FINAL TRANSCRIPT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the RadiSys second quarter earnings conference call with Mike Dagenais, CEO of RadiSys. As a reminder, today, July 28, 2011, this call is being recorded. Later we will conduct a question-and-answer session. (Operator Instructions). Mr. Dagenais, please go ahead.

Mike Dagenais - *RadiSys Corporation - CEO*

Good afternoon and thank you for participating on our second quarter conference call. I would like to start off by saying that I am very excited about the opportunity to lead the new RadiSys.

As we announced, on July 8 we closed the acquisition of Continuous Computing and changed the leadership structure. So here we are. This acquisition will open new off markets for RadiSys, create a strong revenue and growth engine and provide much better cost leverage. We will spend more time on this later.

For my first earnings call it is also nice to be reporting that both RadiSys and Continuous Computing delivered on plan or exceeded targets for the quarter, even while in the midst of closing the deal. We will be sharing these results with you and we will be providing our outlook for the third quarter, the full-year of 2011 and early expectations for 2012.

After our prepared material, we will open up the call for questions. Participating on the call with me today are Holly Stephens, Finance and Investor Relations Manager, Brian Bronson, President and Chief Financial Officer, and myself, Mike Dagenais, Chief Executive Officer.

Before we start I would like to turn the call over to Holly for our caution about forward-looking statements.

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

Thanks, Mike. Any statements in this call regarding future expectations for the business of RadiSys constitute forward-looking statements that involve a number of risks and uncertainties. We caution you not to place undue reliance on these statements.

Factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in our earnings release today and in our SEC filings most recently in our quarterly report on form 10Q for the quarter ended March 31, 2011.

All information provided in this call is 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 discuss some non-GAAP measures. We provided a GAAP to non-GAAP reconciliation for these measures in our earnings release issued today. Now I will turn the call back over to Mike.

Mike Dagenais - *RadiSys Corporation - CEO*

Thank you, Holly. I would like to first start with the business results of the second quarter. RadiSys delivered strong second quarter financial results. We exceeded both our revenue and earnings expectations.

Revenues for the second quarter were $79.9 million. This is the highest revenue quarter for the Company going back over two years. Non-GAAP EPS was $0.18 compared to the previous outlook of $0.10 to $0.15. We had recorded next generation communications revenues of $32.2 million, up 12.5% for the same quarter last year and up 6% sequentially. This Next Generation revenue represents 40% of our total revenue for the quarter.

Our top five customers in the quarter were Arrow Electronics, LG-Ericsson, Nokia Siemens Networks, Phillips Healthcare. Our revenues to Arrow Electronics go to a variety of end markets including a well-known network security company. Our revenues to LG-Ericsson represent full ATCA platforms that are used in both their LTE Evolved Packet Core and wireless access gateway applications.

Collectively, our top five customers represent 74% of our revenue in the quarter with 52% from Nokia Siemens Networks, or NSN. Again, in the second quarter about one-third of our NSN revenues came from our Next Generation products. These Next Generation products will continue to be a growing percentage of our overall NSN revenues in future quarters.

Now to expand a little bit on this last point, going forward the addition of Continuous Computing will improve our customer diversity significantly. We have mentioned previously there is very little customer overlap between our two companies. As such, we anticipate the revenue concentration from our top five customers to drop from 74% of total revenue today to the high 50's in the second half of this year. In addition, total NSN revenues are expected to drop to one-third or less of our total 2012 revenue. Nokia's Siemens legacy is expected to drop to the low teens as a percentage of total revenue in 2012.

Now shifting gears I would like to mention briefly a few of the RadiSys second quarter business highlights. The Media Server business won Notable New Business in mobile cloud, video ring back tone, conferencing and interactive voice response applications. Overall, a strong quarter for the Media Server business. Within the ATCA product family we launched a new 40G ATCA backup processing module targeted for Next Generation LTE network applications and won New Business in the application areas of femtocell, network security, deep packet inspection, military reconnaissance and military security gateways.

Our commercial business won multiple ultrasound applications with two China-based healthcare customers as well as new [business] in diverse applications such as agricultural automation, video mixing, data center management and aircraft recognition. Many of these new designs will fuel our growth in the coming years.

Let me shift to a few of the Continuous Computing highlights. I do want to spend a few moments here to introduce you to some of the new focus areas that this acquisition will bring to RadiSys going forward. Historically, Continuous has had strong presence in the traffic measurement, policy enforcement, threat management or security segments using its Deep Packet Inspection or DPI technology and products.

