UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2016

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	**93-0945232**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
5435 N.E. Dawson Creek Drive, Hillsboro, OR	**97124**
(Address of principal executive offices)	**(Zip Code)**
Registrant's telephone number, including area code	**(503) 615-1100**

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock, No Par Value	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K. ☐

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐	Accelerated Filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller Reporting Company ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates (based upon the closing price of the NASDAQ Global Select Market on June 30, 2016 of $4.48) of the registrant as of June 30, 2016 was approximately $163,976,364. For purposes of the calculation executive officers, directors and holders of 10% or more of the outstanding common stock are considered affiliates.

Number of shares of common stock outstanding as of February 24, 2017: 38,891,166

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

RADISYS CORPORATION

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PART I

Item 1. *Business*

General

Radisys Corporation (NASDAQ: RSYS), the services acceleration company, helps communications and content providers, and their strategic partners, create new revenue streams and drive cost out of their services delivery infrastructure. Radisys' hyperscale software defined infrastructure, service aware traffic distribution platforms, real-time media processing engines and wireless access technologies enable its customers to maximize, virtualize and monetize their networks. Our products and services fall within two operating segments: Software-Systems and Hardware Solutions.

- Software-Systems products are targeted at delivering differentiated solutions for service providers, specifically within telecommunications, to enable their deployment of next generation networks and technologies. Software-Systems products include the following three product families:

    - FlowEngine products target the communication service provider traffic management market and are a family of products designed to rapidly classify millions of data flows and then distribute these flows to thousands of Virtualized Network Functions ("VNFs"). FlowEngine offloads the processing for packet classification and distribution, improving virtualized function utilization and making the overall Network Functions Virtualization ("NFV") architecture more efficient. A FlowEngine system consists of FlowEngine software running on a Traffic Distribution Engine ("TDE") platform. FlowEngine Software enables communication service providers to efficiently transition towards containerization, NFV and software-defined networking ("SDN") architectures allowing increased service agility and quicker time to revenue for new service offerings. FlowEngine accomplishes this by integrating a targeted subset of firewalls, edge routing, data center switching, and load balancing functionality, coupled with standards-based SDN protocols, enabling our customers to significantly reduce the investment necessary to efficiently process data flows in virtualized communications environments.

    - MediaEngine products are designed into the IP Multimedia Subsystem ("IMS") core of telecom networks, providing the necessary media processing capabilities required for a broad range of applications including Voice over Long-Term Evolution ("VoLTE"), Voice over WiFi ("VoWifi"), Web Real-Time Communication ("WebRTC"), multimedia conferencing, as well as the media interworking including transcoding, transrating and media quality treatment that are required to achieve interoperability between legacy and new generation devices using disparate audio and video communication devices and applications. Our MediaEngine OneMRF strategy helps service providers consolidate their real-time IP media processing into a vendor and application agnostic platform, which drives cost out of their service delivery platform and enables accelerated deployment and introduction of new services. We sell a turnkey high-density system, the MediaEngine MPX-12000, as well as a virtualized software-only vMRF for customers who require media processing in an NFV architecture or lower-density processing platforms. In 2016, we also introduced variants of those systems, the TRF-12000 and vTRF, optimized for transcoding and media interworking for new, high-complexity audio and video codecs like the Enhanced Voice Services ("EVS") codec that provides service providers improved spectrum efficiency, greater radio tower coverage, and, for their customers, an enhanced user experience. As service providers consolidate network capacity from older (3G and 2G) architectures onto new LTE architectures, they will deploy IMS and VoLTE applications. Our MediaEngine provides the essential media processing capability that enables service providers to deliver audio, video or other multimedia services over their all-IP networks.

    - CellEngine software, which includes our TOTALeNodeB LTE and Femtotality 3G software products, provides the communication linkage between wireless end user devices and mobile core networks through small cell base stations that mobile service providers are deploying to optimize wireless network spectrum utilization and coverage.

    - Also included in our Software-Solutions segments is our Custom Development Solutions ("CDS") organization that consists of telecommunications experts who are available to assist our customers as they develop their own unique telecommunications products and applications as well as accelerating specific features developed across our Software-Systems product families. Our strategy is to enable the efficient and cost-effective adoption of our Software-Systems products as well as enabling service providers to migrate to next-generation software-defined network deployments.

- Hardware Solutions leverages our hardware design experience, coupled with our manufacturing, supply chain, integration and service capabilities, to enable continued differentiation from our competition. This segment includes both our recently launched, open-standards based DCEngine product family as well as our legacy embedded products portfolio, which over time will continue to trend down as service providers move away from proprietary architectures and onto open-standards solutions such as DCEngine.

    - DCEngine products transform service provider central offices and datacenters into SDN-enabled virtualized data centers. DCEngine provides a multi-rack level network functions virtualization ("NFVi") and container-based infrastructure for hosting thousands of VNFs and applications under open software-defined networking ("SDN") control. DCEngine utilizes the principles of highly efficient open compute platform ("OCP") architectures, delivering rack-scale compute, storage, and networking resources based on open Commercial off the shelf ("COTS") technology and integrates fully supported open source software. Radisys has built flexibility into DCEngine to address telecommunication central office demands for seismic, power, emissions and Network Equipment Building Systems ("NEBS"), which are above and beyond the traditional data center requirements. Service providers use DCEngine to provide pools of compute and storage resources that they can quickly scale to meet their evolving service requirements while improving agility in their service delivery.

    - Legacy embedded products includes our ATCA, computer-on-module express (COM Express) and rack mount servers. These products are predominantly hardware-based and include both our internal designs as well as increasingly leveraged third party hardware. Our products enable the control and movement of data in both 3G and LTE telecom networks and provide the hardware enablement for applications such as Deep Packet Inspection ("DPI"), policy management and intelligent gateways (security, femto and LTE gateways). Additionally, our products enable image processing capabilities for healthcare markets and enable cost-effective and energy-efficient computing capabilities dedicated for industrial deployments.

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.

Market Drivers

Our Software-Systems products uniquely position us to capitalize on the ongoing and upcoming global deployments of 4G Long Term Evolution ("LTE") mobile and 5G networks as well as the continued migration of service providers to embrace the efficiencies of the enterprise data center. Increasingly, service providers need to monetize the services that will be delivered to their end customers, while also virtualizing their core network infrastructures by embracing open-standards hardware and best in class open source and proprietary software. Further, as computer hardware becomes increasingly commoditized and carriers respond by moving away from purpose-built network elements to a virtualized architecture, the demand for devices that ensure the efficient and cost-effective flow of ever increasing amounts of data is expected to grow significantly. Specifically, demand for data and video traffic continues to expand exponentially as a result of increasing usage of smart phones, tablets and other wireless devices. In this evolving market, success demands a deep expertise in deploying fully integrated custom wireless and cloud applications. The key market drivers that we view as fundamental to our future success include the following:

- *Virtualizing the Core Network.* Service providers are continually looking to increase average revenue per user, while reducing infrastructure costs and accelerating the deployment of new and exciting revenue-generating services. Communication service providers are turning to SDN, NFV and containers to more efficiently manage these services, but intensive data plane solutions require very high processing performance on the underlying COTS servers, which does not scale to the forecasted increase in data traffic. Our open DCEngine rack-scale systems are based on high-density COTS server and storage subsystems, and are designed to host thousands of VNFs in a telecom data center environment. Our family of FlowEngine TDE Systems perform flow classification and then make intelligent flow distribution decisions, thereby leaving more processing power on the COTS servers for the NFV and container-based applications. This results in a more efficient architecture, which reduces both capital and operating expenditures for service providers.

- *Open Hardware and Open Source Software.* The majority of today’s telecommunication networking equipment, including routers, switches, gateways, and session controllers, have been provided by industry suppliers based on proprietary hardware architectures with proprietary software functions. While this approach often delivers high performance, the downside is a network composed of disparate hardware and software components that are expensive to integrate, manage and support, while also limiting new service time to market and innovations. Network service providers are now beginning to embrace the recent trends underway in large Enterprise-class data center design, where data center operators are building next-generation data centers based on open COTS hardware components, powered by both differentiated as well as open source software. Our DCEngine product is inspired by the Open Compute Project (OCP), which started as a specification for rack-scale open COTS hardware platforms for data center environments and optimized for telecom central office environmental and power requirements. Similarly, Radisys professional services is extending our software integration expertise to increasingly integrate and support open source software. Radisys professional services is also working closely with the Open Networking Foundation (ONF) on Central Office Re-Architected as a Data Center (CORD) reference designs, with a mission to deliver pragmatic SDN and NFV solutions based on open source networking software running on open COTS hardware for rapidly innovating and deploying residential, enterprise, and 5G mobile services.

- *Monetizing VoLTE and Video.* Service providers are continuing to deploy revenue-generating applications for next generation LTE networks such as VoLTE, VoWiFi, WebRTC, Multimedia Conferencing, Mobile Value Added Services, Voice over IP ("VoIP") and Video over IP Communications. This growing variety of services and access technologies also introduces new high-definition audio and video codecs into the network, driving a need for transcoding audio streams encoded using different codec standards, or trans-rating video streams to connect an HD large screen video terminal to a mobile device with a smaller screen or slower network connection. In next generation IMS architectures, it is the Media Resource Function ("MRF") that performs the intensive audio and video media packet processing, providing the underlying foundation that enables delivery of these customer applications. We also recently introduced our Transcoding Resource Function (“TRF”) products to augment the high scale signaling capabilities of edge devices like Session Border Controllers ("SBCs") and Media Gateways ("MGWs") to help service providers preserve their investments and maximize signaling capacity by deploying the TRF which is optimized to high scale media interworking for today’s and tomorrow’s codecs that demand ever increasing processing power. Our vMRF and vTRF products are designed to provide media processing as a virtualized network function in an NFV architecture, while the Media Engine MPX-12000 and TRF-12000 are advanced multimedia resource functions for IMS networks that provides the scalable IP media processing required for high-capacity VoLTE, HD video and multimedia application and transcoding and media interworking.

- *Maximizing spectrum utilization.* Wireless spectrum is a limited resource over which data is transferred. Wireless network providers require continual technology advancements to allow increasing amounts of data to be transferred over the same band of wireless spectrum. The deployment of small cells, the emergence of heterogeneous networks ("HetNets") and the leap towards LTE-Advanced promises to further enhance spectrum utilization. The ability to take advantage of the possible spectrum available, such as FDD, TDD and non-continuous bands, is increasingly important for service providers as they seek to deliver increased capacity and performance to their subscribers. These trends are making networks more efficient, increasing capacity and coverage, and enabling service providers to more readily monetize mobile broadband usage. We have also seen a pivot towards the highly scalable centralized RAN architecture and its evolution towards virtual RAN.

In contrast to the many factors driving growth in the markets in which our Software-Systems and DCEngine products are sold, the legacy embedded hardware markets, specifically in telecom where our Hardware Solutions products are sold, have come under significant pressure over the last several years. The industry has experienced increased hardware commoditization that, along with SDN and NFV trends and the improved capability of a data center like topology, has permanently altered the landscape for embedded telecom equipment manufacturers. This has resulted in the continued contraction of the overall market for these technologies. In this environment, it is necessary to narrow our focus and investment to strategic partnerships with key customers that value the quality, technology and extended support we provide.

Our Strategy

Our strategy is to help communication services providers, and their strategic partners, create new revenue streams and drive cost out of their services delivery infrastructure. Specifically, by embracing open-standards hardware and software solutions, leveraging our portfolio of software intellectual property, and finally our deep expertise of telecom networks, we aim to become a new class of telecom equipment manufacturer. Where prior telecom equipment manufacturers aimed to lock service providers in to their proprietary architectures, we aim to provide best-in-class solutions, some of which will be open-standards-based, as well as becoming the integrator of choice to help these service providers migrate their existing networks to SDN, NFV and open-standards solutions. Where traditionally our customers have been large equipment manufacturers who have leveraged our products in their broader solutions, increasingly service providers are looking to decompose these proprietary solutions from our traditional customers in order to both reduce the infrastructure costs of their networks while simultaneously gaining greater access to new disruptive technology. As a result, we expect to increasingly derive a greater proportion of our revenue directly from service providers rather than the traditional equipment manufacturer market into which we have historically sold.

Our top priorities across our strategic product families include:

- Accelerating new service introduction in scalable SDN-enabled networks while significantly reducing network complexity and required investment with our suite of FlowEngine products. The explosion of video, broadband mobile devices and the Internet of Things has led to millions of data flows traversing the packet network that service providers are increasingly aiming to monetize. The service-aware FlowEngine intelligently distributes data flows to the VNF resources applicable to each session's processing requirements, such as ad-insertion/removal applications, parental control applications, video optimization, network inspection capabilities, encryption-decryption offloading and policy enforcement applications all at line-rate speeds. Targeted specifically for communications and content providers that want more control and flexibility in their network, FlowEngine integrates with multiple open source SDN controllers through OpenFlow, OpenDaylight ("ODL") and ForCES for investment protection. We are working directly with a number of forward looking communication service providers and partners to accelerate service delivery, including our recent inclusion within the ONF as a contributing partner to integrate the open source based ONOS ("Open Network Operating System") SDN controller and orchestration fabric with our flow engine solution.

- Enabling media processing in the next-generation networks with our suite of the MediaEngine products, including the MPX-12000, TRF-12000, vMRF and vTRF, that furnish the media processing capabilities necessary for our customers' VoLTE and VoWiFi deployments, while at the same time maintaining our market position in legacy audio conferencing applications. This includes enabling our OneMRF strategy via the development of a rich ecosystem of independent software vendors and key channels to market via system integrators and OEM relationships with leading network equipment suppliers. To address the growing transcoding opportunities to interconnect newer IP services using the newest audio and video codecs, with legacy 3G and fixed line services using established codecs, Radisys now offers our MediaEngine Transcoding Resource Function (TRF) products, including our vTRF software transcoding solution for NFV or smaller deployments, as well as our hardware-based TRF-12000 with industry leading densities and economics.

- Enabling the migration of central offices and edge infrastructure into virtualized data centers via our open-standards DCEngine systems. DCEngine is a high-density compute, network and storage based rack solution leveraging the OCP design principles. DCEngine is delivered as pre-integrated, ready-to-deploy frames and Pods that are higher density and lower cost, delivering hyperscale NFVi ready platforms enabling faster time to market for new services. DCEngine meets telecom next-generation central office and data center specifications for power, seismic, emissions and NEBS. We expect to sell this product directly to service providers and over time will also provide a pull-through opportunity for our Software-Systems products.

In addition to our strategic products portfolio, our professional services organization enables service providers to rapidly deploy new technologies in their networks. Importantly, via our involvement in ONF and their CORD initiatives, we have been named an official systems integrator to help service providers deploy initial proof-of-concepts that ultimately have the opportunity to displace the entire existing central office infrastructure across telecom with open standards-based hardware and software solutions. While initial engagements may or may not include the sales of our strategic products, as a systems integrator we will gain direct access to Tier 1 service providers that we expect will further accelerate our strategy to sell our entire strategic product portfolio to these service providers over time.

We believe we are positioned to address the needs of our customers by:

- *Providing the technology that our customers require to meet the needs of continually evolving mobile, fixed and cable networks and the move to software-defined virtualized networks.* Our FlowEngine, MediaEngine, and CellEngine product families leverage our unique technology and capabilities in traffic management, media processing, and protocol signaling that provide performance differentiation from our competition and thus enable customers to focus on their own differentiation and value-added applications.

- *Accelerating time-to-market for our customers.* We offer open and standards-based, turn-key products across our Software-Systems product portfolio. We believe these products, combined with our vast telecom expertise, provide communication service providers, cable operators and Original Equipment Manufacturer ("OEM") customers with significant time-to-market advantages when compared to systems developed internally and other competing technologies.

- *Lowering total cost-of-ownership for our customers.* We believe our products and service capabilities provide a lower total cost-of-ownership to our customers by reducing research and development and support costs when compared to utilizing their own internal development resources. By leveraging our expertise and development resources, our customers minimize integration risk and can focus their precious development resources on their own differentiating value-added applications.

- *Partnering with Services Providers to enable the adoption of open source and open compute technologies.* We offer industry proven open compute platforms, traffic management and media processing products that allow CSPs to take on the task of migrating legacy networks to next generation networks. Our comprehensive portfolio of professional services ties it all together by providing competent and experienced resources to reduce time to market while maintaining quality.

Our Products

Our portfolio of products addresses a variety of customer requirements. We have differentiated our products into the following segments and product families:

- *Software-Systems.* Software-Systems is comprised of three product families: FlowEngine, MediaEngine and CellEngine.

    - *FlowEngine.* Our FlowEngine product line consists of high-performance data plane traffic distribution products designed for deployment in communication service provider core network infrastructure and data center markets. The key role of these products is to classify session data flows and intelligently distribute these flows to appropriate network processing resources. Included in the FlowEngine product family today are the Traffic Distribution Engine (TDE) network platforms; TDE-200, TDE-500 and TDE-1000. The TDE platforms employ high performance packet classification and flow-based traffic distribution and load balancing to offload complex data plane processing from physical and VNFs. By doing so, this appliance allows communications service providers to efficiently transition towards a NFV architecture for providing more granular based subscriber services.

      Our TDE family of products, coupled with our FlowEngine software, reduces service provider network costs by integrating a targeted subset of data plane features related to firewalls, network inspection functions, edge routing, data center switching, and load balancing, along with SDN control. Key service provider use cases include traffic steering to dedicated network resource platforms such as video optimization and content caching, service function chaining to discrete pools of VNF applications, and SDN-controlled traffic load balancing in packet optical networks.

    - *MediaEngine.* Our family of MediaEngine products are powerful, reusable and highly scalable multimedia processing systems that enable audio and video conferencing, VoLTE, VoWiFi and mobile video services across next generation wireless networks. The products also enable media interworking at both the edge and in the core of IMS and Web Communications networks. We sell our Media Engine products to telecommunication service providers, telecom equipment manufacturers, wireless operators, real-time communication system developers, OEM and enterprise customers.

      Our MediaEngine products also enable the convergence of fixed and mobile networks by delivering a shared media processing resource for any access network, including 4G/LTE wireless, broadband, cable, public switched telephone network ("PSTN") or satellite. The system's multi-service versatility enables service providers, as well as their application development and network infrastructure partners, to rapidly deploy innovative high-margin telecommunications services that include multimedia conferencing, ringback tones, unified communications and contact center applications. Our voice quality enhancement ("VQE") group of features is specifically designed to address noise, packet loss, and echo in packet voice networks, which enhances the usability and differentiation of VoIP services. We believe ongoing investments in our Video-over-IP capabilities and densities will help grow our business from serving VoIP/VoLTE/VoWiFi audio services into high-value, video-enabled and mobile services. The service provider launches of VoLTE and RCS videos services have begun to accelerate. We also invest in IP-IP transcoding, transrating, and media conditioning features to address growing scalability requirements to achieve seamless IP media stream interworking between 3G mobile, VoLTE IMS, Over-The-Top ("OTT"), and emerging WebRTC services and networks.

Our MediaEngine product family consists of the MediaEngine MPX-12000 and TRF-12000, hardware-based fault-resilient MRF and transcoding and media interworking platforms, as well as our vMRF and vTRF software, which are designed for use in off-the-shelf Linux servers and virtualized cloud deployments as well as with our DCEngine platform. For transcoding specific requirements, MediaEngine product family now also includes the MediaEngine TRF-12000 hardware-based transcoding platform, as well as our vTRF for Linux or virtualized cloud deployments. Radisys provides a common media processing foundation for all of our MediaEngine products, ensuring identical media processing features, control interface, and management capabilities across the Media Engine product family, providing a unique value proposition to our customers.

- *CellEngine.* Our CellEngine software protocols and applications are the underlying signaling and data infrastructure that enables the linkage between wireless end user devices and network base station access points. Today, CellEngine software is focused primarily on enabling 3G and LTE wireless network access and our portfolio is now expanding to include LTE-A, 5G and IoT access technologies. In addition, CellEngine supports various types of network infrastructure from access to the core of the network and from wireless to wireline networks.

- *Hardware Solutions.* Our Hardware Solutions segment provides customers with hardware-based products targeted at the communications and healthcare markets. Our hardware design experience, coupled with our manufacturing, supply chain, integration and service capabilities allow us to provide continued differentiation from our competition. This segment includes both our recently launched, open-standards-based DCEngine product family as well as our legacy embedded products portfolio, which over time will continue to trend down as service providers move away from proprietary architectures and onto open-standards solutions.

  - *DCEngine Rack-Scale Platforms*. Our DCEngine products utilize the principles of highly efficient open compute platform ("OCP") architectures, namely the recently accepted CG-Openrack-19 specification, and integrates fully supported open source software. Radisys has built flexibility into DCEngine to address telecommunication central office demands for seismic, power, emissions and NEBS, which are above and beyond the traditional data center requirements. This architecture enables service providers to bring the economies of the data center together with the agility of the cloud, allowing them to accelerate the transformation to cloud-based compute, storage and networking fabrics utilizing the best of COTS and open source hardware and software coupled with world class systems integration services and support. DCEngine enables service providers to drive innovation and the rapid delivery of new services such as storage and backup, video-on-demand, Internet Protocol Television ("IPTV") and parental controls.

  - *Legacy Embedded Products.* Our legacy embedded products include our ATCA products, COM Express, rack mount servers and other products. ATCA products are fully integrated, application-ready, software-rich hardware products that are largely ATCA based and modular in nature and enable configuration for a wide variety of applications. These products are comprised of carrier blades, chassis, disk modules, line cards, processing and switch modules and complete systems. COM Express and rack mount products are targeted primarily at the medical imaging, test and measurement, and aerospace and defense markets. COM Express products are small form factor compute modules designed for applications that require a standard processor and memory subsystem, but also modular flexibility to retain key design-level intellectual property ("IP") on a separate carrier board. Our rackmount servers specialize in meeting the needs of specific applications that are designed to be the central control point of a larger integrated system. Medical imaging and diagnostic systems are examples of systems that incorporate these enabling servers. Other products in this portfolio include custom-built pre-ATCA based telecommunication products based on earlier technology standards.

Competition

Our primary competition is as follows:

- *Software-Systems.* The primary competitors in FlowEngine consist of traditional load balancing vendors, F5 and Force10, and new entrants to the SDN market such as Corsa and Noviflow. We face competition in the

MediaEngine market primarily from Dialogic, Dolby, Compunetix, and HP. Our primary competitors in the enabling software systems market, into which our CellEngine software is sold, are ACOM Solutions, Cavium, Aricent Group and NodeH.

- *Open-standards hardware.* Our competitors for DCEngine are traditional suppliers of data center computing and storage platforms, including Dell and HP and low-cost Asian-based manufacturers. Additionally when the service provider decides to purchase a propriety system or rack-level solutions our competitors are Nokia Solutions and Networks, Ericsson and Huawei. We differentiate ourselves from established suppliers by our flexibility to address telecom environmental and long-life requirements, as well as our willingness and expertise to pre-integrate open source telecom software and/or CORD open source SDN and NFV software on DCEngine.

- *Legacy hardware.* Our competitors for legacy embedded products include Artesyn Embedded Technologies, Advantech Co, ADLink Technologies and Kontron AG.

- *Our target customers.* In certain of our products lines, such as MediaEngine and embedded products, we continue to sell to channel partners who integrate our technology into broader solutions that are sold directly to service providers. In these cases our primary competition is from these channel partners who choose to remain vertically integrated and internally develop their own enabling technology.

We believe the main competitive factors are product performance, quality, service, time to market, ability to respond to technological change and/or price. Our system-level architecture and design expertise coupled with our broad technology portfolio, flexibility to integrate commercial off-the-shelf platforms with networking software and services to complete systems, enable product differentiation when compared to our competition. We believe our rapid design cycles and open and standards-based systems paired with our design and mature supply chain presence in low-cost geographies will provide customers with a time-to-market advantage at a lower total cost.

Customers

Our customer base is increasingly migrating from selling through channels towards selling direct to service providers including large Tier 1 service providers such as Verizon Wireless and Reliance Jio Infocomm. Additionally, we will continue to leverage channel relationships as well as other long-standing customers such as: Philips Healthcare, Nokia Solutions and Networks, Arrow Electronics, Verint Systems, Mitel, Lestina International and West Corporation.

Our five largest customers, accounting for approximately 69.6% of revenues in 2016, are listed below with an example of the type of application that incorporates our products:

Customer	Application / End Customer
Verizon Wireless	DCEngine data center products and FlowEngine traffic distribution products
Philips Healthcare	Medical imaging equipment
Mitel	ATCA products and real-time media processing systems for VoLTE/VoWiFi services
Reliance Jio Infocomm	Real-time media processing systems for VoLTE/VoWiFi services
Nokia Solutions and Networks	2, 2.5, and 3G wireless infrastructure equipment incorporated into Nokia Networks solutions which includes our ATCA portfolio as well as our MediaEngine portfolio which powers Nokia's VoLTE and VoWiFi solutions globally

Verizon and Phillips Healthcare were our largest customers in 2016, accounting for 35.9% and 15.7% of 2016 revenues. Nokia Solutions and Networks was our largest customer in 2015, accounting for 16.0% of 2015 revenues. Reliance Jio Infocomm and Verizon Wireless accounted for 32.6% and 36.0% of our accounts receivable as of December 31, 2016 and December 31, 2015.

Supply Chain Operations

Our manufacturing for legacy embedded products is fully outsourced with one contract manufacturing partner located in Asia and other third-party hardware providers from which we purchase complete solutions. In addition, the manufacturing of our DCEngine racks is outsourced to one partner located in the U.S. and Europe and two integration partners located in the U.S. We believe utilizing outsourced partners provides product cost, quality, and availability advantages. We presently have offices in Shenzhen, China and Hillsboro, Oregon that oversee the supply chain management, manufacturing, integration and product testing, quality, and fulfillments efforts conducted by our contract manufacturing partners.

Professional Services

Our professional services organization actively partners with our customers in the development of Software-Systems technology features across our product portfolio to provide next generation architecture, product development engineering and development verification. Integration and testing services include validation, certification and network integration, support and training. Additionally, we offer deployment services such as branding, cost management and lifecycle management. Total professional services headcount is primarily located in our Bangalore, India facility and was 179 as of December 31, 2016.

Research and Development

Because the industries in which we compete are characterized by rapid technological advances, our ability to compete successfully depends heavily upon our ability to ensure a continual and timely flow of competitive products, services and technologies to the marketplace. We continue to develop new technologies to enhance existing products and expand the range of our product offerings through research and development, licensing of intellectual property and acquisition of third-party businesses and technology. Our research and development ("R&D") staff consisted of 317 engineers and technicians as of December 31, 2016 located in India, the U.S and China. R&D expense in 2016, 2015 and 2014 was $24.1 million, $25.5 million and $32.0 million.

Sales, Marketing and Service

Our products are sold through a variety of channels, including direct sales, distributors, sales representatives, and system integrators. Our sales teams, in conjunction with our product marketing and product development teams, collaborate with customers to accelerate product development and achieve higher quality, lower development and product cost and faster time-to-market for their products. Our total direct sales and marketing headcount was 68 as of December 31, 2016.

We market and sell our products in North America, Europe, Middle East and Africa ("EMEA") and Asia Pacific. In each of these geographic markets, products are sold principally through a direct sales force located in the U.S., Canada, Europe, China, India and Singapore. In addition, our direct sales team is supplemented with indirect sales representatives, which cost-effectively broadens our addressable markets and enables access to additional customers where we do not have a direct presence. In 2016, global revenues were comprised geographically as follows: 61% from North America, 21% from EMEA and 18% from Asia Pacific. See Note 17—*Segment Information* of the Notes to the Consolidated Financial Statements for financial information by geographic area and financial information regarding revenues of classes of similar products.

We have a worldwide hardware services organization focused on meeting our customers' needs for hardware repair, system integration, and training. In addition, if required by our customers, we provide technical support and maintenance service for Hardware Solutions and Software-Systems products due to the software-rich content of the products. Certain customers enter into technical support and maintenance service agreements that provide access to product upgrades and enhancements over the life of the contract as such releases become generally available.

Backlog

As of December 31, 2016, our backlog was approximately $32.0 million, compared to $23.1 million as of December 31, 2015. We include in our backlog only unshipped purchase orders scheduled for delivery within the next twelve months.

Intellectual Property

We hold 43 U.S. and 17 foreign utility patents, and no U.S. or foreign patent applications are pending. We also rely on copyrights, trademarks, trade secrets, know-how and rapid time to market for protection and leverage of our intellectual property. We have from time to time been made aware of others in the industry who assert exclusive rights to certain technologies, usually in the form of an offer to license certain rights for fees or royalties. Our policy is to evaluate such claims on a case-by-case basis. We may seek to enter into licensing agreements with companies having or asserting rights to technologies if we conclude that such licensing arrangements are necessary or desirable in developing specific products.

