of revenues from design wins due to the Company's customers' product development schedule, cancellations or delays, matters affecting the embedded system industry, including changes in industry standards, changes in customer requirements and new product introductions, currency exchange rate fluctuations, changes in tariff and trade policies and other risks associated with foreign operations, actions by regulatory authorities or other third parties, actions by Continuous Computing's former shareholders, costs and difficulties related to integration of acquired businesses, delays, costs and difficulties related to the transaction, market conditions, performance and customer acceptance of the Trillium line of products, the combined companies' financial results and performance, satisfaction of closing conditions, and other factors described in "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2010, as updated in the subsequent quarterly reports on Form 10-Q. Although forward-looking statements help provide additional information about us, investors should keep in mind that forward-looking statements are only predictions, at a point in time, and are inherently less reliable than historical information.

We do not guarantee future results, levels of activity, performance or achievements, and we do not assume responsibility for the accuracy and completeness of these statements. The forward-looking statements contained in this report are made and based on information as of the date of this report. We assume no obligation to update any of these statements based on information after the date of this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates, foreign currency exchange rates, and equity trading prices, which could affect our financial position and results of operations.

Foreign Currency Risk. We pay the expenses of our international operations in local currencies, namely, the Canadian Dollar, Euro, Chinese Yuan, Japanese Yen, Malaysian Ringgit, British Pound Sterling, New Shekel, and Indian Rupee. Our international operations are subject to risks typical of an international business, including, but not limited to: differing economic conditions, changes in political climate, differing tax structures, foreign exchange rate volatility and other regulations and restrictions. Accordingly, future results could be materially and adversely affected by changes in these or other factors. We are also exposed to foreign exchange rate fluctuations as the balance sheets and income statements of our foreign subsidiaries are translated into U.S. Dollars during the consolidation process. Because exchange rates vary, these results, when translated, may vary from expectations and adversely affect overall expected profitability.

Based on our policy, we have established a foreign currency exposure management program which uses derivative foreign

exchange contracts to address nonfunctional currency exposures. In order to reduce the potentially adverse effects of foreign currency exchange rate fluctuations, we may enter into forward exchange contracts. These hedging transactions limit our exposure to changes in the U.S. Dollar/Canadian Dollar exchange rate, and as of September 30, 2011 the total notional or contractual value of the contracts we held was \$8.3 million. These contracts will mature over the next 14 months.

Holding other variables constant, a 10% adverse fluctuation, in relation to our hedge positions, of the U.S. Dollar relative to the Canadian Dollar would require an adjustment of \$829,000, and our total hedge liability as of September 30, 2011, would be \$1.1 million. A 10% favorable fluctuation, in relation to our hedge positions, of the U.S. Dollar relative to the Canadian Dollar would result in an adjustment of \$763,000 reversing our hedge liability and creating a hedge asset as of September 30, 2011 of \$499,000. We do not expect a 10% fluctuation to have any impact on our operating results as the underlying hedged transactions will move in an equal and opposite direction. As of September 30, 2011 our hedged positions are associated with our exposure to movements in the Canadian Dollar. If there is an unfavorable movement in the Canadian Dollar relative to our hedged positions this would be offset by reduced expenses, after conversion to the U.S. Dollar, associated with obligations paid for in the Canadian Dollar.

Convertible Notes. The fair value of the 2013 convertible senior notes is sensitive to interest rate changes as well as changes in our stock price. Interest rate changes would result in an increase or decrease in the fair value of the 2013 convertible senior notes due to differences between market interest rates and rates in effect at the inception of the obligation. Fluctuations in our stock price would result in an increase or decrease in the fair value of the 2013 convertible senior notes due to the value of the notes derived from the conversion feature. Unless we elect to repurchase our 2013 convertible senior notes in the open market, changes in the fair value of the senior convertible notes have no impact on our cash flows or Consolidated Financial Statements. The estimated fair value of the 2013 convertible senior notes was \$44.9 million and \$49.1 million at September 30, 2011 and December 31, 2010, respectively.

Item 4. Controls and Procedures

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) are effective.

During our most recent fiscal quarter ended September 30, 2011, no change occurred in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company acquired Continuous Computing Corporation ("Continuous Computing") on July 8, 2011. Continuous Computing was not previously required to maintain disclosure controls and procedures, or maintain, document and assess internal control over financial reporting, as required under the rules and regulation of the Securities and Exchange Commission. The Company will review Continuous Computing's procedures and controls and may make additional changes in those controls in the future. The Company excluded Continuous Computing from its assessment of the effectiveness of disclosure controls and procedures as of September 30, 2011.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There are many factors that affect our business and the results of our operations, many of which are beyond our control. In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors and Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in this report and our Annual Report on Form 10-K for the year ended December 31, 2010 are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

We may not realize the anticipated benefits of the acquisition of Continuous Computing, and integration of the Continuous Computing business may disrupt our operations and may adversely affect our future results.

We believe that the acquisition of Continuous Computing will result in certain customer and strategic benefits, including expanded market reach and increased product offerings. However, to realize these anticipated benefits, Continuous Computing's business must be successfully integrated into our operations by focusing on engineering and marketing and sales cooperation. The success of the Continuous Computing acquisition will depend on our ability to realize these anticipated benefits from integrating Continuous Computing's business into our operations. We may fail to realize the anticipated benefits of the Continuous Computing acquisition on a timely basis, or at all. In addition, the diversion of the attention of management from its current operations to the integration effort could adversely affect our business.

We will incur substantial transaction costs in connection with the acquisition.

We have incurred and expect to continue to incur a number of non-recurring transaction costs associated with completing the acquisition, combining the operations of the two companies and achieving desired synergies. These fees and costs will be substantial. During the initial months after the closing of the acquisition as we integrate Continuous Computing's operations and personnel, we could experience operating inefficiencies that would adversely impact our gross margin and operating results. As a result of additional integration-related cash expenditures, purchase accounting charges and potential operating and integration inefficiencies, our operating results and financial condition may be adversely affected, particularly in the first year following the closing of the acquisition. Furthermore, the integration may result in additional and unforeseen expenses or delays. If we are not able to successfully integrate Continuous Computing's business and operations, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares Purchased [1]	Issuer Purchases of Equity Securities		Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs [1]
		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	
July 1, 2011 through July 31, 2011	—	\$ —	149,747	\$ 18,747
August 1, 2011 through August 31, 2011	176,633	\$ 7.44	326,380	\$ 17,433
September 1, 2011 through September 30, 2011	191,651	\$ 6.98	518,031	\$ 16,096
Total	<u>368,284</u>	\$ 7.54	<u>518,031</u>	\$ 16,096

[1] In December 2010, the Board of Directors authorized the repurchase of up to \$20 million of our common stock through open market transactions or through privately negotiated transactions from time to time at the discretion of management.

Item 5. Other Information

Credit Agreement Amended and Restated

On November 1, 2011 the Company entered into a \$40.0 million secured revolving line of credit agreement (the “Agreement”) with Silicon Valley Bank (“SVB”) to replace the Company’s existing line of credit with SVB. The new Agreement matures on September 30, 2014 and is subject to a borrowing base and secured by the Company’s accounts receivable. The secured revolving credit facility is available for cash borrowings, with \$20.0 million of the Agreement available on a non-formula basis and the remaining \$20.0 million subject to a borrowing formula based upon eligible accounts receivable. Eligible accounts receivable (as defined in the Agreement) include 100% of US and 65% of foreign (including Continuous Computing) accounts receivable, limited to concentration by certain customers, not greater than 60 days past due and no greater than 120 days from original invoice date. Borrowings under the Agreement bear interest at the prime rate, which was 3.25% as of September 30, 2011, or LIBOR, which was 0.24% as of September 30, 2011, plus 1.25%, with either interest rate determined by the Company’s election. The Company is required to make interest payments monthly. The Company is further required to pay a commitment fee equal to \$35,000 on the closing date of the agreement and annually thereafter and to pay quarterly in arrears an unused facility fee in an amount equal to 0.375% per year of the unused amount of the facility.

The Agreement requires the Company to make and maintain certain financial covenants, representations, warranties and other agreements that are customary in credit agreements of this type. The Agreement also requires the Company to maintain the following specific financial covenants:

- minimum quarterly liquidity ratio of 1.25 during the term of the agreement. The liquidity ratio is defined as cash, cash equivalents and short term investments (with cash and cash equivalents held by the Company’s foreign subsidiaries not to exceed \$10.0 million and excluding any investments held by the Company’s foreign subsidiaries) plus eligible accounts receivable (as defined in the Agreement), divided by the sum of obligations to SVB;
- minimum two quarter positive rolling EBITDA (earnings before interest, taxes, depreciation, amortization, stock based compensation, goodwill impairment charges, and non cash restructuring and integration expenses associated with the acquisition of Continuous Computing) of \$3.0 million beginning with the quarter ending December 31, 2012. Prior to December 31, 2012, the minimum two quarter rolling EBITDA requirements increase on a quarterly basis with the quarter ending September 30, 2011 as follows: (\$8.3) million, (\$8.5) million, (\$2.1) million, (\$0.5) million and \$2.0 million; and
- capital expenditures may not exceed \$11.0 million in fiscal 2011 and \$8.0 million in subsequent fiscal years.

The foregoing summary of the Amended and Restated Loan and Security Agreement is not complete and is qualified in its entirety by reference to the Amended and Restated Loan and Security Agreement, filed as Exhibit 10.1 to this report and incorporated herein by reference.

Item 6. Exhibits

(a) Exhibits

Exhibit No	Description
2.1	Merger Agreement between the Company and Continuous Computing Corporation dated May 2, 2011 incorporated by reference from Exhibit 2.1 in the Company's Current Report on Form 8-K filed on May 3, 2011.
2.2	Amendment No. 1 to Agreement and Plan of Merger by and among RadiSys Corporation, an Oregon corporation, RadiSys Holdings, Inc., a Delaware corporation, and Continuous Computing Corporation, a Delaware corporation, dated June 22, 2011, incorporated by reference to Exhibit 2.1 to RadiSys Corporation's Current Report on Form 8-K filed with the SEC on July 8, 2011, SEC File No. 000-26844.
3.1	Second Restated Articles of Incorporation and amendments thereto. Incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-8, filed on September 1, 2006, SEC File No. 333-137060, as amended by the Articles of Amendment incorporated by reference from Exhibit 3.1 in the Company's Current Report on Form 8-K filed on January 30, 2008.
3.2	Restated Bylaws. Incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2007, as amended by the Amendment to Restated Bylaws incorporated by reference from Exhibit 3.1 in the Company's Current Report on Form 8-K filed on May 3, 2011.
10.1*	Amended and Restated Loan and Security Agreement, dated November 1, 2011, between the Company and Silicon Valley Bank.
31.1*	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
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101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Presentation Linkbase
101.DEF**	XBRL Taxonomy Definition Linkbase

* Filed herewith

** Pursuant to applicable securities laws and regulations, the Registrant is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Registrant has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 4, 2011

RADISYS CORPORATION

By: _____ /s/ Michel Dagenais

Michel Dagenais
Chief Executive Officer

Dated: November 4, 2011

By: _____ /s/ Brian Bronson

Brian Bronson
*President, Chief Financial Officer and
Principal Accounting Officer*

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in full thereof. All accrued but unpaid interest on the Advances shall be due and payable on the Revolving Line Maturity Date.

(b) Default Interest. Except as otherwise provided in Section 2.3(a), after an Event of Default, Obligations shall bear interest two percent (2.00%) above the rate effective immediately before the Event of Default (the "Default Rate"). Payment or acceptance of the increased interest provided in this Section 2.3(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

(c) Prime Rate Credit Extensions. Each change in the interest rate of the Prime Rate Credit Extensions based on changes in the Prime Rate shall be effective on the effective date of such change and to the extent of such change. Bank shall use its best efforts to give Borrower prompt notice of any such change in the Prime Rate; *provided, however*, that any failure by Bank to provide Borrower with notice hereunder shall not affect Bank's right to make changes in the interest rate of the Prime Rate Credit Extensions based on changes in the Prime Rate.

(d) LIBOR Credit Extensions. The interest rate applicable to each LIBOR Credit Extension shall be determined in accordance with Section 3.6(a) hereunder. Subject to Sections 3.6 and 3.7, such rate shall apply during the entire Interest Period applicable to such LIBOR Credit Extension, and interest calculated thereon shall be payable on the Interest Payment Date applicable to such LIBOR Credit Extension.

(e) Debit of Accounts. Bank may debit any of Borrower's deposit accounts, including the Designated Deposit Account, for principal and interest payments when due, or any other amounts Borrower owes Bank, when due. Bank shall promptly notify Borrower after it debits Borrower's accounts. These debits shall not constitute a set-off.

(f) Limitations on Interest Rates. Notwithstanding any provision in this Agreement or any of the other Loan Documents, the total liability for payments in the nature of interest shall not exceed the applicable limits imposed by any applicable federal or state interest rate laws. If any payments in the nature of interest, additional interest and other charges made hereunder or under any of the Loan Documents are held to be in excess of the applicable limits imposed by any applicable federal or state law, the amount held to be in excess shall be considered payment of principal under the Credit Extensions and the indebtedness evidenced thereby shall be reduced by such amount in the inverse order of maturity so that the total liability for payments in the nature of interest, additional interest and other charges shall not exceed the applicable limits imposed by any applicable federal or state interest rate laws.

2.4 Fees. Borrower shall pay to Bank:

(a) Commitment Fee. A fully earned, non-refundable commitment fee of \$35,000 on the Effective Date and the first and second anniversary thereof;

(b) Unused Revolving Line Facility Fee. A fee (the "**Unused Revolving Line Facility Fee**"), payable quarterly, in arrears, on a calendar year basis, in an amount equal to thirty-seven and one-half basis points (0.375%) per annum of the average unused portion of the Revolving Line, as determined by Bank. The unused portion of the Revolving Line, for purposes of this calculation, shall equal the difference between (x) the Revolving Line amount (as it may be reduced from time to time) and (y) the average for the period of the daily closing balances of the Revolving Line outstanding. Borrower shall not be entitled to any credit, rebate or repayment of any Unused Revolving Line Facility Fee previously earned by Bank pursuant to this Section notwithstanding any termination of the Agreement or the suspension or termination of Bank's obligation to make loans and advances hereunder; and

(c) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and expenses, plus expenses, for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due.