This quarter we added lawful intercept and public safety customers to further expand our leadership in the DPI space. Continuous also won new customers for its DPI platforms targeted specifically at mobile broadband applications like video content management.

Now the other primary focus area that Continuous brings to RadiSys is the Trillium Software Business. As some of you may know, over the past 20 years Trillium protocols have been the underlying signaling infrastructure that enable core network products to set up traditional voice calls. Today, the protocols encompass all of the wireless communications software required for your mobile device to interwork with the core wireless network from 2.5G, 3G and now LTE. Trillium software is embedded in products from every tier one telecom equipment provider.

In the second quarter, the Trillium business had very strong licensing of its 3G and LTE software solutions in telecom, defense and aerospace and public safety market segments. We now have over 50 customers in development or deployment of our wireless protocols from small cell applications to full macro network base stations. As well, last quarter we launched our [femtocell] product line. This is an extension of our small cell software solution to provide a complete carrier grade solution and we already have a few customers licensing the product.

As we bring the two companies together there is significant opportunity to expand our reach, capitalize on the unique strengths from each company and improve our cost structure. This will lead to stronger profitability.

Let me talk a bit more about the applications and the strategic and financial benefits that this combination brings. The acquisition of Continuous Computing further positions RadiSys as one of the global market leaders in embedded hardware and software for communication networks. Leveraging the customer diversity, the portfolio mix and the market focus will enable us to deliver unmatched scope, scale and product breadth to the market. It brings significant expansion into very high growth wireless markets where equipment providers are looking for solutions to the wireless broadband capacity challenges faced by the carriers.

Continuous based solutions are rolling out in several tier one LTE markets today and as you know we are just starting to see deployments of LTE. The Trillium software products are licensed to over 1,300 customers worldwide and many are new to RadiSys. As mentioned, we have more than 50 active customers licensing our 3G and LTE software. This creates new opportunity to accelerate the RadiSys strategy of delivering more differentiated platforms and solutions.

Continuous also deploys its DPI products to more than 20 customers in a full range of applications such as traffic management, threat management, policy enforcement, lawful intercept and public safety. Again, almost all of these customers are new to RadiSys. These high growth markets with many new customers will create meaningful customer diversification. As I mentioned earlier, we anticipate that our largest revenue customers will be one-third or less of our total revenue in 2012 and then down again in 2013.

The combined company's customers will now have access to a much broader set of technologies and solutions including a combined set of ATCA platforms and software solutions that are now developed and supported by a global team with greater scale and capability.

The acquisition also brings many more possible revenue synergies. We expect that the combined portfolio will give us the ability to win a larger share of the product spend in specific accounts. Customers are consolidating their supply chain and are looking for stronger suppliers with more complete solutions. This is to accelerate their own time-to-market drivers. We have already seen evidence of this in two accounts since we have become one company.

In addition, the combined development teams provide us with the ability to bring more new products to market. As you know, sales people like to have more products to sell. Continuous has had great success selling platforms into existing software accounts and vice versa. Extending the ability to cross-sell to the RadiSys platform and assets will further our customer engagements.

Financially, the acquisition accelerates our transition into higher margin Next Generation products. In 2012 we expect two-thirds or more of our combined revenue to be driven from Next Gen products. We also expect meaningful expansion of our non-GAAP gross margin rate and better economies of scale, which in turn will improve our bottom line. With these significant improvements we expect meaningful EPS expansion in 2012 and beyond.

While in the close of the acquisition we also put in place a new leadership team and I am very excited about the structure and the amount of experience the combined team brings to RadiSys. Some of the changes to our leadership team include Brian Bronson who becomes President in addition to his current Chief Financial Officer responsibilities. Manish Singh as RadiSys Chief Technology Officer. Manish was previously the Vice President of Product Line Management at Continuous Computing. Amit Agarwal as RadiSys Vice President and Manager of Software Solutions business. Amit was previously the Chief Operating Officer at Continuous Computing. Keate Despain as Vice President and General Manager of Platforms Business. Keate has been with RadiSys since 2007 and was most recently General Manager of the Commercial Business. Mike Coward as Vice President of Strategy and Innovation. Mike was co-founder of Continuous Computing and was most recently it's Chief Technology Officer.

Other key members of the leadership team include Chris Lepiane continuing his role as Head of Worldwide Sales and David Smith, General Manager of the Media Server business.