Employees

As of December 31, 2016, we had 800 employees, comprised of 790 regular employees and 10 temporary employees or contractors. We are not subject to any collective bargaining agreements, have never been subject to a work stoppage, and believe we have maintained good relationships with our employees.

Corporate History

Radisys Corporation was incorporated in March 1987 under the laws of the State of Oregon. Our principal offices are located at 5435 N.E. Dawson Creek Drive, Hillsboro, OR 97124; our telephone number is (503) 615-1100. Our website address is www.radisys.com.

INTERNET INFORMATION

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) are available free of charge through our website (www.radisys.com) as soon as reasonably practicable after we electronically file the information with, or furnish it to, the Securities and Exchange Commission (the “SEC”). Reports filed with the SEC may be obtained on the SEC website (http://www.sec.gov) or may be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Further information about the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

We have adopted Corporate Governance Guidelines for our Board of Directors and a Code of Conduct and Ethics (“the Code”) for our Board of Directors, our Chief Executive Officer, principal financial and accounting officers and other persons responsible for financial management and our employees generally. We also have charters for the Audit Committee, Compensation and Development Committee, Nominating and Corporate Governance Committee and Strategic Oversight Committee of our Board of Directors. Copies of the above-referenced documents may be obtained on our website (www.radisys.com), and such information is available in print to any shareholder who requests it by contacting us at our corporate headquarters at (503) 615-1100. We intend to disclose future amendments to, or waivers from, certain provisions of the Code on our website or in a current report on Form 8-K. Information contained on the Company’s website is not included as part of, or incorporated by reference into, this report.

We also utilize a third party compliance website, EthicsPoint®, to provide our employees with a simple, risk-free way to anonymously and confidentially report actual or suspected activities that may involve financial or criminal misconduct or violations of the Code. This webpage is hosted on EthicsPoint’s secure servers and is not part of our website or intranet.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. Some of the forward-looking statements contained in this report include:

- the Company's business strategy;
- changes in reporting segments;
- expectations and goals for revenues, gross margin, research and development ("R&D") expenses, selling, general and administrative ("SG&A") expenses and profits;
- the impact of our restructuring events on future operating results, including statements related to future growth, expense savings or reduction or operational and administrative efficiencies;
- timing of revenue recognition;
- expected customer orders;
- our projected liquidity;
- future operations and market conditions;
- industry trends or conditions and the business environment;
- future levels of inventory and backlog and new product introductions;
- financial performance, revenue growth, management changes or other attributes of Radisys following acquisition or divestiture activities
- continued implementation of the Company's next-generation datacenter product; and
- other statements that are not historical facts.

These factors include, among others, the continued implementation of the Company’s next-generation datacenter product, customer implementation of traffic management solutions, the outcome of product trials, the market success of customers' products and solutions, the development and transition of new products and solutions, the enhancement of existing products and solutions to meet customer needs and respond to emerging technological trends, the Company's dependence on certain customers and high degree of customer concentration, the Company's use of one contract manufacturer for a significant portion of the production of its products, including the success of transitioning contract manufacturing partners, matters affecting the software and embedded product industry, including changes in industry standards, changes in customer requirements and new product introductions, actions by regulatory authorities or other third parties, cash generation, changes in tariff and trade policies and other risks associated with foreign operations, fluctuations in currency exchange rates, key employee attrition, the ability of the Company to successfully complete any restructuring, acquisition or divestiture activities, risks relating to fluctuations in the Company's operating results, the uncertainty of revenues and profitability and the potential need to raise additional funding and other factors listed in Item 1A “Risk Factors” and in other reports we file with the SEC. 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.

Forward-looking statements in this report include discussions of our goals, including those discussions set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations". We cannot provide assurance that these goals will be achieved.

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 1A. *Risk Factors*

There are many factors that affect our business and the results of our operations, many of which are beyond our control. The risks described in this report 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.

Because of the significant percentage of our sales to certain customers, the loss of, or a substantial decline in sales to, a top customer could have a material adverse effect on our revenues and profitability.

For 2016, 2015 and 2014 we derived 70%, 49%, and 51% of our revenues from our five largest customers during these periods. These five customers in 2016 were Verizon Wireless, Philips Healthcare, Mitel, Reliance Jio Infocomm, and Nokia Solutions and Networks, each of which purchase a variety of products from us. During 2016, revenue attributable to our largest customer, Verizon Wireless, was 35.9%. In 2015 and 2014, revenues attributable to our largest customer, Nokia Solutions and Networks, were 16% and 17%. Due to our significant customer concentration, our largest customers have additional pricing power over us that can adversely affect revenues and gross margins or cause us to exit lines of business with them that do not meet profitability objectives. Further, a financial hardship experienced by, or a substantial decrease in sales to, any one of these customers could materially affect our revenues and profitability. Generally, our products are components for our customers’ products and in certain instances our customers are not the end-users of our products. If any of these customers’ efforts to market the products we design and manufacture for them or the end products into which our products are incorporated are unsuccessful in the marketplace or if these customers experience a decrease in demand for such products, our design wins, sales and/or profitability will be significantly reduced. Furthermore, if these customers experience adverse economic conditions in the end markets into which they sell our products, we would expect a significant reduction in spending by these customers in addition to increasing our exposure to credit risk, which may limit our ability to collect. Some of these end markets are characterized by intense competition, rapid technological change and economic uncertainty and as such there is no guarantee that the revenues associated with the potential loss of a key customer will be replaced by the establishment of new business relationships. Our exposure to economic cyclicality and any related fluctuation in demand from these customers could have a material adverse effect on our revenues and financial condition.

We use one contract manufacturer and two integration partners to assemble certain products, and a loss or degradation in performance of our contract manufacturer could have a material adverse effect on our business or our profitability.

If our third party partners fails to adequately perform, our revenues and profitability could be adversely affected. Among other things, inadequate performance by our third party partners could include the production or integration of products that do not meet our quality standards or schedule and delivery requirements and could cause us to manufacture products internally or seek additional sources of manufacturing. Additionally, our third party partners may decide in the future to discontinue conducting business with us. If we are required to change third party partners or assume internal manufacturing or integration operations due to any termination of the agreements with our third party partners, we may lose revenue, experience manufacturing or integration delays, incur increased costs or otherwise damage our customer relationships. We cannot guarantee that we will be able to establish alternative third party relationships on similar terms. Furthermore, our third party partners could require us to move to another production facility. This could disrupt our ability to fulfill customer orders during a transition and impact our ability to utilize our current supply chain and attain raw materials.

Additionally, if our third party partners are responsible for patent or copyright infringement (including through the supply of counterfeit parts), we may or may not be able to hold them responsible and we may incur costs in defending claims or providing remedies. Such infringements may also cause our customers to abruptly discontinue selling the impacted products, which would adversely affect our net sales of those products, and could affect our customer relationships more broadly.

If we experience delays in the customer implementation process of our next-generation products, it could delay our ability to recognize expected revenues, increase our anticipated costs and otherwise negatively impact our growth expectations.

Our customer relationships and overall business will suffer if we encounter significant problems implementing our next-generation products. To the extent we encounter difficulties in implementing our next-generation products, we may be required to incur additional costs, including research and development costs, to address issues identified during the process. Delays in implementation of our next-generation products could harm our reputation, cause us to lose existing customers, lead to potential customer disputes or limit the adoption rate of our solutions, and our business, operating results and financial condition could be materially and adversely affected.

Our failure to develop and introduce new products and applications or enhancements to existing products and applications on a timely basis could harm our ability to attract and retain customers.

Our industry is characterized by rapidly evolving technology, frequent product introductions and ongoing demands for greater performance and functionality. Therefore, we must continually identify, design, develop and introduce new and updated products and applications with improved features to remain competitive. To introduce these products and applications on a timely basis we must:

- design innovative and performance-improving features that differentiate our products and applications from those of our competitors;
- identify emerging technological trends in our target markets, including new standards for our products and applications in a timely manner;
- accurately define and design new products and applications to meet market needs;
- anticipate changes in end-user preferences with respect to our customers' products;
- rapidly develop and produce these products and applications at competitive prices;
- anticipate and respond effectively to technological changes or product announcements by others; and
- provide effective technical and post-sales support for these new products and applications as they are deployed.

The process of developing new technology products and applications and enhancing existing products and applications is complex, costly and uncertain. If we fail to anticipate our customers' changing needs and emerging technological trends, our market share and results of operations could suffer. We must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and applications. If we are unable to extend our core technologies into new applications and new platforms and to anticipate or respond to technological changes, the market's acceptance of our products and applications could decline and our results would suffer. Additionally, any delay in the development, production, marketing or offering of a new product or application or enhancement to an existing product or application could result in customer attrition or impede our ability to attract new customers, causing a decline in our revenues, earnings or stock price and weakening our competitive position. We maintain strategic relationships with third parties to market certain of our products and applications and support certain functionality. If we are unsuccessful in establishing or maintaining our strategic relationships with these third parties, our ability to compete in the marketplace, to reach new customers and geographies or to grow our revenues would be impaired and our operating results would suffer.

The quality of our hardware, software, support and services offerings is important to our direct service provider customers, and if we fail to offer high quality support and services, mobile service providers may not buy our solutions and our revenue may decline.

Once our solutions are deployed within our mobile service provider customers' networks, the customers generally depend on our support organization to resolve issues relating to those solutions. A high level of support is critical for the successful marketing and sale of our solutions. If we are unable to provide the necessary level of support and service to our customers, we could experience:

- a loss of customers and market share;
- a failure to attract new customers, including in new geographic regions;
- increased service, support and warranty costs or claims; and
- network performance penalties, including liquidated damages for periods of time that our customers' networks are inoperable.

Any of the above results would likely have a material adverse impact on our business, revenue, results of operations, financial condition, liquidity and reputation.

Our future performance depends in part on the research and development efforts of third parties.

We purchase technology from a number of third parties that is used in the development of new software and hardware products. If our third party vendors fail to adequately develop new products that meet our specifications, timeliness and cost targets, our revenues and profitability could be adversely affected as we may be unable to meet our customer delivery commitments or maintain pace with the development efforts of our competitors.

Our ability, as well as our contract manufacturer's and integration partner's ability, to meet customer demand depends largely on our ability to obtain raw materials and a reduction or disruption in the availability of raw materials could negatively impact our business.

The recent global economic contraction has caused many of our component suppliers to reduce their manufacturing capacity. As the global economy improves, our component suppliers are experiencing and may continue to experience supply constraints until they expand capacity to meet increased levels of demand. These supply constraints may adversely affect the availability and lead times of components for our products. Increased lead times mean we may have to forsake flexibility in aligning our supply to customer demand changes and increase our exposure to excess inventory since we may have to order material earlier and in larger quantities. Further, supply constraints will likely result in increased expediting and overall procurement costs as we attempt to meet customer demand requirements. In addition, these supply constraints may affect our ability, as well as our contract manufacturer's ability, to meet customer demand and thus result in missed sales opportunities and a loss of market share, negatively impacting revenues and our overall operating results.

Because of the limited number of direct, and indirect suppliers, or in some cases, one supplier, for some of the components we and our contract manufacturer and integrations partners use, a loss of a supplier, a decline in the quality and/or a shortage in any of these components could have a material adverse effect on our business or our profitability.

There are only a limited number of direct and indirect suppliers, or in some cases, only one supplier, for a continuing supply of the components our contract manufacturer and integrations partners uses in the manufacturing and integration of our products and any disruption in supply could adversely impact our financial performance. For example, certain silicon is solely sourced from large silicon producers. We obtain these components from resellers, integrators and component manufacturers. Alternative sources of components that are procured from one supplier or a limited number of suppliers could be difficult to locate and/or would require a significant amount of time and resources to establish. We have in the past experienced and may in the future experience difficulty obtaining adequate quantities of key components used in certain of our products, which have resulted and may result in delayed or lost sales. Delayed sales can also result from our silicon vendors' delays or cancellations of new technologies and products as these technologies and products are often designed into our new Radisys products before they are fully available from our suppliers. In addition, current economic conditions expose us to an increased risk of vendor insolvency, which, given our reliance upon a limited supply base, could result in an inability to procure adequate quantities of materials and components to meet our customers' demand and/or ability to procure the quality of materials and components our customers require.

Political events, war, terrorism, public health issues, natural disasters and other circumstances could have a material adverse effect on our financial condition and operating results.

War, terrorism, geopolitical uncertainties, public health issues, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a strong negative effect on our business and our suppliers, logistics providers, manufacturing vendors and customers, including channel partners. Our business operations are subject to interruption by natural disasters, fire, power shortages, nuclear power plant accidents, terrorist attacks, and other hostile acts, labor disputes, public health issues, and other events beyond our control. Such events could decrease demand for our products, make it difficult or impossible for us to make and deliver products to our customers, including channel partners, or to receive components from our suppliers, and create delays and inefficiencies in our supply chain. Should major public health issues, including pandemics, arise, our business could be negatively affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products, and disruptions in the operations of our manufacturing vendors and component suppliers. The majority of our research and development activities and other critical business operations, including certain component suppliers and manufacturing vendors, are in locations that could be affected by natural disasters. In the event of a natural disaster, losses, significant recovery time and substantial expenditures could be required to resume operations and our financial condition and operating results could be materially adversely affected.

We intend to develop new products and applications and expand into new markets, which may not be successful and could harm our operating results.

We intend to expand into new markets and develop new products and applications based on our existing technologies integrated with new technologies organically developed or acquired such as our new FlowEngine and DCEngine product line. These efforts have required and will continue to require us to make substantial investments, including but not limited to significant research, development and engineering expenditures. We plan to devote significant resources to the development of technologies and applications in markets where our operating history is less extensive. These new offerings and markets may require a considerable investment of technical, financial, compliance and sales resources, and a scalable organization. Some of our competitors may have advantages over us due to their larger presence, larger developer network, deeper market experience and larger sales, consulting and marketing resources. If we are unable to successfully establish new offerings in light of the competitive environment, our operating results may suffer. Additionally, many of the new products and applications we are working on may take longer and more resources to develop and commercialize than originally anticipated. Specific risks in connection with expanding into new products and markets include, but are not limited to, the inability to transfer our quality standards and technology into new products, the failure of customers to accept our new products, longer product development cycles and competition and intellectual property disputes. New products and applications could subject us to increased risk of liability related to the provision of services as well as cause us to incur significant technical, legal or other costs. We may not be able to successfully manage expansion into new markets and products and these unsuccessful efforts may harm our financial condition and operating results.

The segments of the software industry in which we participate are intensely competitive, and our inability to compete effectively could harm our business.

We experience significant competition from a variety of sources with respect to the marketing and distribution of our products and applications. Many of our competitors have greater financial, marketing or technical resources than we do and may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than we can. Increased competition could make it more difficult for us to maintain our market presence or lead to downward pricing pressure. In addition, the marketplace for new products and applications is intensely competitive and characterized by low barriers to entry. As a result, new competitors possessing technological, marketing or other competitive advantages may emerge and rapidly acquire market share. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing their ability to deliver products and applications that better address the needs of our prospective customers. Current and potential competitors may also be more successful than we are in having their products or technologies widely accepted. We may be unable to compete successfully against current and future competitors, and our failure to do so could have a material adverse effect on our business, prospects, financial condition and operating results.

Our projections of future purchase orders, revenues and earnings are highly subjective and may not reflect future results which could negatively affect our financial results and cause volatility in the price of our common stock.

We have several contracts with most of our major customers but these contracts do not typically commit our customers to purchase a minimum amount of our products. These contracts generally require our customers to provide us with forecasts of their anticipated purchases. However, our experience indicates that customers may change their purchasing patterns quickly in response to market demands, changes in their management or strategy, among other factors, and therefore these forecasts may not be relied upon to accurately forecast sales. From time to time we provide projections to our shareholders and the investment community of our future sales and earnings. Because we do not have long-term purchase commitments from our major customers and the customer order cycle is short, it is difficult for us to accurately predict the amount of our sales and related earnings in any given period. Our projections are based on management’s best estimate of sales using historical sales data, information from customers and other information deemed relevant. These projections are highly subjective since sales to our customers can fluctuate substantially based on the demands of their customers and the relevant markets. Our period to period revenues have varied in the past and may continue to vary in the future.

Unanticipated reductions in purchase orders from our customers may also result in us having to write off excess or obsolete inventory. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available or if our customers experience a financial hardship or if we experience unplanned cancellations of customer contracts, the current provision for inventory reserves may be inadequate and as a result we could forego revenue opportunities and potentially lose market share and damage our customer relationships. In addition, and as stated above, we have a high degree of customer concentration. Any significant change in purchases by any one of our large customers may significantly affect our sales and profitability.

If demand for our products and applications fluctuates, our revenues, profitability and financial condition could be adversely affected. Important factors that could cause demand for our products and applications to fluctuate include:

- changes in customer product needs;
- changes in the level of our customers' inventory;
- changes in business and economic conditions;
- changes in the mix of products and applications we sell; and
- market acceptance of our products and applications.

The price of our common stock may be adversely affected by numerous factors, such as general economic and market conditions, changes in analysts' estimates regarding earnings as well as factors relating to the commercial systems and communication networking markets in general. We cannot accurately forecast all of the above factors. As a result, we believe that period-to-period comparisons may not be indicative of future operating results. Our operating results in any future period may fall below the expectations of public market analysts or investors.

Our business depends on conditions in primary markets into which we sell our products and applications. Demand in these markets can be cyclical and volatile, and any inability to sell products to these markets or forecast customer demand due to unfavorable or volatile market conditions could have a material adverse effect on our revenues and gross margin.

Many of our products and applications are components for our customers' products and, in certain instances, our customers are not the end-users of our products and applications. If our customers experience adverse economic conditions in the end markets into which they sell our products, we would expect a significant reduction in spending by our customers. Some of these end markets are characterized by intense competition, rapid technological change, consolidation of providers and economic uncertainty. Our exposure to economic cyclicality and any related fluctuation in customer demand in these end markets could have a material adverse effect on our revenues and financial condition. We are expanding into applications either through new product development projects with our existing customers or through new customer relationships, but no assurance can be given that this strategy will be successful.

In addition, customer demand for our products and applications is subject to significant fluctuation. A prolonged economic downturn in the business or geographic areas in which we sell our products could reduce demand for our products and applications and result in a decline in our revenue, gross margin and overall profitability. Volatility and disruption of financial and credit markets could limit our customers' ability to obtain adequate financing to maintain operations and invest in network infrastructure and therefore could also reduce demand for our products and applications and result in a decline in our revenue, gross margin and overall profitability. If we overestimate demand, we may experience underutilized capacity and excess inventory levels. As such, if we underestimate demand, we may miss sales opportunities and incur additional costs for labor overtime, equipment overuse and logistical complexities. Additionally, we have adverse purchase commitment liabilities pursuant to which we are contractually obligated to place a deposit with our contract manufacturer for the cost of excess inventory used in the manufacture of our products and applications for which there is no forecasted or alternative use. Unexpected decreases in customer demand or our inability to accurately forecast customer demand could also result in increases in our adverse purchase commitment liability and have a material adverse effect on our gross margins and profitability.

We rely on our key management and depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could adversely impact our business.

A small number of key executives manage our business. Their departure could have a material adverse effect on our operations. In addition, due to the specialized nature of our business, our future performance is highly dependent upon our ability to attract and retain qualified engineering, manufacturing, marketing, sales and management personnel for our operations. Competition for personnel is intense, and we may not be successful in attracting and retaining qualified personnel. Our failure to compete for these personnel could seriously harm our business, results of operations and financial condition. In addition, if incentive programs we offer are not considered desirable by current and prospective employees, we may have difficulty retaining or recruiting qualified personnel. If we are unable to recruit and retain key employees, our product development, marketing and sales may be harmed.

The success of our business is dependent upon successfully managing our international operations and attracting and retaining key international employees.

Substantially all of our product development and operations centers are located in India and China. This international presence results in risks that are inherent in doing business on an international level. These risks include:

- difficulties in managing operations due to distance, language and cultural differences;
- different or conflicting laws and regulations;
- accounting (including managing internal control over financial reporting in our non-U.S. subsidiaries), tax and legal complexities arising from international operations;
- burdensome regulatory requirements and unexpected changes in these requirements, including data protection requirements;
- political and economic instability;
- fluctuations in currency exchange rates; and
- different laws and regulations surrounding taxes and their potentially adverse consequences.

Our foreign currency exchange risk management program is designed to reduce, but does not eliminate, the impact of currency exchange rate movements. If we cannot manage our international operations successfully, our business, results of operations and financial condition could be adversely affected.

The U.S. Foreign Corrupt Practices Act ("FCPA") and similar anti-bribery laws and regulations in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business or securing an improper advantage. Our policies mandate compliance with applicable anti-bribery laws worldwide. However, if we are found to be in violation of the FCPA or other similar anti-bribery laws or regulations, whether due to our or others' actions or inadvertence, we could be subject to civil and criminal penalties or other sanctions that could have a material adverse impact on our business, financial condition or results of operations. In addition, actual or alleged violations could damage our reputation or ability to do business.

Acquisitions, divestitures and partnerships may be more costly or less profitable than anticipated and may adversely affect the price of our common stock.

As part of our business strategy, we routinely engage in discussions with third parties regarding, and enter into agreements relating to, acquisitions, joint ventures and divestitures in order to manage our product and technology portfolios as part of and to further our strategic objectives. Our strategy may include the divestiture of certain product lines as we seek to maximize shareholder value or improve our cash position. We also continually explore opportunities to increase the profitability of our operations through restructuring efforts and to consolidate operations across facilities where synergies exist. In order to pursue this strategy successfully, we must identify suitable acquisition, alliance or divestiture candidates, complete these transactions, some of which may be large and complex, and integrate acquired companies. Integration and other risks of acquisitions can be more pronounced for larger and more complicated transactions, or if multiple acquisitions are pursued simultaneously.

The integration of acquisitions may make the completion and integration of subsequent acquisitions more difficult. However, if we fail to identify and complete these transactions, we may be required to expend resources to internally develop products and technology or may be at a competitive disadvantage or may be adversely affected by negative market perceptions, which may have a material adverse effect on our business, results of operations and financial condition.

Acquisitions may require us to integrate different company cultures, management teams and business infrastructures and otherwise manage integration risks. Even if an acquisition is successfully integrated, we may not receive the expected benefits of the transaction.

A successful sale or divestiture depends on various factors, including our ability to effectively transfer assets and liabilities, contracts, facilities and employees to the purchaser, identify and separate the intellectual property to be divested from the intellectual property that we wish to keep and reduce fixed costs previously associated with the divested assets of the business.

Managing acquisitions and divestitures requires varying levels of management resources, which may divert management's attention from our other business operations. Acquisitions, including abandoned acquisitions, also may result in significant costs and expenses and charges to earnings.

Restructuring activities may result in business disruptions and may not produce the full efficiency and cost reduction benefits anticipated. Further, the benefits may be realized later than expected and the cost of implementing these measures may be greater than anticipated. If these measures are not successful, we may need to undertake additional cost reduction efforts, which could result in future charges. Moreover, we could experience business disruptions with customers and elsewhere if our cost reduction and restructuring efforts prove ineffective, and our ability to achieve our other strategic goals and business plans as well as our business, results of operations and financial condition could be materially adversely affected.

Our sales cycles often require significant time, effort and investment and are subject to risks beyond our control. As a result, our sales and revenue are difficult to predict and may vary substantially from period to period, which may cause our operating results to fluctuate significantly.

Our products are technologically complex and are typically intended for use in applications that may be critical to the business of our customers. Prospective customers generally must make a significant commitment of resources to test and evaluate our products and to integrate them into larger systems. As a result, our sales process is often subject to delays associated with lengthy approval processes that typically accompany the design and testing of new communications equipment. The sales cycles of our products to new customers are approximately six to twelve months after a design win, depending on the type of customer and complexity of the product. This time period may be further extended because of internal testing, field trials and requests for the addition or customization of features. This delays the time until we realize revenue and results in significant investment of resources in attempting to make sales.

Long sales cycles also subject us to risks not usually encountered in a short sales span, including customers' budgetary constraints, internal acceptance reviews and cancellation. In addition, orders expected in one quarter could shift to another because of the timing of customers' procurement decisions. The time required to implement our products can vary significantly with the needs of our customers and generally exceeds several months; larger implementations can take multiple calendar quarters. This complicates our planning processes and reduces the predictability of our revenues.

We operate in intensely competitive industries, and our failure to respond quickly to technological developments and incorporate new features into our products may have an adverse effect on our ability to compete.

We operate in intensely competitive industries that experience rapid technological developments, changes in industry standards, changes in customer requirements, industry migration to the private telecom cloud, and frequent new product introductions and improvements. If we are unable to respond quickly and successfully to these developments, we may lose our competitive position, and our products or technologies may become uncompetitive or obsolete. Similarly, if there are changes to technology requirements, it may render our products and technologies uncompetitive. To compete successfully, we must maintain a successful marketing and R&D effort, develop new products and production processes, and improve our existing products and processes at the same pace or ahead of our competitors. We may not be able to successfully develop and market these new products, the products we invest in and develop may not be well received by customers, and products developed and new technologies offered by others may affect the demand for our products. These types of events may have a variety of negative effects on our competitive position and our profitability and financial condition, such as reducing our revenue, increasing our costs, lowering our gross margin, reducing our profitability and/or requiring us to recognize and record impairments of our assets.

There are a number of trends and factors affecting our markets, including economic conditions in the United States, Europe and Asia, which are beyond our control. These trends and factors may result in increasing upward pressure on the costs of products and an overall reduction in demand.

There are trends and factors affecting our markets and our sources of supply that are beyond our control and may negatively affect our cost of sales. Such trends and factors include: adverse changes in the cost of raw commodities and increasing freight, energy, and labor costs in developing regions such as China and India. Our business strategy has been to provide customers with faster time-to-market and greater value solutions in order to help them compete in an industry that generally faces downward pricing pressure. In addition, our competitors have in the past lowered, and may again in the future, lower prices in order to increase their market share, which would ultimately reduce the price we may realize from our customers. If we are unable to realize prices that allow us to continue to compete on this basis of performance, our profit margin, market share, and overall financial condition and operating results may be materially and adversely affected.

Some of the products or technologies acquired, licensed or developed by us incorporate open source software, and we may incorporate open source software into other products in the future. Any failure to comply with the terms of one or more of open source licenses could negatively affect our business.

The products, services or technologies we acquire, license, provide or develop may incorporate or use open source software. We monitor our use of open source software in an effort to avoid unintended consequences, such as reciprocal license grants, patent retaliation clauses, and the requirement to license our products at no cost. Nevertheless, we may be subject to unanticipated obligations regarding our products which incorporate open source software.

Additionally, the terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide, export or distribute our services.

Competition in the market for enabling software and systems is intense, and if we lose market share, our revenues and profitability may deteriorate.

The enabling software and systems market is growing and attracting new non-traditional competitors. These non-traditional competitors include contract manufacturers that provide design services and Asia-based original design manufacturers.

Some of our competitors and potential competitors have a number of significant advantages over us, including:

- a longer operating history;
- greater name recognition and marketing power;
- preferred vendor status with our existing and potential customers;
- significantly greater financial, technical, marketing and other resources, which allow them to respond more quickly to new or changing opportunities, technologies and customer requirements;
- broader product and service offerings to provide more complete and valued solutions; and
- lower cost structures which, among other things, could include different accounting principles relative to U.S. generally accepted accounting principles (“GAAP”).

Furthermore, existing or potential competitors may establish cooperative relationships with each other or with third parties or adopt aggressive pricing policies to gain market share.

As a result of increased competition, we may encounter significant pricing pressures and/or suffer losses in market share. These pricing pressures could result in significantly lower average selling prices for our products. We may not be able to offset the effects of any price reductions with an increase in the number of customers, cost reductions or otherwise. In addition, many of the industries we serve, such as the communications industry, are encountering market consolidation, or are likely to encounter consolidation in the near future, which could result in increased pricing pressure and additional competition thus weakening our position or causing delays in new design wins and their associated production.

We have incurred, and may incur in the future, restructuring and other charges, the amounts of which are difficult to accurately predict.

From time to time, we have sought to optimize our operational capabilities and efficiencies and focus our efforts and expertise through business restructurings. In the future we may decide to engage in discrete restructurings of our operations if business or economic conditions warrant. Possible adverse consequences related to such actions may include various charges for such items as idle capacity, disposition costs, severance costs, loss of propriety information and in-house knowledge. We may be unsuccessful in any of our current or future efforts to restructure our business, which may have a material adverse effect upon our business, financial condition or results of operations.

Our international operations expose us to additional political, economic and regulatory risks not faced by businesses that operate only in the United States.