3 **CONDITIONS OF LOANS**

3.2 **Conditions Precedent to Initial Credit Extension**. Bank's obligation to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, such documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate, including, without limitation:

- (a) Borrower shall have delivered duly executed original signatures to the Loan Documents to which it is a party (including delivery of any and all Collateral required to be delivered under the Loan Documents in order to perfect and preserve Bank's priority in such Collateral, such as stock certificates and promissory notes in favor of Borrower, each executed in blank);
- (b) Borrower shall have delivered duly executed original signatures to the Reaffirmation of Guaranty by Continuous Computing Corporation substantially in the form of Exhibit G; and
- (c) Borrower shall have paid the fees and Bank Expenses then due as specified in Section 2.4 hereof.

3.2 **Conditions Precedent to all Credit Extensions** . Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following:

- (a) for Advances under the Revolving Line, timely receipt of a Notice of Borrowing;
- (b) for any other Credit Extension, timely receipt of any completed and executed Payment/Credit Extension Form;
- (c) the representations and warranties in Section 5 shall be true in all material respects on the date of the Notice of Borrowing and the Payment/Credit Extension Form, as applicable, and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in Section 5 remain true in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; and
- (d) in Bank's reasonable discretion, there has not been a Material Adverse Change.

3.3 **Covenant to Deliver**. Borrower agrees to deliver to Bank each item required to be delivered to Bank under this Agreement as a condition to any Credit Extension. Borrower expressly agrees that the extension of a Credit Extension prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Borrower's obligation to deliver such item, and any such extension in the absence of a required item shall be in Bank's sole discretion.

3.4 **Procedures for Borrowing**.

- (a) Subject to the prior satisfaction of all other applicable conditions to the making of a Credit Extension set forth in this Agreement, each Credit Extension shall be made upon Borrower's irrevocable written notice delivered to Bank in the form of a Notice of Borrowing, each executed by a Responsible Officer of Borrower or his or her designee or without instructions if the Credit Extensions are necessary to meet Obligations which have become due. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Borrower will indemnify Bank for any loss Bank suffers due to such reliance. Such Notice of Borrowing must be received by Bank prior to 11:00 a.m. Pacific time, (i) at least three (3) Business Days prior to the requested Funding Date, in the case of LIBOR Credit Extensions, and (ii) at least one (1) Business Day prior to the requested Funding Date, in the case of Prime Rate Credit Extensions (provided that if the aggregate Obligations under the Loan Agreement on the Funding Date will exceed the Threshold Amount, such Notice of Borrowing for LIBOR or Prime Rate Credit Extensions must be received by Bank prior to 11:00 a.m. Pacific time at least five (5) Business Days prior to the requested Funding Date), specifying:
 - (i) the amount of the Credit Extension, which, if a LIBOR Credit Extension is requested, shall be in an aggregate minimum principal amount of \$1,000,000 or in any integral multiple of \$500,000 in excess thereof;
 - (ii) the requested Funding Date;
 - (iii) whether the Credit Extension is to be comprised of LIBOR Credit Extensions or Prime Rate Credit Extensions; and
 - (iv) the duration of the Interest Period applicable to any such LIBOR Credit Extensions included in such notice; *provided* that if the Notice of Borrowing shall fail to specify the duration of the Interest Period for any Credit Extension comprised of LIBOR Credit Extensions, such Interest Period shall be one (1) month.
 - (b) The proceeds of all such Credit Extensions will then be made available to Borrower on the Funding Date by Bank by transfer to the Designated Deposit Account and, subsequently, by wire transfer to such other account as Borrower may instruct in the Notice of Borrowing. No Credit Extensions shall be deemed made to Borrower,
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and no interest shall accrue on any such Credit Extension, until the related funds have been deposited in the Designated Deposit Account.

3.6 Conversion and Continuation Elections.

- (a) So long as (1) no Event of Default or Default exists; (2) Borrower shall not have sent any notice of termination of this Agreement; and (3) Borrower shall have complied with such customary procedures as Bank has established from time to time for Borrower's requests for LIBOR Credit Extensions, Borrower may, upon irrevocable written notice to Bank:
- (i) elect to convert on any Business Day, Prime Rate Credit Extensions in an amount equal to \$1,000,000 or any integral multiple of \$500,000 in excess thereof into LIBOR Credit Extensions;
- (ii) elect to continue on any Interest Payment Date any LIBOR Credit Extensions maturing on such Interest Payment Date (or any part thereof in an amount equal to \$1,000,000 or any integral multiple of \$500,000 in excess thereof); *provided*, that if the aggregate amount of LIBOR Credit Extensions shall have been reduced, by payment, prepayment, or conversion of part thereof, to be less than \$1,000,000, such LIBOR Credit Extensions shall automatically convert into Prime Rate Credit Extensions, and on and after such date the right of Borrower to continue such Credit Extensions as, and convert such Credit Extensions into, LIBOR Credit Extensions shall terminate; or
- (iii) elect to convert on any Interest Payment Date any LIBOR Credit Extensions maturing on such Interest Payment Date (or any part thereof in an amount equal to \$1,000,000 or any integral multiple of \$500,000 in excess thereof) into Prime Rate Credit Extensions.
- (b) Borrower shall deliver a Notice of Conversion/Continuation in accordance with Section 10 to be received by Bank prior to 11:00 a.m. Pacific time at least (i) three (3) Business Days in advance of the Conversion Date or Continuation Date, if any Credit Extensions are to be converted into or continued as LIBOR Credit Extensions; and (ii) one (1) Business Day in advance of the Conversion Date, if any Credit Extensions are to be converted into Prime Rate Credit Extensions, in each case specifying the:
- (i) proposed Conversion Date or Continuation Date;
- (ii) aggregate amount of the Credit Extensions to be converted or continued which, if any Credit Extensions are to be converted into or continued as LIBOR Credit Extensions, shall be in an aggregate minimum principal amount of \$1,000,000 or in any integral multiple of \$500,000 in excess thereof;
- (iii) nature of the proposed conversion or continuation; and
- (iv) duration of the requested Interest Period.
- (c) If upon the expiration of any Interest Period applicable to any LIBOR Credit Extensions, Borrower shall have timely failed to select a new Interest Period to be applicable to such LIBOR Credit Extensions, Borrower shall be deemed to have elected to convert such LIBOR Credit Extensions into Prime Rate Credit Extensions.
- (d) Any LIBOR Credit Extensions shall, at Bank's option, convert into Prime Rate Credit Extensions in the event that (i) an Event of Default or Default shall exist, or (ii) the aggregate principal amount of the Prime Rate Credit Extensions which have been previously converted to LIBOR Credit Extensions, or the aggregate principal amount of existing LIBOR Credit Extensions continued, as the case may be, at the beginning of an Interest Period shall at any time during such Interest Period exceed the Revolving Line. Borrower agrees to pay Bank, upon demand by Bank (or Bank may, at its option, charge the Designated Deposit Account or any other account Borrower maintains with Bank) any amounts required to compensate Bank for any loss (including loss of anticipated profits), cost, or expense incurred by Bank, as a result of the conversion of LIBOR Credit Extensions to Prime Rate Credit Extensions pursuant to any of the foregoing.
- (e) Notwithstanding anything to the contrary contained herein, Bank shall not be required to purchase United States Dollar deposits in the London interbank market or other applicable LIBOR market to fund any LIBOR Credit Extensions, but the provisions hereof shall be deemed to apply as if Bank had purchased such deposits to fund the LIBOR Credit Extensions.

3.6 Special Provisions Governing LIBOR Credit Extensions . Notwithstanding any other provision of this Agreement to the contrary, the following provisions shall govern with respect to LIBOR Credit Extensions as to the matters covered:

- (a) Determination of Applicable Interest Rate. As soon as practicable on each Interest Rate Determination Date, Bank shall determine (which determination shall, absent manifest error in calculation, be final, conclusive and binding upon all parties) the interest rate that shall apply to the LIBOR Credit Extensions for which an interest rate is then being determined for the applicable Interest Period and shall promptly give notice thereof (in writing or by telephone confirmed in writing) to Borrower.
- (b) Inability to Determine Applicable Interest Rate. In the event that Bank shall have determined (which determination shall be final and conclusive and binding upon all parties hereto), on any Interest Rate
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Determination Date with respect to any LIBOR Credit Extension, that by reason of circumstances affecting the London interbank market adequate and fair means do not exist for ascertaining the interest rate applicable to such Credit Extension on the basis provided for in the definition of LIBOR, Bank shall on such date give notice (by facsimile or by telephone confirmed in writing) to Borrower of such determination, whereupon (i) no Credit Extensions may be made as, or converted to, LIBOR Credit Extensions until such time as Bank notifies Borrower that the circumstances giving rise to such notice no longer exist, and (ii) any Notice of Borrowing or Notice of Conversion/Continuation given by Borrower with respect to Credit Extensions in respect of which such determination was made shall be deemed to be rescinded by Borrower.

- (c) Compensation for Breakage or Non-Commencement of Interest Periods. Borrower shall compensate Bank, upon written request by Bank (which request shall set forth the manner and method of computing such compensation), for all reasonable losses, expenses and liabilities, if any (including any interest paid by Bank to lenders of funds borrowed by it to make or carry its LIBOR Credit Extensions and any loss, expense or liability incurred by Bank in connection with the liquidation or re-employment of such funds) such that Bank may incur: (i) if for any reason (other than a default by Bank or due to any failure of Bank to fund LIBOR Credit Extensions due to impracticability or illegality under Sections 3.7(d) and 3.7(e)) a borrowing or a conversion to or continuation of any LIBOR Credit Extension does not occur on a date specified in a Notice of Borrowing or a Notice of Conversion/Continuation, as the case may be, or (ii) if any principal payment or any conversion of any of its LIBOR Credit Extensions occurs on a date prior to the last day of an Interest Period applicable to that Credit Extension.
- (d) Assumptions Concerning Funding of LIBOR Credit Extensions. Calculation of all amounts payable to Bank under this Section 3.6 and under Section 3.4 shall be made as though Bank had actually funded each of its relevant LIBOR Credit Extensions through the purchase of a Eurodollar deposit bearing interest at the rate obtained pursuant to the definition of LIBOR Rate in an amount equal to the amount of such LIBOR Credit Extension and having a maturity comparable to the relevant Interest Period; *provided, however*, that Bank may fund each of its LIBOR Credit Extensions in any manner it sees fit and the foregoing assumptions shall be utilized only for the purposes of calculating amounts payable under this Section 3.6 and under Section 3.4.
- (e) LIBOR Credit Extensions After Default. After the occurrence and during the continuance of an Event of Default, (i) Borrower may not elect to have an Credit Extension be made or continued as, or converted to, a LIBOR Credit Extension after the expiration of any Interest Period then in effect for such Credit Extension and (ii) subject to the provisions of Section 3.6(c), any Notice of Conversion/Continuation given by Borrower with respect to a requested conversion/continuation that has not yet occurred shall be deemed to be rescinded by Borrower and be deemed a request to convert or continue Credit Extensions referred to therein as Prime Rate Credit Extensions.

3.7 **Additional Requirements/Provisions Regarding LIBOR Credit Extensions.**

- (a) If for any reason (including voluntary or mandatory prepayment or acceleration), Bank receives all or part of the principal amount of a LIBOR Credit Extension prior to the last day of the Interest Period for such Credit Extension, Borrower shall immediately notify Borrower's account officer at Bank and, on demand by Bank, pay Bank the amount (if any) by which (i) the additional interest which would have been payable on the amount so received had it not been received until the last day of such Interest Period exceeds (ii) the interest which would have been recoverable by Bank by placing the amount so received on deposit in the certificate of deposit markets, the offshore currency markets, or United States Treasury investment products, as the case may be, for a period starting on the date on which it was so received and ending on the last day of such Interest Period at the interest rate determined by Bank in its reasonable discretion. Bank's determination as to such amount shall be conclusive absent manifest error.
- (b) Borrower shall pay Bank, upon demand by Bank, from time to time such amounts as Bank may determine to be necessary to compensate it for any costs incurred by Bank that Bank determines are attributable to its making or maintaining of any amount receivable by Bank hereunder in respect of any Credit Extensions relating thereto (such increases in costs and reductions in amounts receivable being herein called "**Additional Costs**"), in each case resulting from any Regulatory Change which:
 - (i) changes the basis of taxation of any amounts payable to Bank under this Agreement in respect of any Credit Extensions (other than changes which affect taxes measured by or imposed on the overall net income of Bank by the jurisdiction in which Bank has its principal office);
 - (ii) imposes or modifies any reserve, special deposit or similar requirements relating to any extensions of credit or other assets of, or any deposits with, or other liabilities of Bank (including any Credit Extensions or any deposits referred to in the definition of LIBOR); or
 - (iii) imposes any other condition affecting this Agreement (or any of such extensions of credit or liabilities).

Bank will notify Borrower of any event occurring after the Effective Date which will entitle Bank to compensation pursuant to this Section 3.7 as promptly as practicable after it obtains knowledge thereof and

determines to request such compensation. Bank will furnish Borrower with a statement setting forth the basis and amount of each request by Bank for compensation under this Section 3.7. Determinations and allocations by Bank for purposes of this Section 3.7 of the effect of any Regulatory Change on its costs of maintaining its obligations to make Credit Extensions, of making or maintaining Credit Extensions, or on amounts receivable by it in respect of Credit Extensions, and of the additional amounts required to compensate Bank in respect of any Additional Costs, shall be conclusive absent manifest error.

- (c) If Bank shall determine that the adoption or implementation of any applicable law, rule, regulation, or treaty regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank, or comparable agency charged with the interpretation or administration thereof, or compliance by Bank (or its applicable lending office) with any respect or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank, or comparable agency, has or would have the effect of reducing the rate of return on capital of Bank or any person or entity controlling Bank (a "**Parent**") as a consequence of its obligations hereunder to a level below that which Bank (or its Parent) could have achieved but for such adoption, change, or compliance (taking into consideration policies with respect to capital adequacy) by an amount deemed by Bank to be material, then from time to time, within fifteen (15) days after demand by Bank, Borrower shall pay to Bank such additional amount or amounts as will compensate Bank for such reduction. A statement of Bank claiming compensation under this Section 3.7(c) and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive absent manifest error.
- (d) If, at any time, Bank, in good faith, determines that (i) the amount of LIBOR Credit Extensions for periods equal to the corresponding Interest Periods are not available to Bank in the offshore currency interbank markets, or (ii) LIBOR does not accurately reflect the cost to Bank of lending the LIBOR Credit Extensions, then Bank shall promptly give notice thereof to Borrower. Upon the giving of such notice, Bank's obligation to make the LIBOR Credit Extensions shall terminate; *provided, however*, Credit Extensions shall not terminate if Bank and Borrower agree in writing to a different interest rate applicable to LIBOR Credit Extensions.
- (e) If it shall become unlawful for Bank to continue to fund or maintain any LIBOR Credit Extensions, or to perform its obligations hereunder, upon demand by Bank, Borrower shall prepay the Credit Extensions in full with accrued interest thereon and all other amounts payable by Borrower hereunder (including, without limitation, any amount payable in connection with such prepayment pursuant to Section 3.7(a)). Notwithstanding the foregoing, to the extent a determination by Bank as described above relates to a LIBOR Credit Extension then being requested by Borrower pursuant to a Notice of Borrowing or a Notice of Conversion/Continuation, Borrower shall have the option, subject to the provisions of Section 3.6(c), to (i) rescind such Notice of Borrowing or Notice of Conversion/Continuation by giving notice (by facsimile or by telephone confirmed in writing) to Bank of such rescission on the date on which Bank gives notice of its determination as described above, or (ii) modify such Notice of Borrowing or Notice of Conversion/Continuation to obtain a Prime Rate Credit Extension or to have outstanding Credit Extensions converted into or continued as Prime Rate Credit Extensions by giving notice (by facsimile or by telephone confirmed in writing) to Bank of such modification on the date on which Bank gives notice of its determination as described above.