Now, before I turn the call over to Brian I would like to say again that I view this as a great opportunity. The Next Generation communication revenue momentum for both companies is growing. We have a strong market leadership position in ATCA. We are the clear market leaders in media server and now we have even more opportunities with our Trillium Software products.

With that, I would like to turn the call over to Brian who will talk more about the second quarter financial results and projections for the third quarter 2011 and 2012.

Brian Bronson - *RadiSys Corporation - President and CFO*

Thanks, Mike. As Mike previously mentioned our second quarter revenue was $79.9 million and our Next Generation Coms revenue was $32.2 million which is a record quarter for us. We delivered non-GAAP EPS of $0.18 and GAAP EPS of $0.01.

Our Q2 non-GAAP gross margin rate was 31.4%, down from 32.3% a year ago mainly due to higher legacy communications networks revenues which have experienced significant gross margin erosion year-over-year. We expect our non-GAAP gross margins to increase sequentially in the third quarter to between 32% and 33% due to the newly acquired higher margin revenue. Our Next Gen Coms revenue has an average gross margin of 40% to 50% depending on mix changes in any given quarter.

In the fourth quarter we expect our gross margin rate to increase again to between 34% and 35% as Next Gen Com revenues continue to be a larger percentage of our total revenue. Looking out to 2012, we expect that our gross margin rate will continue its upward trend to between 35% and 37% for the full-year which again is a direct result of our Next Gen Coms revenue growth which will represent at least two-thirds of total revenues.

Moving over to operating expenses, non-GAAP expenses totaled $19.9 million and were up $1.1 million from the prior quarter mainly due to planned annual employee salary increases and higher incentive compensation payouts based on higher levels of profit along with timing of R&D project spending.

We expect our third quarter non-GAAP expenses to be approximately $27 million. The $7 million increase is solely attributable to the acquisition. We expect the fourth quarter to be between flat and up $1 million from the third quarter. Starting in 2012 we expect to see synergy related reductions of $8 million to $10 million on an annualized basis from our third quarter run rate. In addition we expect to see a couple of million dollars of additional savings in 2013.

I want to make sure that everybody knows that our non-GAAP projections exclude acquisition, integration and restructuring related expenses. Also note that the purchase accounting adjustments related to the acquisition are excluded from both our non-GAAP and GAAP guidance as we finalize the calculations later this summer. The total acquisition, integration and restructuring charges were $2.5 million in the second quarter and are expected to be around $8 million in the third quarter, around $2.5 million in the fourth quarter and approximately $4 million in 2012 with most of the expense being incurred in the first three quarters of the year.

Net non-operating expense which includes interest income, interest expense and other non-operating items was $468,000 in the second quarter. We currently expect our non-operating expense to be similar moving forward. Our non-GAAP tax rate was 0.7% in the second quarter. We currently expect that our third and fourth quarter rates will be around 5% for non-GAAP results and around 10% for GAAP results. Looking out to 2012, we currently expect a similar non-GAAP tax rate of around 5%.

Our second quarter non-GAAP diluted weighted average shares were 28.6 million and our GAAP to basic shares were 24.3 million. In the third quarter we expect our basic shares to be around 26.5 million which now includes 2.2 million shares that were issued with the deal and our diluted shares should be around 32.5 million for non-GAAP results which includes an additional 1.2 million shares that are being held in escrow, again tied to the deal, and then of course the 3.8 million shares for the convert.

As a reminder, when you are calculating EPS for net income over $3 million, the convert shares of 3.8 million and the interest income add back to net income of $456,000 also should be included in the calculation. If net income is under $3 million, the inclusion of the convert would be anti-dilutive.

Switching over to the balance sheet, DSO was 56 days in the second quarter which is down from 60 days in the prior quarter. I do expect DSO to be back to 60 days plus or minus in the third quarter.

Our total inventory and inventory deposit balance was $23.3 million at the end of the second quarter which is up from $21.9 million at the end of the first quarter. As planned, we added buffer inventory in the second quarter and will be adding more in the third quarter to support the transfer from now three contract manufacturers down to two. I expect our inventory balance to increase up to around $35 million. Starting in the fourth quarter I expect inventory to materially decline as we get past the transition.

Moving over to cash, we generated $3.6 million of operating cash flow in the second quarter and ended the quarter with $135.6 million of cash. This includes a cash outflow of $1.1 million related to the acquisition. On July 8, we paid out $73 million of cash for the acquisition which put us at $62 million. For the rest of the third quarter we expect an operating cash burn of $12 million including about $5 million in payments related to the acquisition and around $8 million in inventory purchases related to the increases to support our contract manufacturing transition that I mentioned earlier.

