FINAL TRANSCRIPT

Thomson StreetEvents℠

RSYS - Q2 2010 RadiSys Corporation Earnings Conference Call

Event Date/Time: Jul. 27. 2010 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Scott Grout
RadiSys Corporation - President, CEO

Holly Stephens
RadiSys Corporation - Finance and IR Manager

Brian Bronson
RadiSys Corporation - CFO

CONFERENCE CALL PARTICIPANTS

Rich Valera
Needham & Company - Analyst

George Notter
Jefferies & Company - Analyst

David Nierenberg
Nierenberg Investment Management - Analyst

Colin Denman
D.A. Davidson & Company - Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the RadiSys second quarter earnings conference call with Scott Grout, President and CEO of RadiSys. As a reminder, today Tuesday, July 27th, 2010 this call is being recorded. (Operator instructions) Mr. Grout, please go ahead.

Scott Grout - *RadiSys Corporation - President, CEO*

Thank you very much Janelle. Good afternoon everybody and thank you for participating in our second quarter conference call. In this call, we will review results for the second quarter, as well as our outlook for the third quarter and for the year, and then we will open the call up for questions. Participating on the call with me today are Holly Stephens, Finance and Investor Relations Manager; Brian Bronson, our Chief Financial Officer; and myself, Scott Grout, President and CEO.

Before we get started, I'd like to turn it over to Holly for a caution about forward-looking statements.

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

Thanks, Scott. Any statements on this call regarding future expectations for the business of RadiSys constitute forward-looking statements that involve a number of risks and uncertainties. We caution you not to place undue reliance on these statements. Factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in our earnings release today and in our SEC filings, most recently in our 2009 annual report on Form 10-K.

All information is provided in this call as of today. RadiSys undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations. In addition, during the call we will refer to some non-GAAP measures. We've provided a GAAP to non-GAAP reconciliation for these measures in our earnings release issued today.

Now, I'll turn the call back over to Scott.

Scott Grout - *RadiSys Corporation - President, CEO*

Thanks Holly. I'm very pleased with our overall financial and strategic progress for the quarter as well as the continued growth in our next generation business. From a financial perspective we grew both revenue and earnings over the prior quarter and we delivered at the high end of our revenue range while exceeding our range on earnings. In the quarter we also successfully completed the full integration of Pactolus, a leader in next generation IP communication solutions. This acquisition was closed in the first quarter and further strengthens our higher value software based networking solutions.

From a design win perspective, our largest win in the quarter was for a fully integrated network security application. This marks one of our first wins for a complete turnkey network element solution built on our market leading ATCA platform. We expect to announce more about this new product in the third quarter.

We also saw our wins expand in the military and aerospace markets reinforcing our strategy of applying our highly reliable solutions to these growing market segments. In the quarter we also materially completed the outsourcing of all manufacturing to Asia. While we have ongoing work to optimize our operating model, all products have been successfully transitioned out of our Hillsboro facility.

I want to talk about a couple of highlights for the quarter in different areas. First from an industry recognition standpoint, we were fortunate to be recognized for IMMS, our Integrated Mobile Media Server received the NGN 2010 Leadership Award from Technology Marketing Corporation's NGN Magazine. Recall that IMMS enhances mobile service providers' ability to grow new video service revenues on both 3G and emerging 4G LTE mobile networks.

The second recognition we got in the quarter was on our VQE or Voice Quality Enhancement feature for our media server platform. It was recognized for exceptional innovation by Unified Communications Magazine and won their 2009 product of the year award. VQE significantly improves audio quality and reduces end-to-end delay for an improved customer experience. And finally, our ATCA 40-gig platform received NGN's 2010 Leadership Award from again Technology Marketing Corporation's NGN Magazine. So some pretty nice recognition from industry forums in the quarter.

During the second quarter we also announced a number of new innovative products, including real time transcoding services for our media server product family. This transcoding capability allows operators to seamlessly interconnect differently encoded IP media streams, which enables converged IP based mobile NGN and IMS networks. We are very excited about these new transcoding services and the new opportunities we believe they will bring.

We also introduced our new Promentum C2 Server; the industry's first ruggedized ATCA platform for mobile command and control applications. The C2 Server is designed for high performance, ruggedized mobile applications in military and aerospace markets.