4 **CREATION OF SECURITY INTEREST.**

4.1 **Grant of Security Interest.**

- (a) Borrower hereby grants Bank, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Bank, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof. Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that may have superior priority to Bank's Lien under this Agreement). If Borrower or any Guarantor shall acquire a commercial tort claim, Borrower shall, and shall cause such Guarantor to, promptly notify Bank in a writing signed by Borrower or such Guarantor of the general details thereof and grant to Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank.
 - (b) Borrower acknowledges that it previously has entered, and/or may in the future enter, into Bank Services Agreements with Bank. Regardless of the terms of any Bank Services Agreement, Borrower agrees that all amounts Borrower owes Bank under any Bank Services Agreement shall be deemed to be Obligations hereunder and that it is the intent of Borrower and Bank to have all such Obligations secured by the first priority perfected security interest in the Collateral granted herein (subject only to Permitted Liens that may have superior priority to Bank's Lien in this Agreement).
 - (c) If this Agreement is terminated, Bank's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are satisfied in full, and, at such time, Bank shall, at Borrower's sole cost and
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expense, terminate its security interest in the Collateral and all rights therein shall revert to Borrower. In the event (x) all Obligations (other than inchoate indemnity obligations), except for Bank Services, are satisfied in full, and (y) this Agreement is terminated, Bank shall terminate the security interest granted herein upon Borrower providing such cash collateral, if any, as is acceptable to Bank, consistent with Bank's then current practice for Bank Services, to secure Obligations in respect of such Bank Services. In the event such Bank Services consist of outstanding Letters of Credit, Borrower shall provide to Bank cash collateral in an amount equal to 105% of the dollar equivalent of the face amount of all such Letters of Credit plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment), to secure all of the Obligations relating to such Letters of Credit.

4.2 **Authorization to File Financing Statements.** Borrower hereby authorizes, and shall cause each Guarantor to authorize, Bank to file financing statements, without notice to Borrower or any Guarantor, with all appropriate jurisdictions to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower, any Guarantor or any other Person, shall be deemed to violate the rights of Bank under the Code.

5 **REPRESENTATIONS AND WARRANTIES**

Borrower represents and warrants as follows:

5.1 **Due Organization and Authorization.** Borrower and each of its Subsidiaries is duly existing and in good standing in its state of formation and qualified and licensed to do business in, and in good standing in, any state in which the conduct of their business or its ownership of property requires that they be qualified, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change. In connection with this Agreement, Borrower has delivered, or has caused each Guarantor to deliver, to Bank completed certificates substantially in the form reasonably satisfactory to Bank each signed by Borrower entitled "Perfection Certificate". Borrower represents and warrants to Bank that (a) Borrower's and each Guarantor's exact legal name is that indicated on the Perfection Certificates and on the signature pages thereof; (b) Borrower and each Guarantor are an organization of the type and are organized in the jurisdictions set forth in the Perfection Certificates; (c) the Perfection Certificates accurately set forth Borrower's and each Guarantor's organizational identification numbers or accurately state that neither Borrower nor such Guarantor has one; (d) the Perfection Certificates accurately set forth Borrower's and such Guarantor's places of business, or, if more than one, its respective chief executive office as well as Borrower's and such Guarantor's mailing addresses (if different than its respective chief executive office); (e) Borrower and such Guarantor (and each of its respective predecessors) have not, in the past five (5) years, changed its respective state of formation, organizational structure or type, or any organizational number assigned by its respective jurisdiction; and (f) all other information set forth on the Perfection Certificates pertaining to Borrower and each of its Subsidiaries is accurate and complete. If neither Borrower nor any Guarantor is a Registered Organization but later becomes one, Borrower shall, and shall cause each Guarantor to promptly notify Bank of such occurrence and provide Bank with Borrower's and such Guarantor's organizational identification numbers.

The execution, delivery and performance of the Loan Documents have been duly authorized, and do not conflict with Borrower's or any Guarantor's organizational documents, not constitute an event of default under any material agreement by which Borrower or such Guarantor is bound. Neither Borrower nor any Guarantor is in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a material adverse effect on Borrower's or such Guarantor's business.

Each Loan Document has been duly executed and delivered by Borrower and each Guarantor that is a party thereto and is the legally valid and binding obligation of Borrower and such Guarantor, enforceable against Borrower and such Guarantor in accordance with its respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability (whether enforcement is sought in equity or at law).

5.2 **Collateral.** Borrower and each Guarantor have good title to its Collateral, free of Liens except Permitted Liens. Borrower has no deposit accounts other than the deposit accounts with Bank, the deposit accounts, if any, described in the Perfection Certificate delivered to Bank in connection herewith, or of which Borrower has given Bank notice and taken such actions as are necessary to give Bank a perfected security interest therein. The Accounts are bona fide, existing obligations, and the service or property has been performed or delivered to the account debtor or its agent for immediate shipment to and unconditional acceptance by the account debtor. The Collateral is maintained at the locations set forth in the Perfection Certificate. The Collateral is not in the possession of any third party bailee (such as at a warehouse) except as provided in the Perfection Certificate. In the event that Borrower or any Guarantor, after the date hereof, intends to store or otherwise deliver the Collateral to a bailee, then Borrower and such Guarantor shall receive the prior written consent of Bank (such consent not to be unreasonably withheld), and such bailee must acknowledge in writing that the bailee is holding such Collateral for the benefit of Bank. All Inventory is in all material respects of good and marketable quality,

free from material defects. Borrower and Guarantors are the sole owner of its respective Intellectual Property, except for licenses granted to its customers in the ordinary course of business. To Borrower's knowledge, each Patent is valid and enforceable, and no material part of the Intellectual Property has been judged invalid or unenforceable, in whole or in part, and no claim has been made that any part of the Intellectual Property violates the rights of any third party except for any such claim that would not be expected to result in a Material Adverse Change.

Borrower is not a party to, nor is bound by, any license or other agreement with respect to which Borrower is the licensee that prohibits or otherwise restricts Borrower from granting a security interest in Borrower's interest in such license or agreement or any other property. Borrower shall take such steps as Bank requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for all such licenses or contract rights to be deemed "Collateral" and for Bank to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such license or agreement (such consent or authorization may include a licensor's agreement to a contingent assignment of the license to Bank if Bank determines that is necessary in its good faith judgment), whether now existing or entered into in the future.

5.3 **Accounts Receivable.**

(a) **Representations Relating to Accounts.** Each Account with respect to which Advances are requested by Borrower represents, on the date each Advance is requested and made, an undisputed bona fide existing unconditional obligation of the account debtor created by the sale, delivery, and acceptance of goods or the rendition of services, or the non-exclusive licensing of Intellectual Property, in the ordinary course of Borrower's business. Borrower has no notice of any actual or imminent Insolvency Proceeding of any account debtor whose accounts are an Eligible Account.

(b) **Representations Relating to Documents and Legal Compliance.** All statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing the Accounts are and shall be true and correct and all such invoices, instruments and other documents and all of the Borrower's Books are and shall be genuine and in all respects what they purport to be. All sales and other transactions underlying or giving rise to each Account comply in all material respects with all applicable laws and governmental rules and regulations. Borrower has no knowledge of any actual or imminent Insolvency Proceeding of any Account Debtor whose accounts are an Eligible Domestic Account or Eligible Foreign Account in any Borrowing Base Certificate. To the best of Borrower's knowledge, all signatures and endorsements on all documents, instruments, and agreements relating to all Accounts are genuine, and all such documents, instruments and agreements are and shall be legally enforceable in accordance with their terms.

5.4 **Litigation.** There are no actions or proceedings pending or, to the knowledge of Borrower's or any of its Subsidiaries' Responsible Officers, threatened in writing by or against Borrower or any of its Subsidiaries in which an adverse decision could reasonably be expected to cause a Material Adverse Change.

5.5 **No Material Deviation in Financial Statements.** All financial statements for Borrower delivered to Bank fairly present in all material respects Borrower's consolidated and consolidating financial condition and Borrower's consolidated and consolidating results of operations. There has not been any material deterioration in Borrower's consolidated and consolidating financial condition since the date of the most recent financial statements submitted to Bank.

5.6 **Solvency.** The fair salable value of Borrower's and each of its Subsidiaries' assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; Neither Borrower nor any of its Subsidiaries is left with unreasonably small capital after the transactions in this Agreement; and Borrower and each of its Subsidiaries are able to pay their debts (including trade debts) as they mature.

5.7 **Regulatory Compliance .** Neither Borrower nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act. Neither Borrower nor any of its Subsidiaries is engaged as one of its important activities in extending credit for margin stock (under Regulations T and U of the Federal Reserve Board of Governors). To its knowledge, Borrower and each of its Subsidiaries have complied in all material respects with the Federal Fair Labor Standards Act. Neither Borrower nor any of its Subsidiaries has violated any laws, ordinances or rules, the violation of which could reasonably be expected to cause a Material Adverse Change. None of Borrower's or any of its Subsidiaries' properties or assets has been used by Borrower or its Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all government authorities that are necessary to continue its business as currently conducted, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change.

- 5.8 **Subsidiaries; Investments.** Neither Borrower nor any of its Subsidiaries owns any stock, partnership interest or other equity securities except for Permitted Investments.
- 5.9 **Tax Returns and Payments; Pension Contributions.** Borrower and each of its Subsidiaries have timely filed all required tax returns and reports, and Borrower and each of its Subsidiaries have generally timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower or such Subsidiary. Borrower and each of its Subsidiaries may defer payment of any contested taxes, provided that Borrower or such Subsidiary (a) in good faith contests its obligation to pay the taxes by appropriate proceedings promptly and diligently instituted and conducted, (b) notifies Bank in writing of the commencement of, and any material development in, the proceedings, (c) posts bonds or takes any other steps required to prevent the governmental authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a "Permitted Lien". Neither Borrower nor any of its Subsidiaries is aware of any claims or adjustments proposed for any of Borrower's or such Subsidiary's prior tax years which could result in additional taxes becoming due and payable by Borrower or such Subsidiary. Borrower and each of its Subsidiaries have paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and neither Borrower nor any of its Subsidiaries have withdrawn from participation in, and has permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower or any of its Subsidiaries, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.
- 5.10 **Use of Proceeds.** Borrower shall use the proceeds of the Credit Extensions solely to fund its general business requirements and not for personal, family, household or agricultural purposes.
- 5.11 **Full Disclosure .** No written representation, warranty or other statement of Borrower or any of its Subsidiaries in any certificate or written statement given to Bank pursuant to this Agreement (taken together with all such written certificates and written statements to Bank) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading. Bank recognizes that the projections, forecasts, and business plans provided by Borrower or any of its Subsidiaries in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected and forecasted results.

6 **AFFIRMATIVE COVENANTS**

Borrower shall, and shall cause each of its Subsidiaries to, do all of the following for so long as Bank has an obligation to lend or there are outstanding Obligations:

- 6.1 **Government Compliance .** Borrower shall, and shall cause each of its Subsidiaries to, maintain its and all its Subsidiaries' legal existence and good standing in their jurisdictions of formation and maintain qualification in each jurisdiction in which the nature of its business requires them to be so qualified, except where the failure to so qualify would not reasonably be expected to have a material adverse effect on Borrower's and its Subsidiaries' business or operations, taken as a whole; *provided* , that (a) the legal existence of any Subsidiary that is not a Guarantor may be terminated or permitted to lapse, and any qualification of such Subsidiary to do business may be terminated or permitted to lapse, if, in the good faith judgment of Borrower, such termination or lapse is in the best interests of Borrower and its Subsidiaries, taken as a whole, and (b) Borrower may not permit its qualification to do business in the jurisdiction of its chief executive office to terminate or lapse; and *provided , further* , that this Section 6.2 shall not be construed to prohibit any other transaction that is otherwise permitted in Section 7 of this Agreement.

Borrower shall comply, and shall have each of its Subsidiaries comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which would reasonably be expected to cause a Material Adverse Change on Borrower's business as a whole.

6.2 **Financial Statements, Reports, Certificates .**

- (a) Deliver to Bank:
- (i) as soon as available, but no later than forty-five (45) days after the last day of each fiscal quarter, a company prepared consolidated and consolidating balance sheet and income statement prepared under GAAP (subject to the absence of footnotes and year-end adjustments) covering Borrower's and each of its Subsidiary's operations during the period certified by a Responsible Officer and in a form acceptable to Bank;
- (ii) as soon as available, but no later than ninety (90) days after the last day of Borrower's fiscal year, (A) unaudited consolidated and consolidating financial statements prepared under GAAP, consistently applied, and (B) audited consolidated and consolidating financial statements prepared under GAAP,
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consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm acceptable to Bank in its reasonable discretion;

- (iii) within five (5) days of delivery, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt or the holders of the 2013 Indenture;
- (iv) (A) within five (5) days of filing, but in any case no later than forty-five (45) days after the last day of each fiscal quarter, all reports on Form 10-Q filed with the Securities and Exchange Commission (which delivery obligation may be satisfied by posting a link thereto on Borrower's or another website on the Internet), (B) within five (5) days of filing, but in any case no later than ninety (90) days after the last day of each fiscal year, all reports on Form 10-K filed with the Securities and Exchange Commission (which delivery obligation may be satisfied by posting a link thereto on Borrower's or another website on the Internet), and (c) within five (5) days of filing, all reports on Form 8-K filed with the Securities and Exchange Commission (which delivery obligation may be satisfied by posting a link thereto on Borrower's or another website on the Internet);
- (v) a prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could result in damages or costs to Borrower or any of its Subsidiaries of \$250,000 or more to the extent not covered by insurance, or in which an adverse decision could reasonably be expected to cause a Material Adverse Change (collectively, "**Material Litigation**");
- (vi) prompt notice of an event that materially and adversely affects the value of the Intellectual Property;
- (vii) as soon as available, but no later than sixty (60) days after the last day of Borrower's fiscal year, annual board approved financial projections; and
- (viii) budgets, sales projections, operating plans and other financial information reasonably requested by Bank.