So if you take the $62 million minus the projected outflow of $12 million we will be around $50 million in cash entering into the fourth quarter. I do expect this to be the low point and anticipate meaningful operating cash flow moving forward.

And lastly, we continue to expect the acquisition of Continuous Computing to be accretive to our non-GAAP earnings no later than the first quarter of 2012.

Before I turn the call back over to Mike I just want to emphasize that I strongly believe that the acquisition will be a significant catalyst for short-term earnings growth, and long-term top and bottom line growth. With expanding gross margins and meaningful synergies we are in the best position we have been in in years to achieve our target financial model of 10% OI and I expect this to happen by the end of 2012.

With that I will turn the call back over to Mike.

Mike Dagenais - *RadiSys Corporation - CEO*

Thank you, Brian. Before providing our outlook I would like to say a few words on integration activities. We have spent a great deal of effort over the last couple of months looking at revenue expansion opportunities which I mentioned earlier and operating cost synergies.

Throughout this process I have been quite impressed with the attitude, commitment and quite frankly the combined talent of the teams we are bringing together. As indicated, I like the combined assets of the organization and strongly believe in the opportunity we have created. However, it won't be easy. But we have defined an integration roadmap for the next two quarters to reshape our approach to markets, to technology and to our business model. We will be sharing some of this with you on future earnings calls.

Regarding our outlook for the third quarter, for the full-year of 2011 and 2012, please note that this is our view as of today. It is forward-looking statements subject to risk and uncertainties as discussed previously and in our press release made available earlier today.

We currently expect our third quarter revenues to be between $97 million and $102 million which includes $17 million to $19 million of revenue from the addition of Continuous Computing. We project a third quarter GAAP net loss to be between $0.25 and $0.20 per share and our non-GAAP EPS to be between $0.13 and $0.18. For the full-year 2011, we expect total company revenues to be between $345 million and $355 million or up 20% to 25% over 2010. We project non-GAAP EPS for 2011 to be between $0.60 and $0.65.

In 2012, we believe our Next Generation Communication revenues will increase by 20% organically and 20% for Continuous Computing, translating into 40% reported growth when considering the full-year impact of Continuous Computing revenues. This revenue stream is expected to become two-thirds of our total revenue in 2012 driven by our combined design wins in the high growth areas of wireless such as LTE and small cell and DPI.

However, for the commercial business we currently expect our 2012 revenues to be down by approximately 20% to 25% for 2011 as some of the products reach end-of-life in 2012. We also expect our legacy communication networks revenue to continue to decline and be down approximately 50% in 2012. This ongoing decline is due to legacy products also nearing end-of-life.

So in total we expect the net impact of Next Generation revenue growth and the commercial and legacy revenue decline to result in 2012 of total revenues approximating 2011 levels. However, the growth in higher margin Next Generation products, as Brian stated, will enable gross margin to increase to between 35% and 37% and we expect non-GAAP operating expenses to come down significantly off the combined company's run rate.

We expect these combined improvements to result in 2012 non-GAAP EPS of between $0.80 and $0.85 which represents year-over-year growth of around 30% at the midpoint of the ranges.

So in closing, we are aggressively working to complete our integration plans in the next six to nine months and I am very pleased with the team's progress to date. The combination of the two companies provides for an expanded global footprint and brings a more optimal cost structure to this business. This will enable us to achieve target non-GAAP operating income of 10% by the end of 2012.

Strategically, we will be accelerating our intensity around new design wins to drive our growth in 2013 and beyond and to ensure that 2012 is our last flat revenue year for the company. We will maintain our focus on being a leading provider of embedded platforms and software for Next Generation Communications, medical, aerospace and defense networks.

With that, I would like to thank you for participating on our call and believe we are ready to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Torin Eastburn with CJS Securities.

Torin Eastburn - *CJS Securities - Analyst*

Good evening Mike and congratulations on your new position. I would like to start with the Next Gen revenues in the quarter. They were up about 13% which is good but quite a bit below trend. What is going on there and what do you see for order trends and industry trends for the next 6, 12 or 18 months?

Mike Dagenais - *RadiSys Corporation - CEO*

Well, we are seeing some nice trends going forward but there are obviously some macroeconomic impacts here that are out there. We haven't seen any significant slowdown in our orders. Our order book and backlog going into the quarter seem to be quite strong and a lot of this is the Next Generation products. It is probably too early to say if there are any impacts from what is going on. Still have a pretty strong outlook going forward into the third quarter.