Switching over to design wins, we had another good quarter in Q2 for design wins. In our media server business we were awarded multiple new design wins across all three geographies; North America, Asia and Europe in a variety of applications including voice and video services, video lawful intercept, conferencing and messaging. In our ATCA business we were awarded new business in network security as I had mentioned earlier, military reconnaissance, network monitoring and EPON applications. The new network security win was of notable size with a Tier 1 TEM on a new RadiSys product. The network monitoring win was for a carrier project in Asia and demonstrates another one of the many different adjacent markets now adopting ATCA.

Within our commercial business we were awarded new COM Express business in ruggedized military PDA, in medical imaging, patient monitoring, PBX, military mobile platform and test and measurement. Specifically, the PBX win was for a strategic new telecom customer in Europe.

In terms of field deployment and customer ramps, a key measure for us, we reached several significant milestones with our ATCA customer in the quarter, including two different satellite communication programs that began deployment in the quarter. Also a mobile network customer began installation of a new messaging platform using our ATCA solutions with a major North American carrier. In addition, a WiMAX infrastructure provider in India achieved key development milestones that should enable deployment to start in the next several months and likewise a North American provider reached milestones that we believe will lead to upgrades in their programs as we go into the third quarter.

So moving back to our results for the quarter; our top five customers in the second quarter in alphabetical order were Cisco, NEI, Nokia Siemens Networks, Phillips Healthcare and ZTE. Collectively these top five customers represented 67% of our revenue in the quarter with 41% from Nokia Siemens Networks. NSN, or Nokia Siemens Networks continues to be a very strategic customer for RadiSys with revenues diversifying nicely beyond legacy products to include meaningful new business in ATCA and IP media servers. Over 25% of our NSN business is now coming from our next generation products and we expect this percent to continue to grow over time.

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

Brian Bronson - *RadiSys Corporation - CFO*

Thanks Scott. As Scott previously mentioned, our second quarter revenue was $75 million and our next-generation revenue was $28.6 million, up roughly 7% year over year. On a year-to-date basis our next-generation revenues were $59.2 million and up 14% year-over-year. We delivered non-GAAP EPS of $0.15 which exceeded the high end of our previous expectations and was up over 30% sequentially. On a GAAP basis we had positive earnings of $0.02 per diluted share.

Our Q2 non-GAAP gross margin rate was 32.3%, which was in line with our expectations and down a bit from the first quarter. The sequential decrease was mainly due to product mix as our lower margin legacy wireless revenues and commercial product revenues were up sequentially. We expect our third quarter non-GAAP gross margin to be between 32% and 33%, at the midpoint of our guidance range. We are now seeing the majority of the benefit from being outsourced and our growing next generation product revenues continue to have blended 40 to 50% gross margins.

That being said, we are seeing stronger demand than originally expected in our overall legacy business which has lower and eroding gross margins that will dampen our gross margin rate expansion over the next couple of quarters. Non-GAAP R&D and SG&A expenses totaled $19.8 million which was down $0.3 million from the same quarter in the prior year and up $500,000 sequentially due to the addition Pactolus related expenses.

We currently expect that our third quarter non-GAAP R&D expenses will be up about $300,000, however, we expect SG&A expenses to be down by about the same amount, resulting in total expenses that are about flat sequentially. Non-GAAP operating income was $4.4 million or 5.9% of revenues in the second quarter. This compares to 4.3% in the first quarter and to 7.7% in the second quarter a year ago.

Net non-operating expense which includes interest income, interest expense and other non-operating items, was $309,000 in the second quarter. We currently expect our non-operating expense to be around $450,000 in the third quarter and for the next few quarters as we are now earning a lower yield on our cash due to the ARSes being resolved.

Our non-GAAP tax rate was 5.5% in the second quarter. We continue to project a low rate as all of our taxable earnings are being generated in foreign jurisdictions with lower tax rates. We currently expect our non-GAAP tax rate to be around 5% and our GAAP tax rate to be around 25% for the rest of the year.

Our non-GAAP diluted weighted average shares were 28.4 million, which includes 3.8 million shares related to our convertible notes. Our second quarter GAAP diluted shares were 24.4 million. We project our diluted shares to be 28.5 million for non-GAAP results and 24.7 million for GAAP results in the third quarter. As a reminder, when calculating EPS for net income over $1.8 million, the covert shares and the interest income add-back of 291,000 should be included in the calculation.