Borrower's 10K, 10Q, and 8K reports required to be delivered pursuant to Section 6.2(a)(iv) shall be deemed to have been delivered on the date on which Borrower posts such report or provides a link thereto on Borrower's or another website on the Internet; *provided*, that Borrower shall provide paper copies to Bank of the Compliance Certificates required by Section 6.2(c).

- (b) If Advances exceed (or, if on a Funding Date Advances will exceed) the Threshold Amount, monthly, within thirty (30) days of after the last day of each month, and no later than five (5) days prior to each Funding Date, deliver to Bank a duly completed Borrowing Base Certificate signed by a Responsible Officer, with aged listings of accounts receivable and accounts payable (by invoice date) and a Deferred Revenue report;
- (c) Deliver to Bank a duly completed Compliance Certificate signed by a Responsible Officer of Borrower setting forth calculations showing compliance with the financial covenants set forth in this Agreement: (i) for each of the first three fiscal quarters of each fiscal year, no later than forty-five (45) days after the last day of each such fiscal quarter, but in any case no later than within five (5) days of filing any Form 10-Q for such fiscal quarter, and (ii) for each fiscal year, no later than ninety (90) days after the last day of such fiscal year, but in any case no later than within five (5) days of filing any Form 10-K for such fiscal year.
- (d) At reasonable times, on five (5) Business Days' notice (provided no notice is required if an Event of Default has occurred and is continuing), Bank, or its agents, shall have the right to inspect the Collateral and the right to audit and copy Borrower's Books, provided that so long as the Credit Extensions have not exceeded the Threshold Amount, such inspections and audits may be conducted no more than once per year. Notwithstanding any of the foregoing, if a Default or an Event of Default has occurred and is continuing or if there is a deterioration in the Collateral and/or financial performance of Borrower or any of its Subsidiaries, Bank may require additional inspections and audits at its option. The foregoing inspections and audits shall be at Borrower's expense, and the charge therefor shall be \$850 per person per day (or such other amount as shall represent Bank's then-current standard charge to other borrowers for the same), plus reasonable out-of-pocket expenses. In the event Borrower and Bank schedule an audit more than ten (10) days in advance, and Borrower cancels or seeks to reschedule the audit with less than ten (10) days written notice to Bank, then (without limiting any of Bank's rights or remedies), Borrower shall pay Bank a fee of \$1,000 plus any out-of-pocket expenses incurred by Bank to compensate Bank for the anticipated costs and expenses of the cancellation or rescheduling.

6.3 **Inventory.** Keep all Inventory in good and marketable condition, and free from material defects. Returns and allowances between Borrower and its Subsidiaries, on the one hand, and their respective account debtors, on the other, shall follow Borrower's or such Subsidiaries' customary practices as they exist at execution of this Agreement.

6.4 **Taxes; Pensions.** Make, and cause each Subsidiary to make, timely payment of all foreign, federal, state, and local taxes or assessments (other than taxes and assessments which Borrower is contesting pursuant to the terms of Section 5.9 hereof) and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts

necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms

6.5 **Insurance** . Maintain, with financially sound and reputable insurers, general business and casualty insurance in such amounts and against such liabilities and hazards as is customary for companies in Borrower's and its Subsidiaries' line of business. All property policies will have a lender's loss payable endorsement showing Bank as an additional loss payee and all liability policies will show the Bank as an additional insured and provide that the insurer must give Bank at least twenty (20) days' notice before canceling its policy. If an Event of Default has occurred and is continuing, proceeds payable under any policy covering the Collateral will, at Bank's option, be payable to Bank on account of the Obligations.

Operating Accounts.

- 6.6
- (a) Maintain Borrower's and each Guarantor's primary depository and operating accounts and securities accounts with Bank and Bank's affiliates. Primary depository and operating accounts and securities accounts to be defined as all operating accounts and a minimum 50% of the unrestricted investments. Final banking business to be fully transferred no later than March 31, 2009.
- (b) Provide Bank five (5) days' prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or its Affiliates. In addition, for each Collateral Account that Borrower or any Guarantor at any time maintains, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder. The provisions of the previous sentence shall not apply to deposit accounts exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of Borrower's or any Guarantor's employees and identified to Bank by Borrower or such Guarantor as such.

6.7 **Financial Covenants.** Borrower shall maintain as of the last day of each fiscal quarter, unless otherwise noted, on a consolidated basis with respect to Borrower and its Subsidiaries:

- (a) Minimum EBITDA. For the quarter completed September 30, 2011, EBITDA greater than \$(8,300,000), and for the two quarters completed at each quarter ending indicated below, EBITDA greater than the amount set forth below opposite such period:

Two Quarters Ending	Minimum EBITDA (two quarters then ending)
December 31, 2011	\$ (8,500,000)
March 31, 2012	\$ (2,100,000)
June 30, 2012	\$ (500,000)
September 30, 2012	\$ 2,000,000
December 31, 2012 and thereafter	\$ 3,000,000

- (b) Maximum Capital Expenditures. Capital Expenditures not in excess of \$11,000,000 in fiscal year 2011 and not in excess of \$8,000,000 in any other fiscal year. Any Capital Expenditures financed by purchase money security interest financing or financial leases to the extent permitted by Section 7.4 shall not count towards such \$11,000,000 or \$8,000,000 cap, as applicable.
- (c) Liquidity. At all times when there are outstanding Obligations on account of Advances or Letters of Credit, tested quarterly, Liquidity of not less than 1.25:1.00.

6.8 **Protection and Registration of Intellectual Property Rights** . Borrower shall, and shall cause each of its Subsidiaries to: (a) protect, defend and maintain the validity and enforceability of its Intellectual Property; (b) promptly advise Bank in writing of material infringements of its Intellectual Property; and (c) not allow any Intellectual Property material to Borrower's or any Guarantor's business to be abandoned, forfeited or dedicated to the public without Bank's written consent.

6.9 **Litigation Cooperation.** From the date hereof and continuing through the termination of this Agreement, make available to Bank, without expense to Bank, Borrower and each of its Subsidiaries and its respective officers, employees and agents and Borrower's books and records, to the extent that Bank may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Bank with respect to any Collateral or relating to Borrower or any such Subsidiary.

- 6.10 **Designated Senior Indebtedness.** Borrower shall designate all principal of, interest (including all interest accruing after the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding), and all fees, costs, expenses and other amounts accrued or due under this Agreement as “Designated Senior Indebtedness”, or such similar term, in any future Subordinated Debt incurred by Borrower after the date hereof, if such Subordinated Debt contains such term or similar term and if the effect of such designation is to grant to Bank the same or similar rights as granted to Bank as a holder of “Designated Senior Indebtedness” under any indenture.
- 6.11 **New Subsidiaries.**In the event that any Person becomes a Domestic Subsidiary of Borrower or any other existing Domestic Subsidiary and has total assets with a book value in excess of \$2.5 million, Borrower shall, and shall cause the new Subsidiary and the existing Subsidiary to (a) concurrently with such Person becoming a Domestic Subsidiary, cause such Domestic Subsidiary to guarantee all of the Obligations and to grant to Bank a first priority Lien (subject to Permitted Liens) in the Collateral by delivering to Bank a Guarantee in form and substance satisfactory to Bank, and (b) take all such actions and execute and deliver, or cause to be executed and delivered, all such documents, instruments, agreements, and certificates necessary to effectuate such Domestic Subsidiary becoming a Guarantor and to grant such Lien in the Collateral referenced above. In the event that any Person becomes a Foreign Subsidiary of the Borrower or any existing Subsidiary and if the new Subsidiary is a Foreign Subsidiary in respect of which the pledge of all of the equity interest of such Subsidiary as Collateral would, in the good faith judgment of the Borrower, result in material adverse tax consequences to the Borrower or such existing Subsidiary, then Borrower or such existing Subsidiary shall pledge only sixty five percent (65%) of the ownership interests of such Foreign Subsidiary and such Foreign Subsidiary shall not be required to be Guarantor or grantor hereunder.
- 6.12 **Further Assurances .** Borrower shall, and shall cause any Guarantor to, execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's Lien in the Collateral or to effect the purposes of this Agreement.

7 NEGATIVE COVENANTS

Borrower shall not, and shall not permit any of its Subsidiaries to, do any of the following without Bank's prior written consent, for so long as Bank has an obligation to lend or there are any outstanding Obligations:

- 7.1 **Dispositions .** Convey, sell, lease, transfer or otherwise dispose of (collectively “**Transfer** ”), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for:
- (a) Transfers in the ordinary course of business for fair market value;
 - (b) Transfers to (i) Borrower or any Guarantor from Borrower or any of its Subsidiaries or (ii) any Subsidiary of Borrower (which is not a Guarantor) to any other Subsidiary of Borrower (which is not a Guarantor);
 - (c) Transfers of property to the extent such property is exchanged for credit against, or proceeds are promptly applied to, the purchase price of other property used or useful in the business of Borrower or its Subsidiaries;
 - (d) Transfers constituting non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business and other non-perpetual licenses that may be exclusive in some respects other than territory (and/or that may be exclusive as to territory only in discreet geographical areas outside of the United States), but that could not result in a legal transfer of Borrower's title in the licensed property;
 - (e) Transfers otherwise permitted by the Loan Documents;
 - (f) sales or discounting of delinquent accounts in the ordinary course of business;
 - (g) Transfers associated with the making or disposition of a Permitted Investment;
 - (h) Transfers in connection with a permitted acquisition of a portion of the assets or rights acquired; and
 - (i) Transfers not otherwise permitted in this Section 7.1, provided, that the aggregate book value of all such Transfers by Borrower and its Subsidiaries, together, shall not exceed in any fiscal year, \$1,000,000.
- 7.2 **Changes in Business; Change in Control; Jurisdiction of Formation .** Engage in any material line of business other than those lines of business conducted by Borrower and its Subsidiaries on the date hereof and any businesses reasonably related, complementary or incidental thereto or reasonable extensions thereof; permit or suffer any Change in Control. Borrower will not, without prior written notice, change its jurisdiction of formation.
- 7.3 **Mergers or Acquisitions.** Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person; *provided, however*, Bank's consent to the foregoing shall not be required so long as (a) Borrower is the
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sole survivor or parent company upon the consummation of any transaction described hereunder; (b) no Event of Default has occurred or is likely to occur as a result of such transaction; (c) so long as Borrower provides Bank satisfactory evidence that Borrower shall be in pro forma compliance with the financial covenants herein before and for the next four quarters after such transaction, provided, that such pro forma compliance is not required where the consideration for acquisitions in any calendar year is equal to or less than \$50,000,000, (d) the entity being acquired is in a similar line of business of Borrower; (e) the acquisition is non-hostile; and (f) Borrower has a minimum of \$40,000,000 in cash following the acquisition. A Subsidiary may merge or consolidate into a Guarantor or into Borrower or a Subsidiary which is not a Guarantor may merge or consolidate with or into another Subsidiary which is not a Guarantor.

- 7.4 **Indebtedness.** Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.
- 7.5 **Encumbrance .** Create, incur, or allow any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, permit any Collateral not to be subject to the first priority security interest granted herein, or enter into any agreement, document, instrument or other arrangement (except with or in favor of Bank) with any Person which directly or indirectly prohibits or has the effect of prohibiting Borrower or any Subsidiary from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of Borrower's or any Subsidiary's Intellectual Property without Bank's prior written consent, except as is otherwise permitted in Section 7.1 hereof and the definition of "Permitted Lien" herein.
- 7.6 **Maintenance of Collateral Accounts.** Maintain any Collateral Account except pursuant to the terms of Section 6.6 hereof.
- 7.7 **Investments; Distributions.** Directly or indirectly acquire or own any Person, or make any Investment in any Person, other than Permitted Investments, Permitted Distributions or as permitted pursuant to Section 7.3 hereof, or pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock; except Borrower may repurchase an amount not in excess of \$20,000,000 in the aggregate of Borrower's capital stock.
- 7.8 **Transactions with Affiliates.** Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower or any Subsidiary than would be obtained in an arm's length transaction with a non-affiliated Person.
- 7.9 **Other Debt .** Make or permit any payment on or amendments of any Subordinated Debt or the 2013 Indenture, except (a) so long as no Event of Default has occurred and is continuing and no Default or Event of Default occurs or will occur on account thereof, regularly scheduled principal and interest payments pursuant to the terms of the 2013 Indenture; (b) payments made with Borrower's capital stock or other Subordinated Debt; or (c) amendments to Subordinated Debt so long as such Subordinated Debt remains subordinated in right of payment to this Agreement and any Liens securing such Subordinated Debt remain subordinate in priority to Bank's Lien hereunder.
- 7.10 **Compliance.** Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940 or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's or any Subsidiary's business, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower or any Subsidiary, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

8 **EVENTS OF DEFAULT**

Any one of the following shall constitute an event of default (an "**Event of Default** ") under this Agreement:

- 8.1 **Payment Default.** Borrower fails to (a) make any payment of principal or interest on any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable. During the cure period, the failure to cure the payment default is not an Event of Default (but no Credit Extension will be made
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during the cure period);

- 8.2 **Covenant Default.**
- (a) Borrower or any Guarantor fails or neglects to perform any obligation in Sections 6.2, 6.5, 6.6, 6.7, and 6.12 or violates any covenant in Section 7; or
- (b) Borrower or any Guarantor fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement, any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Grace periods provided under this section shall not apply, among other things, to financial covenants or any other covenants set forth in subsection (a) above;
- 8.3 **Material Adverse Change** . A Material Adverse Change occurs;
- 8.4 **Attachment.** (a) Any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver and the attachment, seizure or levy is not removed in ten (10) days; (b) the service of process upon Borrower seeking to attach, by trustee or similar process, any funds of Borrower on deposit with Bank, or any entity under control of Bank (including a subsidiary); (c) Borrower is enjoined, restrained, or prevented by court order from conducting a material part of its business; (d) a judgment or other claim in excess of \$1,000,000 becomes a Lien on any of Borrower's assets; or (e) a notice of lien, levy, or assessment is filed against any of Borrower's assets by any government agency and not paid within ten (10) days after Borrower receives notice. These are not Events of Default, if cured, if stayed or if a bond is posted in each case within thirty (30) days after such event pending contest or resolution by Borrower (but no Credit Extensions shall be made during the cure period);
- 8.5 **Insolvency.** Borrower is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) Borrower begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within thirty (30) days (but no Credit Extensions shall be made while of any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);
- 8.6 **Other Agreements.** If Borrower fails to (a) make any payment that is due and payable with respect to any Material Indebtedness and such failure continues after the applicable grace or notice period, if any, specified in the agreement or instrument relating thereto, or (b) perform or observe any other condition or covenant, or any other event shall occur or condition exist under any agreement or instrument relating to any Material Indebtedness, and such failure continues after the applicable grace or notice period, if any, specified in the agreement or instrument relating thereto and the effect of such failure, event or condition is to cause the holder or holders of such Material Indebtedness to accelerate the maturity of such Material Indebtedness or cause the mandatory repurchase of any Material Indebtedness;
- 8.7 **Judgments** . A judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least \$1,000,000 to the extent not covered by independent third-party insurance shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of ten (10) days after the entry thereof (provided that no Credit Extensions will be made prior to the satisfaction or stay of such judgment);
- 8.8 **Misrepresentations.** Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;
- 8.9 **Other Debt.** A default or breach occurs under (a) any agreement between Borrower and any creditor of Borrower that signed a subordination, intercreditor, or other similar agreement with Bank, or any creditor that has signed such an agreement with Bank breaches any terms of such agreement, (b) the 2013 Indenture, or (c) any foreign exchange contract between any of Borrower's Subsidiaries and the Bank; or
- 8.10 **Guaranty.** (a) Any guaranty of any Obligations terminates or ceases for any reason to be in full force and effect; (b) any Guarantor does not perform any obligation or covenant under any guaranty of the Obligations; (c) any circumstance
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described in Sections 8.3, 8.4, 8.5, 8.6, 8.7, 8.8 or 8.9 occurs with respect to any Guarantor, (d) the liquidation, winding up, or termination of existence of any Guarantor; or (e) (i) a material impairment in the perfection or priority of Bank's Lien in the collateral provided by Guarantor or in the value of such collateral or (ii) a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations occurs with respect to any Guarantor.