Brian Bronson - *RadiSys Corporation - President and CFO*

Torin, this is Brian. In the case of organic RadiSys, we just delivered low 30's Next Gen revenues for the quarter and had an expectation of beginning year and still feel good about getting upwards of $40 million a quarter in the second half. That is excluding CCPU. It is always a combination of what is going on in the macro markets with timing of design win deployments. So what happens with some of our meaningful customers that they are starting to deploy in the second half and that really goes with CCPU, Continuous Computing, as well. So you blend that together and we both expect significant growth in the second half.

Torin Eastburn - *CJS Securities - Analyst*

Okay, excellent. Second, can you just talk a little bit about how you formulated your gross margin assumptions for 2012?

Brian Bronson - *RadiSys Corporation - President and CFO*

For 2012, well it really starts with the revenue. And Torin, we can take it offline this afternoon but our Next Gen business organically has been operating at 40 to 50 and we expect that to grow 20% plus or minus. Right? So that becomes greater content. You layer on the Continuous Computing revenue which will be for starters $17 million to $19 million in the third quarter, same sort of growth moving into 2012. Also, in that same gross margin range or more. But collectively you are talking about a business now that will be over two-thirds at 40% to 50% gross margins or higher and that legacy business in the case of our largest customer, for example, goes from $90 million this year to maybe around half of that in 2012, but you know really low gross margins.

Torin Eastburn - *CJS Securities - Analyst*

My only other question, it sounds like you are expecting the margins to ramp up through the end of the year in 2012. Is that due only to increasing synergies or are there other things involved in that?

Brian Bronson - *RadiSys Corporation - President and CFO*

Just more mix. More Next Generation product mix getting better and higher. That is really the biggest driver. As legacy business drops it is not all low margin. Mostly it is, but there also is cost savings that we expect out of cost of goods sold from the integration from the acquisition. Definitely product mix. The lead is more value, more software in our products.

Torin Eastburn - *CJS Securities - Analyst*

Alright. Thank you. And congratulations on getting this transaction done.

Mike Dagenais - *RadiSys Corporation - CEO*

Thank you.

Operator

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

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

Hi guys. Sorry, I jumped on the call a little bit late.

Mike Dagenais - *RadiSys Corporation - CEO*

No problem.

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

Can you give us, or maybe you already said it, Brian, but what was the revenue in the quarter for Continuous? I know it's not combined, but maybe you could give us a little bit of sense on how Continuous did?

Brian Bronson - *RadiSys Corporation - President and CFO*

Well, they beat their plan, first of all. I think I made it public that their 2010 revenue was a little under $57 million, I think it was $56.6 million to be exact. We told the street to expect 20 to 25 points of growth this year and that is what they are marching towards. Their first half again beat plan. The second half does have the growth, as I mentioned to Torin earlier, just like our own organic ATCA business and so we expect the second half that again is higher than the first half.

We planned for $17 million to $19 million in Q3. It was on the bottom end of that in Q2, as an example.

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

So, we have a full quarter from Continuous this time around? Because it closed in [July]?

Brian Bronson - *RadiSys Corporation - President and CFO*

All but a week. All but a week. The first eight days of July but that $17 million or $19 million is what we will get to enjoy together.

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

In terms of the customer profile now that I know you guys had said you will have a much more diversified customer profile now as we go forward, how should we think about the customer concentration going forward? Is Nokia now going to be well under 20%? How should we think about the customer concentration as we go forward?

Brian Bronson - *RadiSys Corporation - President and CFO*

Numerically, it goes from low 70's to about 50% overall. Okay? And then specifically with our largest customer that was 50% in the quarter albeit one-third of it being Next Gen goes to about one-third of our revenues next year and of the legacy piece we are down into the teen's as a percentage of revenue.

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

Is there any overlap or is there going to be any overlap in revenue between you guys? Is that something that customers have concern (multiple speakers)?

Mike Dagenais - *RadiSys Corporation - CEO*

No, there is actually very little overlap between the two companies. Interestingly, although we have been in the same space customers either decided to buy from one or the other. We both have diverse portfolios in the DPI space and are both serving the LTE market. So we actually have, from my perspective right now, I think maybe one customer that was a common customer buying different products from us. Everybody else is different.