In 2016, 2015 and 2014, as measured by delivery destination, we derived 21.2%, 17.0% and 22.2% of our revenues from EMEA and 17.7%, 38.3% and 38.0% from Asia Pacific. In 2016, our manufacturing for legacy embedded products is fully outsourced with one contract manufacturing partner located in Asia and other certain third party hardware providers from which we purchase complete solutions. In addition, the manufacturing of our DCEngine racks is outsourced to one partner who is located in the U.S. and Europe and two integration partners located in the U.S.. We utilize our Asian contract manufacturer's supply chain and operations. As a result, we are subject to worldwide economic and market conditions risks generally associated with global trade such as fluctuating exchange rates, tariff and trade policies, increased protectionism of foreign governments, domestic and foreign tax policies, foreign governmental regulations, political unrest, wars and other acts of terrorism and changes in other economic conditions. These risks, among others, could adversely affect the results of our operations or financial position. Additionally, some of our sales to overseas customers are made under export licenses that must be obtained from the U.S. Department of Commerce. Protectionist trade legislation in either the United States or other countries, such as a change in the current tariff structures, export compliance laws, trade restrictions resulting from war or terrorism or other trade policies could adversely affect our ability to sell or to manufacture in international markets. Additionally, U.S. federal and state agency restrictions imposed by the Buy American Act or the Trade Agreement Act may apply to our products manufactured outside the United States. Furthermore, revenues from outside the United States are subject to inherent risks, including the general economic and political conditions in each country. As a result of tightening credit markets, our customers and suppliers may face issues gaining timely access to sufficient credit, which could impair our customers' ability to make timely payments to us and could cause key suppliers to delay shipments and face serious risks of insolvency. These risks, among others, could adversely affect our results of operations or financial position.

If we are unable to protect our intellectual property, we may lose a valuable competitive advantage or be forced to endure costly litigation.

We are a technology dependent company, and our success depends on developing and protecting our intellectual property. We rely on patents, copyrights, trademarks, trade secret laws, know-how and rapid time to market to protect our intellectual property. At the same time, our products are complex and are often not patentable in their entirety. We also license intellectual property from third parties and rely on those parties to maintain and protect their technology. We cannot be certain that our actions will protect our proprietary rights. Any patents owned by us may be invalidated, circumvented or challenged. Any of our patent applications, whether or not being currently challenged, may not be issued with the scope of the claims we seek, if at all. If we are unable to adequately protect our technology, or if we are unable to continue to obtain or maintain licenses for protected technology from third parties, it could have a material adverse effect on our results of operations. In addition, some of our products are now designed, manufactured and sold outside of the United States. Despite the precautions we take to protect our intellectual property, this international exposure may reduce or limit protection of our intellectual property, which is more prone to design piracy outside of the United States.

Third parties may also assert infringement claims against us in the future; assertions by third parties may result in costly litigation and we may not prevail in such litigation or be able to license any valid and infringed patents from third parties on commercially reasonable terms. Litigation, regardless of its outcome, could result in substantial costs and diversion of our resources. Any infringement claim or other litigation against us or by us could materially adversely affect our financial condition and results of operations.

We may have additional tax liabilities.

Significant judgments and estimates are required in determining the provision for income taxes and other tax liabilities globally. Our tax expense may be impacted if our intercompany transactions, which are required to be computed on an arm's-length basis, are challenged and successfully disputed by the tax authorities. Also, our tax expense may be impacted depending on the applicability of withholding taxes on software licenses and related intercompany transactions in certain jurisdictions. In addition, our ability to offset potential future profits in the U.S. with existing net operating losses may be limited by Section 382 of the Internal Revenue Code dependent upon future changes in the shareholders of our common stock. In determining the adequacy of income taxes, we assess the likelihood of adverse outcomes that could result if our tax positions were challenged by the Internal Revenue Service ("IRS") and other tax authorities. The tax authorities in the U.S. and other countries where we do business regularly may examine our income and other tax returns. The ultimate outcome of these examinations cannot be predicted with certainty. Should the IRS or other tax authorities assess additional taxes as a result of examinations, we may be required to record charges to operations that could have a material impact on our results of operations, financial position, or cash flows.

Our disclosure controls and internal control over financial reporting do not guarantee the absence of error or fraud.

We do not expect that disclosure controls or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Failure of our control systems to prevent error or fraud could materially adversely impact us.

Increased IT security requirements, vulnerabilities, threats and more sophisticated and targeted computer crime and cyber- attacks could pose a risk to our systems, networks, products, solutions, services and data.

Increased global IT security requirements, vulnerabilities, threats and more sophisticated and targeted computer crime and cyber-attacks pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. While we attempt to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems, our systems, networks, products, and solutions remain potentially vulnerable to advanced persistent threats. We also may have access to sensitive, confidential or personal data or information in certain of our businesses that is subject to privacy and security laws, regulations and customer-imposed controls. Despite our efforts to protect sensitive, confidential or personal data or information, our facilities and systems and those of our third-party service providers may be vulnerable to security breaches, theft, misplaced or lost data, programming and/or human errors that could potentially lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, defective products, production downtimes and operational disruptions, which in turn could adversely affect our reputation, competitiveness and results of operations.

Oregon corporate law, our articles of incorporation and our bylaws contain provisions that could prevent or discourage a third party from acquiring us even if the change of control would be beneficial to our shareholders.

Our articles of incorporation and our bylaws contain anti-takeover provisions that could delay or prevent a change of control of our company, even if a change of control would be beneficial to our shareholders. These provisions:

- authorize our Board of Directors to issue up to 5,663,952 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without prior shareholder approval, which could adversely affect the voting power or other rights of the holders of outstanding shares of preferred stock or common stock;
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by shareholders at shareholder meetings;
- prohibit cumulative voting in the election of directors, which would otherwise allow less than a majority of shareholders to elect director candidates; and
- limit the ability of shareholders to take action by written consent, thereby effectively requiring all common shareholder actions to be taken at a meeting of our common shareholders.

In addition, if our common stock is acquired in specified transactions deemed to constitute “control share acquisitions,” provisions of Oregon law condition the voting rights that would otherwise be associated with those common shares upon approval by our shareholders (excluding, among other things, the acquirer in any such transaction). Provisions of Oregon law also restrict, subject to specified exceptions, the ability of a person owning 15% or more of our common stock to enter into any “business combination transaction” with us.

The foregoing provisions of Oregon law and our articles of incorporation and bylaws could limit the price that investors might be willing to pay in the future for shares of our common stock.

Sales of a significant number of shares of our common stock in the public markets, or the perception of such sales, could depress the market price of our common stock.

Sales of a substantial number of shares of our common stock or other equity-related securities in the public markets could depress the market price of our common stock, and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock.

We have experienced net losses in recent periods and may not achieve or maintain profitability in the future. If we cannot achieve or maintain profitability, our financial performance will be harmed and our business may suffer.

We experienced net losses of $10.3 million, $14.7 million, and $27.6 million for fiscal year 2016, 2015 and 2014. As of December 31, 2016, our accumulated deficit was $281.6 million. These losses have resulted principally from lower sales compared to costs incurred in our research and development programs and sales and marketing programs. We may incur operating losses for at least the foreseeable future as a result of the expenses associated with the continued development and expansion of our business. We may also increase our research and development expenses based on projections of revenue growth.

Our ability to attain profitability in the future will be affected by, among other things, our ability to execute on our business strategy, the continued acceptance of our products, the timing and size of customer orders, the average sales prices of our products, the costs of our products, and the extent to which we invest in our sales and marketing, research and development, and general and administrative resources. If we are unable to attain profitability, our business would be harmed and our stock price could decline.

We have a substantial level of indebtedness and future obligations relative to our cash position.

As of December 31, 2016, we had $33.1 million of cash and cash equivalents which consisted of $25.7 million held domestically and $7.4 million held by foreign subsidiaries, and we had a $25.0 million outstanding balance on our line of credit. In addition, we have various other short-term obligations which will require use of our cash to satisfy. This level of debt and our ability to repay or refinance this debt prior to maturity may have negative consequences to our business, including:

- increasing the difficulty of our ability to make payments on our outstanding debt;
- requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures, acquisitions;
- limiting our ability to pursue our growth strategy;
- limiting our ability to incur additional indebtedness or obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements, acquisitions, or general corporate purposes;
- placing us at a disadvantage compared to our competitors who are less highly leveraged and may be better able to use their cash flow to fund competitive responses to changing industry, market or economic conditions; and

We may also be unable to borrow funds as a result of an inability of financial institutions to lend due to restrictive lending policies and/or institutional liquidity concerns.

If we experience a decline in revenues, we may have difficulty paying amounts due on our indebtedness. Any default under our indebtedness may have a material adverse impact on our business, operating results, and financial condition.

If required to fund operations, refinance debt or for other general corporate purposes, as of December 31, 2016 we had $7.5 million of total borrowing availability remaining under the 2016 agreement with Silicon Valley Bank. The line of credit, however, is subject to certain financial covenants and may not be available, in full or in part, on dates we may attempt to draw on the line in the future.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Information concerning our principal properties at December 31, 2016 is set forth below:

Location	Type	Principal Use	Square Footage	Ownership
Hillsboro, OR	Office	Headquarters, manufacturing support, marketing, research and engineering	45,655	Leased
Bangalore, India	Office	Research and engineering and professional services	99,206	Leased
Shenzhen, China	Office	Manufacturing support, research and engineering	31,517	Leased

We also lease sales and support offices in Burnaby, Canada, Cambridge, Massachusetts, Gdansk, Poland, and San Diego, California.

Item 3. ***Legal Proceedings***

In the normal course of business, the Company becomes involved in litigation. As of December 31, 2016, in the opinion of management, Radisys had no pending litigation that would have a material effect on the Company's financial position, results of operations or cash flows.

Item 4. ***Mine Safety Disclosures***

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our common stock is traded on the NASDAQ Global Select Market under the symbol "RSYS." The following table sets forth, for the periods indicated, the highest and lowest sale prices for our common stock, as reported by the NASDAQ Global Select Market.

	High	Low
2016		
Fourth Quarter	$ 5.73	$ 3.95
Third Quarter	5.81	4.40
Second Quarter	5.31	3.84
First Quarter	4.12	2.25
2015		
Fourth Quarter	$ 3.00	$ 2.57
Third Quarter	2.98	2.33
Second Quarter	3.00	1.93
First Quarter	2.74	1.79

The closing price as reported on the NASDAQ Global Select Market on February 24, 2017 was $3.81 per share. As of February 24, 2017 there were approximately 407 holders of record of our common stock. We believe that the number of beneficial owners is substantially greater than the number of record holders because a large portion of our outstanding common stock is held of record in "street name" by brokers and other financial institutions for the benefit of individual investors.

Dividend Policy

We have never paid any cash dividends on our common stock and do not expect to declare cash dividends on the common stock in the foreseeable future. Our ability to pay dividends is also restricted by our policy as well as the covenants arising from our line of credit agreement with Silicon Valley Bank, which prohibits the payment of any dividends, distributions or payment in respect of our common stock. As such, we plan to retain all of our earnings to finance future growth.

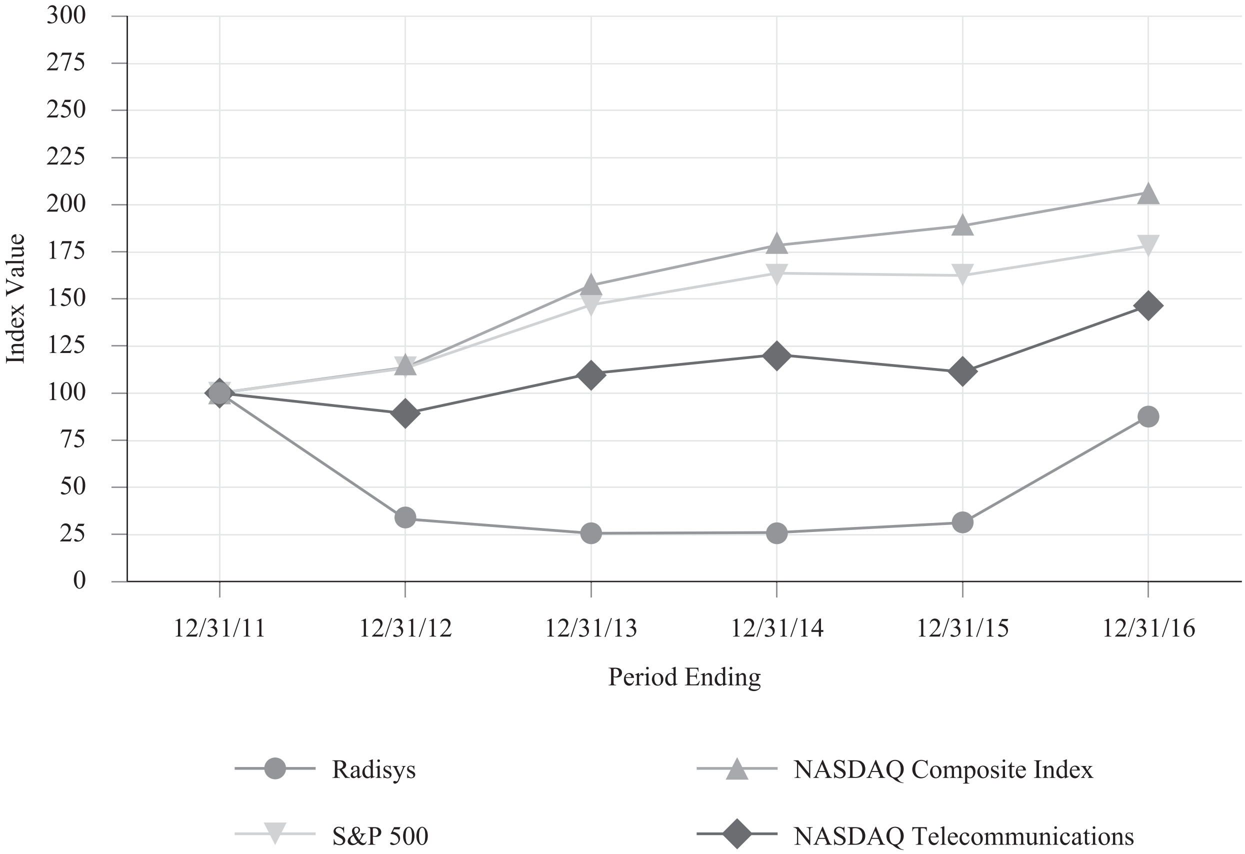
Stock Price Performance Graph

The following graph sets forth our total cumulative shareholder return as compared to the return of the NASDAQ Composite Index, the S&P 500 Index, and the NASDAQ Telecommunications Index for the period of December 31, 2011 through December 31, 2016. The graph reflects the investment of $100 on December 31, 2011 in our stock, the S&P 500 Index, the NASDAQ Index, and in the published industry indexes.

Total return also assumes reinvestment of dividends. As noted above, we have never paid dividends on our common stock. Historical stock price performance should not be relied upon as indicative of future stock price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Radisys Corporation, the S&P 500 Index, the NASDAQ Composite Index and the NASDAQ Telecommunications Index



* $100 invested on 12/31/2011 in the Company's common stock or the applicable index, including reinvestment of dividends.

Fiscal Year ending December 31.

	12/2011	12/2012	12/2013	12/2014	12/2015	12/2016
Radisys	100.00	33.48	25.73	26.29	31.12	87.55
NASDAQ Composite	100.00	113.82	157.44	178.53	188.75	206.63
S&P 500	100.00	113.40	146.97	163.71	162.52	178.02
NASDAQ Telecommunications	100.00	89.13	110.54	120.38	111.36	146.39

Item 6. ***Selected Financial Data***

	2016	2015	2014	2013	2012
Consolidated Statements of Operations Data					
Revenues	$212,392	$184,593	$192,742	$237,863	$286,096
Gross margin	56,088	52,152	51,802	64,138	88,039
Income (loss) from operations	(9,659)	(14,065)	(25,300)	(34,766)	(39,746)
Net loss	(10,251)	(14,678)	(27,581)	(49,404)	(43,474)
Net loss per common share:					
Basic	$ (0.27)	$ (0.40)	$ (0.79)	$ (1.72)	$ (1.60)
Diluted	$ (0.27)	$ (0.40)	$ (0.79)	$ (1.72)	$ (1.60)
Weighted average shares outstanding (basic)	37,668	36,789	34,699	28,805	27,174
Weighted average shares outstanding (diluted)	37,668	36,789	34,699	28,805	27,174

	2016	2015	2014	2013	2012
Consolidated Balance Sheet Data					
Working capital	$ 32,974	$ 28,562	$ 23,018	$ 26,920	$ 41,887
Total assets	128,185	167,069	160,896	176,185	232,394
Long term obligations, excluding current portion	5,966	2,985	2,800	21,276	22,851
Total shareholders’ equity	56,556	65,917	77,776	81,136	125,442

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

2016 Highlights

The communications and content provider infrastructure markets are undergoing significant disruption as these service providers work to optimize the efficiency of their networks and deploy new revenue generating services, all while significantly reducing the historical costs of maintaining their networks. As a result, our traditional competitors are under pressure to evolve their business models, which creates an opportunity for us as our products are targeted at enabling service providers to embrace these open-standards and the efficiencies of the enterprise data center. While the trends towards virtualization and embracing the economies of the enterprise data center are beginning to take hold, we believe we are in the early stages of a long infrastructure spend cycle that, if we are successful, has the potential to result in meaningful long term revenue growth. 2016 consolidated revenue grew $27.8 million, or 15%, year-on-year, as we have begun to capture market traction from this trend. We realized $66.9 million of DCEngine product sales from a tier-one U.S. service provider in support of their new data center deployments. Additionally, we realized growth of $2.7 million in FlowEngine product sales to a tier-one U.S. service provider as well as another strong year for our MediaEngine products as our large Asian customer continued their LTE network rollout. This growth was offset by a $40.9M decline in our legacy embedded products as a direct result of the strategic changes implemented early in 2015 to focus on key customers who have adequate scale to meet our profitability and cash flow objectives.

Following is a summary of our consolidated results for the year ended December 31, 2016 compared to the year ended December 31, 2015:

- Revenues increased $27.8 million to $212.4 million for the year ended December 31, 2016 from $184.6 million for the year ended December 31, 2015. Hardware Solutions revenue increased by $26.0 million due to meaningful revenue from sales of our DCEngine product line to a tier-one U.S. service provider. Software-Systems revenue increased by $1.8 million as a result of growth in our FlowEngine product line.

- Our gross profit margin as a percentage of revenue decreased 190 basis points to 26.4% for the year ended December 31, 2016 from 28.3% of revenue for the year ended December 31, 2015. The decrease was the result of a $66.9 million increase in DCEngine sales to a tier-one U.S. service provider, as this product line carries proportionately lower margins than our other products.

- R&D expense decreased $1.5 million to $24.1 million for the year ended December 31, 2016 from $25.5 million for the year ended December 31, 2015. This is the result of a significant decline in R&D tied to our Hardware Solutions segment and our restructuring efforts, offset by continued acceleration in new product initiatives within our Software-Systems segment.

- SG&A expense increased $3.1 million to $33.7 million for the year ended December 31, 2016 from $30.6 million for the year ended December 31, 2015. This was the result of headcount growth in sales and marketing as we have accelerated hiring to support our growth initiatives

- Cash and cash equivalents increased $12.3 million to $33.1 million at December 31, 2016 from $20.8 million at December 31, 2015. The increase was primarily the result of a $10 million net draw on our line of credit and generation from operations of $9.8 million. These increases were partially offset by capital expenditures of $4.9 million and cash paid on taxes for restricted stock settlements of $3.3 million.

- Deferred revenue on December 31, 2016 declined $15.0 million to $8.1 million from $23.1 million at December 31, 2015, which is aligned with a reduction in deferred cost of sales of $14.1 million in the same period. These declines were attributable to the recognition of previously deferred DCEngine revenues relating to sales to a tier-one U.S. service provider that were recognized upon installation and commissioning of these systems during the first quarter of 2016.

- Accounts receivable on December 31, 2016, 2016 declined $22.6 million to $38.4 million from $60.9 million at December 31, 2015. The decline was the result of timing of collections associated with the aforementioned DCEngine shipments.

Outlook

The markets into which our products are sold, specifically telecommunications infrastructure, are undergoing a tremendous disruption as telecommunications service providers begin to embrace emerging standards such as software-defined networking, network function virtualization and the economies of the enterprise data center. The shift towards these emerging standards is increasingly being driven by the need for service providers to reduce the costs and complexity of their networks while simultaneously creating new, and differentiated, revenue streams.

These disruptive trends are creating increasing momentum for our strategic product lines, Software-Systems and DCEngine, while at the same time creating headwinds for our remaining legacy embedded product lines. As we navigate the timing of this transition and large customer order patterns, our near-term financial results will vary as we remain committed to investing sufficiently in our strategic product lines in order to capture on this market momentum. Specifically, in 2017 our top financial objectives include delivering 20% growth in our strategic product line revenues which includes DCEngine, FlowEngine, MediaEngine and CellEngine while successfully navigating the expected decline in our legacy embedded product lines while still delivering positive free cash flow. Further, in order to achieve our near-term strategic product line financial objectives, our primary non-financial objectives in 2017 are securing new proof-of-concepts or trials across our strategic product portfolio and expanding our Tier 1 service provider customer base.

Results of Operations

The following table sets forth certain operating data as a percentage of revenues:

	For the Years Ended December 31,		
	2016	2015	2014
Revenues			
Product	82.9 %	84.1 %	86.3 %
Service	17.1 %	15.9 %	13.7 %
Total revenues	100.0 %	100.0 %	100.0 %
Cost of sales:			
Product	60.2	58.0	60.0
Service	9.8	9.5	8.8
Amortization of purchased technology	3.6	4.2	4.3
Total cost of sales	73.6	71.7	73.1
Gross margin	26.4	28.3	26.9
Research and development	11.3	13.8	16.6
Selling, general and administrative	15.9	16.7	18.6
Intangible assets amortization	2.4	2.7	2.6
Restructuring and other charges, net	1.3	2.7	2.2
Loss from operations	(4.5)	(7.6)	(13.1)
Interest expense	(0.2)	(0.3)	(0.6)
Interest income	0.1	0.1	—
Other income, net	0.9	0.8	0.7
Loss before income tax expense	(3.7)	(7.0)	(13.0)
Income tax expense	1.1	1.0	1.3
Net loss	(4.8)%	(8.0)%	(14.3)%

Revenues

The following table sets forth operating segment revenues (in thousands):

	For the Years Ended December 31,			Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Software-Systems	$ 56,783	$ 55,006	$ 40,281	3.2%	36.6 %
Hardware Solutions	155,609	129,587	152,461	20.1	(15.0)
Total Revenues	$ 212,392	$ 184,593	$ 192,742	15.1%	(4.2)%

Software-Systems. Revenues in the Software-Systems segment increased $1.8 million to $56.8 million in 2016 from $55.0 million in 2015. Revenue growth was the result of $2.7 million higher FlowEngine shipments to a tier-one U.S service provider in support of their commercial deployment, offset by a decrease in sales to a large Asian customer deploying our MediaEngine products in support of their greenfield LTE network rollout.

Revenues in the Software-Systems segment increased $14.7 million to $55.0 million in 2015 from $40.3 million in 2014. Revenue growth of $8.0 million was attributable to sales to a large Asian service provider currently deploying aforementioned MediaEngine products, and revenue from our FlowEngine product line increased $4.7 million in 2015 as we formally launched this product line and began shipping units in support of the initial commercial deployment by a tier-one U.S. service provider. Additionally, our CellEngine product line increased $1.3 million as the result of closing new strategic licensing deals with large Tier 1 customers.

Hardware Solutions. Revenues in the Hardware Solutions segment increased $26.0 million to $155.6 million in 2016 from $129.6 million in 2015. This is the result of growth attributable to $66.9 million in DCEngine sales to a tier-one U.S. service provider in support of their initial data center build outs to deploy value-added services. These increases were offset by the expected declines of $40.9 million in non-core legacy hardware products, which is a direct result of the strategic changes implemented early in 2015.

Revenues in the Hardware Solutions segment decreased $22.9 million to $129.6 million in 2015 from $152.5 million in 2014. The decrease was driven by the 2015 strategic change to focus our investment on next-generation open-standards systems and away from our traditional, proprietary standards based designs.

Revenue by Geography

The following tables outline overall revenue dollars (in thousands) and the percentage of revenues, by geographic region:

	For the Years Ended December 31,			Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
North America	$ 129,781	$ 82,564	$ 76,709	57.2%	7.6 %
EMEA	45,090	31,374	42,881	43.7	(26.8)
APAC	37,521	70,655	73,152	(46.9)	(3.4)
Total	$ 212,392	$ 184,593	$ 192,742	15.1%	(4.2)%

	For the Years Ended December 31,		
	2016	2015	2014
North America	61.1%	44.7%	39.8%
EMEA	21.2	17.0	22.2
APAC	17.7	38.3	38.0
Total	100.0%	100.0%	100.0%

North America. North American revenues increased by $47.2 million to $129.8 million in 2016 from $82.6 million in 2015. This was attributable to increased sales to a tier-one U.S. service provider purchasing both DCEngine and FlowEngine products in support of various commercial deployments as this service provider migrates to next-generation infrastructure.

North American revenues increased by $5.9 million to $82.6 million in 2015 from $76.7 million in 2014. This increase was driven by $4.2 million in sales of FlowEngine products to a tier-one U.S. service provider and a $2.6 million last-time buy of legacy ATCA products to a single North American customer. These increases were partially offset by decreases in COM Express and Rackmount Server product sales to a North American customer due to last time buys in 2014 resulting from management's decisions to discontinue certain products.

EMEA. Revenues from the EMEA region increased $13.7 million to $45.1 million in 2016 from $31.4 million in 2015. The increase was attributable to new design wins with a top five customer deploying our products in medical imaging and related markets.

Revenues from the EMEA region decreased $11.5 million to $31.4 million in 2015 from $42.9 million in 2014. The decrease was attributable to the reduction in revenue from a top five customer who made last-time buys of discontinued COM Express and Rackmount Server products in 2014.

Asia Pacific. Revenues from the Asia Pacific region decreased $33.1 million to $37.5 million in 2016 from $70.7 million in 2015. This meaningful decrease is largely tied to declines in sales to legacy Hardware Solutions customers that were impacted by the Company's 2015 shift to focus on key strategic customers who enable us to generate steady levels of profitability and cash flow.

Revenues from the Asia Pacific region decreased $2.5 million to $70.7 million in 2015 from $73.2 million in 2014. We experienced an increase of $8.0 million in sales to a large Asian service provider who was deploying our MediaEngine products in support of their greenfield LTE network rollout. This increase was more than offset by decreases in EPHS sales to our largest customer.

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

Gross Margin

The following table sets forth operating segment gross margins (in thousands):

	For the Years Ended December 31,			Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Gross margin					
Software-Systems	34,488	$ 31,997	$ 24,949	7.8%	28.2%
Hardware Solutions	29,660	28,311	35,449	4.8	(20.1)
Corporate and other	(8,060)	(8,156)	(8,596)	(1.2)	(5.1)
Total gross margin	$ 56,088	$ 52,152	$ 51,802	7.5%	0.7%

	For the Years Ended December 31,			Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Gross margin					
Software-Systems	60.7%	58.2%	61.9%	2.5 %	(3.7)%
Hardware Solutions	19.1	21.8	23.3	(2.7)	(1.5)
Corporate and other	(3.8)	(4.4)	(4.5)	0.6	0.1
Total gross margin	26.4%	28.3%	26.9%	(1.9)%	1.4 %

Software-Systems. Gross margin as a percentage of revenues increased 250 basis points to 60.7% in 2016 from 58.2% in 2015. This was the result of more favorable product mix of software-rich product sales including a $2.7 million increase in FlowEngine shipments to a tier-one U.S service provider.

Gross margin as a percentage of revenues decreased 370 basis points to 58.2% in 2015 from 61.9% in 2014. The decrease is attributable to a credit from a vendor claim on faulty components that was realized in 2014 and not repeated in 2015.

Hardware Solutions. Gross margin as a percentage of revenues decreased 270 basis points to 19.1% in 2016 from 21.8% in 2015. This decrease is the result of a $66.9 million increase in DCEngine sales to a tier-one U.S. service provider, due to both initial costs of deploying with a Tier 1 service provider as well as proportionally lower overall product margins relative to our legacy embedded products included within this segment. Additionally, net charges from inventory valuation allowance and adverse purchase commitments increased $0.9 million which further contributed to the decline in gross margin.

Gross margin as a percentage of revenues decreased 150 basis points to 21.8% in 2015 from 23.3% in 2014. The decrease is attributable to the $22.9 million decrease in segment revenue which absorbed a lower percentage of our fixed costs and charges taken on excess and obsolete inventory. The excess and obsolete charges were the result of rationalizing our product portfolio tied to our strategy focusing on core customers and products. This decrease was somewhat offset by the utilization of a credit from our contract manufacturer in the first quarter of 2015 that was applied to repair and service work that otherwise would be a component of cost of sales.