9 **BANK'S RIGHTS AND REMEDIES**

- 9.1 **Rights and Remedies.** While an Event of Default occurs and continues Bank may, without notice or demand, do any or all of the following:
- (a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);
 - (b) stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;
 - (c) demand that Borrower (i) deposits cash with Bank in an amount equal to the aggregate amount of any Letters of Credit remaining undrawn (plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment)), as collateral security for the repayment of all of the Obligations relating to such Letters of Credit, and Borrower shall forthwith deposit and pay such amounts, and (ii) pay in advance all Letter of Credit fees scheduled to be paid or payable over the remaining term of any Letters of Credit;
 - (d) terminate any FX Contracts;
 - (e) settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, notify any Person owing Borrower or any Guarantor money of Bank's security interest in such funds, and verify the amount of such account;
 - (f) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall, and shall cause each Guarantor to, assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants, and shall cause each Guarantor to grant to, Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;
 - (g) apply to the Obligations any (i) balances and deposits of Borrower or any Guarantor it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower or any Guarantor;
 - (h) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's and any Guarantors' labels, patents, copyrights, mask works, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section, Borrower's and any Guarantors' rights under all licenses and all franchise agreements inure to Bank's benefit;
 - (i) place a "hold" on any account maintained with Bank and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;
 - (j) demand and receive possession of Borrower's Books; and
 - (k) exercise all rights and remedies available to Bank under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).
- 9.2 **Power of Attorney.** Borrower hereby irrevocably appoints, and shall cause each Guarantor to appoint, Bank as its lawful attorney-in-fact, exercisable upon the occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower's or such Guarantor's name on any checks or other forms of payment or security; (b) sign Borrower's or such Guarantor's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) settle and adjust disputes and claims about the Accounts directly with Account Debtors, for amounts and on terms Bank determines reasonable; (d) make, settle, and adjust all claims under Borrower's or such Guarantor's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Bank or a third party as the Code permits. Borrower hereby appoints, and shall cause each Guarantor to appoint, Bank as its lawful attorney-in-fact to sign Borrower's or such Guarantor's name on any documents necessary to perfect or continue the perfection of any security interest regardless of whether an Event of Default has occurred until all Obligations have been satisfied in full and Bank is under no further obligation to make Credit Extensions hereunder.
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Bank's foregoing appointment as Borrower's or such Guarantor's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Credit Extensions terminates.

- 9.3 **Accounts Verification; Collection.** Whether or not an Event of Default has occurred and is continuing, Bank may notify any Person owing Borrower or any Guarantor money of Bank's security interest in such funds and verify the amount of such account. After the occurrence of an Event of Default, any amounts received by Borrower or any Guarantor shall be held in trust by Borrower or such Guarantor for Bank, and, if requested by Bank, Borrower shall, and shall cause each Guarantor to, immediately deliver such receipts to Bank in the form received from the Account Debtor, with proper endorsements for deposit.
- 9.4 **Protective Payments .** If Borrower or any Guarantor fails to obtain the insurance called for by Section 6.6 or fails to pay any premium thereon or fails to pay any other amount which Borrower or such Guarantor is obligated to pay under this Agreement or any other Loan Document, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest applicable rate, and secured by the Collateral. Bank will make reasonable efforts to provide Borrower or such Guarantor with notice of Bank obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.
- 9.5 **Application of Payments and Proceeds.** Unless an Event of Default has occurred and is continuing, Bank shall apply any funds in its possession, whether from Borrower or any Guarantor account balances, payments, or proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, first, to Bank Expenses, including without limitation, the reasonable costs, expenses, liabilities, obligations and attorneys' fees incurred by Bank in the exercise of its rights under this Agreement; second, to the interest due upon any of the Obligations; and third, to the principal of the Obligations and any applicable fees and other charges, in such order as Bank shall determine in its sole discretion. Any surplus shall be paid to Borrower or other Persons legally entitled thereto; Borrower and Guarantors shall remain liable to Bank for any deficiency. If an Event of Default has occurred and is continuing, Bank may apply any funds in its possession, whether from Borrower or any Guarantor account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations in such order as Bank shall determine in its sole discretion. Any surplus shall be paid to Borrower or other Persons legally entitled thereto; Borrower and Guarantors shall remain liable to Bank for any deficiency. If Bank, in its good faith business judgment, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Bank shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Bank of cash therefor.
- 9.6 **Bank's Liability for Collateral.** So long as Bank complies with reasonable banking practices regarding the safekeeping of the Collateral in the possession or under the control of Bank, Bank shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrower and Guarantors bear all risk of loss, damage or destruction of the Collateral.
- 9.7 **No Waiver; Remedies Cumulative.** Bank's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Bank thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by Bank and then is only effective for the specific instance and purpose for which it is given. Bank's rights and remedies under this Agreement and the other Loan Documents are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay in exercising any remedy is not a waiver, election, or acquiescence.
- 9.8 **Demand Waiver .** Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

10 NOTICES

All notices, consents, requests, approvals, demands, or other communication (collectively, "**Communication**") by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified

mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Bank or Borrower may change its address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower: RadiSys Corporation
5445 NE Dawson Creek Drive
Hillsboro, OR 97124
Attn: Barb Doolin
Fax: (503) 615-1121
Email: barb.doolin@radisys.com

If to Bank: Silicon Valley Bank
2400 Hanover Street
Palo Alto, CA 94304
Attn: Ray Aguilar
Fax: (650) 320-0016
Email: raguilar@svb.com

11 **CHOICE OF LAW, VENUE, JURY TRIAL WAIVER, and judicial reference**

California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

TO THE EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and order applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to the California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain

provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

12

GENERAL PROVISIONS

- 12.1 **Successors and Assigns.** This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without Bank's prior written consent (which may be granted or withheld in Bank's discretion). Bank has the right, without the consent of or notice to Borrower or any Guarantor, to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents.
- 12.2 **Indemnification.** Borrower agrees, and shall cause each Guarantor to, indemnify, defend and hold Bank and its directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Bank harmless against: (a) all obligations, demands, claims, and liabilities (collectively, "Claims") asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or Bank Expenses incurred, or paid by Bank from, following, or arising from transactions between Bank and Borrower and/or any Guarantor (including reasonable attorneys' fees and expenses), except for Claims and/or losses directly caused by Bank's or such indemnified person's gross negligence, fraud or willful misconduct.
- 12.3 **Limitation of Actions.** Any claim or cause of action by Borrower or any Guarantor against Bank, its directors, officers, employees, agents, accountants, attorneys, or any other Person affiliated with or representing Bank based upon, arising from, or relating to this Loan Agreement or any other Loan Document, or any other transaction contemplated hereby or thereby or relating hereto or thereto, or any other matter, cause or thing whatsoever, occurred, done, omitted or suffered to be done by Bank, its directors, officers, employees, agents, accountants or attorneys, shall be barred unless asserted by Borrower or such Guarantor by the commencement of an action or proceeding in a court of competent jurisdiction by (a) the filing of a complaint within one year from the earlier of (i) the date any of Borrower's or such Guarantor's officers or directors had knowledge of the first act, the occurrence or omission upon which such claim or cause of action, or any part thereof, is based, or (ii) the date this Agreement is terminated, and (b) the service of a summons and complaint on an officer of Bank, or on any other person authorized to accept service on behalf of Bank, within thirty (30) days thereafter. Borrower agrees, and shall cause each Guarantor to agree, that such one-year period is a reasonable and sufficient time for Borrower and such Guarantor to investigate and act upon any such claim or cause of action. The one-year period provided herein shall not be waived, tolled, or extended except by the written consent of Bank in its sole discretion or in the event of fraud or material misrepresentation by Bank. This provision shall survive any termination of this Loan Agreement or any other Loan Document.
- 12.4 **Time of Essence .** Time is of the essence for the performance of all Obligations in this Agreement.
- 12.5 **Severability of Provisions.** Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.
- 12.6 **Amendments in Writing; Integration.** All amendments to this Agreement must be in writing signed by both Bank and Borrower. This Agreement and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement and the Loan Documents merge into this Agreement and the Loan Documents.
- 12.7 **Counterparts.** This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, are an original, and all taken together, constitute one Agreement.
- 12.8 **Survival .** All covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been satisfied. Without limiting the foregoing, except as otherwise provided in [Section 4.1](#) , the grant of security interest by Borrower in [Section 4.1](#) shall survive until the termination of all Bank Services Agreements. The obligation of Borrower in [Section 12.2](#) to indemnify Bank shall survive until the statute of limitations with respect to such claim or cause of action shall have run.
- 12.9 **Confidentiality.** In handling any confidential information, Bank shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to Bank's Subsidiaries or Affiliates (such Subsidiaries and Affiliates, together with Bank, collectively, "**Bank Entities**"); (b) to prospective transferees or
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purchasers of any interest in the Credit Extensions (provided, however, Bank shall use commercially reasonable efforts to obtain such prospective transferee's or purchaser's agreement to the terms of this provision); (c) as required by law, regulation, subpoena, or other order; (d) to Bank's regulators or as otherwise required in connection with Bank's examination or audit; (e) as Bank considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Bank so long as such service providers have executed a confidentiality agreement with Bank with terms no less restrictive than those contained herein. Confidential information does not include information that either: (i) is in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank; or (ii) is disclosed to Bank by a third party if Bank does not know that the third party is prohibited from disclosing the information.

Bank Entities may use the confidential information for reporting purposes and the development and distribution of databases and market analyses so long as such confidential information is aggregated and anonymized prior to distribution. The provisions of the immediately preceding sentence shall survive the termination of this Agreement.

12.10 **Attorneys' Fees, Costs and Expenses.** In any action or proceeding between Borrower and any Guarantor, on the one hand, and Bank on the other, arising out of or relating to the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.

13 **DEFINITIONS**

13.1 **Definitions.** As used in this Agreement, the following terms have the following meanings:

“**2013 Indenture**” means the Indenture dated as of February 12, 2008 as supplemented by the First Supplemental Indenture dated as of February 12, 2008 by Borrower and The Bank of New York Trust Company, N.A., as trustee.

“**Account**” is any “account” as defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to Borrower.

“**Account Debtor**” is any “account debtor” as defined in the Code with such additions to such term as may hereafter be made.

“**Advance**” or “**Advances**” means an advance (or advances) under the Revolving Line.

“**Affiliate**” of any Person is a Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

“**Agreement**” is defined in the preamble hereof.

“**Availability Amount**” is (a) the lesser of (i) the Revolving Line and (ii) the greater of (A) the Borrowing Base and (B) \$20,000,000, minus (b) the outstanding principal balance of any Advances.

“**Bank**” is defined in the preamble hereof.

“**Bank Expenses**” are all audit fees and expenses, costs, and expenses (including reasonable attorneys' fees and expenses) for preparing, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower or any Guarantor.

“**Bank Services**” are any products, credit services, and/or financial accommodations previously, now, or hereafter provided to Borrower or any of its Subsidiaries by Bank or any Bank Affiliate, including, without limitation, any letters of credit, cash management services (including, without limitation, merchant services, direct deposit of payroll, business credit cards, and check cashing services), interest rate swap arrangements, and foreign exchange services as any such products or services may be identified in Bank's various agreements related thereto (each, a “**Bank Services Agreement**”).

“**Bank Services Agreement**” is defined in the definition of Bank Services.

“**Borrower**” is defined in the preamble hereof.

“**Borrower's Books**” are all Borrower's and Guarantors' books and records including ledgers, federal and state tax returns, records regarding Borrower's and such Guarantor's assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

“**Borrowing Base**” is the sum of (a) 80% of Eligible Accounts, plus (b) 70% of Eligible Foreign Accounts where Nokia Siemens is the Account Debtor, plus (c) 65% of Eligible Foreign Accounts where Nokia Siemens is not the Account

Debtor, in each case as determined by Bank from Borrower's most recent Borrowing Base Certificate; provided, however, that Bank may decrease the foregoing percentages in its good faith business judgment based on events, conditions, contingencies, or risks which, as determined by Bank, may adversely affect Collateral.

“**Borrowing Base Certificate**” is that certain certificate in the form attached hereto as **Exhibit E**.

“**Borrowing Resolutions**” are, with respect to any Person, those resolutions adopted by such Person's Board of Directors and delivered by such Person to Bank approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by its secretary on behalf of such Person certifying that (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that attached as Exhibit A to such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that Bank may conclusively rely on such certificate unless and until such Person shall have delivered to Bank a further certificate canceling or amending such prior certificate.

“**Business**” is providing advanced embedded solutions for the communications networking and commercial systems markets.