Switching to the balance sheet, DSO was 53 days in the second quarter compared to 55 days in the first quarter. I expect DSO to be in the mid to high 5os moving forward. Our inventory balance was $17.1 million at the end of the second quarter, which is down from $26.5 million at the end of the second quarter last year and up from $15 million in Q1. As we discussed on our call in April, the industry supply shortages required us to build a couple of million dollars of (inaudible) inventory and I expect our inventory to be around this level for the next couple of quarters until the supply environment materially improves.

Our cash flow from operations from operations was $7 million in the second quarter and better than we had previously expected. We ended the second quarter with $147.8 million of cash and restricted cash. This is up from $110.4 million in Q1 and $87.6 million in the same quarter last year. As expected, all of our option rate securities were repaid by UBS at the end of the second quarter, and therefore, the ARS short-term investments and the settlement rights are no longer on our balance sheet. Given the timing of the transaction and the receipt of funds, we couldn't pay off the remaining UBS line of credit of $17.3 million until July 1st and therefore classified $25.8 million as restricted cash at the end of June. So if you take the 147.8 million of total cash and restricted cash, minus the line of credit of 17.3 million, you get to 130.5 million of cash which is our new balance effective July 1st forward. We currently expect our operating cash flow to be a couple of million in the third quarter.

So now with that, I'll turn the call back over to Scott to talk about the revenue and per-share outlook for the third quarter and the revenue outlook for the full year.

Scott Grout - *RadiSys Corporation - President, CEO*

Thanks, Brian. So regarding our outlook for the third quarter and for the year, please note that this is our view as of today and it is a forward-looking statement, subject to risks and uncertainties as discussed previously and in our press release made available earlier today.

We currently project our third quarter revenue and earnings per share to be in line with the second quarter's results at the midpoint of our guidance ranges. We expect our Q3 revenues to be between $73 and $77 million with our next generation product revenues at similar levels to that of the second quarter. We project that our next generation product revenues will increase sequentially in the fourth quarter and we continue to believe that our next generation revenues will grow at least 20% for the full year over 2009.

We expect our third quarter legacy product revenues to be similar to the second quarter. For the full year we expect legacy revenues, including our traditional communications networks products and our commercial products will decline by 15 to 20% over 2009 versus our prior estimates of a decline of 20 to 30%. We currently expect our third quarter non-GAAP EPS to be between $0.12 and $0.17 per diluted share, with GAAP results between breakeven and a net income of $0.05 per diluted share.

So in closing, we've had a strong first half in terms of strategic and financial results. We've made excellent progress in growing and deploying our new next generation products. We're also excited about our new software base application solutions and are beginning to see traction and wins with these new higher value products.

With that I'd like to thank you for participating and open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Our first question is from Rich Valera with Needham & Company.

Rich Valera - *Needham & Company - Analyst*

Question on this strength of the commercial products, they trended pretty well above the 15 million per quarter run-rate you've talked about in the past. Is there anything to read into that from a medium or longer-term perspective that maybe we could expect them at higher levels than we thought before?

Scott Grout - *RadiSys Corporation - President, CEO*

So, two particular areas that we're seeing strength; one is in medical imaging, so if you'll recall 2009 ended up seeing reduction in demand in those markets and it was really end customer demand. That's picked up pretty nicely in 2010. Just meeting with some of those medical imaging customers, they see second half of 2010 strong and going into 2011 pretty strong, so their end markets are doing pretty well.

Second area for us is Com-E product and we're seeing some of the design wins that we've had from before coming in to production in a relatively nice funnel of new business. Now you knit all that together, there are declines in our legacy business, there are declines in some of our legacy commercial business. I think a conservative view is probably where we've been at in the mid teens to maybe high teens.

Rich Valera - *Needham & Company - Analyst*

Okay, that's helpful. And then with respect to gross margin, last quarter you talked I think about roughly 150 basis points of pressure you were seeing from supply chain issues which you thought would mitigate over some period of time. Can you give any sense of how much pressure, if there is any, that you're still seeing and when that might mitigate?

Scott Grout - *RadiSys Corporation - President, CEO*

It's definitely gotten better, so we did see improvements sequentially and we'll continue to have pressure for the rest of the year, but it's definitely call it down half a point or something like that.

Rich Valera - *Needham & Company - Analyst*

Okay, that's helpful. Then just thinking about gross margin longer-term, understand the strength of the legacy products sort of near-term puts a little bit of downward pressure there but as we look out longer-term are we still thinking of sort of mid-30s or better as a reasonable target as you start shifting more towards the next generation products?