Corporate and other. Gross margin increased $0.1 million to $(8.1) million in 2016 from $(8.2) million in 2015. Items included in Corporate and other include expenses not allocated to our two operating segments. These costs include amortization of intangible assets, stock compensation and restructuring and other expenses. The increase is attributable to a $0.2 million decrease in the amortization of intangible assets, offset by a $0.1 million increase in stock compensation expense.

Gross margin increased $0.4 million to $(8.2) million in 2015 from $(8.6) million in 2014. Items included in Corporate and other include expenses not allocated to our two operating segments. These costs include amortization of intangible assets, stock compensation and restructuring and other expenses. The increase is attributable to a $0.3 million decrease in the amortization of intangible assets and a $0.1 million decrease in stock compensation expense.

Operating Expenses

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

	For the Years Ended December 31,			Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Research and development	$ 24,068	$ 25,529	$ 31,958	(5.7)%	(20.1)%
Selling, general and administrative	33,722	30,628	35,862	10.1	(14.6)
Intangible assets amortization	5,040	5,040	5,077	—	(0.7)
Restructuring and other charges, net	2,917	5,020	4,205	(41.9)	19.4
Total	$ 65,747	$ 66,217	$ 77,102	(0.7)%	(14.1)%

Research and Development

R&D expenses consist primarily of personnel costs, product development costs, and related equipment expenses. R&D expenses decreased $1.5 million to $24.1 million in 2016 from $25.5 million in 2015. The expense reductions are the result of our restructuring efforts within our Hardware Solutions segment personnel reductions in Asia and North America and the concentration of R&D headcount to lower cost geographies and was largely completed by the end of the second quarter 2015. R&D headcount increased to 317 at December 31, 2016 from 310 at December 31, 2015.

R&D expenses decreased $6.4 million to $25.5 million in 2015 from $32.0 million in 2014. The expense reductions are due to our restructuring efforts within our Hardware Solutions segment which included the closure of our Penang development site in the second half of 2014 and further personnel reductions in the first half of 2015 primarily in Asia and North America. This resulted in reductions to salary and temporary help expense by $5.7 million and reduced facilities related expenses of $0.7 million in 2015. R&D headcount decreased to 310 at December 31, 2015 from 418 at December 31, 2014.

Selling, General, and Administrative

SG&A expenses consist primarily of salary, commissions, bonuses and benefits for sales, marketing and administrative personnel, as well as professional service providers and the costs of other general corporate activities. SG&A expenses increased $3.1 million to $33.7 million in 2016 from $30.6 million in 2015 primarily due to increases in salary, commissions and hiring related expenses of $2.3 million and an increase in marketing related expenses of $0.6 million, as the result of additions to sales and marketing headcount as well as increased product sales. SG&A headcount increased to 139 at December 31, 2016 from 112 at December 31, 2015.

SG&A expenses decreased $5.2 million to $30.6 million in 2015 from $35.9 million in 2014. Restructuring efforts in 2014 and the first half of 2015 within our Hardware Solutions segment drove headcount reductions and contributed to a decrease in employee salary related expenses of $3.4 million and facility related costs of $0.4 million. Further, depreciation expense decreased $0.8 million from the comparable period in 2014 as a result of more disciplined capital spending in 2014 and 2015. SG&A headcount decreased to 112 at December 31, 2015 from 157 at December 31, 2014.

Intangible Assets Amortization

Intangible assets amortization of $5.0 million in 2016 was comparable to 2015 due to routine amortization of acquired intangible assets. Intangible assets amortization decreased $0.1 million to $5.0 million in 2015 from $5.1 million for 2014. The amortization charges for each year were associated with the amortization of previously acquired intangible assets.

We perform impairment reviews of the purchased intangible assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. There have been no impairments of intangible assets recorded to date.

Restructuring and Other Charges, Net

Restructuring and other charges, net includes expenses associated with restructuring activities and other gains and losses which are not indicative of our ongoing business operations. We evaluate the adequacy of the accrued restructuring 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.

Restructuring and other charges, net decreased $2.1 million to $2.9 million in 2016 from $5.0 million in 2015.

During the year ended December 31, 2016, restructuring and other charges include the following:

- $2.8 million net expense relating to the severance for 74 employees primarily in connection with a reduction to our hardware engineering presence in Shenzhen, China as well as reductions in North America due to the transition of our supply chain operations to third party integration partners; and
- $0.1 million integration-related net expense principally associated with asset disposals and transfer-related costs resulting from resource and site consolidation actions;

Restructuring and other charges, net increased $0.8 million to $5.0 million in 2015 from $4.2 million in 2014. During the year ended December 31, 2015, restructuring and other charges included the following:

- $3.9 million relating to the severance of 138 employees primarily within Asia and North America. These actions were in connection with the restructuring of our Hardware Solutions segment's research and development and sales and general administrative functions and are presented net of reductions resulting from changes in previously estimated amounts for employee severance and associated payroll costs;
- $0.6 million integration-related net expense principally associated with asset disposals and transfer-related costs resulting from resource and site consolidation actions;
- $0.4 million lease abandonment expense associated with reductions in certain of our international sites; and
- $0.1 million legal expenses associated with non-operating strategic projects, which processes were concluded in the first quarter of 2015.

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 and the employee stock purchase plan (“ESPP”).

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

	For the Years Ended December 31,			Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Cost of sales	$ 354	$ 294	$ 386	20.4 %	(23.8)%
Research and development	845	867	818	(2.5)	6.0
Selling, general and administrative	2,598	2,791	2,893	(6.9)	(3.5)
Total	$ 3,797	$ 3,952	$ 4,097	(3.9)%	(3.5)%

Stock-based compensation expense decreased $0.2 million in 2016 to $3.8 million in 2016 compared to $4.0 million in 2015, primarily as a result of 2014 and 2015 performance based awards earned in the second and fourth quarter of 2016, offset by new performance based awards and stock options granted in 2016.

Stock-based compensation expense decreased $0.1 million in 2015 to $4.0 million in 2015 compared to $4.1 million in 2014. The nominal change was the result of a change in the mix of stock options and performance based awards. Performance based award expense is driven by achievement percentages, valuation techniques, expense valuation and amortization periods are underlying factors in the period over period change.

Income (Loss) from Operations

The following table summarizes our income (loss) from operations (in thousands):

	For the Years Ended December 31,			Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Income (loss) from operations					
Software-Systems	$ (18)	$ (1,900)	$ (6,169)	(99.1)%	(69.2)%
Hardware Solutions	9,820	9,709	2,457	1.1	295.2
Corporate and other	(19,461)	(21,874)	(21,588)	(11.0)	1.3
Total income (loss) from operations	$ (9,659)	$ (14,065)	$ (25,300)	(31.3)%	(44.4)%

Software-Systems. Loss from operations improved by $1.9 million in 2016 and was the result of the previously described increase in gross margin.

Loss from operations improved by $4.3 million in 2015 as the result of year-on-year revenue growth and offset by increased operating expenses of $2.1 million largely the result of additional investment in our FlowEngine product line.

Hardware Solutions. Income from operations increased by $0.1 million in 2016. The steady year over year income from operations was the result of $29.7 million and $28.3 million of previously described gross margin provided by this segment in 2016 and 2015. The $1.3 million increase to gross margin in 2016 was offset by increased sales and marketing expenses tied specifically to accelerating our DCEngine strategy.

Income from operations improved by $7.3 million in 2015. The increase in income from operations was primarily the result of rationalizing our spending within this segment to drive more meaningful levels of profitability that will fund our investments in Software-Systems product lines.

Corporate and other. Corporate and other loss from operations include amortization of intangible assets, stock compensation, restructuring and other expenses. Loss from operations improved by $2.4 million to $19.5 million in 2016 from $21.9 million in 2015. The improvement was primarily due to a $2.1 million decrease in restructuring and other expenses.

Corporate and other loss from operations include amortization of intangible assets, stock compensation, restructuring and other expenses. Loss from operations increased $0.3 million to $21.9 million in 2015 from $21.6 million in 2014. The increase was primarily due to a $0.8 million increase in restructuring and other expenses offset by reductions in amortization expense.

Non-Operating Expenses

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

	For the Years Ended December 31,			Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Interest expense	$ (482)	$ (515)	$ (1,242)	(6.4)%	(58.5)%
Interest income	189	96	64	96.9	50.0
Other income, net	2,135	1,548	1,389	37.9	11.4
Total	$ 1,842	$ 1,129	$ 211	63.2 %	435.1 %

Interest Expense

In 2016, interest expense includes interest incurred on our revolving line of credit. Our revolving line of credit had a balance ranging from $6.0 million to $25.0 million throughout the year. The decrease in interest expense for the year ended December 31, 2016 from 2015 is the result of the repayment of the 2015 Convertible Notes on February 17, 2015.

The decrease in interest expense of $0.7 million to $0.5 million in 2015 from $1.2 million in 2014 was also the result of the repayment of the 2015 Convertible Notes on February 17, 2015.

Other Income (Expense), Net

Other income, net increased $0.6 million to $2.1 million in 2016 from $1.5 million in 2015. We recognized a $0.4 million gain on the realization of cumulative translation adjustments in the second quarter of 2016 associated with liquidation of three foreign entities as the result of previously announced restructuring actions. Additionally, changes are primarily due to cash flow hedge exchange rates between the Indian Rupee and the US Dollar and other currency movements, primarily the Chinese Yuan and Indian Rupee, against the US Dollar.

Other income, net increased $0.1 million to $1.5 million in 2015 from $1.4 million in 2014 primarily due to favorable cash flow hedge exchange rates between the Indian Rupee and the US Dollar and favorable currency movements due to strengthening of the US Dollar.

Income Tax Provision

We recorded income tax expense of $2.4 million, $1.7 million, and $2.5 million for the years ended December 31, 2016, 2015, and 2014. Our current effective tax rate differs from the statutory rate in all periods due to a full valuation allowance provided against our U.S. net deferred tax assets and a partial valuation allowance against certain of our foreign deferred tax assets.

At December 31, 2016 and 2015, we had net deferred tax assets of $1.1 million and $1.2 million. We had valuation allowances of $88.6 million and $86.8 million as of December 31, 2016 and 2015, which represents a full valuation allowance against our U.S. deferred tax assets and a partial valuation allowance against certain of our foreign deferred tax assets. In evaluating our valuation allowance, we considered all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. In the event we were to determine that we would not be able to realize all or part of our foreign net deferred tax assets in the future, we would increase the valuation allowance, resulting in a charge to earnings in the period in which we make such determination. Likewise, if we later determine that we are more likely than not to realize all or a portion of the U.S. or foreign net deferred tax assets, we would reverse the previously provided valuation allowance. All future reversals of the valuation allowance would result in a benefit in the period recognized. Although realization is not assured, management believes that it is more likely than not that the balance of the deferred tax assets, net of the valuation allowance, as of December 31, 2016 will be realized.

We are subject to income taxes in the U.S. and various foreign countries, and on occasion, we have been subject to corporate income tax audits. In determining the amount of income tax liabilities for uncertain tax positions, we have evaluated whether certain tax positions are more likely than not to be sustained by taxing authorities. We believe that we have adequately provided in our financial statements for additional taxes that may result from examination. To the extent the ultimate outcome of an examination differs from the amounts provided for as uncertain tax positions either additional expense or benefit will be recognized in the period in which the examination is effectively settled.

We are currently under tax examination in India. The periods covered under examination are the Company's financial years 2005, 2006, 2008 and 2011. The examinations are 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 December 31, 2016. The Company is also currently under examination in Canada. The periods covered by the examination include the Company's fiscal years 2013 and 2014. No adjustments have been proposed.

Liquidity and Capital Resources

The following table summarizes selected financial information (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Cash and cash equivalents	$ 33,087	$ 20,764	$ 31,242
Working capital	32,974	28,562	23,018
Accounts receivable, net	38,378	60,942	43,845
Inventories, net	20,021	16,812	18,475
Accounts payable	20,805	43,451	33,679
Line of credit	25,000	15,000	10,000
2015 convertible senior notes	—	—	18,000

Cash Flows

Cash and cash equivalents increased by $12.3 million to $33.1 million at December 31, 2016 from $20.8 million at December 31, 2015. As of December 31, 2016, the amount of cash held by our foreign subsidiaries was $7.4 million and the remaining $25.7 million was held in the U.S. We do not permanently reinvest funds in certain of our foreign entities, and we expect to repatriate cash from these foreign entities on an ongoing basis in future periods. Repatriation of funds from these foreign entities is not expected to result in significant cash tax payments due to the utilization of previously generated operating losses of our U.S. entity.

Activities impacting cash and cash equivalents are as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Operating Activities			
Net loss	$ (10,251)	$ (14,678)	$ (27,581)
Non-cash adjustments	24,574	23,766	30,101
Changes in working capital	(4,514)	(4,031)	(9,317)
Cash provided by (used in) operating activities	9,809	5,057	(6,797)
Cash used in investing activities	(4,931)	(2,224)	(2,196)
Cash provided by (used in) financing activities	7,474	(12,811)	15,304
Effect of exchange rate changes	(29)	(500)	(551)
Net increase (decrease) in cash and cash equivalents	$ 12,323	$ (10,478)	$ 5,760

Operating Activities

Cash provided by operating activities in 2016 was $9.8 million and consisted of a net loss of $10.3 million, adjustments for non-cash items of $24.6 million, which primarily consisted of intangible amortization, fixed asset depreciation, stock-based compensation expense and inventory valuation allowances, and an increase in working capital items of $4.5 million. For the year ended December 31, 2016, principal drivers to changes in our working capital consisted of the following:

- Accounts receivables and other receivables decreased $22.6 million due to DCEngine related collections from a tier-one U.S. service provider during the year and collection of related inventory sales to our integration partners in fulfilling these orders;

- Accounts payable decreased $22.8 million due to the payment of inventory purchases made in the fourth quarter of 2015 in order to fulfill DCEngine orders shipped during 2016;
- Deferred revenue decreased $15.0 million due to the recognition of DCEngine shipments that were deferred at December 31, 2015 and subsequently recognized in 2016;
- Inventories and deferred cost of sales decreased $4.9 million tied to the significant DCEngine orders deferred at December 31, 2015 and recognized in 2016; and
- Other receivables decreased $7.1 million as the result of collections from the sale of inventories to our integration partner and contract manufacturer;

Cash provided by operating activities in 2015 was $5.1 million and consisted of a net loss of $14.7 million, adjustments for non-cash items of $23.8 million which primarily consisted of stock compensation, fixed asset depreciation and intangible amortization and an increase in working capital items of $4.0 million. For the year ended December 31, 2015, principal drivers to changes in our working capital consisted of the following:

- Accounts receivables increased $17.1 million due to DCEngine shipments to a tier-one U.S. service provider prior to year-end;
- Deferred revenue increased $16.7 million due to the shipments described above prior to year-end where the associated revenue was not yet recognized. Additionally, inventories and deferred cost of sales increased $13.8 million due to the same transaction;
- Accounts payable increased $9.9 million due to inventory purchases made fulfilling the shipments described above.
- Other receivables increased $5.0 million as the result of sales of inventory to an integration partner.

Investing Activities

Cash used in investing activities in 2016 of $4.9 million and 2015 of $2.2 million was attributable to capital expenditures. This was the result in increased investment in next generation engineering test equipment as well as customer demo units primarily relating to DCEngine and FlowEngine product lines.

Financing Activities

Cash generated in financing activities in 2016 of $7.5 million is primarily due to a $10.0 million net draw on our Silicon Valley Bank line of credit and proceeds from the issuance of common stock. During 2016, our gross borrowings were $98.0 million and we repaid $88.0 million of the borrowings within the period. We expect to continue to borrow additional funds against our line of credit to meet short term intra-quarter needs on an ongoing basis; however, we expect to repay any such borrowings within the quarter as we navigate the timing of customer payments and payables to our suppliers. The draw on the line of credit was offset by the payment of payroll taxes associated with restricted stock award releases in the third quarter 2016.

Cash used in financing activities in 2015 of $12.8 million was attributable to the repayment of the $18.0 million outstanding balance of the 2015 convertible notes. During 2015, we borrowed an additional $5.0 million on our Silicon Valley Bank line of credit to meet intra-period cash requirements.

Line of Credit

Silicon Valley Bank

On September 19, 2016, we entered into a Credit Agreement (as amended, the “Credit Agreement”) with Silicon Valley Bank (“SVB”), as administrative agent, and the other lenders party thereto. The Credit Agreement replaces our Third Amended and Restated Loan and Security Agreement with SVB, dated March 14, 2014 (as amended, the “2014 Agreement”). On January 5, 2017, we entered into the First Amendment to the Credit Agreement. The following takes into account the terms per the agreement as amended on January 5, 2017.

The Credit Agreement provides for a revolving loan commitment of $55.0 million and has a stated maturity date of September 19, 2019. The Credit Agreement includes a $10.0 million sub-limit for swingline loans and a $10.0 million sub-limit for letters of credit. The Credit Agreement also includes an accordion feature that allows us, at any time, to increase the aggregate revolving loan commitments by up to an additional $25.0 million, subject to the satisfaction of certain conditions, including obtaining the lenders’ agreement to participate in the increase.

Borrowings under the Credit Agreement are subject to a borrowing base, which is a formula based upon certain eligible accounts receivable plus up to $7.5 million if our Liquidity (as defined in the Credit Agreement) is above $20.0 million in the first and second month of any fiscal quarter and $25.0 million for the last month of a fiscal quarter, measured as of the last day of the applicable month. Eligible accounts receivable include 85% of certain U.S. and 75% of certain foreign accounts receivable (85% in certain cases). The Credit Agreement also provides for non-formula advances during the last business day of any fiscal quarter, provided that Liquidity on the date of a requested non-formula advance must be greater than or equal to $40.0 million, the non-formula advance must be repaid on or before the first business day after the applicable fiscal quarter end, and subject to the satisfaction of certain other conditions.

Outstanding borrowings under the revolving loan commitment bear interest at a per annum rate based upon our Availability (as defined in the Credit Agreement), which means the quotient of the amount available for borrowings under the Credit Agreement divided by the lesser of the total commitment and the borrowing base, calculated as a daily average over the immediately preceding fiscal month. The Credit Agreement provides that the per annum interest rate on or before March 31, 2017 and at any time thereafter when the Consolidated Adjusted EBITDA (as defined in the Credit Agreement) as measured on a trailing twelve-month basis for the immediately preceding fiscal quarter period is less than the Consolidated Adjusted EBITDA threshold as specified in the Credit Agreement will be as follows:

- When Availability is 70% or more, the interest rate is the prime rate (as published in Wall Street Journal) plus 0.50%;
- When Availability is 30% or more and less than 70%, the interest rate is the prime rate plus 0.75%; and
- When Availability is below 30%, the interest rate is the prime rate plus 1.00%.

After March 31, 2017, if Consolidated Adjusted EBITDA as measured on a trailing twelve-month basis for the immediately preceding fiscal quarter period is equal to or greater than the Consolidated Adjusted EBITDA threshold as specified in the Credit Agreement, the rate per annum will be as follows:

- When Availability is 70% or more, the interest rate is the prime rate plus 0.25%;
- When Availability is 30% or more and less than 70%, the interest rate is the prime rate plus 0.50%; and
- When Availability is below 30%, the interest rate is the prime rate plus 0.75%.

Under the Credit Agreement, we are required to make interest payments monthly. We are further required to pay $25,000 in annual administrative fees, $82,500 in annual commitment fees and a commitment fee based on the average unused portion of the revolving credit commitment, and certain other fees in connection with letters of credit. The commitment fee is determined as follows and is payable quarterly in arrears:

- When Availability is 70% or more, the commitment fee is 0.35% of the average unused portion of the revolving credit commitment;
- When Availability is 30% or more and less than 70%, the commitment fee is 0.325% of the average unused portion of the revolving credit commitment; and
- When Availability is below 30%, the commitment fee is 0.3% of the average unused portion of the revolving credit commitment.

We paid a total of $0.3 million loan origination fees that were capitalized and are being expensed over the term of the Credit Agreement. If we reduce or terminate the revolving loan commitment under the Credit Agreement prior to September 19, 2017, we are required to pay a cancellation fee equal to 0.75% of the total revolving loan commitment.

The Credit Agreement requires that we comply with financial covenants requiring us to maintain a minimum monthly Liquidity of $15.0 million as of the last day of the first and second month of any fiscal quarter and $20.0 million as of the last day of the third month of any fiscal quarter. Additionally, the Credit Agreement requires us to maintain a minimum trailing twelve months Consolidated Adjusted EBITDA each quarter of fiscal year 2017. The Credit Agreement also provides that following fiscal year 2017, SVB, as administrative agent, and the required lenders under the Credit Agreement will re-set the required minimum Consolidated Adjusted EBITDA levels for the periods tested in fiscal years 2018 and 2019.

All obligations under the 2016 Agreement are unconditionally guaranteed by our wholly owned subsidiary, Radisys International LLC. The obligations under the Credit Agreement are secured by a first priority lien on our assets and the subsidiary guarantor. If we acquire or form a material U.S. subsidiary, then that subsidiary will also be required to guarantee the obligations under the Credit Agreement and grant a first priority lien on its assets.

As of December 31, 2016 and 2015, we had outstanding balances of $25.0 million and $15.0 million issued on its behalf under the Credit Agreement. At December 31, 2016, we had $7.5 million of total borrowing availability remaining under the Credit Agreement. Under the First Amendment, we may borrow up to $55.0 million at fiscal quarter ends. We were in compliance with all covenants under the Credit Agreement.

2015 Convertible Senior Notes

On February 17, 2015, we repaid at maturity the entire $18.0 million outstanding balance of the 4.50% convertible senior notes due 2015 (the "2015 convertible senior notes") in accordance with the terms thereof. No convertible senior notes were converted to common stock.

Derivatives

We enter into forward foreign currency exchange contracts for the Indian Rupee to reduce the impact of foreign currency exchange risks where natural hedging strategies could not be effectively employed.

We do not hold or issue derivative financial instruments for trading purposes. The purpose of our hedging activities is to reduce the risk that the eventual cash flows of the underlying assets, liabilities and firm commitments will be adversely affected by changes in exchange rates. In general, our hedging activities do not create foreign currency exchange rate risk because fluctuations in the value of the instruments used for hedging purposes are offset by fluctuations in the value of the underlying exposures being hedged. Counterparties to derivative financial instruments expose us to credit-related losses in the event of non-performance. We do not believe there is a significant credit risk associated with our hedging activities because the counterparties are all large financial institutions with high credit ratings.

All derivatives, including foreign currency exchange contracts are recognized on the balance sheet at 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 (loss) is affected by the variability of the cash flows of the hedged transaction. Hedge ineffectiveness may result when the amount of our hedge contracts exceed our 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 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 Cost of Sales, R&D and SG&A. One of the criteria for this accounting treatment is that the forward foreign currency exchange contract amount should not be in excess of specifically identified anticipated transactions. By their nature, estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. If anticipated transaction estimates or actual transaction amounts decrease below hedged levels, or when the timing of transactions change significantly, we would reclassify a portion of the cumulative changes in fair values of the related hedge contracts from other comprehensive income (loss) to other income (expense) during the quarter in which the changes occur.

Contractual Obligations

The following summarizes our contractual obligations at December 31, 2016 and the effect of such on our liquidity and cash flows in future periods (in thousands):

	Total	2017	2018-2019	2020-2021	2022 & Thereafter
Operating leases	$ 6,679	$ 2,458	$ 3,071	$ 1,150	$ —
Purchase obligations (A)	268	268	—	—	—
Line of credit (B)	25,000	—	25,000		—
Total	$ 31,947	$ 2,726	$ 28,071	$ 1,150	$ —

(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.

(B) The secured revolving line of credit agreement has a stated maturity date of September 19, 2019.

In addition to the above, we have approximately $3.5 million in liabilities associated with unrecognized tax benefits. 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.

Shelf Registration Statement

On August 3, 2016, we filed an unallocated shelf registration statement on Form S-3 for the offering from time to time of up to $100.0 million in securities consisting of common stock, preferred stock, depositary shares, warrants, debt securities or units consisting of one or more of these securities. The SEC declared the shelf registration statement effective on August 12, 2016, and it will expire in August 2019. Except as may be stated in a prospectus supplement for any particular offering, we intend to use the net proceeds from the sale of any securities for general corporate purposes, which may include acquiring companies in our industry and related businesses, repaying existing debt, providing additional working capital and procuring capital assets.

Liquidity Outlook

At December 31, 2016, our cash and cash equivalents amounted to $33.1 million. We believe our current cash and cash equivalents, cash expected to be generated from operations, available borrowings under our Silicon Valley Bank line of credit and availability under our $100.0 million unallocated shelf registration statement will satisfy our short and long-term expected working capital needs, capital expenditures, acquisitions, stock repurchases, and other liquidity requirements associated with our present business operations. We believe our current working capital, plus availability under the SVB line of credit, provides sufficient liquidity to operate the business at normal levels; however, to accelerate our growth objectives, we may, among other available options, raise additional capital in the public or private markets or pursue alternative financing arrangements.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations is based upon the Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and judgments that may affect the reported amounts of assets, liabilities, and revenues and expenses. On an on-going basis, management evaluates its estimates. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

Revenue Recognition

Multiple Element Arrangements

A significant portion of our revenue relates to product sales for which revenue is recognized upon shipment, with limited judgment required related to product returns. Typically, title transfer for product sales occurs upon delivery of products to our customer's freight forwarders but in certain instances is upon delivery to customer. The software elements included in certain components of Hardware Solutions systems, FlowEngine and MediaEngine products are considered to be functioning together with the non-software elements to provide the tangible product's essential functionality and these arrangements generally include multiple elements such as hardware, professional services, technical support services as well as software upgrades or enhancements on a when and if available basis. Arrangements including multiple elements require significant management judgment to evaluate the effective terms of agreements, our performance commitments and determination of fair value of the various deliverables under the arrangement.

ASC 605 Revenue Recognition provides a fair value hierarchy in order to determine the appropriate relative fair value for each element of an arrangement. When available, we use vendor specific objective evidence ("VSOE") to determine the estimated selling price. In the absence of VSOE or third?party evidence ("TPE") for a delivered element, we then use an estimated selling price in order to determine fair value. Estimated selling prices represent our best estimate of the price at which it would transact if the deliverables were sold on a standalone basis. For technical support services, we generally determine our selling price based on VSOE as supported by substantive renewal rates in the related service agreements. In certain instances where VSOE cannot be established, we then rely upon the estimated selling price for such deliverables as TPE is generally not available due to the unique company specific terms surrounding such service agreements. In establishing an appropriate estimated selling price for these technical support agreements, we considered entity specific factors such as its historical and projected costs, historical and projected revenues, and profit objectives. We also considered market specific factors when establishing reasonable profit objectives.

Hardware

Revenue from hardware products is recognized in accordance with ASC 605 Revenue Recognition. Under our standard terms and conditions of sale, we typically transfer title and risk of loss to the customer at the time product is shipped to the customer and in certain instances upon delivery to the customer, and revenue is recognized accordingly, unless customer acceptance is uncertain or significant obligations remain. We reduce revenue for estimated customer returns resulting from rotation rights according to agreements with our distributors. The amount of revenues derived from these distributors as a percentage of total revenues was 4.6%, 15.1% and 16.3% for the years ended December 31, 2016, 2015 and 2014. We accrue the estimated cost of product warranties based on historical failure rates and the cost of fixing or replacing defective units at the time we recognize revenue.

Software licenses and royalties

Revenue from software licenses and royalties is recognized in accordance with ASC 985 Software. We recognize software license revenue at the time of shipment or upon delivery of the software master provided that the revenue recognition criteria have been met and VSOE exists to allocate the total fee to all undelivered elements of the arrangement. We defer revenue on arrangements including specified software upgrades until the specified upgrade has been delivered. Revenue from customers for prepaid, non-refundable software royalties is recorded when the revenue recognition criteria have been met. Revenue for non-prepaid royalties is recognized at the time we receive reporting from our customers as we have not established an ability to reliably estimate customer royalties prior to time contractually obligated reporting is received.

Technical support services

Technical support services revenue is recognized as earned on the straight-line basis over the term of the contract in accordance with applicable U.S. GAAP for revenue recognition. The fair value of our post-contract support has been determined by renewal rates within our support agreements, the actual amounts charged to customers for renewal of their support services or based on an estimated selling price.

Professional and other services

Professional services revenue is recognized upon completion of certain contractual milestones, customer acceptance, and percentage of completion of the services rendered. Other services revenues include hardware repair services and custom software implementation projects. Hardware repair services revenues are recognized when the services are complete. Software implementation revenues are recognized upon completion of certain contractual milestones and customer acceptance of the services rendered or as services are performed under the percentage-of-completion method based on labor hours when we are reasonably able to estimate the total effort required to complete the contract.