“**Business Day**” is any day other than a Saturday, Sunday or other day on which banking institutions in the State of California are authorized or required by law or other governmental action to close, except that if any determination of a “Business Day” shall relate to a LIBOR Credit Extension, the term “Business Day” shall also mean a day on which dealings are carried on in the London interbank market.

“**Capital Expenditures**” means with respect to any Person, the aggregate of all expenditures (whether paid in cash or other consideration or accrued as a liability and including that portion of Capital Lease Obligations which is capitalized on the consolidated balance sheet of such Person) by such Person and its Subsidiaries during such period for the acquisition or leasing (pursuant to a capital lease) of fixed or capital assets or additions to equipment (including replacements, capitalized repairs and improvements during such period) that, in conformity with GAAP, are included in “additions to property, plant or equipment” or comparable items reflected in the consolidated statement of cash flows of such Person and its Subsidiaries.

“**Capital Lease**” means with respect to any Person, any lease of any property (whether real, personal or mixed) by such Person as lessee that, in accordance with GAAP, would be required to be classified and accounted for as a capital lease on a balance sheet of such Person.

“**Capital Lease Obligation**” means with respect to any Capital Lease of any Person, the amount of the obligation of the lessee thereunder that, in accordance with GAAP, would appear on a balance sheet of such lessee in respect of such Capital Lease.

“**Cash Equivalents**” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor's Ratings Group or Moody's Investors Service, Inc., (c) Bank's certificates of deposit issued maturing no more than one (1) year after issue; and (d) money market funds at least ninety-five percent (95%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition.

“**Change in Control**” means any event, transaction, or occurrence as a result of which (a) any “person” (as such term is defined in Sections 3(a)(9) and 13(d) (3) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), other than a trustee or other fiduciary holding securities under an employee benefit plan of Borrower, is or becomes a beneficial owner (within the meaning Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of Borrower, representing twenty-five percent (25%) or more of the combined voting power of Borrower's then outstanding securities; or (b) during any period of twelve consecutive calendar months, individuals who at the beginning of such period constituted the Board of Directors of Borrower (together with any new directors whose election by the Board of Directors of Borrower was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason other than death or disability to constitute a majority of the directors then in office.

“**Code**” is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and

such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Bank's Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term "**Code**" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes on the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

"**Collateral**" is any and all properties, rights and assets (now, or in the future) of the Borrower and Guarantors granted by the Borrower and each Guarantor to Lenders or arising under the Code and described on **Exhibit A** .

"**Collateral Account** " is any Deposit Account, Securities Account, or Commodity Account.

"**Commodity Account** " is any "commodity account" as defined in the Code with such additions to such term as may hereafter be made.

"**Communication** " is defined in Section 10 .

"**Compliance Certificate** " is that certain certificate in the form attached hereto as **Exhibit F** .

"**Contingent Obligation** " is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

"**Continuation Date** " means any date on which Borrower elects to continue a LIBOR Credit Extension into another Interest Period.

"**Control Agreement** " is any control agreement entered into among the depository institution at which Borrower or any Guarantor maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower or any Guarantor maintains a Securities Account or a Commodity account, Borrower, such Guarantor and Bank pursuant to which Bank obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

"**Conversion Date** " means any date on which Borrower elects to convert a Prime Rate Credit Extension to a LIBOR Credit Extension or a LIBOR Credit Extension to a Prime Rate Credit Extension.

"**Continuous Computing** " means Continuous Computing Corporation, a Delaware corporation.

"**Copyright** " means any of the following now owned or hereafter acquired or created (as a work for hire for the benefit of Borrower or any Guarantor) by Borrower or any Guarantor or in which Borrower or any Guarantor now holds or hereafter acquires or receives any right or interest, in whole or in part: (a) any copyright, whether registered or unregistered, held pursuant to the laws of the United States or of any other country or foreign jurisdiction, (b) registration, application or recording in the United States Copyright Office or in any similar office or agency of the United States or any other country or foreign jurisdiction, (c) any continuation, renewal or extension thereof, and (d) any registration to be issued in any pending application, and shall include any right or interest in and to work protectable by any of the foregoing which are presently or in the future owned, created or authorized (as a work for hire for the benefit of Borrower or any Guarantor) or acquired by Borrower or any Guarantor, in whole or in part.

"**Credit Extension** " is any Advance and any other extension of credit by Bank for Borrower's benefit.

"**Default** " means any event which with notice or passage of time or both, would constitute an Event of Default.

"**Default Rate** " is defined in Section 2.3(b) .

"**Deferred Revenue** " is all amounts received or invoiced in advance of performance under contracts and not yet recognized as revenue.

“**Deposit Account**” is any “deposit account” as defined in the Code with such additions to such term as may hereafter be made.

“**Designated Deposit Account**” means the deposit account maintained with Bank in the name of Borrower.

“**Disclosure Schedule**” means the disclosure schedule attached hereto as **Schedule A**.

“**Dollars,**” “**dollars**” and “**\$**” each mean lawful money of the United States.

“**Domestic Subsidiary**” means a Subsidiary organized under the laws of the United States or any state or territory thereof or the District of Columbia.

“**EBITDA**” shall mean, for any period, (a) Net Income plus (b) to the extent deducted in the calculation of Net Income: (i) Interest Expense, (ii) income tax expense, (iii) depreciation and amortization expenses, (iv) non-cash stock based compensation expenses, (v); non-cash restructuring and integration expenses related to the acquisition of Continuous Computing, and (vi) non-cash impairment charges on goodwill as required by FAS 142 fair value testing related to intangible assets acquired through the acquisition of Continuous Computing.

“**Effective Date**” is the date Bank executes this Agreement and as indicated on the signature page hereof.

“**Eligible Accounts**” are Accounts which arise in the ordinary course of Borrower's or Continuous Computing's business that meet all Borrower's representations and warranties in Section 5. Bank reserves the right at any time and from time to time after the Effective Date, to adjust any of the criteria set forth below and to establish new criteria in its good faith business judgment. Unless Bank agrees otherwise in writing, Eligible Accounts will not include:

- (a) (i) Accounts that the Account Debtor has not paid within sixty (60) days of the due date, and (ii) Accounts that the Account Debtor has not paid within one hundred and twenty (120) days of invoice date (or, if not an invoice, document date);
- (b) Accounts owing from an Account Debtor, twenty-five percent (25%) or more of whose Accounts have not been paid within sixty (60) days of the due date or within one hundred and twenty (120) days of invoice date;
- (c) credit balances over ninety (90) days from invoice date;
- (d) Accounts owing from an Account Debtor, including Affiliates, whose total obligations to Borrower and/or Continuous Computing exceed twenty-five (25%) of all Accounts, except for Nokia Siemens for which such percentage is 40%, for the amounts that exceed that percentage, unless Bank approves in writing;
- (e) Accounts owing from an Account Debtor which does not have its principal place of business in the United States except for Eligible Foreign Accounts;
- (f) Accounts owing from an Account Debtor which is a federal, state or local government entity or any department, agency, or instrumentality thereof except for Accounts of the United States if Borrower and Continuous Computing have assigned their payment rights to Bank and the assignment has been acknowledged under the Federal Assignment of Claims Act of 1940, as amended;
- (g) Accounts owing from an Account Debtor to the extent that Borrower and/or Continuous Computing is indebted or obligated in any manner to the Account Debtor (as creditor, lessor, supplier or otherwise - sometimes called “contra” accounts, accounts payable, customer deposits or credit accounts), with the exception of customary credits, adjustments and/or discounts given to an Account Debtor by Borrower or Continuous Computing in the ordinary course of its business;
- (h) Accounts for demonstration or promotional equipment, or in which goods are consigned, or sold on a “sale guaranteed”, “sale or return”, “sale on approval”, “bill and hold”, or other terms if Account Debtor's payment may be conditional;
- (i) Accounts for which the Account Debtor is Borrower's or Continuous Computing's Affiliate, officer, employee, or agent;
- (j) Accounts in which the Account Debtor disputes liability or makes any claim (but only up to the disputed or claimed amount), or if the Account Debtor is subject to an Insolvency Proceeding, or becomes insolvent, or goes out of business; and
- (k) Accounts for which Bank in its reasonable good faith business judgment determines collection to be doubtful.

“**Eligible Foreign Accounts**” are Accounts for which the Account Debtor does not have its principal place of business in the United States but are otherwise Eligible Accounts.

“**Equipment**” is all “equipment” as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

“**ERISA**” is the Employment Retirement Income Security Act of 1974, and its regulations.

“ **Event of Default**” is defined in [Section 8](#).

“ **Financial Institution**” is any a business, organization, or other entity that manages money, credit, or capital, such as a bank, credit union, savings-and loan association, securities broker or dealer, or investment company.

“ **Foreign Currency**” means lawful money of a country other than the United States.

“ **Foreign Subsidiary**” means any Subsidiary which is not a Domestic Subsidiary.

“ **Funding Date**” is any date on which a Credit Extension is made to or on account of Borrower which shall be a Business Day.

“ **FX Contract**” is any foreign exchange contract by and between Borrower and Bank under which Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency on a specified date.

“ **GAAP**” is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

“ **General Intangibles**” is all “general intangibles” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work, whether published or unpublished, any patents, trademarks, service marks and, to the extent permitted under applicable law, any applications therefor, whether registered or not, any trade secret rights, including any rights to unpatented inventions, payment intangibles, royalties, contract rights, goodwill, franchise agreements, purchase orders, customer lists, route lists, telephone numbers, domain names, claims, income and other tax refunds, security and other deposits, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

“ **Guarantor**” is Continuous Computing and any other present or future guarantor of the Obligations; provided however, no Foreign Subsidiary shall be a Guarantor.

“ **Indebtedness**” is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) Capital Lease Obligations, and (d) Contingent Obligations.

“ **Insolvency Proceeding**” is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

“ **Intellectual Property**” means any intellectual property, in any medium, of any kind or nature whatsoever, now or hereafter owned or acquired or received by Borrower or any Guarantor or in which Borrower or any Guarantor now holds or hereafter acquires or receives any right or interest, and shall include, in any event, any Copyright, Trademark, Patent, trade secret, customer list, Internet domain name (including any right related to the registration thereof), proprietary or confidential information, mask work, source, object or other programming code, invention (whether or not patented or patentable), technical information, procedure, design, knowledge, know-how, software, data base, data, skill, expertise, recipe, experience, process, model, drawing, material or record, all claims for damages by way of past, present and future infringement of any of the rights included above and all licenses or other rights to use any property or rights of a type described above.

“ **Interest Expense**” means for any fiscal period, interest expense (whether cash or non-cash) determined in accordance with GAAP for the relevant period ending on such date, including, in any event, interest expense with respect to any Credit Extension and other Indebtedness of Borrower and its Subsidiaries, including, without limitation or duplication, all commissions, discounts, or related amortization and other fees and charges with respect to letters of credit and bankers' acceptance financing and the net costs associated with interest rate swap, cap, and similar arrangements, and the interest portion of any deferred payment obligation (including leases of all types).

“ **Interest Payment Date**” means, with respect to any LIBOR Credit Extension or any Prime Rate Credit Extensions, the first (1st) day of each month (or, if the first day of the month does not fall on a Business Day, then on the first Business Day following such date).

“ **Interest Period**” means, as to any LIBOR Credit Extension, the period commencing on the date of such LIBOR Credit

Extension, or on the conversion/continuation date on which the LIBOR Credit Extension is converted into or continued as a LIBOR Credit Extension, and ending on the date that is 30, 60 or 90 days thereafter, in each case as Borrower may elect in the applicable Notice of Borrowing or Notice of Conversion/Continuation; *provided, however*, that (a) no Interest Period with respect to any LIBOR Credit Extension shall end later than the Revolving Line Maturity Date, (b) the last day of an Interest Period shall be determined in accordance with the practices of the LIBOR interbank market as from time to time in effect, (c) if any Interest Period would otherwise end on a day that is not a Business Day, that Interest Period shall be extended to the following Business Day unless, in the case of a LIBOR Credit Extension, the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day, (d) any Interest Period pertaining to a LIBOR Credit Extension that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period, and (e) interest shall accrue from and include the first Business Day of an Interest Period but exclude the last Business Day of such Interest Period.

“Interest Rate Determination Date” means each date for calculating the LIBOR for purposes of determining the interest rate in respect of an Interest Period. The Interest Rate Determination Date shall be the second Business Day prior to the first day of the related Interest Period for a LIBOR Credit Extension.

“Inventory” is all “inventory” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower’s or any Guarantor’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

“Investment” is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

“Letter of Credit” is a standby or commercial letter of credit issued by Bank upon request of Borrower based upon an application, guarantee, indemnity, or similar agreement.

“LIBOR” means, for any Interest Rate Determination Date with respect to an Interest Period for any Credit Extension to be made, continued as or converted into a LIBOR Credit Extension, the rate of interest per annum determined by Bank to be the per annum rate of interest at which deposits in United States Dollars are offered to Bank in the London interbank market (rounded upward, if necessary, to the nearest 1/100th of one percent (0.01%)) in which Bank customarily participates at 11:00 a.m. (local time in such interbank market) two (2) Business Days prior to the first day of such Interest Period for a period approximately equal to such Interest Period and in an amount approximately equal to the amount of such Credit Extension.

“LIBOR Credit Extension” means a Credit Extension that bears interest based at the LIBOR Rate.

“LIBOR Rate” means, for each Interest Period in respect of LIBOR Credit Extensions comprising part of the same Credit Extensions, an interest rate *per annum* (rounded upward to the nearest 1/16th of one percent (0.0625%)) equal to LIBOR for such Interest Period *divided by* (1) *minus* the Reserve Requirement for such Interest Period.

“LIBOR Rate Margin” is equal to one and one-quarter percent (1.25%).

“Lien” is a mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

“Liquidity” means the ratio of (A) the sum of (i) Borrower’s unrestricted cash, unrestricted Cash Equivalents, and unrestricted short term marketable securities held with Financial Institutions in the United States of America, plus (ii) up to \$10,000,000 in the aggregate of Borrower’s Foreign Subsidiaries’ unrestricted cash and unrestricted Cash Equivalents held with Financial Institutions, and plus (iii) Eligible Accounts, to (B) the sum of all outstanding Obligations on account of Advances or Letters of Credit.

“Loan Documents” are, collectively, this Agreement, the Disclosure Schedule, the Perfection Certificate(s), any Bank Services Agreements, any note, or notes or guaranties executed by Borrower or any Guarantor, any foreign exchange contracts entered into by Borrower’s Subsidiaries with Bank, and any other present or future agreement between Borrower and any Guarantor (or Borrower’s Subsidiaries with respect to any foreign exchange contracts) and/or for the benefit of Bank in connection with this Agreement or any Bank Services Agreement, all as amended, restated, or otherwise modified.