Scott Grout - *RadiSys Corporation - President, CEO*

Definitely. Not pegging a timeframe, we've consistently referenced our next generation business which is growing being 40 to 50 points of gross margin, so the question is how do we get from today to our entire business over time being that next generation flavor. So it's mostly predicated not only on the strength of the legacy business but how the gross margins and the pricing hold in that legacy business as well.

THOMSON REUTERS

But for our next generation products we're seeing growth rates as expected and gross margins as expected and both are pretty positive. We're seeing more strength than I think we had anticipated in some of the legacy business and probably more price pressure than we had anticipated in the legacy business.

Rich Valera - *Needham & Company - Analyst*

Then with respect to the media server market, can you give us a sense of what's driving that business? I know you have a very solid base in the conferencing area and I know you have a lot of opportunity in sort of the 3G-4G network area from multimedia services on 3G-4G networks. Can you give us a sense of what you expect to really be driving the growth of that business over the next couple of years?

Scott Grout - *RadiSys Corporation - President, CEO*

Good question. As you mentioned, we've got a strong base position in conferencing. An area of growth that we're experiencing now is adding or absorbing [tangentle] functions to conferencing into the media server itself so VQE or the voice quality enhancement feature that I talked about gets sold to a lot of our existing conferencing providers as an upgrade or update to their system so one mode of growth is adjacencies and adding features to current set.

Another is going into new applications so IVR, interactive voice response, video kinds of applications and messaging are adjacent markets that use the same core media server architecture. Third area of growth for us is geographic, so it's been historically strong in North America, getting stronger in Asia and real growth opportunities for us in Europe that we're seeing traction there. So geographic growth.

And then final that I would identify is video so we have been predominantly in voice domain and with our new IMMS product now get into delivery of interactive video services like video messaging, video chat. Ultimately we hope getting into video streaming kinds of applications. So we've got good near-term and I think medium term and long-term growth opportunities in that business and David Smith and his team are doing just a great job growing it.

Operator

(Operator instructions) Your next question is from George Notter with Jefferies & Company.

George Notter - *Jefferies & Company - Analyst*

I wanted to ask about if you look at the next generation products you had 28 million and change here in the June quarter, you're guiding flat, if I look at sort of the four quarter progression here it looks like the business will have been about flat for four quarters and I understand NSN is increasing in terms of their mix of next generation products, but what's the bigger picture here? Is there a piece of that business that is disappointing in here or why can't that business grow faster?

Scott Grout - *RadiSys Corporation - President, CEO*

George, we have been for next generation business in sort of the 20 to 30% growth, 2010 over 2009 and we still believe that's where we're going to end up, so first half of the year was strong, Q3 will be about equal to Q2 but Q4 we expect to be up and for the year growing north of 20% for that business, which is where we pegged it at at the beginning of the year.

George Notter - *Jefferies & Company - Analyst*

I guess my question is more backward looking. Not to throw it over to you guys; certainly the performance in this business has been very good, but I guess my question is, if the NSN piece is growing, it's now more than 25% of the NSN revenue stream as you said, I guess I'm assuming then that there are other product designs or wins on the next generation side that have offset that and rolled over at some point. Is that the right way of looking at this and is there more flavor you can give us for that part of the business that maybe isn't as strong as NSN piece is as it's ramped up?

Scott Grout - *RadiSys Corporation - President, CEO*

It's a good question. In that 20 to 30% growth 2010 over 2009, it did include NSN moving some of their products to next generation and that's happening about the way we expected for NSN. NSN is not much higher than everybody else and therefore, everybody else is lower than we expected. I would say across NSN and non-NSN across ATC and across media server it's coming in about how we expected for 2010. So NSN is not doing materially better that is disguising somebody else doing worse; all are coming in about as we thought they would for 2010.

George Notter - *Jefferies & Company - Analyst*

Got it. And then for Brian, can you talk a little bit more about the outsourcing benefit here; how much of that did you see in the June quarter; how much of that would you see then kind of flowing into the model going forward; what's the perspective there?

Brian Bronson - *RadiSys Corporation - CFO*

I would think, as I mentioned, we've got materially complete dollar wise north of - between operations and engineering north of $2 million a quarter as we originally predicted. My comment about Scott's comment around maybe some more work to do could be upwards of half a point to a point down the road as we continue to refine the model. But as it relates to our original expectations and now we're enjoying the "full benefit" you're not seeing obviously the full gross margin expansion that I think some originally expected to get, because of the product mix conversation. But definitely mission accomplished on saving money. How much of it is in June; about a half a point.