Deferred revenue and deferred cost of sales

Revenue and associated amounts received or billed is deferred for the following types of transactions:

- *Undelivered elements of an arrangement* - Certain arrangements include specified software upgrades and enhancements to an existing product. Revenue for such arrangements is deferred until the future obligation is fulfilled. Additionally, certain hardware shipments that have been delivered are deferred when customer acceptance is uncertain and is recognized upon customer acceptance.

- *Technical support services* - We have a number of technical support agreements with our customers for hardware and software maintenance. Generally, these services are billed in advance and recognized over the term of the agreement.

Cost of sales associated with deferred revenue is also deferred. These deferred costs are recognized when the associated revenue is recognized.

Allowance for Doubtful Accounts

We have a relatively small set of multinational customers that typically make up the majority of our accounts receivable balance. Our allowance for doubtful accounts is determined using a combination of factors to ensure that our trade receivables balances are not overstated. We record reserves for individual accounts when we become aware of a customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, our estimates of the recoverability of receivables would be further adjusted. At December 31, 2016, 32.6% of our accounts receivable was due from Reliance Jio Infocomm. If one of our large customers or a number of our smaller customers files for bankruptcy or otherwise is unable to pay the amounts due to us, the current allowance for doubtful accounts may not be adequate. During the years ended December 31, 2016 and 2015, there were no significant account balances reserved.

We maintain a non-specific bad debt reserve for all customers. This non-specific bad debt reserve is calculated based on our historical pattern of bad debt write offs as a percentage gross accounts receivable for the current rolling eight quarters.

Inventory Valuation

We record an inventory valuation allowance for estimated obsolete or unmarketable inventories as the difference between the cost of inventories and the estimated net realizable value based upon assumptions about future demand and market conditions. Our inventory valuation allowances establish a new cost basis for inventory. Factors influencing the provision include: changes in demand; rapid technological changes; product life cycle and development plans; component cost trends; product pricing; regulatory requirements affecting components; and physical deterioration. If actual market conditions are less favorable than those projected by management, additional provisions for inventory reserves may be required. Our estimate for the allowance is based on the assumption that our customers comply with their current contractual obligations. We provide long-life support to our customers and therefore we have material levels of customer specific inventory. If our customers experience a financial hardship or if we experience unplanned cancellations of customer contracts, the current provision for the inventory reserves may be inadequate. Additionally, we may incur additional expenses associated with any non-cancelable purchase obligations to our suppliers if they provide customer-specific components.

Long-Lived Assets

Our long-lived assets include definite-lived intangible assets and property and equipment. The net balance of our definite-lived intangible assets and property and equipment at December 31, 2016 and December 31, 2015 amounted to $24.3 million and $36.5 million.

Intangible assets, net of accumulated amortization, primarily consist of acquired patents, completed technology, technology licenses, trade names and customer lists. Intangible assets are being amortized on a straight-line basis over estimated useful lives with remaining lives of one to five years as of December 31, 2016. Property and equipment, net of accumulated depreciation, primarily consists of office equipment and software, manufacturing equipment, leasehold improvements and other physical assets owned by us. Property and equipment are being depreciated or amortized on a straight-line basis over estimated useful lives ranging from one to fifteen years. We assess impairment of intangible assets and property and equipment whenever conditions indicate that the carrying values of the assets may not be recoverable.

Conditions that would trigger a long-lived asset impairment assessment include, but are not limited to, a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator. If we determine that a long-lived asset impairment assessment is required, we must determine the fair value of the asset. Impairments would be recognized in operating results to the extent that the carrying value exceeds this calculated fair value of the long-lived assets. We determined triggering events occurred during the third quarters of 2014 due to lower than expected sales within our Software-Systems segment which required analysis of the recoverability of our long-lived assets. After finalizing this analysis, we concluded our long-lived assets were not impaired.

Considerable management judgment is required in determining if and when a condition would trigger an impairment assessment of our long-lived assets and once such a determination has been made, considerable management judgment is required to determine the expected future cash flows and the fair market value of the long-lived asset. If and when a condition has triggered an impairment analysis of our long-lived assets, we may incur substantial impairment losses due to the write-down or the write-off of our long-lived assets.

Accrued Restructuring

Because we have a history of paying severance benefits, expenses associated with exit or disposal activities are recognized when probable and estimable.

We have engaged, and may continue to engage, in restructuring actions, which require us to make significant estimates in several areas including: realizable values of assets made redundant or obsolete; expenses for severance and other employee separation costs; the ability and timing to generate sublease income, as well as our ability to terminate lease obligations at the amounts we have estimated; and other exit costs. Should the actual amounts differ from our estimates, the amount of the restructuring charges could be materially impacted. For a description of our restructuring actions, refer to our discussion of restructuring and other charges, net in the Results of Operations section.

Accrued Warranty

We provide for the estimated cost of product warranties at the time revenue is recognized. Our standard product warranty terms generally include repairs or replacement of a product at no additional charge for a specified period of time, which is generally 12 to 24 months after shipment. The workmanship of our products produced by our contract manufacturer is covered under warranties provided by the contract manufacturer for 12 to 24 months. We engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers. Our estimated warranty obligation is based upon ongoing product failure rates, internal repair costs, contract manufacturing repair charges for repairs not covered by the contract manufacturer’s warranty, average cost per repair and current period product shipments. If actual product failure rates, repair rates, service delivery costs, or post-sales support costs differ from our estimates, revisions to the estimated warranty liability would be required. Additionally, we accrue warranty costs for specific customer product repairs that are in excess of our warranty obligation calculation described above. Accrued warranty reserves are included in short-term and long-term other accrued liabilities in the accompanying Consolidated Balance Sheets.

Income Taxes

Income tax accounting requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of the assets and liabilities. We record a valuation allowance to reduce deferred tax assets if it is “more likely than not” that all or a portion of the asset will not be realized due to inability to generate sufficient taxable income in the relevant period to utilize the deferred tax asset. Our net deferred tax assets amounted to $1.1 million as of December 31, 2016. We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, we would increase the valuation allowance and make a corresponding charge to earnings in the period in which we make such determination. Likewise, if we later determine that we are more likely than not to realize the net deferred tax assets, we would reverse the applicable portion of the previously provided valuation allowance. All future reversals of the valuation allowance would result in a benefit in the period recognized.

We evaluate liabilities for estimated tax exposures in all of our operational jurisdictions. The calculation of our tax liabilities includes addressing uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions in the U.S. and other tax jurisdictions based on recognition and measurement criteria that allow financial statement benefits to be recognized only for tax positions that are more-likely-than-not to be sustained upon tax audit, administrative appeals or final court determination. The liabilities are reviewed for their adequacy and appropriateness. Changes to our assumptions could cause a revision of past estimates. Such a change in measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Stock-based Compensation

We measure stock-based compensation at the grant date, based on the fair value of the award, and recognize expense on a straight-line basis over the employee's requisite service period. For performance-based restricted stock unit awards, the requisite service period is equal to the period of time over which performance objectives underlying the award are expected to be achieved and vested. The number of shares that ultimately vest depends on the achievement of certain performance criteria over the measurement period. For non-market based performance-based restricted stock we reevaluate quarterly the period during which the performance objective will be met and the number of shares expected to vest. The amount of expense recorded each period is based on our estimate of the number of awards that will ultimately vest.

We estimate the fair value of stock options and purchase rights under our employee stock purchase plans using a Black-Scholes option-pricing model. The Black-Scholes option-pricing model incorporates several highly subjective assumptions including expected volatility, expected term and interest rates.

In reaching our determination of expected volatility, we use the historic volatility of our shares of common stock. We base the expected term of our stock options on historic experience. The expected term for purchase rights under our employee stock plans is based on the 18 month offering period. The risk-free rate is based on the U.S. Treasury constant maturities in effect at the time of grant for the expected term of the option or share.

The calculation includes several assumptions that require management's judgment. The expected term of the option or share is determined based on assumptions about patterns of employee exercises and represents a probability-weighted average time-period from grant until exercise of stock options, subject to information available at time of grant. Determining expected volatility generally begins with calculating historical volatility for a similar long-term period and then considers the ways in which the future is reasonably expected to differ from the past.

The grant-date fair value of the PRSUs awarded in 2015 was calculated using a Monte Carlo simulation consistent with the fair value principles of Topic 718 since these awards vest based upon market conditions. Expense is recognized over a derived service period determined by the Monte Carlo simulation. If the conditions of PRSUs are met before the derived service period ends, all remaining expense will be recognized in the period the conditions are met.

The input factors used in the valuation models are based on subjective future expectations combined with management judgment. If there is a difference between the assumptions used in determining stock-based compensation cost and the actual factors which become known over time, we may change the input factors used in determining stock-based compensation costs.

These changes may materially impact the results of operations in the event such changes are made. In addition, if we were to modify any awards, additional charges would be taken. If our actual forfeiture rate is materially different from our estimate the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 16 — *Employee Benefit Plans* of the Notes to the Consolidated Financial Statements for a further discussion on stock-based compensation.

Recent Accounting Pronouncements

In October 2016, the FASB issued Accounting standards Update No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). ASU 2016-16 modifies how intra-entity transfer of assets other than inventory are accounted for and presented in the financial statements. ASU 2016-16 is effective for public companies for annual reporting periods beginning after December 15, 2017, however early adoption is allowed. We will adopt this ASU in the first quarter of 2017. We had a tax charge of approximately $2.0 million related to intra-entity transactions other than inventory which could not be previously recognized. Upon adoption the unrecognized tax charge will be reflected as an adjustment to retained earnings.

In March 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies how several aspects of share-based payments are accounted for and presented in the financial statements. ASU 2016-09 is effective for public companies for annual reporting periods beginning after December 15, 2016. We will adopt this ASU in the first quarter of 2017. Upon adoption, the Company will no longer use a forfeiture rate in the calculation of stock based compensation expense. The impact of this election was determined to not result in a significant charge to retained earnings from applying an estimated forfeiture rate in previous periods. Upon adoption the balance of the unrecognized excess tax benefits will be reversed with the impact recorded to retained earnings including any change to the valuation allowance as a result of the adoption. We have excess tax benefits for which a benefit could not be previously recognized of approximately $4.5 million. Due to the full valuation allowance on the U.S. deferred tax assets, we do not expect any impact to the financial statements beyond disclosure as a result of this adoption.

In February 2016 the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, "Leases," which requires us as the lessee to recognize most leases on the balance sheet thereby resulting in the recognition of lease assets and liabilities for those leases currently classified as operating leases. The accounting for leases where we are the lessor remains largely unchanged. ASU 2016-02 is effective for us beginning January 1, 2019 with early adoption permitted. While we are currently assessing the impact ASU 2016-02 will have on the consolidated financial statements, we expect the primary impact to the consolidated financial position upon adoption will be the recognition, on a discounted basis, of our minimum commitments under noncancelable operating leases on the consolidated balance sheets resulting in the recording of right of use assets and lease obligations. Our current minimum commitments under noncancelable operating leases are disclosed in Note 13.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which was issued in August 2015, revised the effective date for this ASU to annual and interim periods beginning on or after December 15, 2017, with early adoption permitted, but not earlier than the original effective date of annual and interim periods beginning on or after December 15, 2016, for public entities.

The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. We do not plan to early adopt, and accordingly, we will adopt the new standard effective January 1, 2018.

We currently plan to adopt using the modified retrospective approach. However, a decision regarding the adoption method has not been finalized at this time. The final determination will depend on a number of factors, such as the significance of the impact of the new standard on financial results, system readiness and our ability to accumulate and analyze the information necessary to assess the impact on prior period financial statements, as necessary.

Our evaluation of the impact of the new standard on our accounting policies, processes, and system requirements is ongoing. While we continue to assess all potential impacts under the new standard, we do not believe there will be significant changes to the timing of recognition of hardware sales, software license sales or service contracts.

As part of our preliminary evaluation, we also considered the impact of the guidance in ASC 340-40, *Other Assets and Deferred Costs; Contracts with Customers.* This guidance, requires the capitalization of all incremental costs that we incur to obtain a contract with a customer that we would not have incurred if the contract had not been obtained, provided we expect to recover the costs. We preliminarily believe that there will not be significant changes to the timing of the recognition of sales commissions since our commission plan is earned based on the recognition of revenue; however, there is a potential that the amortization period for commission costs may be longer than the contract term in some cases, as the new cost guidance requires entities to determine whether the costs relate to specific anticipated contracts as well.

While we continue to assess the potential impacts of the new standard, including the areas described above, the Company cannot reasonably estimate quantitative information related to the impact of the new standard it its financial statements at this time.

Item 7A. *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, Indian Rupee and British Pound Sterling. 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 have entered into forward exchange contracts. These hedging transactions limit our exposure to changes in the U.S. Dollar to the Indian Rupee exchange rates, and as of December 31, 2016 the total notional or contractual value of the contracts we held was $16.2 million. These contracts will mature over the next 15 months.

Holding other variables constant, a 10% adverse fluctuation, in relation to our hedge positions, of the U.S. Dollar relative to the Indian Rupee would require an adjustment of $1.6 million reversing our Indian Rupee hedge asset as of December 31, 2016, to a hedge liability of $0.7 million. A 10% favorable fluctuation, in relation to our hedge positions, of the U.S. Dollar relative to the Indian Rupee would result in an adjustment of $1.6 million, increasing our Indian Rupee hedge asset as of December 31, 2016 to $2.5 million. 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. If there is an unfavorable movement in the Indian Rupee 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 Indian Rupee.

Item 8. *Financial Statements and Supplementary Data*

Quarterly Financial Data (unaudited)

	For the Year Ended December 31, 2016				For the Year Ended December 31, 2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)							
Revenues	$ 55,146	$ 61,288	$ 55,397	$ 40,561	$ 48,687	$ 47,049	$ 44,780	$ 44,077
Gross margin	12,784	15,445	14,246	13,613	12,626	12,601	13,007	13,918
Loss from operations	(2,450)	(932)	(2,083)	(4,194)	(6,993)	(3,533)	(2,016)	(1,523)
Net loss	(2,965)	(591)	(2,638)	(4,057)	(7,053)	(4,119)	(2,066)	(1,440)
Loss per share:								
Basic	$ (0.08)	$ (0.02)	$ (0.07)	$ (0.11)	$ (0.19)	$ (0.11)	$ (0.06)	$ (0.04)
Diluted	$ (0.08)	$ (0.02)	$ (0.07)	$ (0.11)	$ (0.19)	$ (0.11)	$ (0.06)	$ (0.04)

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *Internal Control—Integrated Framework (2013).* Based on our assessment, we conclude that, as of December 31, 2016 the Company’s internal control over financial reporting is effective based on those criteria 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.

The effectiveness of internal control over financial reporting as of December 31, 2016, has been audited by KPMG LLP, the independent registered public accounting firm who also audited the Company’s Consolidated Financial Statements included in this Item 8, as stated in their report which appears on page 48 hereof.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Radisys Corporation:

We have audited the accompanying consolidated balance sheets of Radisys Corporation and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. We also have audited Radisys Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Radisys Corporation's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Radisys Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Radisys Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP
Portland, Oregon
March 1, 2017

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

	For the Years Ended December 31,		
	2016	2015	2014
Revenues:			
Product	$ 176,141	$ 155,285	$ 166,255
Service	36,251	29,308	26,487
Total revenue	212,392	184,593	192,742
Cost of sales:			
Product	127,771	107,031	115,699
Service	20,826	17,548	17,031
Amortization of purchased technology	7,707	7,862	8,210
Total cost of sales	156,304	132,441	140,940
Gross margin	56,088	52,152	51,802
Research and development	24,068	25,529	31,958
Selling, general and administrative	33,722	30,628	35,862
Intangible assets amortization	5,040	5,040	5,077
Restructuring and other charges, net	2,917	5,020	4,205
Loss from operations	(9,659)	(14,065)	(25,300)
Interest expense	(482)	(515)	(1,242)
Interest income	189	96	64
Other income	2,135	1,548	1,389
Loss before income tax expense	(7,817)	(12,936)	(25,089)
Income tax expense	2,434	1,742	2,492
Net loss	$ (10,251)	$ (14,678)	$ (27,581)
Net loss per share:			
Basic	$ (0.27)	$ (0.40)	$ (0.79)
Diluted	$ (0.27)	$ (0.40)	$ (0.79)
Weighted average shares outstanding:			
Basic	37,668	36,789	34,699
Diluted	37,668	36,789	34,699

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

RADISYS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	For the Years Ended December 31,		
	2016	2015	2014
Net loss	$ (10,251)	$ (14,678)	$ (27,581)
Other comprehensive loss:			
Translation adjustments	(952)	(1,255)	(556)
Adjustment for fair value of hedge derivatives, net of tax	292	(67)	123
Other comprehensive loss	(660)	(1,322)	(433)
Comprehensive loss	$ (10,911)	$ (16,000)	$ (28,014)

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

RADISYS CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands except per share amounts)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,087	$ 20,764
Accounts receivable, net	38,378	60,942
Other receivables	4,161	11,304
Deferred cost of sales	—	14,113
Inventories, net	20,021	16,812
Other current assets	2,990	2,794
Total current assets	98,637	126,729
Property and equipment, net	6,713	6,134
Intangible assets, net	17,575	30,322
Long-term deferred tax assets, net	1,117	1,173
Other assets	4,143	2,711
Total assets	$ 128,185	$ 167,069
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 20,805	$ 43,451
Accrued wages and bonuses	6,572	7,250
Deferred revenue	5,715	23,062
Line of credit	25,000	15,000
Other accrued liabilities	7,571	9,404
Total current liabilities	65,663	98,167
Long-term liabilities:		
Other long-term liabilities	5,966	2,985
Total long-term liabilities	5,966	2,985
Total liabilities	71,629	101,152
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock — $0.01 par value, 5,664 shares authorized; none issued or outstanding at December 31, 2016 and December 31, 2015	—	—
Common stock — no par value, 100,000 shares authorized; 38,521 and 36,959 shares issued and outstanding at December 31, 2016 and December 31, 2015	339,715	338,165
Accumulated deficit	(281,600)	(271,349)
Accumulated other comprehensive loss:		
Cumulative translation adjustments	(1,032)	(80)
Unrealized loss on hedge instruments	(527)	(819)
Total accumulated other comprehensive loss	(1,559)	(899)
Total shareholders' equity	56,556	65,917
Total liabilities and shareholders' equity	$ 128,185	$ 167,069

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

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

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total
	Shares	Amount			
Balances, December 31, 2013	29,198	$ 309,370	$ (229,090)	$ 856	$ 81,136
Shares issued pursuant to benefit plans	281	635	—	—	635
Stock based compensation associated with employee benefit plans	—	4,097	—	—	4,097
Vesting of restricted stock units	709	—	—	—	—
Restricted share forfeitures for tax settlements	(211)	(629)	—	—	(629)
Net adjustment for fair value of hedge derivatives, net of taxes	—	—	—	123	123
Translation adjustments	—	—	—	(556)	(556)
Issuance of common stock	6,555	20,551	—	—	20,551
Net loss for the period	—	—	(27,581)	—	(27,581)
Balances, December 31, 2014	36,532	$ 334,024	$ (256,671)	$ 423	$ 77,776
Shares issued pursuant to benefit plans	205	331	—	—	331
Stock based compensation associated with employee benefit plans	—	3,952	—	—	3,952
Vesting of restricted stock units	279	—	—	—	—
Restricted share forfeitures for tax settlements	(57)	(142)	—	—	(142)
Net adjustment for fair value of hedge derivatives, net of taxes	—	—	—	(67)	(67)
Translation adjustments	—	—	—	(1,255)	(1,255)
Net loss for the period	—	—	(14,678)	—	(14,678)
Balances, December 31, 2015	36,959	$ 338,165	$ (271,349)	$ (899)	$ 65,917
Shares issued pursuant to benefit plans	393	1,040	—	—	1,040
Stock based compensation associated with employee benefit plans	—	3,797	—	—	3,797
Vesting of restricted stock units	1,799	—	—	—	—
Restricted share forfeitures for tax settlements	(630)	(3,287)	—	—	(3,287)
Net adjustment for fair value of hedge derivatives, net of taxes	—	—	—	292	292
Translation adjustments	—	—	—	(952)	(952)
Net loss for the period	—	—	(10,251)	—	(10,251)
Balances, December 31, 2016	38,521	$ 339,715	$ (281,600)	$ (1,559)	$ 56,556

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

RADISYS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net loss	$ (10,251)	$ (14,678)	$ (27,581)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	17,256	18,478	20,240
Inventory valuation allowance and adverse purchase commitment charges	4,212	3,278	2,862
Deferred income taxes	124	106	3,106
Stock-based compensation expense	3,797	3,952	4,097
Other	(815)	(217)	119
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	22,609	(17,121)	(2,262)
Other receivables	7,110	(5,040)	(3,689)
Inventories and deferred cost of sales	4,890	(13,801)	4,313
Accounts payable	(22,805)	9,853	(1,534)
Accrued wages and bonuses	(789)	2,043	(538)
Accrued restructuring	772	(89)	(2,006)
Deferred revenue	(14,967)	16,682	(1,875)
Other	(1,334)	1,611	(2,049)
Net cash provided by (used in) operating activities	9,809	5,057	(6,797)
Cash flows from investing activities:			
Capital expenditures	(4,931)	(2,224)	(2,196)
Net cash used in investing activities	(4,931)	(2,224)	(2,196)
Cash flows from financing activities:			
Borrowings on line of credit	98,000	13,500	—
Payments on line of credit	(88,000)	(8,500)	(5,000)
Repayment of convertible subordinated notes	—	(18,000)	—
Proceeds from issuance of common stock	1,040	331	21,186
Net resettlement of restricted shares	(3,287)	(142)	(629)
Other financing activities	(279)	—	(253)
Net cash provided by (used in) financing activities	7,474	(12,811)	15,304
Effect of exchange rate changes on cash	(29)	(500)	(551)
Net increase (decrease) in cash and cash equivalents	12,323	(10,478)	5,760
Cash and cash equivalents, beginning of period	20,764	31,242	25,482
Cash and cash equivalents, end of period	$ 33,087	$ 20,764	$ 31,242
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 483	$ 835	$ 1,207
Income taxes	$ 1,349	$ 1,289	$ 1,532

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

Note 1 — Nature of Operations

Radisys Corporation (NASDAQ: RSYS), the services acceleration company, provides hyperscale software defined infrastructure, service aware traffic distribution platforms, real-time media processing engines and wireless access technologies that enable its customers to maximize, virtualize and monetize their networks. The Company's products and services fall within two operating segments: Software-Systems and Hardware Solutions

- Software-Systems. Software-Systems is comprised of three product families: FlowEngine, MediaEngine and CellEngine.
  - FlowEngine products target the communication service provider traffic management market and are designed to classify data flows and then distribute these flows to Virtualized Network Functions ("VNF"). FlowEngine offloads the processing for packet classification and distribution, improving virtualized function utilization and making the overall Network Functions Virtualization ("NFV") architecture more efficient. A FlowEngine system consists of FlowEngine software running on a Traffic Distribution Engine ("TDE") platform. FlowEngine integrates a subset of firewalls, edge routing, data center switching, and load balancing functionality, along with standards based SDN protocols, that efficiently process data flows in virtualized communications environments.
  - MediaEngine products are designed into the IP Multimedia Subsystem ("IMS") core of telecom networks, providing media processing capabilities required for a broad range of applications including Voice over Long-Term Evolution ("VoLTE"), Voice over WiFi (“VoWifi”), Web Real-Time Communication ("WebRTC"), multimedia conferencing, as well as the media interworking including transcoding, transrating and media quality treatment that are required to achieve interoperability between legacy and new generation devices using disparate audio and video communication devices and applications.
  - CellEngine software, which includes TOTALeNodeB LTE and Femtotality 3G software products, provides a communication linkage between wireless end user devices and mobile core networks through small cell base stations that mobile service providers are deploying to optimize wireless network spectrum utilization and coverage.
  - Also included in the Software-Solutions segments is the Company's Customer Development Solutions ("CDS") organization that consists of telecommunication professionals who assist customers to develop unique telecommunications products and applications.
- Hardware Solutions includes the open-standards based DCEngine product family as well as the Company's legacy embedded products portfolio.
  - DCEngine products provide multi-rack level network funtions virtualization ("NFVi") and container based infrastructure for hosting VNF's and applications under open software-defined wetworking ("SDN") control. DCEngine uses the principles of open compute platform ("OCP") architectures, delivering rack-scale compute, storage and networking resources based on open Commercial off the shelf ("COTS") technology and integrates open source software.
  - Legacy embedded products includes ATCA, computer-on-module express ("COM Express") and rack mount servers. These products are predominantly hardware-based and include both internal designs as well as third party hardware. These products enable the control and movement of data in both 3G and LTE telecom networks and provide the hardware enablement for network elements applications such as Deep Packet Inspection ("DPI"), policy management and intelligent gateways (security, femto and LTE gateways). Additionally, these products enable image processing capabilities for healthcare markets and enable energy-efficient computing capabilities dedicated for industrial deployments.

Note 2 — Significant Accounting Policies

Principles of Consolidation and Presentation

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company accounts and transactions have been properly eliminated in consolidation.

Certain prior year balances have been reclassified to conform to the current year's presentation. Such reclassifications did not affect total cash flows, total net revenues, operating loss, net loss or shareholders' equity.

Management Estimates

The Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these Consolidated Financial Statements requires management to make estimates and judgments that may affect the amounts reported in its Consolidated Financial Statements and accompanying notes. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

Multiple Element Arrangements

A significant portion of the Company's revenue relates to product sales for which revenue is recognized upon shipment, with limited judgment required related to product returns. Title transfer for substantially all product sales occurs upon delivery of products to our customer's freight forwarders. The software elements included in certain components of Hardware Solutions systems, FlowEngine and MediaEngine products are considered to be functioning together with the non-software elements to provide the tangible product's essential functionality and these arrangements generally include multiple elements such as hardware, technical support services as well as software upgrades or enhancements on a when and if available basis. Arrangements including multiple elements require significant management judgment to evaluate the effective terms of agreements, our performance commitments and determination of fair value of the various deliverables under the arrangement.

For hardware sales which may include software, ASC 605 Revenue Recognition provides a fair value hierarchy in order to determine the appropriate relative fair value for each element of an arrangement. When available, the Company uses vendor specific objective evidence ("VSOE") to determine the estimated fair value of each element of the arrangement. In the absence of VSOE or third?party evidence ("TPE") for a delivered element, the Company then uses an estimated selling price in order to determine fair value. Estimated selling prices represent the Company's best estimate of the price at which it would transact if the deliverables were sold on a standalone basis. For technical support services, the Company generally determines its selling price based on VSOE as supported by substantive renewal rates in the related service agreements. In certain instances where VSOE cannot be established, the Company then relies upon its estimated selling price for such deliverables as TPE is generally not available due to the unique company-specific terms surrounding such service agreements. In establishing an appropriate estimated selling price for these technical support agreements, the Company considered entity specific factors such as its historical and projected costs, historical and projected revenues, and profit objectives. The Company also considered market specific factors when establishing reasonable profit objectives.

Hardware

Revenue from hardware products is recognized in accordance with ASC 605 *Revenue Recognition*. Under the Company's standard terms and conditions of sale, the Company transfers title and risk of loss to the customer at the time product is shipped to the customer and revenue is recognized accordingly, unless customer acceptance is uncertain or significant obligations remain. The Company reduces revenue for estimated customer returns for rotation rights according to agreements with the Company's distributors. The amount of revenues derived from distributors as a percentage of revenues was 4.6%, 15.1% and 16.3% for the years ended December 31, 2016, 2015 and 2014. Revenues associated with distributors are generally recognized upon shipment as the Company has established a sell-to model with distributors. The Company accrues the estimated cost of product warranties, based on historical experience at the time the Company recognizes revenue.

Software licenses and royalties

Revenue from software licenses and royalties is recognized in accordance with ASC 985 *Software*. The Company recognizes software license revenue at the time of shipment or upon delivery of the software master provided that the revenue recognition criteria have been met and VSOE exists to allocate the total fee to all undelivered elements of the arrangement. The Company defers revenue on arrangements, including specified software upgrades, until the specified upgrade has been delivered. Revenue from customers for prepaid, non-refundable software royalties is recorded when the revenue recognition criteria have been met. Revenue for non-prepaid royalties is recognized at the time the Company receives reporting from customers as the Company has not established an ability to reliably estimate customer royalties prior to time contractually obligated reporting is received.

Technical support services

Technical support services revenue is recognized as earned on the straight-line basis over the term of the contract. The fair value of the Company's post-contract support has been determined by renewal rates within the Company's support agreements, the actual amounts charged to customers for renewal of their support services are based on an estimated selling price.

Professional and other services

Professional services revenue is recognized upon completion of certain contractual milestones and customer acceptance of the services rendered. Other services revenues include hardware repair services and custom software implementation projects. Hardware repair services revenues are recognized when the services are complete. Software implementation revenues are recognized upon completion of certain contractual milestones and customer acceptance of the services rendered or as services are performed under the percentage-of-completion method based on labor hours when the Company is reasonably able to estimate the total effort required to complete the contract.