“Material Adverse Change” is any of the following: (a) a material adverse change in the business, operations, or condition (financial or otherwise) of Borrower or any of its Subsidiaries; or (b) a material impairment of the prospect of repayment of any portion of the Obligations; (c) a material impairment in the perfection, value or priority of Bank’s security interests

in the Collateral; or (d) Bank determines, based upon information available to it and in its reasonable judgment, that there is a reasonable likelihood that Borrower shall fail to comply with one or more of the financial covenants in Section 6 during the next succeeding financial reporting period.

“**Material Indebtedness**” is any Indebtedness the principal amount of which is equal to or greater than \$500,000, and in any event, includes the Indebtedness evidenced by the 2013 Indentures.

“**Material Litigation**” has the meaning ascribed to it in Section 6.2(a) hereof.

“**Net Income**” means, as calculated on a consolidated basis for Borrower and its Subsidiaries for any period as at any date of determination, the net profit (or loss), after provision for taxes, of Borrower and its Subsidiaries for such period taken as a single accounting period.

“**Notice of Borrowing**” means a notice given by Borrower to Bank in accordance with Section 3.2(a), substantially in the form of **Exhibit C**, with appropriate insertions.

“**Notice of Conversion/Continuation**” means a notice given by Borrower to Bank in accordance with Section 3.5, substantially in the form of **Exhibit D**, with appropriate insertions.

“**Obligations**” are Borrower's and/or Guarantors' (or Borrower's Subsidiaries with respect to any foreign exchange contracts with Bank) obligation to pay when due any debts, principal, interest, Bank Expenses and other amounts Borrower and/or Guarantors (or Borrower's Subsidiaries with respect to any foreign exchange contracts with Bank) owe Bank now or later, whether under this Agreement, the Loan Documents, or otherwise, including, without limitation, all obligations relating to letters of credit, cash management services, and foreign exchange contracts, if any, and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower and/or Guarantor (or Borrower's Subsidiaries with respect to any foreign exchange contracts with Bank) assigned to Bank, and the performance of Borrower's and/or Guarantors' (or Borrower's Subsidiaries with respect to any foreign exchange contracts with Bank) duties under the Loan Documents.

“**Operating Documents**” are, for any Person, such Person's formation documents, as certified with the Secretary of State of such Person's state of formation on a date that is no earlier than 30 days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

“**Patent**” means any of the following now hereafter owned or acquired or received by Borrower or any Guarantor or in which Borrower or any Guarantor now holds or hereafter acquires or receives any right or interest: (a) letters patent and right corresponding thereto, of the United States or any other country or other foreign jurisdiction, any registration and recording thereof, and any application for letters patent, and rights corresponding thereto, of the United States or any other country or other foreign jurisdiction, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or other foreign jurisdiction; (b) any reissue, continuation, continuation-in-part or extension thereof; (c) any petty patent, divisional, and patent of addition; and (d) any patent to issue in any such application.

“**Payment/Credit Extension Form**” is that certain form attached hereto as **Exhibit B**.

“**Payment Date**” is defined in Section 2.1.8(b).

“**Perfection Certificate**” is defined in Section 5.1.

“**Permitted Distributions**” means:

- (a) purchases of capital stock from former employees, consultants and directors pursuant to repurchase agreements or other similar agreements in an aggregate amount not to exceed \$500,000 in any fiscal year provided that at the time of such purchase no Default or Event of Default has occurred and is continuing;
 - (b) distributions or dividends consisting solely of Borrower's or any Subsidiary's capital stock;
 - (c) purchases for value of any rights distributed in connection with any stockholder rights plan;
 - (d) purchases of capital stock pledged as collateral for loans to employees;
 - (e) purchases of capital stock in connection with the exercise of stock options or stock appreciation rights
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by way of cashless exercise or in connection with the satisfaction of withholding tax obligations;

- (f) purchases of fractional shares of capital stock arising out of stock dividends, splits or combinations or business combinations; and
- (g) the settlement or performance of such Person's obligations under any equity derivative transaction, option contract or similar transaction or combination of transactions.

"Permitted Indebtedness" is:

- (a) Borrower's Indebtedness to Bank under this Agreement or any other Loan Document;
- (b) any Indebtedness existing on the Effective Date and shown on the Perfection Certificate;
- (a) Subordinated Debt;
- (d) unsecured Indebtedness to trade creditors and with respect to surety bonds and similar obligations incurred in the ordinary course of business;
- (e) guaranties of Permitted Indebtedness;
- (f) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;
- (g) Indebtedness consisting of interest rate, currency, or commodity swap agreements, interest rate cap or collar agreements or arrangements designated to protect a Person against fluctuations in interest rates, currency exchange rates, or commodity prices;
- (h) Indebtedness between Borrower and any Guarantor or between any of Borrower's Subsidiaries (which are not Guarantors);
- (i) capitalized leases and purchase money Indebtedness not to exceed \$500,000 in the aggregate in any fiscal year secured by Permitted Liens;
- (j) refinanced Permitted Indebtedness, provided that the amount of such Indebtedness is not increased except by an amount equal to a reasonable premium or other reasonable amount paid in connection with such refinancing and by an amount equal to any existing, but unutilized, commitment thereunder; and
- (k) the Indebtedness under the 2013 Indenture existing on the date hereof; and
- (l) other Indebtedness, if, on the date of incurring any Indebtedness pursuant to this clause (l), the outstanding aggregate amount of all Indebtedness incurred pursuant to this clause (l) does not exceed \$500,000 at anytime.

" Permitted Investments" are:

- (a) Investments existing on the Effective Date;
 - (b) (i)(A) marketable direct obligations issued or unconditionally guaranteed by the United States or its agencies or any State maturing within one (1) year from its acquisition, (B) commercial paper maturing no more than 2 years after its creation and having the highest rating from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (C) Bank's certificates of deposit maturing no more than 2 years after issue and (ii) Investments approved by the Borrower's Board of Directors or otherwise pursuant to a Board-approved investment policy;
 - (c) Investments (i) between Borrower or any Guarantor or (ii) between any Subsidiary (which are not
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Guarantors);

- (d) Investments consisting of Collateral Accounts in the name of Borrower or any Guarantor so long as Bank has a first priority, perfected security interest in such Collateral Accounts;
- (e) Investments consisting of extensions of credit to Borrower's or its Subsidiaries' customers in the nature of accounts receivable, prepaid royalties or notes receivable arising from the sale or lease of goods, provision of services or licensing activities of Borrower;
- (f) Investments received in satisfaction or partial satisfaction of obligations owed by financially troubled obligors;
- (g) Investments acquired in exchange for any other Investments in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization;
- (h) Investments consisting of interest rate, currency, or commodity swap agreements, interest rate cap or collar agreements or arrangements designated to protect a Person against fluctuations in interest rates, currency exchange rates, or commodity prices;
- (i) Investments consisting of loans and advances to employees in an aggregate amount not to exceed \$100,000; and
- (j) other Investments, if, on the date of incurring any Investments pursuant to this clause (j), the outstanding aggregate amount of all Investments incurred pursuant to this clause (j) does not exceed \$750,000.

"Permitted Liens " are:

- (a) Liens arising under this Agreement or other Loan Documents;
 - (b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, if they have no priority over any of Bank's Liens;
 - (c) Liens (including with respect to capital leases) (i) on property (including accessions, additions, parts, replacements, fixtures, improvements and attachments thereto, and the proceeds thereof) acquired or held by Borrower or its Subsidiaries incurred for financing such property (including accessions, additions, parts, replacements, fixtures, improvements and attachments thereto, and the proceeds thereof), or (ii) existing on property (and accessions, additions, parts, replacements, fixtures, improvements and attachments thereto, and the proceeds thereof) when acquired, if the Lien is confined to such property (including accessions, additions, parts, replacements, fixtures, improvements and attachments thereto, and the proceeds thereof);
 - (d) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness it secures may not increase;
 - (e) leases or subleases of real property granted in the ordinary course of business, and leases, subleases, non-exclusive licenses or sublicenses of property (other than real property or intellectual property) granted in the ordinary course of Borrower's business, if the leases, subleases, licenses and sublicenses do not prohibit granting Bank a security interest;
 - (f) non-exclusive license of intellectual property granted to third parties in the ordinary course of business;
 - (g) leases or subleases granted in the ordinary course of Borrower's business, including in connection with Borrower's leased premises or leased property;
 - (h) Liens in favor of custom and revenue authorities arising as a matter of law to secure the payment of
-

custom duties in connection with the importation of goods;

- (i) Liens on insurance proceeds securing the payment of financed insurance premiums;
- (j) customary Liens granted in favor of a trustee to secure fees and other amounts owing to such trustee under an indenture or other similar agreement;
- (l) Liens arising from judgments, decrees or attachments in circumstances not constituting an Event of Default under Sections 8.4 or 8.7 ;
- (m) Liens in favor of other financial institutions arising in connection with Borrower's deposit or securities accounts held at such institutions;
- (n) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith and by appropriate proceeding if adequate reserves with respect thereto are maintained on the books of the applicable Person;
- (o) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and compliance with other social security requirements applicable to Borrower; and
- (p) deposits to secure the performance of bids, trade contracts (other than for borrowed money), contracts for the purchase of property, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case, incurred in the ordinary course of business and not representing an obligation for borrowed money.

“Person” is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

“Prime Rate” means the rate of interest per annum from time to time published in the 'Money Rates' section of the Wall Street Journal as the 'prime rate' then in effect in the United States of America; provided that if such rate of interest is no longer published therein, the “Prime Rate” shall mean the rate of interest per annum announced by Bank as its 'prime rate' in effect at its principal office in the state of California, even if it is not Bank's lowest rate.

“Prime Rate Credit Extension” means a Credit Extension that bears interest based at the Prime Rate.

“Registered Organization” is any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

“Regulatory Change” means, with respect to Bank, any change on or after the date of this Agreement in United States federal, state, or foreign laws or regulations, including Regulation D, or the adoption or making on or after such date of any interpretations, directives, or requests applying to a class of lenders including Bank, of or under any United States federal or state, or any foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

“Reserve Requirement” means, for any Interest Period, the average maximum rate at which reserves (including any marginal, supplemental, or emergency reserves) are required to be maintained during such Interest Period under Regulation D against “Eurocurrency liabilities” (as such term is used in Regulation D) by member banks of the Federal Reserve System. Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by Bank by reason of any Regulatory Change against (a) any category of liabilities which includes deposits by reference to which the LIBOR Rate is to be determined as provided in the definition of LIBOR or (b) any category of extensions of credit or other assets which include Credit Extensions.

“Responsible Officer” is any of the Chief Executive Officer, President, Chief Financial Officer, Controller, Vice President of Finance, and Treasury Manager of Borrower or any Subsidiary.

“Revolving Line” is an Advance or Advances in an aggregate amount of up to \$40,000,000 outstanding at any time.

“Revolving Line Maturity Date” is September 30, 2014.

“Securities Account” is any “securities account” as defined in the Code with such additions to such term as may hereafter

be made.

“ **Subordinated Debt**” is (a) Indebtedness incurred by Borrower subordinated to Borrower's Indebtedness owed to Bank and which is reflected in a written agreement in a manner and form reasonably acceptable to Bank and approved by Bank in writing, and (b) to the extent the terms of subordination do not change adversely to Bank, refinancings, refundings, renewals, amendments or extensions of any of the foregoing.

“ **Subsidiary**” means, with respect to any Person, any Person of which more than 50% of the voting stock or other equity interests is owned or controlled, directly or indirectly, by such Person or one or more Affiliates of such Person.

“ **Threshold Amount**” means \$20,000,000.

“ **Trademark**” means any of the following now or hereafter owned or acquired or received by Borrower or any Guarantor or in which Borrower or any Guarantor now holds or hereafter acquires or receives any right or interest: (a) any trademark, trade name, corporate name, business name, trade style, service mark, logo, other source or business identifier, print or label on which any of the foregoing have appeared or appear, design or other general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and any applications in connection therewith, including registration, recording and application in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or other foreign jurisdiction and (b) any reissue, extension or renewal of any of the foregoing.

“ **Transfer**” is defined in [Section 7.1](#).

[Signature page follows]

IN WITNESS WHEREOF , the parties hereto have caused this Amended and Restated Loan and Security Agreement to be executed as of the Effective Date.

BORROWER:

RADISYS CORPORATION

By /s/ Brian Bronson

Name: **Brian Bronson**

Title: **President and Chief Financial Officer**

BANK:

SILICON VALLEY BANK

By /s/ Ray Aguilar

Name: Ray Aguilar

Title: Relationship Manager

EXHIBIT A

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles (except as provided below), commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

all Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include any of the following, whether now owned or hereafter acquired (a) more than 65% of the presently existing and hereafter arising issued and outstanding shares of capital stock owned by Borrower of any Foreign Subsidiary which shares entitle the holder thereof to vote for directors or any other matter, or (b) any copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work, whether published or unpublished, any patents, patent applications and like protections, including improvements, divisions, continuations, renewals, reissues, extensions, and continuations-in-part of the same, trademarks, service marks and, to the extent permitted under applicable law, any applications therefor, whether registered or not, and the goodwill of the business of Borrower connected with and symbolized thereby, know-how, operating manuals, trade secret rights, rights to unpatented inventions, and any claims for damage by way of any past, present, or future infringement of any of the foregoing; provided, however, the Collateral shall include all Accounts, license and royalty fees and other revenues, proceeds, or income arising out of or relating to any of the foregoing.

EXHIBIT B

FORM OF LOAN PAYMENT/CREDIT EXTENSION REQUEST

Deadline for same day processing is Noon P.S.T. Unless otherwise provided for an Advance bearing interest at LIBOR.

Fax To: _____ Date: _____

LOAN PAYMENT:

RadiSys Corporation

From Account # _____ To Account # _____

(Deposit Account #) (Loan Account #)

Principal \$ _____ and/or Interest \$ _____

Authorized Signature: _____ Phone Number: _____

Print Name/Title: _____

Credit Extension:

Complete *Outgoing Wire Request* section below if all or a portion of the funds from this advance are for an outgoing wire.

From Account # _____ To Account # _____

(Loan Account #) (Deposit Account #)

Amount of Credit Extension \$ _____

All Borrower's representations and warranties in the Amended and Restated Loan and Security Agreement are true, correct and complete in all material respects on the date of the request for a Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date:

Authorized Signature: _____ Phone Number: _____

Print Name/Title: _____

Outgoing Wire Request:

Complete only if all or a portion of funds from the Credit Extension above is to be wired.

Deadline for same day processing is noon, P.S.T.