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

One more quick one. In terms of how we should think about, maybe you guys have I'm sure spoken to customers about the transaction, I'm sure the feedback is generally positive. But maybe can you give us a sense of where we might see some synergies down the road between you and Continuous and how that is going to really work to your benefit? Maybe you will get some better traction with some of these customers?

Mike Dagenais - *RadiSys Corporation - CEO*

As I mentioned earlier, we do compete in the same space for part of our portfolios. We do have, or had, similar products. As part of the Integration Exercise, we are going through a portfolio rationalization. We are looking at some of the products that we have. We don't need two and three of the same thing so we will bring those numbers down. So, I think overall there are some product synergies as well.

We are actually looking as well, the trailing customers that Continuous brings to the table, there is absolutely no overlap at all with the RadiSys customers. So again I think it actually provides some pull-through for additional revenue opportunities, market expansion exposing the Trillium software to some of the RadiSys customers and also bringing some of the RadiSys platform assets to the Trillium software customers. So I think there are great opportunities here for top line as well as product rationalization type of synergies.

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

Mike, where would this be? Would this be mostly for carrier related or could we even expand a little bit more into the enterprise networking space? How should we think about the end market that you really want to focus in on now that you will have Continuous with you?

Mike Dagenais - *RadiSys Corporation - CEO*

I do believe right now that the companies have traditionally been focused primarily on the telecom space but we have been branching out into mil-aero and some of the defense markets. There is some opportunity in enterprise although I wouldn't say that is a strong market. Part of the portfolio that RadiSys also has been looking at more of the commercial medical space and some of the other markets.

So I think there is some diversity of portfolio here, although the bulk of our revenues will be in the telecom. Interestingly, there is an awful lot of overlap right now happening in the mil-aero space to bring a lot of telecom capabilities and services that are being used in the public network into the military space.

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

Brian, could you walk us through the math a little bit again just in terms of the synergy and how much savings you are going to see over the next 12 months? I know you said $8 million to $10 million a quarter, but how should we really rationally, is that just mostly coming from OpEx and is there anything else that maybe you can squeeze out on the COGS line? Or is it something else? Just walk us through that.

Brian Bronson - *RadiSys Corporation - President and CFO*

Yes, definitely. First of all, I will address the COGS piece. Yes, there is opportunity there. That is really not part of the $8 million to $10 million that I have been quoting. So on a stand-alone basis we are a little under $20 million in the second quarter. I mentioned in the third quarter that we will be $27 million of operating expense. That $7 million increase is all tied to the acquisition bringing on the Continuous Computing expenses. If you annualize that, and that is about $108 million bucks. So what I am suggesting is that off of that run rate we will be able to drive $8 million to $10 million off of that number in 2012 and then at least a couple more million off of that in 2013.

Operator

Your next question comes from the line of Ted Moreau with WJB Capital.

Ted Moreau - *WJB Capital Group, Inc. - Analyst*

Great. Thank you for taking my questions. I would like to welcome Mike aboard and congrats on the closing of the acquisition, guys.

Mike Dagenais - *RadiSys Corporation - CEO*

Thanks, Ted.

Ted Moreau - *WJB Capital Group, Inc. - Analyst*

You talked about some new customer traction anticipated for Q4. Can you elaborate on that a little bit?

Brian Bronson - *RadiSys Corporation - President and CFO*

We maybe need to expand a little bit. This is a design win business. Both of our businesses have traditionally been design-win. Once we win a customer we help the customer get to market and it generally takes a little while to get there but with the design-win focus we have a very active funnel. We have some opportunities identified with our customers that will be deploying in the third, fourth quarter and beyond.

So I think there is going to be growth from these additional customers there. In the media server business there is some immediate traction there because it is a software type business as well as the Trillium business. These are more transaction-oriented businesses but we see that as an expansion of our business going forward.

Ted Moreau - *WJB Capital Group, Inc. - Analyst*

Okay. Is it for both the legacy RadiSys and legacy CCPU or is it primarily from one side?

Brian Bronson - *RadiSys Corporation - President and CFO*

It is definitely Next Gen, Ted. Are you talking about inside of Next Gen? That's where the growth is. We delivered $32 million alone in Q2 and then of course you layer on the $17 million to $19 million for CCPU, all but 10% of that is Next Gen. Okay?

Ted Moreau - *WJB Capital Group, Inc. - Analyst*

Right.