George Notter - *Jefferies & Company - Analyst*

Got it. Just to clarify there; I should infer from that then you could get another half a point pick up in the September quarter?

Brian Bronson - *RadiSys Corporation - CFO*

Not necessarily September, but over time. Again, think about the outsourcing as materially complete. We are enjoying the savings around that both from NVA or pricing perspective as well as just general cost reduction internally, but we still think there's more work to do over time and that coupled with obviously increasing volumes should get us another half a point plus.

Operator

Your next question is from David Nierenberg with Nierenberg Investment Management.

David Nierenberg - *Nierenberg Investment Management - Analyst*

First of all, congratulations on successfully extricating yourself from the UBS auction rate securities. You got out completely clean which is unusual in the experience of our portfolio companies. We had another company, unfortunately, that bought its ARSes from Citibank and Citibank was far less helpful than UBS has been to you, so congrats on getting all of that done.

Scott Grout - *RadiSys Corporation - President, CEO*

Appreciate that.

David Nierenberg - *Nierenberg Investment Management - Analyst*

I share a little bit of George Notter's question about the growth rate this year of next generation products. A part of me wants to say that in order to wind up the year at the 20% plus delta over 2009, it appears that you're going to need to produce your best quarter yet for next generation in Q4; it looks to me a number solidly in the upper 30s on the Q4 if not higher. Am I in the ballpark?

Scott Grout - *RadiSys Corporation - President, CEO*

A bit high, but there's no question that we need to deliver and expect to deliver in the low to mid 30s.

David Nierenberg - *Nierenberg Investment Management - Analyst*

And if I look at the text of your conference call at the end of Q1, you used slightly different language to describe your expectations for next generation growth for the calendar year. At that time you guys were talking about 20 to 30% sequential growth over 2009; now you've taken off the 30% and you're talking about 20% plus. Could you please explain why you used the 20 to 30% language in the last quarterly call and why you're using 20% in this one?

Brian Bronson - *RadiSys Corporation - CFO*

Well a couple of things; absolutely correct, used 20 to 30, now saying over 20. That being said, I still see a possibility for Q4 being to the size where you could get to the midpoint of that 20 to 30%, i.e. 25. Q2 has unfolded, Q3, our current expectations for Q4, yes, I think originally we had a point of view that we could be upwards of 30% and now we still think it's over 20% and still see line of sight to 25% which would be the midpoint of the range we did back in February.

David Nierenberg - *Nierenberg Investment Management - Analyst*

Fair enough; 25 is the midpoint of 20 to 30.

Scott Grout - *RadiSys Corporation - President, CEO*

David, the programs are still there to drive it. It's all related to customer deployment and how their rollouts are going and as we go month-to-month it's in the middle of that range or in the upper part of that range or in the lower part of that range but I think north of 20 and a way to get to that midpoint is still there.

David Nierenberg - *Nierenberg Investment Management - Analyst*

Great. Good for you. Last question is that you've now owned Pactolus for several months, my expectation was - I imagine yours too given that it's a software company that its ultimate profit contribution could be disproportionate relative to its sales contribution. How are you doing now that you've owned it for several months; how are you feeling about it; what's it doing?

Scott Grout - *RadiSys Corporation - President, CEO*

Good. As I'd mentioned, integration was relatively straightforward and completed materially in second quarter. Funnel of opportunities looks strong and we've got a couple of meaningful opportunities, meaningful for that business that we believe will close between now and end of year. So relative to expectations when we acquired the business, I think it's meeting those expectations well. And again, David Smith and the MSBU team are driving the opportunities and closures pretty well.

David Nierenberg - *Nierenberg Investment Management - Analyst*

Have you been able to hold on to the key customers and to the key employees that you wanted?

Scott Grout - *RadiSys Corporation - President, CEO*

Yes to both.

Operator

(Operator instructions) Your next question is from Aalok Shah with D.A. Davidson & Company.

Colin Denman - *D.A. Davidson & Company - Analyst*

This is Colin Denman in for Aalok. Just wanted to start off with a couple of questions related to the geographic breakdown. It looks like you guys had a pretty good quarter in Europe and I was just wondering, given some other companies have noticed some beginning signs of a macro slowdown there or just some concerns coming from Europe, are you seeing any different trends in your business than you would expect from that geography or any reasons to get concerned on a macro basis?