Deferred revenue

Deferred revenue represents amounts received or billed for the following types of transactions:

- *Undelivered elements of an arrangement*—Certain software sales include specified upgrades and enhancements to an existing product. Revenue for such products is deferred until the future obligation is fulfilled. Additionally, certain hardware shipments that have been delivered are deferred when customer acceptance is uncertain and revenue is recognized upon customer acceptance.

- *Technical support services*—The Company has a number of technical support agreements with customers for hardware and software maintenance. Generally, these services are billed in advance and recognized over the term of the agreement.

Cost of sales associated with deferred revenue is also deferred. These deferred costs are recognized when the associated revenue is recognized.

Capitalized Software Development Costs

The Company does not capitalize internal software development costs incurred in the production of computer software as the Company does not incur any material costs between the point of technological feasibility and general release of the product to customers in the future. As such software development costs are expensed as research and development ("R&D") costs.

Shipping Costs

The Company's shipping and handling costs for product sales are included under cost of sales for all periods presented. For the years ended December 31, 2016, 2015 and 2014 shipping and handling costs represented approximately 2% of total cost of sales.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs consist primarily of media, display, web, and print advertising, along with trade show costs and product demos and brochures. For the years ended December 31, 2016, 2015 and 2014 advertising costs were $1.1 million, $0.9 million and $1.1 million.

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents.

Accounts Receivable

Trade accounts receivable are stated at invoice amount net of an allowance for doubtful accounts and do not bear interest. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of customers to make required payments. Management reviews the allowance for doubtful accounts quarterly for reasonableness and adequacy. If the financial condition of the Company's customers were to deteriorate resulting in an impairment of their ability to make payments, additional provisions for uncollectible accounts receivable may be required. In the event the Company determined that a smaller or larger reserve was appropriate, it would record a credit or a charge in the period in which such determination is made. In addition to specific customer reserves, the Company maintains a non-specific bad debt reserve for all customers. This non-specific bad debt reserve is calculated based on the Company's historical pattern of bad debt write-offs as a percentage of gross accounts receivable for the current rolling eight quarters, which percentage is then applied to the current gross accounts receivable. The Company's customers are concentrated in the technology industry and the collection of its accounts receivable are directly associated with the operational results of the industry.

Inventories

Inventories are stated at the lower of cost, determined on the first-in, first-out (FIFO) basis, or market, net of an inventory valuation allowance. The Company uses a standard cost methodology to determine the cost basis for its inventories. The Company evaluates inventory on a quarterly basis for obsolete or slow-moving items to ascertain if the recorded allowance is reasonable and adequate. Inventory is written down for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand and market conditions. The Company's inventory valuation allowances establish a new cost basis for inventory.

Long-Lived Assets

Long-lived assets, such as property and equipment and definite-life intangible assets are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company assesses the impairment of the assets based on the undiscounted future cash flow the assets are expected to generate compared to the carrying value of the assets. If the carrying amount of the assets is determined not to be recoverable, a write-down to fair value is recorded. Management estimates future cash flows using assumptions about expected future operating performance. Management's estimates of future cash flows may differ from actual cash flow due to, among other things, technological changes, economic conditions or changes to the Company's business operations.

Intangible assets with estimable useful lives are amortized on a straight-line basis over their respective estimated life and reviewed for impairment when certain triggering events suggest impairment has occurred. The Company determined that no triggering events occurred in 2016 or 2015.

Property and Equipment

Property and equipment is recorded at historical cost and is depreciated or amortized on a straight-line basis according to the table below. In certain circumstances where the Company is aware that an asset's life differs from the general guidelines set forth in its policy, management adjusts its depreciable life accordingly, to ensure expense is being recognized over the appropriate future periods. Ordinary maintenance and repair expenses are expensed when incurred.

Machinery, equipment, furniture and fixtures	5 years
Software, computer hardware and manufacturing test fixtures	3 years
Engineering demonstration products and samples	1 year
Leasehold improvements	Lesser of the lease term or estimated useful lives

Leases

The Company leases all of its facilities, certain office equipment and vehicles under non-cancelable operating leases that expire at various dates through 2021, along with options that permit renewals for additional periods. Rent escalations are considered in the determination of straight-line rent expense for operating leases. Leasehold improvements made at the inception of or during the lease are amortized over the shorter of the asset life or the lease term.

Accrued Restructuring

Expenses associated with exit or disposal activities are recognized when probable and estimable because the Company has a history of paying severance benefits. The Company has engaged, and may continue to engage, in restructuring actions, which require the Company to make significant estimates in several areas including: realizable values of assets made redundant or obsolete; expenses for severance and other employee separation costs; the ability and timing to generate sublease income, as well as the Company's ability to terminate lease obligations at the amounts estimated; and other exit costs. Should the actual amounts differ from the estimates, the amount of the restructuring charges could be materially impacted.

Warranty

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 12 or 24 months after shipment. On a quarterly basis the Company assesses the reasonableness and adequacy of the warranty liability and adjusts such amounts as necessary. Warranty reserves are included in other accrued liabilities and other long-term liabilities in the accompanying Consolidated Balance Sheets as of December 31, 2016 and 2015.

Research and Development

Research, development and engineering ("R&D") costs are expensed as incurred. 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 non-recurring engineering services.

Income Taxes

Income tax accounting requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities. Valuation allowances are established to reduce deferred tax assets if it is “more likely than not” that all or a portion of the asset will not be realized due to inability to generate sufficient taxable income in the relevant period to utilize the deferred tax asset. Tax law and rate changes are reflected in the period such changes are enacted. The Company recognizes uncertain tax positions after evaluating whether certain tax positions are more likely than not to be sustained by taxing authorities. In addition, the Company recognizes potential accrued interest and penalties related to unrecognized tax benefits in income tax expense.

Comprehensive Income (Loss)

The Company reports accumulated other comprehensive income (loss) in its Consolidated Balance Sheets. Comprehensive income (loss) includes net income (loss), translation adjustments and unrealized gains (losses) on hedging instruments net of their tax effect. The cumulative translation adjustments consist of unrealized gains (losses) for foreign currency translation.

Stock-Based Compensation

The Company measures stock-based compensation at the grant date, based on the fair value of the award, and recognizes expense on a straight-line basis over the employee's requisite service period. For performance-based restricted stock unit awards ("PRSUs"), the requisite service period is equal to the period of time over which performance objectives underlying the award are expected to be achieved and vested. The number of shares that ultimately vest depends on the achievement of certain performance criteria over the measurement period. For non-market based performance-based restricted stock, quarterly, we reevaluate the period during which the performance objective will be met and the number of shares expected to vest. The amount of quarterly expense recorded each period is based on our estimate of the number of awards that will ultimately vest.

The Company estimates the fair value of stock options and purchase rights under our employee stock purchase plans using a Black-Scholes option-pricing model. The Black-Scholes option-pricing model incorporates several highly subjective assumptions including expected volatility, expected term and interest rates.

In reaching our determination of expected volatility, we use the historic volatility of our shares of common stock. We base the expected term of our stock options on historic experience. The expected term for purchase rights under our employee stock plans is based on the 18 month offering period. The risk-free rate is based on the U.S. Treasury constant maturities in effect at the time of grant for the expected term of the option or share.

The calculation includes several assumptions that require management's judgment. The expected term of the option or share is determined based on assumptions about patterns of employee exercises and represents a probability-weighted average time-period from grant until exercise of stock options, subject to information available at time of grant. Determining expected volatility generally begins with calculating historical volatility for a similar long-term period and then considers the ways in which the future is reasonably expected to differ from the past.

The grant-date fair value of the PRSUs awarded in 2015 was calculated using a Monte Carlo simulation consistent with the fair value principles of Topic 718 since these awards vest based upon market conditions. Expense is recognized over a derived service period determined by the Monte Carlo simulation. If the conditions of PRSUs are met before the derived service period ends, all remaining expense will be recognized in the period the conditions are met.

The input factors used in the valuation model are based on subjective future expectations combined with management's judgment. If there is a difference between the assumptions used in determining stock-based compensation cost and the actual factors which become known over time, we may change the input factors used in determining stock-based compensation costs. These changes may materially impact the results of operations in the event such changes are made. In addition, if we were to modify any awards, additional charges would be taken. If our actual forfeiture rate is materially different from our estimate the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 16 — *Employee Benefit Plans* of the Notes to the Consolidated Financial Statements for a further discussion on stock-based compensation.

Net loss per share

Basic loss per share amounts are computed based on the weighted average number of common shares outstanding. Diluted net loss per share incorporates the incremental shares issuable upon the assumed exercise of stock options and incremental shares associated with the assumed vesting of restricted stock. The Company's convertible notes were fully repaid in 2015.

Derivatives

The Company hedges exposure to changes in exchange rates from the US Dollar to the Indian Rupee. 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 accrued liabilities. Changes in the fair values of the outstanding derivatives that are highly effective are recorded in other comprehensive loss until net income (loss) is affected by the variability of the cash flows of the hedged transaction. 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 accumulated 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 cost of sales, research and development and selling, general and administrative. 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.

Foreign currency translation

Assets and liabilities of international operations using a functional currency other than the U.S. dollar are translated into U.S. dollars at exchange rates as of December 31, 2016 and 2015. Income and expense accounts are translated into U.S. dollars at the average daily rates of exchange prevailing during the period. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are recorded as a separate component in shareholders’ equity. Foreign exchange transaction gains and losses are included in other income (expense), net, in the Consolidated Statements of Operations.

Recent Accounting Pronouncements

In October 2016, the FASB issued Accounting standards Update No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). ASU 2016-16 modifies how intra-entity transfer of assets other than inventory are accounted for and presented in the financial statements. ASU 2016-16 is effective for public companies for annual reporting periods beginning after December 15, 2017, however early adoption is allowed. The Company will adopt this ASU in the first quarter of 2017. The Company has a tax charge of approximately $2.0 million related to intra-entity transactions other than inventory which could not be previously recognized. Upon adoption the unrecognized tax charge will be reflected as an adjustment to retained earnings.

In March 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting

("ASU 2016-09"). ASU 2016-09 simplifies how several aspects of share-based payments are accounted for and presented in the financial statements. ASU 2016-09 is effective for public companies for annual reporting periods beginning after December 15, 2016. The Company will adopt this ASU in the first quarter of 2017. Upon adoption, the Company will no longer use a forfeiture rate in the calculation of stock based compensation expense. The impact of this election was determined to not result in a significant charge to retained earnings from applying an estimated forfeiture rate in previous periods. Upon adoption the balance of the unrecognized excess tax benefits will be reversed with the impact recorded to retained earnings including any change to the valuation allowance as a result of the adoption. The Company has excess tax benefits for which a benefit could not be previously recognized of approximately $4.5 million. Due to the full valuation allowance on the U.S. deferred tax assets, the Company does not expect any impact to the financial statements beyond disclosure as a result of this adoption.

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, "Leases," which requires the Company as the lessee to recognize most leases on the balance sheet thereby resulting in the recognition of lease assets and liabilities for those leases currently classified as operating leases. The accounting for leases where the Company is the lessor remains largely unchanged. ASU 2016-02 is effective for us beginning January 1, 2019 with early adoption permitted. While the Company is currently assessing the impact ASU 2016-02 will have on the consolidated financial statements, the Company expects the primary impact to the consolidated financial position upon adoption will be the recognition, on a discounted basis, of the Company's minimum commitments under noncancelable operating leases on the consolidated balance sheets resulting in the recording of right of use assets and lease obligations. Our current minimum commitments under noncancelable operating leases are disclosed in Note 13.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which was issued in August 2015, revised the effective date for this ASU to annual and interim periods beginning on or after December 15, 2017, with early adoption permitted, but not earlier than the original effective date of annual and interim periods beginning on or after December 15, 2016, for public entities.

The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. The Company does not plan to early adopt, and accordingly, the Company will adopt the new standard effective January 1, 2018.

The Company currently plans to adopt using the modified retrospective approach. However, a decision regarding the adoption method has not been finalized at this time. The final determination will depend on a number of factors, such as the significance of the impact of the new standard on financial results, system readiness and the Company's ability to accumulate and analyze the information necessary to assess the impact on prior period financial statements, as necessary.

The Company's evaluation of the impact of the new standard on the Company's accounting policies, processes, and system requirements is ongoing. While the Company continue to assess all potential impacts under the new standard, the Company does not believe there will be significant changes to the timing of recognition of hardware sales, software license sales or service contracts.

As part of the Company's preliminary evaluation, the Company also considered the impact of the guidance in ASC 340-40, *Other Assets and Deferred Costs; Contracts with Customers.* This guidance, requires the capitalization of all incremental costs that we incur to obtain a contract with a customer that the Company would not have incurred if the contract had not been obtained, provided the Company expects to recover the costs. The Company preliminarily believes that there will not be significant changes to the timing of the recognition of sales commissions since the Company's commission plan is earned based on the recognition of revenue; however, there is a potential that the amortization period for commission costs may be longer than the contract term in some cases, as the new cost guidance requires entities to determine whether the costs relate to specific anticipated contracts as well.

While the Company continues to assess the potential impacts of the new standard, including the areas described above, the Company cannot reasonably estimate quantitative information related to the impact of the new standard it its financial statements at this time.

Immaterial Revision to Prior Period Financial Statement

The Company has revised the presentation of revenue and cost of sales to separately present those amounts that are associated with service and related activities from those amounts associated with product sales. This change does not impact the Company's previously reported total revenues, gross margin, loss from operations or net loss for the periods presented.

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 following tables summarizes the fair value measurements as of December 31, 2016 and December 31, 2015 for the Company's financial instruments (in thousands):

	Fair Value Measurements as of December 31, 2016			
	Total	Level 1	Level 2	Level 3
Foreign currency forward contracts	94	—	94	—

	Fair Value Measurements as of December 31, 2015			
	Total	Level 1	Level 2	Level 3
Foreign currency forward contracts	(277)	—	(277)	—

Note 4 — Accounts Receivable and Other Receivables

Accounts receivable balances consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Accounts receivable, gross	$ 38,433	$ 61,045
Less: allowance for doubtful accounts	(55)	(103)
Accounts receivable, net	$ 38,378	$ 60,942

Accounts receivable at December 31, 2016 and 2015 consisted of sales to the Company's customers which are generally based on standard terms and conditions. The Company recorded the following activity in allowance for doubtful accounts (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Allowance for doubtful accounts, beginning of the year	$ 103	$ 124	$ 348
Charged to costs and expenses	(34)	(17)	(75)
Less: write-offs, net of recoveries	(14)	(4)	(149)
Remaining allowance, end of the year	$ 55	$ 103	$ 124

As of December 31, 2016 and 2015, other receivables were $4.2 million and $11.3 million. Other receivables consisted primarily of non-trade receivables including inventory sold to the Company's contract manufacturing partner or other integration partners, on which the Company does not recognize revenue, and net receivables for value-added taxes.

Note 5 — Inventories and Deferred Cost of Sales

Inventories consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Raw materials	$ 24,805	$ 14,546
Work-in-process	12	98
Finished goods	5,005	7,485
	29,822	22,129
Less: inventory valuation allowance	(9,801)	(5,317)
Inventories, net	$ 20,021	$ 16,812

Consigned inventory is held at third-party locations, including the Company's contract manufacturing partner 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 $11.8 million and $11.5 million at December 31, 2016 and 2015.

The Company's consignment inventory with its contract manufacturer consists of inventory transferred from the Company's prior contract manufacturer as well as inventory that has been purchased by the contract manufacturer as a result of the Company's forecasted demand. The Company is contractually obligated to purchase inventory transferred from the Company's prior contract manufacturer after the inventory ages for 365 days which was substantially complete as of December 31, 2016. The Company is also contractually obligated to purchase inventory that has been purchased by the contract manufacturer as a result of the Company's forecasted demand when the inventory ages beyond 180 days and has no forecasted demand. The Company's consignment inventory at its contract manufacturing partner was $11.8 million and $8.7 million as of December 30, 2016 and December 31, 2015. The Company records a liability for adverse purchase commitments of inventory owned by its contract manufacturing partner. See Note 13 - *Commitments and Contingencies* for additional information regarding the Company's adverse purchase commitment liability.

The Company recorded the following charges associated with the valuation of inventory, inventory deposit and the adverse purchase commitment liability for the years ended December 31 (in thousands):

	2016	2015	2014
Inventory, net	$ 6,120	$ 1,447	$ 2,539
Adverse purchase commitments	(1,908)	1,831	323
Net charges	$ 4,212	$ 3,278	$ 2,862

The following is a summary of the change in the Company's inventory valuation allowance for the years ended December 31 (in thousands):

	2016	2015
Inventory valuation allowance, beginning of the year	$ 5,317	$ 2,701
Usage:		
Inventory scrapped	(1,636)	(151)
Inventory utilized	(954)	(856)
Subtotal—usage	(2,590)	(1,007)
Write-downs of inventory valuation and transfers from other liabilities (A)	7,074	3,623
Inventory valuation allowance, end of the year	$ 9,801	$ 5,317

(A) Transfer from other liabilities is related to obsolete inventory purchased from contract manufacturers during the year which was previously reserved for as an adverse purchase commitment. (Note 9—*Other Accrued and Other Long-Term Liabilities* and Note 13—*Commitments and Contingencies.*)

Deferred cost of sales are related to deferred revenue on shipments to customers and was $0.0 million and $14.1 million at December 31, 2016 and 2015.

Note 6 — Property and Equipment

Property and equipment consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Manufacturing equipment	$ 24,982	$ 22,049
Office equipment and software	23,090	25,087
Leasehold improvements	2,964	4,183
Property and equipment, gross	51,036	51,319
Less: accumulated depreciation and amortization	(44,323)	(45,185)
Property and equipment, net	$ 6,713	$ 6,134

Depreciation expense associated with property and equipment for the years ended December 31, 2016, 2015 and 2014 was $4.5 million, $5.6 million and $7.0 million.

Note 7 — Intangible Assets

The following tables summarize the Company's total purchased intangible assets (in thousands):

	Gross	Accumulated Amortization	Net
December 31, 2016			
Purchased technology	$ 114,754	$ (102,967)	$ 11,787
Patents	6,472	(6,472)	—
Customer lists	37,000	(34,784)	2,216
Trade names	11,536	(7,964)	3,572
Total intangible assets	$ 169,762	$ (152,187)	$ 17,575
December 31, 2015			
Purchased technology	$ 114,754	$ (95,260)	$ 19,494
Patents	6,472	(6,472)	—
Customer lists	37,000	(30,534)	6,466
Trade names	11,536	(7,174)	4,362
Backlog	2,127	(2,127)	—
Total intangible assets	$ 171,889	$ (141,567)	$ 30,322

Intangible assets amortization expense was $12.7 million, $12.9 million and $13.3 million for the years ended December 31, 2016, 2015 and 2014. The Company's purchased intangible assets have remaining useful lives of one to five years as of December 31, 2016. The Company reviews for impairment all of its purchased intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The estimated future amortization expense of purchased intangible assets as of December 31, 2016 is as follows (in thousands):

For the Years Ending December 31,	Estimated Intangible Amortization Amount
2017	$ 10,713
2018	4,870
2019	790
2020	790
2021	412
Thereafter	—
Total estimated future amortization expense	$ 17,575

Note 8 — Restructuring and Other Charges

The following table summarizes the Company's restructuring and other gains and charges as presented in the Consolidated Statement of Operations (in thousands):

	December 31, 2016	December 31, 2015	December 31, 2014
Employee-related restructuring expenses	$ 2,771	$ 3,890	$ 1,468
Facility reductions	—	392	—
Integration-related and other non-recurring expenses	146	629	1,941
Non-recurring legal expenses	—	109	796
Restructuring and other charges, net	$ 2,917	$ 5,020	$ 4,205

Restructuring and other charges may include costs from events such as costs incurred for employee severance, acquisition or divestiture activities, excess facility costs, certain legal costs, asset related charges and other expenses associated with business restructuring activities.

During the year ended December 31, 2016, the Company recorded the following restructuring and other charges:

- $2.8 million net expense relating to the severance for 74 employees primarily in connection with a reduction to the Company's hardware engineering presence in Shenzhen, China as well as reductions in North America due to the transition of the Company's supply chain operations to third party integration partners; and
- $0.1 million integration-related net expense principally associated with asset disposals and transfer-related costs resulting from resource and site consolidation actions;

During the year ended December 31, 2015, the Company recorded the following restructuring and other charges:

- $3.9 million net expense relating to the severance of 130 employees primarily within Asia and North America. These actions were in connection with the restructuring of the Company's Hardware Solutions segment's research and development and sales and general administrative functions and are presented net of reductions resulting from changes in previously estimated amounts for employee severance and associated payroll costs; and
- $0.6 million integration-related net expense principally associated with asset disposals and transfer-related costs resulting from resource and site consolidation actions;
- $0.4 million lease abandonment expense associated with reductions in certain of our international sites; and
- $0.1 million legal expenses associated with non-operating strategic projects.

During the year ended December 31, 2014, the Company recorded the following restructuring and other charges:

- $1.5 million net expense relating to the severance of employees in connection with the previously reported Penang site closure, as well as severance for 20 additional employees, net of reductions resulting from changes in previously estimated amounts for employee severance and associated payroll costs;
- $2.1 million integration-related net expense principally associated with asset write-offs and personnel overlap resulting from resource consolidation primarily associated with the Penang site closure;

- $0.8 million legal expenses associated with non-operating strategic projects;
- $0.2 million gain resulting from the decrease in fair value of the Continuous Computing contingent consideration liability;

Accrued restructuring, which is included in other accrued liabilities and other long-term liabilities in the accompanying Consolidated Balance Sheets as of December 31, 2016 and 2015, consisted of the following (in thousands):

	Severance, payroll taxes and other employee benefits	Facility reductions	Total
Balance accrued as of December 31, 2015	$ 82	$ 582	$ 664
Additions	2,807	—	2,807
Reversals	(36)	—	(36)
Expenditures	(1,506)	(492)	(1,998)
Balance accrued as of December 31, 2016	$ 1,347	$ 90	$ 1,437

Of the $1.4 million and $0.7 million accrued restructuring balance at December 31, 2016 and 2015, $0.0 million and $0.1 million is included in other long-term liabilities on the Consolidated Balance Sheets as of December 31, 2016 and 2015. These amounts represent the long-term portion of accrued lease abandonment charges. The remaining balances are presented in other accrued liabilities on the Consolidated Balance Sheets.

The Company evaluates the adequacy of the accrued restructuring charges on a quarterly basis. Reversals are recorded in the period in which the Company determines that expected restructuring obligations are less than the amounts accrued.

Note 9 — Other Accrued and Other Long-Term Liabilities

Other accrued liabilities consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Accrued warranty reserve	$ 1,466	$ 2,036
Adverse purchase commitments	268	2,176
Accrued restructuring	1,437	575
Income tax payable, net	152	279
Other	4,248	4,338
Other accrued liabilities	$ 7,571	$ 9,404

Other long-term liabilities consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Long-term income tax payable	$ 3,047	$ 2,224
Long-term deferred revenue	2,380	—
Accrued warranty reserve	355	517
Accrued Restructuring	—	89
Other	184	155
Other long-term liabilities	$ 5,966	$ 2,985

Note 10 — Short-Term Borrowings

Silicon Valley Bank

On September 19, 2016, the Company entered into a Credit Agreement (as amended, the “Credit Agreement”) with Silicon Valley Bank (“SVB”), as administrative agent, and the other lenders party thereto. The Credit Agreement replaces the

Company’s Third Amended and Restated Loan and Security Agreement with SVB, dated March 14, 2014 (as amended, the “2014 Agreement”). On January 5, 2017, the Company entered into the First Amendment to the Credit Agreement. The following takes into account the terms per the agreement as amended on January 5, 2017.

The Credit Agreement provides for a revolving loan commitment of $55.0 million and has a stated maturity date of September 19, 2019. The Credit Agreement includes a $10.0 million sub-limit for swingline loans and a $10.0 million sub-limit for letters of credit. The Credit Agreement also includes an accordion feature that allows the Company, at any time, to increase the aggregate revolving loan commitments by up to an additional $25.0 million, subject to the satisfaction of certain conditions, including obtaining the lenders’ agreement to participate in the increase.

Borrowings under the Credit Agreement are subject to a borrowing base, which is a formula based upon certain eligible accounts receivable plus up to $7.5 million if the Company’s Liquidity (as defined in the Credit Agreement) is above $20.0 million in the first and second month of any fiscal quarter and $25.0 million for the last month of a fiscal quarter, measured as of the last day of the applicable month. Eligible accounts receivable include 85% of certain U.S. and 75% of certain foreign accounts receivable (85% in certain cases). The Credit Agreement also provides for non-formula advances during the last business day of any fiscal quarter, provided that Liquidity on the date of a requested non-formula advance must be greater than or equal to $40.0 million, the non-formula advance must be repaid on or before the first business day after the applicable fiscal quarter end, and subject to the satisfaction of certain other conditions.

Outstanding borrowings under the revolving loan commitment bear interest at a per annum rate based upon the Company's Availability (as defined in the Credit Agreement), which means the quotient of the amount available for borrowings under the Credit Agreement divided by the lesser of the total commitment and the borrowing base, calculated as a daily average over the immediately preceding fiscal month. The Credit Agreement provides that the per annum interest rate on or before March 31, 2017 and at any time thereafter when the Consolidated Adjusted EBITDA (as defined in the Credit Agreement) as measured on a trailing twelve-month basis for the immediately preceding fiscal quarter period is less than the Consolidated Adjusted EBITDA threshold as specified in the Credit Agreement will be as follows:

- When Availability is 70% or more, the interest rate is the prime rate (as published in Wall Street Journal) plus 0.50%;
- When Availability is 30% or more and less than 70%, the interest rate is the prime rate plus 0.75%; and
- When Availability is below 30%, the interest rate is the prime rate plus 1.00%.

After March 31, 2017, if Consolidated Adjusted EBITDA as measured on a trailing twelve-month basis for the immediately preceding fiscal quarter period is equal to or greater than the Consolidated Adjusted EBITDA threshold as specified in the Credit Agreement, the rate per annum will be as follows:

- When Availability is 70% or more, the interest rate is the prime rate plus 0.25%;
- When Availability is 30% or more and less than 70%, the interest rate is the prime rate plus 0.50%; and
- When Availability is below 30%, the interest rate is the prime rate plus 0.75%.

Under the Credit Agreement, the Company is required to make interest payments monthly. The Company is further required to pay $25,000 in annual administrative fees, $82,500 in annual commitment fees and a commitment fee based on the average unused portion of the revolving credit commitment, and certain other fees in connection with letters of credit. The commitment fee is determined as follows and is payable quarterly in arrears:

- When Availability is 70% or more, the commitment fee is 0.35% of the average unused portion of the revolving credit commitment;
- When Availability is 30% or more and less than 70%, the commitment fee is 0.325% of the average unused portion of the revolving credit commitment; and
- When Availability is below 30%, the commitment fee is 0.3% of the average unused portion of the revolving credit commitment.

The Company paid a total of $0.3 million loan origination fees which were capitalized and will be expensed over the term of the Credit Agreement. If the Company reduces or terminates the revolving loan commitment under the Credit Agreement prior to September 19, 2017, the Company is required to pay a cancellation fee equal to 0.75% of the total revolving loan commitment.

The Credit Agreement requires that the Company comply with financial covenants requiring the Company to maintain a minimum monthly Liquidity of $15.0 million as of the last day of the first and second month of any fiscal quarter and $20.0 million as of the last day of the third month of any fiscal quarter. Additionally, the Credit Agreement requires the Company to maintain a minimum trailing twelve months Consolidated Adjusted EBITDA each quarter of fiscal year 2017. The Credit Agreement also provides that following fiscal year 2017, SVB, as administrative agent, and the required lenders under the Credit Agreement will re-set the required minimum Consolidated Adjusted EBITDA levels for the periods tested in fiscal years 2018 and 2019.

All obligations under the 2016 Agreement are unconditionally guaranteed by the Company's wholly owned subsidiary, Radisys International LLC. The obligations under the Credit Agreement are secured by a first priority lien on the assets of the Company and the subsidiary guarantor. If the Company acquires or forms a material U.S. subsidiary, then that subsidiary will also be required to guarantee the obligations under the Credit Agreement and grant a first priority lien on its assets.

As of December 31, 2016 and 2015, the Company had outstanding balances of $25.0 million and $15.0 million issued on its behalf under the Credit Agreement. At December 31, 2016, the Company had $7.5 million of total borrowing availability remaining under the Credit Agreement. Under the First Amendment, the Company may borrow up to $55.0 million at fiscal quarter ends. The Company was in compliance with all covenants under the Credit Agreement.

Note 11 — Convertible Debt

2015 Convertible Senior Notes

On February 17, 2015, the Company repaid at maturity the entire $18.0 million outstanding balance of the 4.5% convertible senior notes due 2015 (the "2015 convertible senior notes") in accordance with the terms thereof. No convertible senior notes were converted to common stock.