Brian Bronson - *RadiSys Corporation - President and CFO*

Then, of course, we are expecting RadiSys proper, organic proper or whatever, is expecting nice sequential growth as well. All driven off of design wins that we have won over the last couple of years so again low 30's going, and you guys have all done the math, right? We have been messaging 20%, so $32 million has got to go to close to $40 million in the second half for us to deliver the growth, and we feel very good about that.

Ted Moreau - *WJB Capital Group, Inc. - Analyst*

Right. Okay. I was just kind of curious, given, and I understand the comments about you are not seeing any push outs or delays in products or anything like that, but given the macro uncertainty why do you feel comfortable giving 2012 guidance at this time?

Brian Bronson - *RadiSys Corporation - President and CFO*

Well, a couple of things, Ted. One, we just consummated a meaningful acquisition merger that I think warrants describing on why it made sense, frankly. Together we should be able to grow this business. It is design-win based, so not all is won, but absent timing it is somewhat in the books. Right? So that gives me comfort within a range.

Still timing. By the way, still have new design wins pushing out. Inside our design win portfolio there are delays in ramp of various programs but it is the collection of our design wins that are driving the growth.

Mike Dagenais - *RadiSys Corporation - CEO*

Ted, let me expand a little bit. I am quite familiar with at least the market segments that Continuous was driving. A lot of it is actually being driven by consumer demand for bandwidth on their Smartphones. The pressure it is putting on the infrastructure, the coms network. So we are not seeing any slowing down of that. Even the last, 2008 did not see a slowdown in the number of Smartphones and devices nor much slowdown in the stress it was putting on the core network infrastructures.

So a lot of our deployments are in that segment. The other interesting segment we are seeing a lot more happening in public safety and mil-aero that seem to be continuing to look at those opportunities. So, there is obviously a macro environment that we have to live within but there seems to be some small segments within that that seem to be not reacting to it.

Ted Moreau - *WJB Capital Group, Inc. - Analyst*

Okay. Then one more question, normally I don't pay tremendous attention to the geographic mix but there looked to be some fluctuations here this quarter. Could you talk about what were the puts and takes there and why there were the swing factors?

Brian Bronson - *RadiSys Corporation - President and CFO*

I think up to this point the biggest swing factor is our largest customer in the geo mix.

Ted Moreau - *WJB Capital Group, Inc. - Analyst*

So it is just basically going from Europe to APAC with the largest customer moving things around?

Brian Bronson - *RadiSys Corporation - President and CFO*

Yes. I would like to give you some other insight of something more fundamental would change there but I think it really was just mix in the quarter.

Ted Moreau - *WJB Capital Group, Inc. - Analyst*

Sounds good. Thanks very much guys.

Brian Bronson - *RadiSys Corporation - President and CFO*

Thank you, Ted.

Operator

Your next question comes from the line of Stephen Zucconi with Needham & Company.

Stephen Zucconi - *Needham & Co. - Analyst*

Hi, good afternoon. Thanks for taking my question and congrats the completion of the merger. Just briefly, can you talk about some of the drivers that give you the confidence to predict sustained 20% to 25% top line growth in the Continuous business and how dependent that is on the success of your customers?

Mike Dagenais - *RadiSys Corporation - CEO*

Well, as I indicated from the Continuous perspective we have been actually focused quite extensively on the DPI markets from the platform perspective and on the wireless access, small cell up to macro cell from a software perspective. There continues to be pretty strong investment in those technologies by the market. With all of the capacity challenges that we are facing right now it doesn't seem to be slowing down. So, we have a pretty diverse customer set. We are supplying four of the five largest DPI customers with technology. They are continuing to deploy those products going forward.

On the wireless side, the access side, with over 50 customers right now deploying our software solutions there is going to be some of those in some of their markets that are going to continue to expand. We have some pretty good visibility of those kinds of applications. But in all cases there is always some concern. I mean, one of the other segments that we just announced, which is lawful intercept, we are seeing increased interest by government agencies to introduce some of our DPI technology into their segment of the industry and they seem to be somewhat immune to some of the other macroeconomic events happening.

Stephen Zucconi - *Needham & Co. - Analyst*

Thank you, that's very helpful. To go back to the RadiSys business, how do you feel about the near-term growth prospects in the media server business particularly with the expected ramp at AT&T after a couple of quarters of softness?

Mike Dagenais - *RadiSys Corporation - CEO*

Well, it is nice to see that core business back. It is still, we use the word lumpy, and it does come and go. It is not consistent by quarter but that really does provide the stability for us to grow that business and I think we think the prospects are good over the next year to 18 months. It is going to have to be beyond conferencing and that is what we are vetting out right now so in things like voice-over LTE and other emerging markets. But there is a ton of IP there on a great foothold with customers and we do believe that is a great platform to grow over time.