Scott Grout - *RadiSys Corporation - President, CEO*

No. A big driver for us for Europe is the medical business, so one of our largest customers is Philips and as I mentioned, their business is going strong or the products that we're designed into are going strong and their belief on a go-forward basis continues to be relatively strong. Beyond that, I don't think there's any material ups or downs in the geography for us.

Colin Denman - *D.A. Davidson & Company - Analyst*

Okay. Related to it, it sounds like you guys got a design win with the WiMAX provider in India and I also know that in India there's been some issues in terms of importing foreign communication equipment and there's been a ban on Chinese equipment and some other vendors are having trouble there. Are you seeing any impact from anything going on there for communications infrastructure or how are you seeing that?

THOMSON REUTERS

Scott Grout - *RadiSys Corporation - President, CEO*

We are not. In the press of course you can read difficulties that some of the Chinese or China based equipment providers are having. Because we deliver a platform and are not the end TEM and the actual TEM itself is India based TEM, we haven't seen any issues there and don't project to. It's actually by the way benefited the particular customer that's India based that we're working with.

Colin Denman - *D.A. Davidson & Company - Analyst*

That's helpful. Then finally, it sounds like you guys are seeing some better than expected demand for your legacy business and I was just wondering how has your view of that part of the business trailing off changed from last quarter and if you could kind of give me some type of background on what's driving that better than expected demand for those products?

Scott Grout - *RadiSys Corporation - President, CEO*

Brian, our longer-term outlook for the legacy business - I don' know that the longer term view has materially changed for us.

Brian Bronson - *RadiSys Corporation - CFO*

No, and I'll talk about it at a high level. We originally talked about the collection of those businesses being down upwards of 30% and obviously we revised that to less of a decline. Broken into two pieces; in the commercial space I think we would have started out the year saying that for that business to be flat to slightly down would be a success, given the environment. I now see that business to be up for the full year.

And of course you guys have probably already done the math; it's up close to 30% year-to-date. That won't stay there, but I still think it could be growing 5 or 10% for the full year. Then that leaves the legacy communications business that I would expect it to be declining north of 30% and now I think it will probably decline somewhere between 25 and 30%. And then moving forward, commercial business kind of a flattish business. New programs rolling on, old programs rolling off and in the case of our legacy communications business still declining at that 30% a year clip.

Operator

Follow up question from David Nierenberg with Nierenberg Investment Management.

David Nierenberg - *Nierenberg Investment Management - Analyst*

I just wanted to get your comment on a couple of recent pieces of macro news and what you think their long-term implications are for RadiSys. The first is the recent announcement by Harbinger that they're prepared to spend $7 billion building another fourth generation network domestically and secondly to get your reaction to the acquisition of part of Motorola by NSN?

Scott Grout - *RadiSys Corporation - President, CEO*

David, you'll have to recognize I'll have to be careful on comments.

David Nierenberg - *Nierenberg Investment Management - Analyst*

You are always careful on comments.

Scott Grout - *RadiSys Corporation - President, CEO*

Starting with Motorola first and then going to LightSquared announcement. For us, we believe that will be net goodness, both NSN and Motorola are important customers for us and we've certainly seen NSN do a very good job on portfolio rationalization when Nokia and Siemens joined together, so our expectation is they will again do a good job with portfolio rationalization and end it up being a net benefit for us. So I see same opportunity here as we have relatively good position with both customers. And a commentary, I think consolidation in the equipment space is net goodness and net healthy, so I'm happy to see further consolidation.

Regarding the announcement on LightSquared networks; certainly quite interesting. So coming in with an LTE based next generation data-ready, video-ready network and then offering that on a wholesale basis - they haven't named customers but they'd mainly be going after Yahoo and Google, Hulu and that kind of a company and offering network bandwidth to the customers in an unconstrained economical fashion is certainly a compelling idea. I think time will tell what the market dynamics end up being around that. But I like from day one it being an LTE next generation high bandwidth mobile network.

David Nierenberg - *Nierenberg Investment Management - Analyst*

So two pieces of positive news.

Scott Grout - *RadiSys Corporation - President, CEO*

Yes. And I really like that NSN has been selected as the principal vendor. But lots to play out on that I think.

Operator

(Operator instructions) There are no additional questions. This concludes our question and answer session. Mr. Grout, are there any closing remarks?

Scott Grout - *RadiSys Corporation - President, CEO*

Thank you, Janelle. Again, I want to thank everybody for their ongoing support and look forward to seeing you throughout the quarter. Thanks very much. Bye-bye.

Operator

This concludes today's conference call. You may now disconnect.