Beneficiary Name: _____ Amount of Wire: \$ _____

Beneficiary Bank: _____ Account Number: _____

City and State: _____

Beneficiary Bank Transit (ABA) #: _____ Beneficiary Bank Code (Swift, Sort, Chip, etc.): _____

(For International Wire Only)

Intermediary Bank: _____ Transit (ABA) #: _____

For Further Credit to: _____

Special Instruction: _____

By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).

Authorized Signature: _____ 2nd Signature (if required): _____

Print Name/Title: _____ Print Name/Title: _____

Telephone #:

Telephone #:



EXHIBIT C

FORM OF NOTICE OF BORROWING

RADISYS CORPORATION

Date: _____

To: **Silicon Valley Bank**
3003 Tasman Drive
Santa Clara, CA 95054
Attention: Corporate Services Department

Re: Amended and Restated Loan and Security Agreement dated as of November 1, 2011 (as amended, modified, supplemented or restated from time to time, the "**Loan Agreement**"), by and between RadiSys Corporation ("**Borrower**"), and Silicon Valley Bank (the "**Bank**")

Ladies and Gentlemen:

The undersigned refers to the Loan Agreement, the terms defined therein and used herein as so defined, and hereby gives you notice irrevocably, pursuant to Section 3.4(a) of the Loan Agreement, of the borrowing of a Credit Extension.

1. The funding date, which shall be a Business Day, of the requested borrowing is _____.
2. The aggregate amount of the requested borrowing is \$_____.
3. The requested Credit Extension shall consist of \$_____ of Prime Rate Credit Extensions and \$_____ of LIBOR Credit Extensions.
4. The duration of the Interest Period for the LIBOR Credit Extensions included in the requested Credit Extension shall be _____ days.

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the proposed Credit Extension before and after giving effect thereto, and to the application of the proceeds therefrom, as applicable:

(a) all representations and warranties of Borrower contained in the Loan Agreement are true, accurate and complete in all material respects as of the date hereof; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date;

(b) no Default or Event of Default has occurred and is continuing, or would result from such proposed Credit Extension; and

(c) the requested Credit Extension will not cause the aggregate principal amount of the outstanding Advances to exceed, as of the designated Funding Date, (i) the lesser of (A) the Revolving Line or (B) the Availability Amount.

Borrower **RADISYS CORPORATION**

By:
Name:
Title:

For internal Bank use only

LIBOR Pricing Date	LIBOR	LIBOR Variance	Maturity Date
		____%	

EXHIBIT D

FORM OF NOTICE OF CONVERSION/CONTINUATION

RADISYS CORPORATION

Date:

To:
3003 Tasman Drive
Santa Clara, CA 95054
Attention:

Silicon Valley Bank

Re: Amended and Restated Loan and Security Agreement dated as of November 1, 2011 (as amended, modified, supplemented or restated from time to time, the "**Loan Agreement**"), by and between RadiSys Corporation ("**Borrower**"), and Silicon Valley Bank (the "**Bank**")

Ladies and Gentlemen:

The undersigned refers to the Loan Agreement, the terms defined therein being used herein as therein defined, and hereby gives you notice irrevocably, pursuant to Section 3.5 of the Loan Agreement, of the [conversion] [continuation] of the Credit Extensions specified herein, that:

1. The date of the [conversion] [continuation] is _____, 20__.
2. The aggregate amount of the proposed Credit Extensions to be [converted] is \$ _____ or [continued] is \$ _____.
3. The Credit Extensions are to be [converted into] [continued as] [LIBOR] [Prime Rate] Credit Extensions.
4. The duration of the Interest Period for the LIBOR Credit Extensions included in the [conversion] [continuation] shall be ____ days.

The undersigned, on behalf of Borrower, hereby certifies that the following statements are true on the date hereof, and will be true on the date of the proposed [conversion] [continuation], before and after giving effect thereto and to the application of the proceeds therefrom:

(a) all representations and warranties of Borrower stated in the Loan Agreement are true, accurate and complete in all material respects as of the date hereof; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; and

(b) no Default or Event of Default has occurred and is continuing, or would result from such proposed [conversion] [continuation].

[Signature page follows]

Borrower

RadiSys Corporation

By:
Name:
Title:

For internal Bank use only

LIBOR Pricing Date	LIBOR	LIBOR Variance	Maturity Date
		____%	

A/72580147.9
SF1 1738438v.7

EXHIBIT E

FORM OF BORROWING BASE CERTIFICATE

Borrower: RadiSys Corporation

Lender: Silicon Valley Bank

Commitment Amount: up to \$40,000,000

ACCOUNTS RECEIVABLE

1.Accounts Receivable Book Value as of _____	\$ _____
2.Additions (please explain on reverse)	\$ _____
3.TOTAL ACCOUNTS RECEIVABLE	\$ _____

ACCOUNTS RECEIVABLE DEDUCTIONS (without duplication)

4.Amounts over 60 days due and/or over 120 days from invoice/doc date	\$ _____
5.Balance of 25% over 60 days due or over 120 days from invoice/doc date accounts	\$ _____
6.Credit balances over 90 days	\$ _____
7.Concentration Limits	\$ _____
8.Foreign Accounts	\$ _____
9.Governmental Accounts	\$ _____
10.Contra Accounts	\$ _____
11.Promotion or Demo Accounts	\$ _____
12.Intercompany/Employee Accounts	\$ _____
13.Disputed Accounts	\$ _____
14.Other (please explain on reverse)	\$ _____
15.TOTAL ACCOUNTS RECEIVABLE DEDUCTIONS	\$ _____
16.Eligible Accounts (#3 minus #15)	\$ _____
17.ELIGIBLE AMOUNT OF ACCOUNTS (80% of #16), except to the extent the Account of Nokia Siemens is eligible then 70% of such Account, and except Eligible Foreign Accounts for which such percentage is 65%	\$ _____

BALANCES

18.Maximum Loan Amount	\$40,000,000
19.Total Funds Available [Lesser of (a) #18 or (b) #17]	\$ _____
20.Present balance owing on Line of Credit	\$ _____
21.RESERVE POSITION (#19 minus #20)	\$ _____

The undersigned represents and warrants that this is true, complete and correct, and that the information in this Borrowing Base Certificate complies with the representations and warranties in the Amended and Restated Loan and Security Agreement between the undersigned and Silicon Valley Bank.

COMMENTS:

By: _____
Authorized Signer

Date:

BANK USE ONLY
Received by: _____ authorized signer
Date: _____
Verified: _____ authorized signer
Date: _____
Compliance Status: YesNo

EXHIBIT F

FORM OF COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK
FROM:

Date:

The undersigned authorized officer of RadiSys Corporation ("**Borrower**") certifies that under the terms and conditions of the Amended and Restated Loan and Security Agreement between Borrower and Bank (the "**Agreement**"), (1) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below, (2) there are no Events of Default, (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.9 of the Agreement, and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank. Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with generally GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under "Complies" column.

Reporting Covenant	Required	Complies
Quarterly consolidating financial statements	Quarterly within 45 days	Yes No
Annual financial statement	FYE unaudited and audited within 90 days	Yes No
10-Q, 10-K and 8-K + CC	Within 5 days after filing with SEC, but, (i) in case of 10-Qs, no later than within 45 days of the last day of the first three fiscal quarter ends of each fiscal year, and (2) in case of 10-Ks, no later than within 90 days of the last day of each fiscal year	Yes No
Borrowing Base Certificate A/R & A/P Agings + Deferred Revenue report	If Advances exceed (or, if on a Funding Date Advances will exceed) the Threshold Amount, monthly within 30 days and within five (5) days prior to each Funding Date	Yes No
Material Litigation	Prompt	Yes* No
Annual board approved financial projections	Annually within 60 days of fiscal year end	Yes No
*If yes, attached is a summary of the Material Litigation not previously disclosed by Borrower or any of its Subsidiaries.		

Financial Covenant	Required	Actual	Complies
Maintain as indicated:			
Minimum Two Quarters' EBITDA (as of the last day of each fiscal quarter, two rolling quarters)	Quarter Ending Minimum EBITDA (two quarters then ending)		

December 31, 2011
\$(8,500,000)

March 31, 2012
\$(2,100,000)

June 30, 2012
\$(500,000)

September 30, 2012
\$2,000,000

December 31, 2012
and thereafter
\$3,000,000

		\$ _____	Yes No
Minimum Quarterly EBITDA	For fiscal quarter ending September 30, 2011: (8,300,000)	\$ _____	Yes No
Maximum Capital Expenditures	No greater than \$11,000,000 in fiscal year 2011 and no greater than \$8,000,000 in any other fiscal year	\$ _____	Yes** No
Liquidity (at all times, tested quarterly)	Not less than 1.25:1.00	_____: 1.00	Yes No

	Test	Actual	Required
BBC Required (Section 6.2(b))	Obligations > \$20,000,000	\$ _____	Yes No

** Excluding Capital Expenditures financed by purchase money security interest financing or financial leases to the extent permitted by Section 7.4

The following financial covenant analysis[is][es] and information set forth in **Schedule 1** attached hereto are true and accurate as of the date of this Certificate.

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

RADISYS CORPORATION

By:
Name:
Title:

BANK USE ONLY

Received by: _____
authorized signer

Date: _____

Verified: _____
authorized signer

Date: _____

Compliance Status: Yes No

Schedule 1 to Compliance Certificate

Financial Covenants of Borrower

Dated: _____

I. Minimum EBITDA (Section 6.7(a))

Required: For the quarter ending September 30, 2011, EBITDA greater than \$(8,300,000) and for each two-quarter period set forth below, the minimum EBITDA set forth below opposite each such period.

Two Quarters Ending	Minimum EBITDA (two quarters then ending)
December 31, 2011	\$ (8,500,000)
March 31, 2012	\$ (2,100,000)
June 30, 2012	\$ (500,000)
September 30, 2012	\$ 2,000,000
December 31, 2012 and thereafter	\$ 3,000,000

A.	Net Income	\$
B.	To the extent included in the determination of Net Income	
	1. Interest Expense	\$
	2. Income tax expense	\$
	3. Depreciation expense	\$
	4. Amortization expense	\$
	5. Income tax expense	\$
	6. Non-cash stock based compensation expenses	\$
	7. Non-cash restructuring and integration expenses related to the acquisition of Continuous Computing	\$
	8. Non-cash impairment charges on goodwill as required by FAS 142 fair value testing related to intangible assets acquired through the acquisition of Continuous Computing	\$
	9. The sum of lines B.1 through B.8	\$
C.	EBITDA (line A plus line B.9)	\$

Is line C equal to or greater than the required minimum EBITDA set forth above?

_____ No, not in compliance Yes, in compliance

II. Maximum Capital Expenditures (Section 6.7(b))

Required: Capital Expenditures not in excess of \$11,000,000 in fiscal year 2011 and not in excess of \$8,000,000 in any other fiscal year (not counting any Capital Expenditures financed by purchase money security interest financing or financial leases to the extent permitted by Section 7.4 of the Loan Agreement)

- A. Aggregate amount of Capital Expenditures \$
- B. Amount of Capital Expenditures financed by purchase money security interest financing or financial leases to the extent permitted by Section 7.4 of the Loan Agreement \$
- C. Line A minus line B \$

Is line C less than or equal to the maximum amount permitted above?

_____ No, not in compliance Yes, in compliance

III. Liquidity (Section 6.7(c))

Required: At all times when there are outstanding Obligations on account of Advances or Letters of Credit, Liquidity not less than 1.25:1.00.

- A. Borrower's unrestricted cash, unrestricted Cash Equivalents, and unrestricted short term marketable securities held with Financial Institutions in the United States of America \$
- B. Borrower's Foreign Subsidiaries' unrestricted cash and unrestricted Cash Equivalents held with Financial Institutions (up to a maximum of \$10,000,000) \$
- C. Eligible Accounts \$
- D. Sum of lines A through C \$
- E. Sum of all outstanding Obligations on account of Advances or Letters of Credit \$
- F. Line D divided by line E

Is line F greater than or equal to 1.25?

_____ No, not in compliance Yes, in compliance

SCHEDULE A
DISCLOSURE SCHEDULE

EXHIBIT G

REAFFIRMATION OF GUARANTY

Reaffirmation of Unconditional Secured Guaranty

This Reaffirmation of Unconditional Secured Guaranty is entered into as of November 1, 2011, by the undersigned (the "**Guarantor** ") in favor of SILICON VALLEY BANK ("**SVB** ").

WHEREAS, Guarantor executed and delivered to SVB an Unconditional Secured Guaranty dated as of August 8, 2011 (the "**Guaranty**") with respect to the obligations of RadiSys Corporation, an Oregon corporation ("**Borrower**"), under a Loan and Security Agreement dated August 7, 2008, by and between Borrower and SVB; and

WHEREAS, Borrower and SVB are amending and restating that Loan and Security Agreement pursuant to that certain Amended and Restated Loan and Security Agreement dated as of the date hereof (the "**A&R Loan Agreement**").

Now therefore, for valuable consideration, receipt of which is acknowledged, each Guarantor hereby agrees as follows:

1. **Capitalized Terms.** Unless otherwise defined in this Reaffirmation of Unconditional Secured Guaranty, all capitalized terms shall have the meaning given to them in the Guaranty.
2. **Reaffirmation of Guaranty.** Guarantor has reviewed the A&R Loan Agreement. Guarantor hereby ratifies and reaffirms its obligations under the Guaranty and agrees that none of the amendments or modifications to the Loan Agreement as set forth in the A&R Loan Agreement shall impair such Guarantor's obligations under the Guaranty or SVB's rights under the Guaranty.
3. **Continuing Effect and Absence of Defenses.** Guarantor acknowledges that the Guaranty is still in full force and effect and that Guarantor has no defenses, other than actual payment of the guaranteed obligations, to enforcement of the Guaranty. Guarantor waives any and all defenses to enforcement of the Guaranty that might otherwise be available as a result of the amendment and restatement of the Loan Agreement.

CONTINUOUS COMPUTING CORPORATION, a
Delaware corporation

By: /s/ Brian Bronson

Name: Brian Bronson

Title: President and Chief Financial Officer

CERTIFICATIONS

I, Michel Dagenais, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RadiSys Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2011

/s/ Michel Dagenais

Michel Dagenais
Chief Executive Officer

CERTIFICATIONS

I, Brian Bronson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RadiSys Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2011

/s/ Brian Bronson

Brian Bronson
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of RadiSys Corporation (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michel Dagenais, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michel Dagenais

Michel Dagenais

Chief Executive Officer

November 4, 2011

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of RadiSys Corporation (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian Bronson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian Bronson

Brian Bronson

Chief Financial Officer

November 4, 2011