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 2015 convertible senior notes:

	Years Ended December 31,		
	2016	2015	2014
Effective interest rate of 2015 convertible senior notes	NA	4.50%	4.50%
Contractually stated interest costs	NA	$101	$810
Amortization of interest costs	NA	$7	$43

Note 12 — Hedging

The Company's business 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 employed solely for risk management purposes. All hedging transactions are conducted with, in the opinion of management, financially stable and reputable financial institutions. As of and for the years ended December 31, 2016, 2015, and 2014 the only hedge instruments executed by the Company are associated with its exposure to fluctuations in the Indian Rupee, which result from obligations such as payroll and rent paid in this currency.

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 until net income is affected by the variability of the cash flows of the hedged transaction. 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 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 within Cost of Sales, R&D and SG&A. The Company only enters into derivative contracts in order to hedge foreign currency exposure, which contracts do not exceed two years from inception. 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.

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 years ended December 31, 2016 and 2015 the Company had no hedge ineffectiveness.

During the year ended December 31, 2016, the Company entered into 45 new foreign currency forward contracts, with total contractual values of $15.4 million. During the year ended December 31, 2015, the Company entered into 31 new foreign currency forward contracts, with total contractual values of $12.4 million.

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, 2016 is as follows (in thousands):

	Contractual / Notional Amount	Consolidated Balance Sheet Classification	Estimated Fair Value	
			Asset	(Liability)
Foreign currency forward exchange contracts	$ 16,166	Other assets	$ 94	$ —

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, 2015 is as follows (in thousands):

	Contractual / Notional Amount	Consolidated Balance Sheet Classification	Estimated Fair Value	
			Asset	(Liability)
Foreign currency forward exchange contracts	$ 14,024	Other accrued liabilities	$ —	$ (277)

There were no ineffective hedges for the years ended December 31, 2016, 2015 and 2014. The following table summarizes the effect of derivative instruments on the Consolidated Statements of Operations as follows (in thousands):

	December 31, 2016	December 31, 2015	December 31, 2014
Cost of sales	$ 281	$ 187	$ 178
Research and development	436	305	295
Selling, general and administrative	164	135	154
Total derivative instrument expense	$ 881	$ 627	$ 627

The following is a summary of changes to comprehensive income (loss) associated with the Company's hedging activities (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Beginning balance of unrealized loss on forward exchange contracts	$ (819)	$ (752)	$ (875)
Other comprehensive loss before reclassifications	(589)	(694)	(504)
Amounts reclassified from other comprehensive income	881	627	627
Other comprehensive income (loss)	292	(67)	123
Ending balance of unrealized loss on forward exchange contracts	$ (527)	$ (819)	$ (752)

Over the next twelve months, the Company expects to reclassify into earnings a loss of approximately $0.3 million 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 13 — Commitments and Contingencies

Operating Leases

Radisys is obligated under non-cancelable operating leases for certain facilities, office equipment, and vehicles. Future minimum lease payments with initial or remaining non-cancelable lease terms in excess of one year, at December 31, 2016, were as follows (in thousands):

For the Years Ending December 31,	Future Minimum Lease Payments
2017	2,458
2018	1,767
2019	1,304
2020	898
2021	252
2022+	—
Total future minimum lease commitments	$ 6,679

Rent expense totaled $2.3 million, $2.7 million, and $3.6 million for the years ended December 31, 2016, 2015, and 2014.

Adverse Purchase Commitments

The Company is contractually obligated to reimburse its contract manufacturer 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 presented 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 manufacturer. Increases to this liability are charged to cost of sales. If and when 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 (Note 9 — *Other Accrued and Other Long-Term Liabilities*) to the excess and obsolete inventory valuation allowance (Note 5 — *Inventories*).

The adverse purchase commitment liability is included in other accrued liabilities in the accompanying Consolidated Balance Sheets was $0.3 million and $2.2 million as of December 31, 2016 and December 31, 2015.

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 the 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 December 31, 2016.

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 these agreements is immaterial.

Accrued Warranty

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 12 or 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 the contract manufacturer is covered under warranties provided by the contract manufacturer for 12 to 24 months. The warranty provision is based on historical experience by product family. The Company engages in 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 Years Ended December 31,	
	2016	2015
Warranty liability balance, beginning of the year	$ 2,553	$ 2,600
Product warranty accruals	1,116	2,025
Adjustments for payments made	(1,848)	(2,072)
Warranty liability balance, end of the year	$ 1,821	$ 2,553

At December 31, 2016 and 2015, $1.5 million and $2.0 million of the warranty liability balance are included in other accrued liabilities and $0.4 million and $0.5 million are included in other long-term liabilities in the accompanying Consolidated Balance Sheets.

Note 14 — Basic and Diluted Loss per Share

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

	For the Years Ended December 31,		
	2016	2015	2014
Numerator			
Net loss	$ (10,251)	$ (14,678)	$ (27,581)
Denominator—Basic			
Weighted average shares used to calculate net loss per share, basic	37,668	36,789	34,699
Denominator—Diluted			
Weighted average shares used to calculate net loss per share, basic	37,668	36,789	34,699
Effect of convertible notes (A)	—	—	—
Effect of dilutive restricted stock (B)	—	—	—
Effect of dilutive stock options (B)	—	—	—
Weighted average shares used to calculate net loss per share, diluted	37,668	36,789	34,699
Net loss per share:			
Basic	$ (0.27)	$ (0.40)	$ (0.79)
Diluted	$ (0.27)	$ (0.40)	$ (0.79)

(A) The following as-if converted shares associated with the Company's 2015 convertible senior notes were excluded from the calculation as their effect would be anti-dilutive (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
2015 convertible senior notes	—	—	2,110

(B) The following shares, by equity award type, were excluded from the calculation, as their effect would have been anti-dilutive (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Stock options	3,897	2,966	2,841
Restricted stock units	100	151	128
Performance based restricted stock units (C)	837	1,625	240
Total equity award shares excluded	4,834	4,742	3,209

(C) Performance based restricted stock units are presented based on attainment of 100% of the performance goals being met.

Note 15 — Income Taxes

Domestic and foreign pre-tax income (loss) is as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Domestic	$ (12,040)	$ (15,822)	$ (29,891)
Foreign	4,223	2,886	4,802
Total pre-tax loss	$ (7,817)	$ (12,936)	$ (25,089)

The income tax provision consists of the following (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Current provision:			
Federal	$ —	$ —	$ —
State	78	30	21
Foreign	2,225	1,772	2,127
Total current provision	2,303	1,802	2,148
Deferred provision (benefit):			
Federal	(86)	35	(73)
State	(4)	2	(3)
Foreign	221	(97)	420
Total deferred provision	131	(60)	344
Total income tax provision	$ 2,434	$ 1,742	$ 2,492

The income tax provision (benefit) differs from the amount computed by applying the statutory federal income tax rate to pretax income as a result of the following differences (dollar amounts in thousands):

	For the Years Ended December 31,					
	2016		2015		2014	
	$	%	$	%	$	%
Statutory federal tax (benefit) rate	$ (2,736)	35.0 %	$ (4,526)	35.0 %	$ (8,781)	35.0 %
Increase (decrease) in rates resulting from:						
State taxes	(67)	0.9	609	(4.7)	(246)	1.0
Foreign dividends and unremitted earnings	1,745	(22.3)	1,493	(11.5)	(586)	2.3
Valuation allowance	1,596	(20.4)	2,456	(19.0)	7,367	(29.4)
Taxes on foreign income that differ from U.S. tax rate	(901)	11.5	(405)	3.1	2,488	(9.9)
Executive Compensation limitation	1,005	(12.9)	—	—	—	—
Non-deductible stock-based compensation expense	135	(1.7)	1,104	(8.5)	1,206	(4.8)
Expiration of attributes	1,478	(18.9)	893	(6.9)	330	(1.3)
Uncertain tax positions	120	(1.5)	435	(3.4)	362	(1.4)
Other	59	(0.8)	(317)	2.4	352	(1.4)
Effective tax rate	$ 2,434	(31.1)%	$ 1,742	(13.5)%	$ 2,492	(9.9)%

The components of deferred taxes consist of the following (in thousands):

	December 31, 2016	December 31, 2015
Deferred tax assets:		
Accrued warranty	$ 657	$ 919
Inventory	3,631	2,697
Net operating loss carryforwards	57,294	59,784
Tax credit carryforwards	22,075	22,817
Stock-based compensation	1,995	2,142
Fixed assets	1,808	952
Goodwill	1,603	2,109
Deferred revenue	2,906	2,950
Subsidiary service accruals	1,702	—
Other	2,082	2,748
Total deferred tax assets	95,753	97,118
Less: valuation allowance	(88,566)	(86,752)
Net deferred tax assets	7,187	10,366
Deferred tax liabilities:		
Intangible assets	(5,603)	(7,582)
Other	(467)	(1,611)
Total deferred tax liabilities	(6,070)	(9,193)
Total net deferred tax assets	$ 1,117	$ 1,173

At December 31, 2016, the Company's unrecognized tax benefits associated with uncertain tax positions were $3.5 million, of which $3.2 million, if recognized, would favorably affect the effective tax rate.

The Company's ongoing practice is to recognize potential accrued interest and penalties related to unrecognized tax benefits within its global operations in income tax expense. During 2016, the Company recognized a net increase of approximately $0.1 million in potential interest and penalties associated with uncertain tax positions in the Consolidated Statements of Operations. The Company had approximately $0.7 million and $0.3 million of interest and penalties associated with uncertain tax positions at December 31, 2016, which are excluded from the unrecognized tax benefits table below.

The Company’s total amounts of unrecognized tax benefits at the beginning and end of the period are as follows (in thousands):

	Total
Balance as of December 31, 2014	$ 3,688
Additions based on tax positions related to the current year	329
Additions for tax positions of prior years	67
Reductions for tax positions of prior years	(204)
Reductions as a result of a lapse of applicable statute of limitations	(70)
Reductions due to settlements	(28)
Other	$ (102)
Balance as of December 31, 2015	$ 3,680
Additions based on tax positions related to the current year	245
Additions for tax positions of prior years	24
Reductions for tax positions of prior years	(240)
Reductions as a result of a lapse of applicable statute of limitations	(80)
Reductions due to settlements	(6)
Other	(74)
Balance as of December 31, 2016	$ 3,549

The Company and its subsidiaries are subject to federal income tax as well as income tax of multiple state and foreign jurisdictions. The Company's statutes of limitations are closed for all federal and state income tax years before 2013 and 2012. The statutes of limitations for the Company's other foreign subsidiaries are closed for all income tax years before 2005.

However, to the extent allowed by law, the taxing authorities may have the right to examine prior periods where net operating losses and credits were generated and carried forward, and make adjustments up to the net operating loss and credit carryforward amounts. It is reasonably possible that the Company's uncertain tax positions, including interest and penalties, could decrease by approximately $0.4 million in the next twelve months.

The Company is currently under examination in India. The periods covered by the examination are the Company's financial years 2005, 2006, 2008 and 2011. 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 December 31, 2016. The Company is also currently under examination in Canada. The periods covered by the examination include the Company's fiscal years 2013 and 2014. No adjustments have been proposed.

The Company has recorded valuation allowances of $88.6 million and $86.8 million as of December 31, 2016 and 2015. This represents a full valuation allowance against the Company's U.S. net deferred tax assets as well as a partial valuation allowance against the Company's Canadian net deferred tax assets. In evaluating its valuation allowance, 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.

At December 31, 2016 the Company had total available federal and state net operating loss carryforwards of approximately $167.6 million and $61.5 million. The federal and state net operating loss carryforwards expire between 2017 and 2036. The net operating losses from acquisitions are stated net of limitations pursuant to Section 382 of the Internal Revenue Code. The Company also had net operating loss carryforwards of approximately $4.1 million from the United Kingdom (“U.K.”), China and Malaysia. The U.K. and Malaysian net operating losses may be carried forward indefinitely provided certain requirements are met. The Chinese tax losses may be carried forward 5 years.

The Company has federal and state research and development tax credit and other federal credit carryforwards of approximately $15.4 million at December 31, 2016, to reduce future income tax liabilities. The federal and Oregon credits expire between 2017 and 2031. The California research and development credits do not expire. The credits from acquisitions are stated net of limitations pursuant to Section 383 of the Internal Revenue Code. The Company's Canadian subsidiary also has approximately $4.5 million in investment tax credit, $16.0 million of unclaimed scientific research and experimental expenditures to be carried forward and applied against future income in Canada.

Realization of the Company's foreign deferred tax assets is dependent on generating sufficient taxable income prior to the expiration of the net operating loss and tax credit carryforwards. Although realization is not assured, management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the balance of the deferred tax assets, net of the valuation allowance, as of December 31, 2016. The amount of the net deferred tax assets that is considered realizable, however, could be reduced if estimates of future taxable income during the carryforward periods are reduced. Should management determine that the Company would not be able to realize all or part of the net deferred tax assets in the future, adjustments to the valuation allowance for deferred tax assets may be required.

The company has provided a deferred tax liability of $2.1 million related to $6.4 million of unremitted earnings of certain foreign subsidiaries. The Company plans to indefinitely reinvest approximately $9.9 million of the undistributed earnings of certain foreign subsidiaries. Should the Company repatriate any foreign earnings from the remaining subsidiaries in the future, it may be required to establish an income tax liability and recognize additional income tax expense related to such earnings.

Note 16 — Employee Benefit Plans

Stock-Based Employee Benefit Plans

Equity instruments are granted to employees, directors and consultants in certain instances, as defined in the respective plan agreements.

Stock Options and Restricted Stock Awards

On May 15, 2007, the Company's shareholders approved the 2007 Stock Plan which provides for issuance of stock options, restricted shares, restricted stock units and performance-based awards. On September 22, 2015, the Company's shareholders approved the Amended and Restated 2007 Stock Plan (as amended, the "2007 Stock Plan"). Under the 2007 Stock Plan, 9,050,000 shares have been reserved and authorized for issuance to any non-employee directors and employees. The 2007 Stock Plan provides the Board of Directors discretion in creating employee equity incentives. Unless otherwise stipulated in the plan document, the Board of Directors determines stock option exercise prices, which may not be less than the fair value of Radisys common stock at the date of grant, vesting periods and the expiration periods which are a maximum of 10 years from the date of grant for certain awards.

On August 17, 2010, the shareholders approved the Long-Term Incentive Plan ("LTIP"). The LTIP provides for the grants of awards payable in shares of common stock upon the achievement of performance goals set by the Company's Compensation and Development Committee ("the Committee"). The number of shares of the Company's common stock initially reserved for issuance under the LTIP is 2,000,000 shares with a maximum of 500,000 shares in any calendar year to one participant. On September 22, 2015, the Company's shareholders approved the Amended 2007 Stock Plan, which provides that shares remaining available for grant as well as shares subject to outstanding awards under the LTIP that may be forfeited upon termination of employment will be added to the shares reserved for the Amended 2007 Stock Plan. The LTIP will expire after the existing grants under the LTIP vest, or expire, at the end of their respective terms. As of December 31, 2016, all outstanding grants from the LTIP have been earned or cancelled and the LTIP has expired.

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 Continuous Computing acquisition. The CCPU Plan provides for the issuance of stock options, restricted shares and restricted stock units. In 2011, the Company issued 368,000 shares under the CCPU Plan and no future awards will be granted.

The Company assumed the stock plans of Continuous Computing on July 8, 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 319,000 shares of common stock were issued under the Continuous Computing stock plans.

In accordance with the Continuous Computing merger agreement, unvested options pursuant to the Continuous Computing plans were required to be converted into multiple awards on the acquisition date, with the resulting awards becoming non-contingent and contingent options of the Company. 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, the Company 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%.

On September 4, 2012, the Committee approved 291,375 performance based restricted stock awards under the Overlay Plan based on attainment of the performance goals at maximum levels. The Overlay provides for the grants of awards payable in shares of common stock upon the achievement of performance goals set by the Committee. The awards had four separate quarterly performance achievement dates in 2013 and vest one year after they are earned. These awards fully vested in 2014.

Effective September 10, 2012, the Committee canceled all outstanding awards under the LTIP, resulting in the shares underlying such awards becoming eligible for grants of additional awards under the LTIP.

Following such cancellation of awards, on September 10, 2012, the Committee approved 799,975 performance based restricted stock awards under the LTIP based on attainment of 100% of the performance goals being met. The LTIP provides for the grants of awards payable in shares of common stock upon the achievement of performance goals set by the Committee. The awards have four separate semi-annual performance achievement dates in 2013 and 2014 and vest upon attainment of the performance conditions. In addition to the performance conditions, the awards contain market-based multipliers based on the average price of the Company's common stock thirty days prior to each semi-annual performance period. The maximum multiplier for a given semi-annual performance period is 2.75x the original grant and limited to a maximum of 2.5x (or 1,999,938 shares) over the entire performance period. As of December 31, 2015, there were no outstanding awards under this performance plan.

On March 2, 2015, the Committee approved 1,575,000 performance based restricted stock unit awards ("PRSUs") under the LTIP and 2007 Stock Plan that have performance periods starting on March 2, 2015 and ending on March 2, 2019, which provides that on the performance measurement date following the achievement of the following market condition stock price hurdles:

- 50% of the awards will be earned if Radisys' average closing stock price over a 30-trading day period is equal to or greater than $3.45 during a 3-year performance period.
- 50% of the awards will be earned if Radisys' average closing stock price over a 30-trading day period is equal to or greater than $4.25 during a 4-year performance period.

These awards were earned and fully vested during 2016.

On March 28, 2016, the Committee approved 605,000 performance based restricted stock unit awards ("PRSUs") under the 2007 Stock Plan. Subsequently in 2016, the Committee approved additional grants of 165,000 subject to this plan. The awards have two separate annual performance achievement dates in 2016 and 2017 and vest upon attainment of the performance conditions tied to annual revenue and operating income metrics.

As of December 31, 2016, the Company had 2,948,107 common shares available for future grant under its equity plans.

The following table summarizes stock option activity for 2016 (in thousands, except average prices and weighted average remaining contractual lives):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance, December 31, 2015	2,965	$ 3.89	4.35	$ 442
Granted	1,474	4.19		
Exercised	(212)	2.92		
Forfeited	(95)	3.66		
Expired	(235)	8.04		
Balance, December 31, 2016	3,897	$ 3.81	4.58	$ 3,642
Options exercisable at December 31, 2016	2,155	$ 3.80	3.35	$ 2,480
Options vested as of December 31, 2016 and expected to vest after December 31, 2016	3,769	$ 3.80	4.53	$ 3,571

The aggregate intrinsic value in the table above represents the total pretax value, based on the Company's closing common stock price of $4.43 at December 31, 2016 that would have been received by the option holders had all option holders exercised their in-the-money options on December 31, 2016.

Total intrinsic value of options exercised for the years ended December 31, 2016, 2015 and 2014 was $0.4 million, $0.1 million, and $0.1 million. The total amount of cash received from the exercise of options was $0.6 million in 2016, and $0.1 million in 2015 and 2014.

As of December 31, 2016, the Company had $2.1 million in unrecognized compensation expense related to stock options which is expected to be recognized over a weighted average period of 2.1 years.

The following table summarizes non-vested stock activity for 2016:

	Restricted Stock Units		Performance Stock Units	
	Restricted Shares	Weighted Average Fair Value	Restricted Shares	Weighted Average Fair Value
Balance, December 31, 2015	151	$ 2.51	1,625	$ 2.41
Granted	97	4.93	900	4.01
Vested	(141)	3.34	(1,658)	2.42
Forfeited	(7)	2.53	(30)	3.92
Balance, December 31, 2016	100	$ 3.68	837	$ 4.07

The total fair value of restricted stock units that vested in 2016, 2015 and 2014 was $0.5 million, $0.5 million and $1.1 million. As of December 31, 2016, the Company had $0.3 million in unrecognized compensation expense related to restricted stock units which is expected to be recognized over a weighted average period of 0.9 years.

Expense related to PRSUs awarded in 2015 is recognized over a derived service period determined by a Monte Carlo simulation because these awards vest based upon market conditions. The derived service period represents the median point in time within the simulation model of when each tranche will vest, using the measurement time at which the target price was achieved. It was determined that the derived service periods for the two tranches in this grant were nine and fifteen months. The total fair value of PRSUs awarded in 2015 was $2.9 million. All remaining expense was recognized during 2016 at the time the target price was achieved.

The PRSUs awarded in 2016 vest only on satisfaction of certain annual performance criteria during the performance period beginning on the grant date. Specifically, 50% of the award will vest on meeting defined strategic revenue targets during fiscal year 2016 and the remaining 50% will vest on meeting defined strategic revenue targets during fiscal year 2017, subject to the attainment of achieving certain operating income thresholds defined by the Company's ratified 2017 annual operating plan. The awards have two separate annual performance achievement periods in 2016 and 2017 and vest upon attainment and approval of the respective performance conditions. Expense is derived based on the Company's stock price on the grant date and estimated achievement of the performance targets. The awards associated with strategic revenues targets in 2016 were earned and subsequently released in the first quarter 2017.

Employee Stock Purchase Plan

In December 1995, the Company established an Employee Stock Purchase Plan ("ESPP"). All employees of Radisys and its subsidiaries who customarily work 20 or more hours per week, including all officers, are eligible to participate in the ESPP. Separate offerings of common stock to eligible employees under the ESPP (an "Offering") commence on February 15, May 15, August 15 and November 15 of each calendar year ("Enrollment Dates") and continue for a period of 18 months. Multiple separate offerings are in operation under the ESPP at any given time. An employee may participate in only one offering at a time and may purchase shares only through payroll deductions permitted under the provisions stipulated by the ESPP. The purchase price is the lesser of 85% of the fair market value of the common stock on date of grant or that of the purchase date ("look-back feature"). Pursuant to the provisions of the ESPP, as amended, the Company is authorized to issue up to 6.7 million shares of common stock under the ESPP. At December 31, 2016, 223,574 shares were available for issuance under the ESPP.

During the second quarter of 2009, the Board of Directors approved an amendment to the Company's ESPP to provide for a one-year holding period with respect to common stock shares purchased by participants under the ESPP. The one-year holding period took effect during the fourth quarter of 2009. Due to the holding period, the Company applies a discount to the ESPP stock compensation to reflect the decreased liquidity. The Company utilizes the Finnerty Asian Put Option Approach to estimate the discount. Inputs for the model include the length of the holding period, volatility and risk-free rate. The discount applied in the fourth quarter of 2016, was 12.0%. In 2015 and 2014 the discount applied was 11.0%.

The following table summarizes shares issued under the ESPP (in thousands, except per share amounts):

	Year Ended December 31,		
	2016	2015	2014
Shares issued pursuant to the ESPP	184	175	242
Cash received for the purchase of shares pursuant to the ESPP	$ 417	$ 322	$ 514
Weighted average purchase price per share	$ 2.26	$ 1.84	$ 2.12

Stock-Based Compensation Expense

The Company uses the Black-Scholes model to measure the grant-date fair value of stock options and ESPP shares. The grant-date fair value of stock options that are expected to vest is recognized on a straight-line basis over the requisite service period, generally, three years. The grant date fair value of ESPP shares that are expected to vest is recognized on a straight-line basis over the requisite service period, generally, 18 months, subject to modification at the date of purchase due to the ESPP look-back feature. The estimate of the number of options, ESPP shares and restricted stock units granted under the 2007 Stock Plan expected to vest is determined based on historical experience.

The Company estimates the fair value of stock options and purchase rights under the ESPP using a Black-Scholes option-pricing model. The calculation includes several assumptions that require management's judgment. The expected term of the option or share is determined based on assumptions about patterns of employee exercises, and represents a probability-weighted average time period from grant until exercise of stock options, subject to information available at time of grant. Determining expected volatility generally begins with calculating historical volatility for a similar long-term period and then considering the ways in which the future is reasonably expected to differ from the past.

The Company uses one employee population. The expected term computation is based on historical vested option exercise and post-vest forfeiture patterns and is also factored by an estimate of the expected term for fully vested and outstanding options. The estimate of the expected term for options that were fully vested and outstanding was determined as the midpoint between the evaluation date and the contractual term date of the option.

The risk free interest rate is based on the U.S. Treasury constant maturities in effect at the time of grant for the expected term of the option or share.

The fair value of unvested stock is the market value as of the grant date. The grant-date fair value of the restricted stock units that are expected to vest is recognized on a straight-line basis over the requisite service period, which is three years.

The grant date fair value of the LTIP and Overlay awards granted in 2012 were recognized ratably over the service period which equaled the measurement period of the award. The measurement period was the period of time over which performance objectives are expected to be achieved. Since the number of shares that could have been issued under the LTIP and Overlay and the service period are both variable, the Company evaluated the LTIP and Overlay awards on a quarterly basis to adjust the number of shares expected to be awarded based upon financial results of the Company as compared to the performance goals set for the award. Adjustments to the number of shares awarded, and to the corresponding compensation expense, were made on a cumulative basis at the date of adjustment based upon the estimated probable number of shares to be awarded. Adjustments made to compensation expense resulting from a change in the estimated probable vesting date of the awards were made on a prospective basis. Additionally, under the 2012 LTIP the Company was required to measure the fair value of the market-based condition contained in the awards. The fair value of this feature is measured at the outset of each semi-annual performance period and recognized over the service period of the respective performance period.

The grant-date fair value of the PRSUs awarded in 2015 was calculated using a Monte Carlo simulation consistent with the fair value principles of Topic 718 because these awards vest based upon market conditions. Expense is recognized over a derived service period determined by the Monte Carlo simulation. If the conditions of PRSUs are met before the derived service period ends, all remaining expense will be recognized in the period the conditions are met.

The grant date fair value of the PRSUs awarded in 2016 was calculated based on stock price on the grant date and estimated achievement of the respective performance targets. For the portion of the award that vests subject to attainment of meeting strategic revenue targets during fiscal year 2016, expense was calculated using an assumed share price of $2.74 - $4.98 and an estimate that performance targets would be attained at 100%.

The fair value calculations for stock options and ESPP shares used the following assumptions for the years ended December 31:

	Stock Options			ESPP shares		
	2016	2015	2014	2016	2015	2014
Share price	$2.27-5.30	$2.06-2.80	$2.50-3.49	$2.58-4.97	$2.15-3.00	$2.55-4.70
Expected life (in years)	4.44-4.46	4.39-4.41	4.40-4.47	1.5	1.5	1.5
Interest rate	1.09-1.58%	1.3-1.6%	1.3-1.5%	0.3-0.9%	0.1-0.5%	0.1-0.3%
Volatility	52.4-54.0%	53.5-54.6%	51.4-52.5%	42.6-46.2%	46.9-55.9%	47.3-55.6%
Dividend yield	—	—	—	—	—	—

For the years ended December 31, 2016, 2015 and 2014, stock-based compensation was recognized and allocated in the Consolidated Statements of Operations as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Cost of sales	$ 354	$ 294	$ 386
Research and development	845	867	818
Selling, general and administrative	2,598	2,791	2,893
Total stock-based compensation expense	$ 3,797	$ 3,952	$ 4,097

401(k) Savings Plan

The Company established a 401(k) Savings Plan ("401(k) Plan"), a defined contribution plan, as of January 1, 1989 and amended through January 1, 2007, in compliance with Section 401(k) and other related sections of the Internal Revenue Code and corresponding regulations issued by the Department of Treasury and Section 404(c) of Employee Retirement Income Security Act of 1974 ("ERISA"), to provide retirement benefits for its U.S employees. Under the provisions of the plan, eligible employees are allowed pre-tax contributions of up to 30% of their annual compensation or the maximum amount permitted by the applicable statutes. Additionally, eligible employees can elect to make catch-up contributions, within the limits set forth by pre-tax contributions, or to the maximum amount permitted by the applicable statutes. Pursuant to the provisions of the 401(k) Plan, the Company may contribute 50% of pre-tax contributions made by eligible employees, adjusted for loans and withdrawals, up to 6% of annual compensation for each eligible employee. The Company may elect to make supplemental contributions as periodically determined by the Board of Directors at their discretion. The contributions made by the Company on behalf of eligible employees become 100% vested after three years of service, or 33% per year after one year of service. The Company's total contributions to the 401(k) Plan amounted to $0.8 million, $0.7 million, and $0.8 million in 2016, 2015 and 2014. In addition, some of the Company's employees outside the U.S are covered by various defined contribution plans, in compliance with the statutes of respective countries. The participants pay for the 401(k) Plan administrative expenses.

Note 17 — Segment Information

The Company is made up of two operating segments: Software-Systems and Hardware Solutions. The Company's Chief Executive Officer, or chief operating decision maker, regularly reviews discrete financial information for purposes of allocating resources and assessing the performance of each segment:

- Software-Systems. Software-Systems is comprised of three product lines: FlowEngine, MediaEngine and CellEngine, each of which delivers software-centric solutions to network service providers.