Stephen Zucconi - *Needham & Co. - Analyst*

Great. Thank you very much.

Operator

Your next question comes from the line of George Notter with Jefferies and Company.

George Notter - *Jefferies and Company - Analyst*

Hi, thanks very much guys. A question for Mike. Mike, you guys consummated the merger a few weeks back and certainly you have been in planning mode in advance of that but I guess I would love to get a sense for your view on the RadiSys side of the organization. What about it surprised you positively? What about it surprised you negatively coming in from Continuous? Thanks.

Mike Dagenais - *RadiSys Corporation - CEO*

So, I will have to be careful here. But quite frankly I am actually amazed with the dedication, the commitment, the talent. A lot of great people. Really looking at this market and having a good understanding of this market. It is a bigger organization. It has more process than I am used to. I am not saying it is either good or bad, it is just a little different than what we are used to.

A little bigger. Maybe a little bit slower moving but at the same time, a lot of precision in how they work. So, it is going to be an interesting blend of Continuous, which was a little bit smaller, a little bit more nimble, quite aggressive in certain markets bringing together perhaps a little bit more conservative approach to the markets. It is going to be an interesting blend and I think we have brought the leadership team and taking some very good people from both sides, brought some great minds together. As we start looking at our longer-term vision, strategy and where we want to take the business I think there is great opportunity to put these people together and really work out what we want to be going forward. But the starting point is great and I am quite impressed with where we are right now.

George Notter - *Jefferies and Company - Analyst*

Got it. I also wanted to ask about your assumptions around legacy products. For next year I think you said a 50% decline in 2012 versus 2011. Brian, what do you think the puts and takes are on that 50%? What would cause that number to be better than expected or worse?

Brian Bronson - *RadiSys Corporation - President and CFO*

Really a lot of it, George you have been watching it for awhile, a lot of the same reasons why we ended up doing better this year than we originally said. Just timing of end-of-life, timing of them cutting over to ATCA. It is good 45% or 50% ended up being 60%? Sure. It would be for the same reasons.

George Notter - *Jefferies and Company - Analyst*

Great. Fair enough. Thank you guys very much.

Brian Bronson - *RadiSys Corporation - President and CFO*

Take the commercial, I don't know if you are putting commercial in the bucket of legacy or not but commercial does go down 20% to 25% versus 2011. I personally think we are collectively believing that that could be the bottom. There are some threads to pull in military aerospace. We are still investing in COM-E. And again, reevaluating how we can apply even a (inaudible) server business not only in medical but in the other markets. So I expect sort of 2012 to potentially be a bottom there and how much we can grow, or maybe we just stabilize and then grow over time but that is the new expectation in commercial.

George Notter - *Jefferies and Company - Analyst*

Great. Thank you.

Operator

(Operator Instructions). Your final question comes from the line of Torin Eastburn with CJS Securities.

Brian Bronson - *RadiSys Corporation - President and CFO*

Torin are you there?

Torin Eastburn - *CJS Securities - Analyst*

Yes, I am. Can you hear me?

Brian Bronson - *RadiSys Corporation - President and CFO*

You bet.

Torin Eastburn - *CJS Securities - Analyst*

Just one quick follow-up. Even after making the acquisition you are still going to have a significant amount of cash on your balance sheet especially after a few more quarters of profits. What are the thoughts on what you might do with it?

Brian Bronson - *RadiSys Corporation - President and CFO*

Well, acquisitions. Clearly not any time soon but that will be a play. Clearly stock buyback as well. We have got close to a $19 million authorization. We did buy back some stock earlier in the year. Particularly if the stock continues to be at these levels I will be interested in supporting that.

Then beyond that we do have a lot of integration work to do and a lot of cash is going to be consumed over the next quarter or two so we will get through that and then re-evaluate.

Torin Eastburn - *CJS Securities - Analyst*

Okay, thank you.

Operator

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

Mike Dagenais - *RadiSys Corporation - CEO*

Yes. To start off, thank you Misty. In closing I want to restate that we are really excited about the growth opportunities ahead, especially with our Next Generation products and the meaningful earnings expansion expected in 2012.

With that, I want to thank you for your support and I look forward to talking to you throughout the next quarter. Thank you.

Operator

This concludes today's RadiSys second quarter earnings conference call. You may now disconnect.