- Hardware Solutions. Hardware Solutions includes the Company's DCEngine products and legacy embedded product portfolio which includes hardware solutions targeted for service providers.

Cost of sales, research and development and selling, general and administrative expenses are allocated to Software-Systems and Hardware Solutions. Expenses, reversals, gains and losses not allocated to Software-Systems or Hardware Solutions include amortization of acquired intangible assets, stock-based compensation, restructuring and other charges, and other one-time non-recurring events. These items are allocated to corporate and other.

The Company recorded the following revenues, gross margin and income (loss) from operations by operating segment for the years ended December 31, 2016, 2015 and 2014 (in thousands):

	For the Years Ended December 31,		
	2016	**2015**	**2014**
Revenue			
Software-Systems	$ 56,783	$ 55,006	$ 40,281
Hardware Solutions	155,609	129,587	152,461
Total revenues	$ 212,392	$ 184,593	$ 192,742

	For the Years Ended December 31,		
	2016	**2015**	**2014**
Gross margin			
Software-Systems	$ 34,488	$ 31,997	$ 24,949
Hardware Solutions	29,660	28,311	35,449
Corporate and other	(8,060)	(8,156)	(8,596)
Total gross margin	$ 56,088	$ 52,152	$ 51,802

	For the Years Ended December 31,		
	2016	**2015**	**2014**
Income (loss) from operations			
Software-Systems	$ (18)	$ (1,900)	$ (6,169)
Hardware Solutions	9,820	9,709	2,457
Corporate and other	(19,461)	(21,874)	(21,588)
Total loss from operations	$ (9,659)	$ (14,065)	$ (25,300)

Assets are not allocated to segments for internal reporting presentations. A portion of depreciation is allocated to the respective segment. It is impracticable for the Company to separately identify fixed assets by segment whose depreciation is included in the measure of segment profit or loss.

Geographic Revenues

	For the Years Ended December 31,		
	2016	2015	2014
United States	$ 129,562	$ 81,933	$ 74,630
Other North America	219	631	2,079
China	12,129	28,819	31,975
Other APAC	25,392	41,836	41,177
Total APAC	37,521	70,655	73,152
Netherlands	31,525	14,642	22,608
Other EMEA	13,565	16,732	20,273
Total EMEA	45,090	31,374	42,881
Foreign Countries	82,830	102,660	118,112
Total revenues	$ 212,392	$ 184,593	$ 192,742

Long-lived assets by Geographic Area

	For the Years Ended December 31,	
	2016	2015
Property and equipment, net		
United States	$ 4,566	$ 3,061
Other North America	129	257
China	438	1,231
India	1,580	1,584
Total APAC	2,018	2,815
EMEA	—	1
Foreign Countries	2,147	3,073
Total property and equipment, net	$ 6,713	$ 6,134
Intangible assets, net		
United States	$ 17,575	$ 30,322
Total intangible assets, net	$ 17,575	$ 30,322

The following customers accounted for more than 10% of total revenues for the years ended December 31:

	2016	2015	2014
Verizon Wireless	35.9%	NA	NA
Philips Healthcare	15.7%	10.0%	14.9%
Nokia Solutions and Networks	NA	16.0%	17.0%

The following customers accounted for more than 10% of accounts receivable for the years ended December 31:

	2016	2015
Reliance Jio Infocomm	32.6%	14.7%
Philips Healthcare	15.4%	NA
Verizon Wireless	10.4%	36.0%

Note 18 — Legal Proceedings

In the normal course of business, the Company becomes involved in litigation. As of December 31, 2016, in the opinion of management, Radisys had no pending litigation that would have a material effect on the Company's financial position, results of operations or cash flows.

Item 9. *Changes In and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures. Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, 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 Exchange Act) are effective.

During the Company's fiscal quarter ended December 31, 2016, 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.

For Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting, see Item 8, Financial Statements and Supplementary Data.

Item 9B. *Other Information*

None

PART III

The Company will file its definitive proxy statement for the Annual Meeting of Shareholders pursuant to Regulation 14A of the Exchange Act (the "Proxy Statement"), not later than 120 days after the end of the fiscal year covered by this Annual Report. This Annual Report incorporates by reference specified information included in the Proxy Statement.

Item 10. *Directors, Executive Officers and Corporate Governance*

The information with respect to the Company's directors and officers and corporate governance is included under the proposal to elect directors, "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance" in the Company's Proxy Statement and is incorporated herein by reference. The information with respect to the Company's code of ethics is included in Item 1. "Business" in this Annual Report on Form 10-K.

Item 11. *Executive Compensation*

Information with respect to executive compensation is included under "Director Compensation," "Executive Officer Compensation," "Compensation and Development Committee Report," and "Potential Post-Employment Payments" in the Company's Proxy Statement and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information with respect to security ownership of certain beneficial owners and management and equity compensation plan information is included under "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement and is incorporated herein by reference.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes information about the Company's equity compensation plans as of December 31, 2016. All outstanding awards relate to the Company's common stock.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted average exercise price of outstanding options, warrants and rights ($)	Number of securities remaining available for future issuance under equity compensation plans	
Equity compensation plans approved by security holders	4,794,975	(1)	$ 3.79	3,171,681	(2)
Equity compensation plans not approved by security holders (3)	39,195	(4)	5.59	—	
Total	4,834,170		$ 3.81	3,171,681	

(1) Includes 100,472 time-based restricted stock units. Also includes 837,187 performance-based restricted stock units that will only be earned upon attaining certain performance goals.

(2) Includes 223,574 of securities authorized and available for issuance in connection with the Radisys Corporation 1996 Employee Stock Purchase Plan

(3) Includes 24,750 shares granted under the Radisys Corporation Inducement Stock Plan for CCPU Employees. The CCPU Plan is intended to comply with the Nasdaq Listing Rule 5635(c)(4) which provides an exception to the Nasdaq stockholder approval requirement for the issuance of securities with regard to grants to new Employees of the Company, including grants to transferred Employees in connection with a merger or other acquisition.

(4) Includes 14,445 stock options assumed as part of the acquisition of Continuous Computing Corporation.

Description of Equity Compensation Plans Not Adopted by Shareholders

Additional information required by this item is included in the Company's Proxy Statement and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information with respect to certain relationships and related transactions and director independence is included under “Certain Relationships and Related Transactions”, "Related Party Transactions Policy", and "Corporate Governance" in the Company’s Proxy Statement and is incorporated herein by reference.

Item 14. ***Principal Accounting Fees and Services***

The information with respect to principal accountant fees and services is included under “Principal Accountant Fees and Services” and "Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm" in the Company’s proxy statement and is incorporated herein by reference.

PART IV

Item 15. *Exhibits and Financial Statement and Schedules*

(a) (1) *Financial Statements*

Index to Financial Statements

(a) (2) *Financial Statement Schedule*

None.

(a) (3) *Exhibits*

Exhibit No	Description
2.1	Amended and Restated Asset Purchase Agreement, dated September 12, 2007, by and between the Company and Intel Corporation. Incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K/A, filed on November 1, 2007 (SEC File No. 000-26844).
2.2	Transition Services Agreement, dated September 12, 2007, by and between the Company and Intel Corporation (portions of the exhibit have been omitted pursuant to a request for confidential treatment to the Commission). Incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007, filed on November 8, 2007 (SEC File No. 000-26844).
2.3	Warranty Services Agreement, dated September 12, 2007, by and between the Company and Intel Corporation (portions of the exhibit have been omitted pursuant to a request for confidential treatment to the Commission). Incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007, filed on November 8, 2007 (SEC File No. 000-26844).
2.4	Arrangement Agreement among the Company, Convedia Corporation and RadiSys Canada Inc., effective as of July 26, 2006. Incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 28, 2006 (SEC File No. 000-26844).
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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 3.2 in the Company's Current Report on Form 8-K filed on January 30, 2008 (SEC File No. 000-26844).
3.2	Second Amended and Restated Bylaws and amendments thereto. Incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014, filed on November 7, 2014 (SEC File No. 000-26844).

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10.15*	Form of Notice of Option Grant for United States employees for the RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.5 to the Company's Registration Statement on Form S-8, filed on September 1, 2006 (SEC File No. 333-137060).
10.16*	Form of Notice of Option Grant for Canada employees for the RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.6 to the Company's Registration Statement on Form S-8 filed on September 1, 2006 (SEC File No. 333-137060).
10.17*	Form of Notice of Option Grant for international employees for the RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.7 to the Company's Registration Statement on Form S-8, filed on September 1, 2006 (SEC File No. 333-137060).

10.18*	Form of Notice of Option Grant for China employees for the RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.8 to the Company’s Registration Statement on Form S-8, filed on September 1, 2006 (SEC File No. 333-137060).
10.19*	Form of Restricted Stock Grant Agreement for the RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.9 to the Company’s Registration Statement on Form S-8, filed on September 1, 2006 (SEC File No. 333-137060).
10.20*	Form of Restricted Stock Unit Grant Agreement for the RadiSys Corporation Stock Plan for Convedia Employees. Incorporated by reference from Exhibit 4.10 to the Company’s Registration Statement on Form S-8, filed on September 1, 2006 (SEC File No. 333-137060).
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10.23*	Form of Notice of Option Grant for United States employees for the RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.5 to the Company’s Registration Statement on Form S-8, filed on May 15, 2007 (SEC File No. 333-142968).
10.24*	Form of Notice of Option Grant for Canada employees for the RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.6 to the Company’s Registration Statement on Form S-8, filed on May 15, 2007 (SEC File No. 333-142968).
10.25*	Form of Notice of Option Grant for China employees for the RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.7 to the Company’s Registration Statement on Form S-8, filed on May 15, 2007 (SEC File No. 333-142968).
10.26*	Form of Notice of Option Grant for international employees for the RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.8 to the Company’s Registration Statement on Form S-8, filed on May 15, 2007 (SEC File No. 333-142968).
10.27*	Form of Restricted Stock Unit Grant Agreement for the RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.9 to the Company’s Registration Statement on Form S-8, filed on May 15, 2007 (SEC File No. 333-142968).
10.28*	Form of Restricted Stock Unit Grant Agreement for non-employee Board of Directors for the Radisys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014, filed on May 2, 2014 (SEC File No. 000-26844).
10.29*	Form of Notice of Stock Option Grant for non-employee directors for the Radisys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014, filed on May 2, 2014 (SEC File No. 000-26844).
10.30*	RadiSys Corporation Long-Term Incentive Plan (as amended and restated). Incorporated by reference from Appendix C to the Company’s Proxy Statement on Schedule 14A, filed on July 6, 2010 (SEC File No. 000-26844).
10.31*	First Amendment to RadiSys Corporation Long-Term Incentive Plan (as amended and restated). Incorporated by reference from Exhibit 10.3 to the Company’s Current Report on Form 8-K filed on September 10, 2012 (SEC File No. 000-26844).
10.32*	Form of LTIP Tranche #2 Award Agreement for Performance-Based Restricted Stock Units under the RadiSys Corporation Long-Term Incentive Plan (as amended and restated). Incorporated by reference from Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014, filed on May 2, 2014 (SEC File No. 000-26844).
10.33*	RadiSys Corporation Inducement Stock Plan for CCPU Employees. Incorporated by reference from Exhibit 4.4 to the Company’s Registration Statement on Form S-8, filed on May 3, 2011 (SEC File No. 333-173885).
10.34*	Form of Notice of Option Grant for United States employees for the RadiSys Corporation Inducement Stock Plan for CCPU Employees. Incorporated by reference from Exhibit 4.5 to the Company’s Registration Statement on Form S-8, filed on May 3, 2011 (SEC File No. 333-173885).

10.35*	Form of Notice of Option Grant for international employees for the RadiSys Corporation Inducement Stock Plan for CCPU Employees. Incorporated by reference from Exhibit 4.6 to the Company's Registration Statement on Form S-8, filed on May 3, 2011 (SEC File No. 333-173885).
10.36*	Form of Restricted Stock Unit Grant Agreement for United States employees for the RadiSys Corporation Inducement Stock Plan for CCPU Employees. Incorporated by reference from Exhibit 4.7 to the Company's Registration Statement on Form S-8, filed on May 3, 2011 (SEC File No. 333-173885).
10.37*	Form of Restricted Stock Unit Grant Agreement for international employees for the RadiSys Corporation Inducement Stock Plan for CCPU Employees. Incorporated by reference from Exhibit 4.8 to the Company's Registration Statement on Form S-8, filed on May 3, 2011 (SEC File No. 333-173885).
10.38*	Sixth Amended and Restated Continuous Computing Corporation 1998 Stock Incentive Plan. Incorporated by reference from Exhibit 4.4 to the Company's Registration Statement on Form S-8, filed on July 13, 2011 (SEC File No. 333-175510).
10.39*	Amendment to Sixth Amended and Restated Continuous Computing Corporation 1998 Stock Incentive Plan, dated June 23, 2011. Incorporated by reference from Exhibit 4.5 to the Company's Registration Statement on Form S-8, filed on July 13, 2011 (SEC File No. 333-175510).
10.40*	Amendment to Sixth Amended and Restated Continuous Computing Corporation 1998 Stock Incentive Plan, dated July 6, 2011. Incorporated by reference from Exhibit 4.6 to the Company's Registration Statement on Form S-8, filed on July 13, 2011 (SEC File No. 333-175510).
10.41*	Notice of Option Assumption and Conversion under the Sixth Amended and Restated Continuous Computing Corporation 1998 Stock Incentive Plan for U.S. employees. Incorporated by reference from Exhibit 4.7 to the Company's Registration Statement on Form S-8, filed on July 13, 2011 (SEC File No. 333-175510).
10.42*	Notice of Option Assumption and Conversion under the Sixth Amended and Restated Continuous Computing Corporation 1998 Stock Incentive Plan for non-U.S. employees. Incorporated by reference from Exhibit 4.8 to the Company's Registration Statement on Form S-8, filed on July 13, 2011 (SEC File No. 333-175510).
10.43*	Amended and Restated Executive Change of Control Agreement, dated October 1, 2012, between the Company and Brian Bronson. Incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 2, 2012 (SEC File No. 000-26844).
10.44*	Amended and Restated Executive Severance Agreement, dated October 1, 2012, between the Company and Brian Bronson. Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 2, 2012 (SEC File No. 000-26844).
10.45*	Executive Change of Control Agreement, dated February 17, 2015, between the Company and Jon Wilson. Incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 17, 2015 (SEC File No. 000-26844).
10.46*	Amended and Restated Executive Severance Agreement, dated February 17, 2015, between the Company and Jon Wilson. Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 17, 2015 (SEC File No. 000-26844).
10.47*	Transition agreement dated January 28, 2015 between Radisys Corporation and Keate Despain. Incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed on February 3, 2015 (SEC File No. 000-26844).
10.48*	Form of Indemnity Agreement for directors and officers of the Company. Incorporated by reference from Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007.
10.49*	Executive Change of Control Agreement, dated October 23, 2013, between the Company and Stephen T. Collins. Incorporated by reference from Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 14, 2014 (SEC File No. 000-26844).
10.50*	Executive Severance Agreement, dated October 23, 2013, between the Company and Stephen T. Collins. Incorporated by reference from Exhibit 10.54 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 14, 2014 (SEC File No. 000-26844).
10.51	Form of Indemnification Agreement (for directors and the CEO/CFO). Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 14, 2011 (SEC File No. 000-26844).

10.52	Form of Indemnification Agreement (for certain executive officers). Incorporated by reference from Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on December 14, 2011 (SEC File No. 000-26844).
10.53	Dawson Creek II Lease, dated March 21, 1997, incorporated by reference from Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997, filed on August 13, 1997 (SEC File No. 000-26844).
10.54	Form of Subscription Agreement, dated June 20, 2012, by and between the Company and each participating holder. Incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on June 26, 2012 (SEC File No. 000-26844).
10.55	Form of Registration Rights Agreement, dated June 29, 2012, by and between the Company and each participating holder. Incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on July 2, 2012 (SEC File No. 000-26844).
10.56	Third Amended and Restated Loan and Security Agreement, dated March 14, 2014, between Radisys Corporation and Silicon Valley Bank. Incorporated by reference from Exhibit 10.63 to the Company's Current Report on Form 10-K for the year ended December 31, 2013 filed on March 14, 2014 (SEC File No. 000-26844).
10.57	Amendment No. 1 to the Third Amended and Restated Loan and Security Agreement, dated May 30, 2014, between Radisys Corporation and Silicon Valley Bank. Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 3, 2014 (SEC File No. 000-26844).
10.58	Letter Agreement, dated July 9, 2014, between Radisys Corporation and Silicon Valley Bank. Incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014, filed on August 6, 2014 (SEC File No. 000-26844).
10.59	Amendment No. 2 to the Third Amended and Restated Loan and Security Agreement, dated April 23, 2015, between Radisys Corporation and Silicon Valley Bank. Incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed on April 28, 2015 (SEC file No. 000-26844.)
10.60	Amendment No. 3 to the Third Amended and Restated Loan and Security Agreement, dated February 8, 2016, between Radisys Corporation and Silicon Valley Bank. Incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed on February 9, 2016 (SEC file No. 000-26844.)
10.61	Credit Agreement, dated September 19, 2016, between Radisys Corporation, as borrower, Silicon Valley Bank, as administrative agent, and the other lenders party thereto. Incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed on September 21, 2016 (SEC file No. 000-26844.)
21.1**	List of Subsidiaries.
23.1**	Consent of KPMG LLP.
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.
32.2***	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Presentation Linkbase
101.DEF**	XBRL Taxonomy Definition Linkbase

* This Exhibit constitutes a management contract or compensatory plan or arrangement.
** Filed herewith.
*** Furnished herewith.

(b) *See (a) (3) above.*
(c) *See (a) (2) above.*

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.

RADISYS CORPORATION

By: /s/ Brian Bronson

Brian Bronson
Chief Executive Officer and President

Dated: March 1, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 1, 2017.

Signature	Title
/s/ Brian Bronson **Brian Bronson**	Chief Executive Officer and Director (Principal Executive Officer)
/s/ Jonathan Wilson **Jonathan Wilson**	Chief Financial Officer (Principal Financial and Accounting Officer)
Directors:	
/s/ Ronald de Lange **Ronald de Lange**	Chairman of the Board and Director
/s/ C. Scott Gibson **C. Scott Gibson**	Director
/s/ Michael G. Hluchyj **Michael G. Hluchyj**	Director
/s/ Hubert de Pesquidoux **Hubert de Pesquidoux**	Director
/s/ Niel Ransom **Niel Ransom**	Director
/s/ Vincent H. Tobkin **Vincent H. Tobkin**	Director

EXHIBIT INDEX

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10.24*	Form of Notice of Option Grant for Canada employees for the RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.6 to the Company’s Registration Statement on Form S-8, filed on May 15, 2007 (SEC File No. 333-142968).

10.25*	Form of Notice of Option Grant for China employees for the RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.7 to the Company’s Registration Statement on Form S-8, filed on May 15, 2007 (SEC File No. 333-142968).
10.26*	Form of Notice of Option Grant for international employees for the RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.8 to the Company’s Registration Statement on Form S-8, filed on May 15, 2007 (SEC File No. 333-142968).
10.27*	Form of Restricted Stock Unit Grant Agreement for the RadiSys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 4.9 to the Company’s Registration Statement on Form S-8, filed on May 15, 2007 (SEC File No. 333-142968).
10.28*	Form of Restricted Stock Unit Grant Agreement for non-employee Board of Directors for the Radisys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014, filed on May 2, 2014 (SEC File No. 000-26844).
10.29*	Form of Notice of Stock Option Grant for non-employee directors for the Radisys Corporation 2007 Stock Plan. Incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014, filed on May 2, 2014 (SEC File No. 000-26844).
10.30*	RadiSys Corporation Long-Term Incentive Plan (as amended and restated). Incorporated by reference from Appendix C to the Company’s Proxy Statement on Schedule 14A, filed on July 6, 2010 (SEC File No. 000-26844).
10.31*	First Amendment to RadiSys Corporation Long-Term Incentive Plan (as amended and restated). Incorporated by reference from Exhibit 10.3 to the Company’s Current Report on Form 8-K filed on September 10, 2012 (SEC File No. 000-26844).
10.32*	Form of LTIP Tranche #2 Award Agreement for Performance-Based Restricted Stock Units under the RadiSys Corporation Long-Term Incentive Plan (as amended and restated). Incorporated by reference from Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014, filed on May 2, 2014 (SEC File No. 000-26844).
10.33*	RadiSys Corporation Inducement Stock Plan for CCPU Employees. Incorporated by reference from Exhibit 4.4 to the Company’s Registration Statement on Form S-8, filed on May 3, 2011 (SEC File No. 333-173885).
10.34*	Form of Notice of Option Grant for United States employees for the RadiSys Corporation Inducement Stock Plan for CCPU Employees. Incorporated by reference from Exhibit 4.5 to the Company’s Registration Statement on Form S-8, filed on May 3, 2011 (SEC File No. 333-173885).
10.35*	Form of Notice of Option Grant for international employees for the RadiSys Corporation Inducement Stock Plan for CCPU Employees. Incorporated by reference from Exhibit 4.6 to the Company’s Registration Statement on Form S-8, filed on May 3, 2011 (SEC File No. 333-173885).
10.36*	Form of Restricted Stock Unit Grant Agreement for United States employees for the RadiSys Corporation Inducement Stock Plan for CCPU Employees. Incorporated by reference from Exhibit 4.7 to the Company’s Registration Statement on Form S-8, filed on May 3, 2011 (SEC File No. 333-173885).
10.37*	Form of Restricted Stock Unit Grant Agreement for international employees for the RadiSys Corporation Inducement Stock Plan for CCPU Employees. Incorporated by reference from Exhibit 4.8 to the Company’s Registration Statement on Form S-8, filed on May 3, 2011 (SEC File No. 333-173885).
10.38*	Sixth Amended and Restated Continuous Computing Corporation 1998 Stock Incentive Plan. Incorporated by reference from Exhibit 4.4 to the Company’s Registration Statement on Form S-8, filed on July 13, 2011 (SEC File No. 333-175510).
10.39*	Amendment to Sixth Amended and Restated Continuous Computing Corporation 1998 Stock Incentive Plan, dated June 23, 2011. Incorporated by reference from Exhibit 4.5 to the Company’s Registration Statement on Form S-8, filed on July 13, 2011 (SEC File No. 333-175510).
10.40*	Amendment to Sixth Amended and Restated Continuous Computing Corporation 1998 Stock Incentive Plan, dated July 6, 2011. Incorporated by reference from Exhibit 4.6 to the Company’s Registration Statement on Form S-8, filed on July 13, 2011 (SEC File No. 333-175510).
10.41*	Notice of Option Assumption and Conversion under the Sixth Amended and Restated Continuous Computing Corporation 1998 Stock Incentive Plan for U.S. employees. Incorporated by reference from Exhibit 4.7 to the Company’s Registration Statement on Form S-8, filed on July 13, 2011 (SEC File No. 333-175510).

10.42*	Notice of Option Assumption and Conversion under the Sixth Amended and Restated Continuous Computing Corporation 1998 Stock Incentive Plan for non-U.S. employees. Incorporated by reference from Exhibit 4.8 to the Company's Registration Statement on Form S-8, filed on July 13, 2011 (SEC File No. 333-175510).
10.43*	Amended and Restated Executive Change of Control Agreement, dated October 1, 2012, between the Company and Brian Bronson. Incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 2, 2012 (SEC File No. 000-26844).
10.44*	Amended and Restated Executive Severance Agreement, dated October 1, 2012, between the Company and Brian Bronson. Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 2, 2012 (SEC File No. 000-26844).
10.45*	Executive Change of Control Agreement, dated February 17, 2015, between the Company and Jon Wilson. Incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 17, 2015 (SEC File No. 000-26844).
10.46*	Amended and Restated Executive Severance Agreement, dated February 17, 2015, between the Company and Jon Wilson. Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 17, 2015 (SEC File No. 000-26844).
10.47*	Transition agreement dated January 28, 2015 between Radisys Corporation and Keate Despain. Incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed on February 3, 2015 (SEC File No. 000-26844).
10.48*	Form of Indemnity Agreement for directors and officers of the Company. Incorporated by reference from Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 2, 2007.
10.49*	Executive Change of Control Agreement, dated October 23, 2013, between the Company and Stephen T. Collins. Incorporated by reference from Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 14, 2014 (SEC File No. 000-26844).
10.50*	Executive Severance Agreement, dated October 23, 2013, between the Company and Stephen T. Collins. Incorporated by reference from Exhibit 10.54 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 14, 2014 (SEC File No. 000-26844).
10.51	Form of Indemnification Agreement (for directors and the CEO/CFO). Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 14, 2011 (SEC File No. 000-26844).
10.52	Form of Indemnification Agreement (for certain executive officers). Incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 14, 2011 (SEC File No. 000-26844).
10.53	Dawson Creek II Lease, dated March 21, 1997, incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997, filed on August 13, 1997 (SEC File No. 000-26844).
10.54	Form of Subscription Agreement, dated June 20, 2012, by and between the Company and each participating holder. Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 26, 2012 (SEC File No. 000-26844).
10.55	Form of Registration Rights Agreement, dated June 29, 2012, by and between the Company and each participating holder. Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 2, 2012 (SEC File No. 000-26844).
10.56	Third Amended and Restated Loan and Security Agreement, dated March 14, 2014, between Radisys Corporation and Silicon Valley Bank. Incorporated by reference from Exhibit 10.63 to the Company's Current Report on Form 10-K for the year ended December 31, 2013 filed on March 14, 2014 (SEC File No. 000-26844).
10.57	Amendment No. 1 to the Third Amended and Restated Loan and Security Agreement, dated May 30, 2014, between Radisys Corporation and Silicon Valley Bank. Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 3, 2014 (SEC File No. 000-26844).
10.58	Letter Agreement, dated July 9, 2014, between Radisys Corporation and Silicon Valley Bank. Incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014, filed on August 6, 2014 (SEC File No. 000-26844).

10.59	Amendment No. 2 to the Third Amended and Restated Loan and Security Agreement, dated April 23, 2015, between Radisys Corporation and Silicon Valley Bank. Incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed on April 28, 2015 (SEC file No. 000-26844.)
10.60	Amendment No. 3 to the Third Amended and Restated Loan and Security Agreement, dated February 8, 2016, between Radisys Corporation and Silicon Valley Bank. Incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed on February 9, 2016 (SEC file No. 000-26844.)
10.61	Credit Agreement, dated September 19, 2016, between Radisys Corporation, as borrower, Silicon Valley Bank, as administrative agent, and the other lenders party thereto. Incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed on September 21, 2016 (SEC file No. 000-26844.)
21.1**	List of Subsidiaries.
23.1**	Consent of KPMG LLP.
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.
32.2***	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Presentation Linkbase
101.DEF**	XBRL Taxonomy Definition Linkbase

* This Exhibit constitutes a management contract or compensatory plan or arrangement.

** Filed herewith.

*** Furnished herewith.

EXECUTIVE OFFICERS

Brian Bronson
President and Chief Executive Officer

Stephen Collins
Vice President, Global Sales

Jonathan Wilson
Chief Financial Officer

BOARD OF DIRECTORS

Ronald de Lange
Former President and CEO of Tekelec

Brian Bronson
President and Chief Executive Officer, Radisys Corporation

Hubert de Pesquidoux
Executive Partner at Siris Capital, Executive Chairman at Premiere Global Services, Executive Chairman at Mavenir Systems, Inc., Former Chief Financial Officer of Alcatel-Lucent and former President and Chief Executive Officer of the Enterprise Business Group of Alcatel-Lucent

C. Scott Gibson
Co-founder and former President and Co-Chief Executive Officer, Sequent Computer Systems, Inc. and public company Director

Michael G. Hluchyj
Former Chief Technology Officer, Carrier Products of Akamai, Co-founder and former Chief Technology Officer at Sonus Networks

M. Niel Ransom
Principal of Ransomshire Associates, Inc.

Vincent H. Tobkin
Former Senior Advisor, Retired Director and Global Telecom/Technology Practice Leader at Bain & Company.

SHAREHOLDER INFORMATION

For additional copies of this report, including financial statements and financial statement schedules, please contact our Investor Relations Department by writing to the following address: Radisys Corporation, 5435 NE Dawson Creek Drive, Hillsboro, Oregon 97124, Attention: Investor Relations. Upon request, we will also furnish you copies of the exhibits to the Annual Report on Form 10-K, that are not included with this Annual Report. See Exhibit Index for the description of exhibits.

STOCK LISTING

Our common stock is listed on The Nasdaq Global Select Market under the symbol "RSYS."

TRANSFER AGENT

The transfer agent and registrar for our common stock is Computershare Shareowner Services LLC
250 Royall Street
Canton, MA 02021
(877) 897-6915
www.computershare.com/investor