THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RSYS - Q1 2012 Radisys Corporation Earnings Conference Call

EVENT DATE/TIME: APRIL 24, 2012 / 9:00PM GMT

OVERVIEW:

RSYS reported 1Q12 non-GAAP revenue of $75.7m and non-GAAP EPS of $0.05. Expects 2Q12 non-GAAP revenue to be $80-86m and non-GAAP EPS to be $0.13-0.18.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Mike Dagenais *Radisys Corp - CEO*

Allen Muhich *Radisys Corp - VP-Finance*

Brian Bronson *Radisys Corp - President, CFO*

CONFERENCE CALL PARTICIPANTS

Rich Valera *Needham & Company - Analyst*

Ted Moreau *Knight Capital Group, Inc - Analyst*

David Duley *Steelhead Securities - Analyst*

Uidentified Participant *D.A. Davidson & Co. - Analyst*

Russell Vestry *- Analyst*

PRESENTATION

Operator

Please stand by for real time transcript. The Radisys Corporation conference call will begin momentarily. Ladies and gentlemen thank you for standing by and welcome to the Radisys first quarter earnings conference call with Mike Dagenais,CEO of Radisys. As a reminder today April 24, 2012, this call is being recorded. (Operator Instructions). Thank you, please go ahead.

Mike Dagenais - *Radisys Corp - CEO*

Good afternoon. And thank you for participating in our first quarter conference call. On this call, we will be discussing some business highlights and financial results for the first quarter,and outlook for the second quarter of 2012. After the prepared material, we will open up the call for questions. Participating in the call with me today are Allen Muhich, our Vice President of Finance, Brian Bronson, President and CFO, and myself, Mike Dagenais CEO. Before we get started I would like to turn the call over to Allen for a caution about forward-looking statements.

Allen Muhich - *Radisys Corp - VP-Finance*

Thanks Mike. Any statements in this call regarding future expectations for the business of Radisys constitute forward-looking statements that involve as number of risks and uncertainties. We caution you not to place undue reliance on these statements. Factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in today's earning release and in our SEC filings most recently in our annual report on form 10K for the year ended December 31st, 2011. All information provided in this call is as of today. Radisys undertakes no duty to update any forward-looking statement to conform to actual results or changes in the company's expectations. In addition, during the call, we will discuss some Non-GAAP measures. We have provided a GAAP to Non-GAAP reconciliation for these measures in today's earnings release. Now I'll turn the call back over to Mike.

Mike Dagenais - *Radisys Corp - CEO*

Thank you, Allen. This has been a good quarter in many respects. Our focus on our new vision and strategy of becoming the premier provider if embedded wireless infrastructure solutions, continues to gain market traction and customer acceptance. I'll say a few words on that in a minute.

Our first quarter Non-GAAP revenue was $75.7 million and our Non-GAAP EPS was $0.05. Both of which were in line with expectations. Our Non-GAAP gross margin rate was nearly 34%. This reflects the continued growth in higher margin ATCA and Software & Solutions revenue streams.

Combined these product groups grew 60% year-over-year. 34% gross margin is also strong compared to our history, and is towards the high end of our expectations. Additionally, RND, and SG&A expenses were lower than our guidance, as we continued to focus on increased efficiencies from the integration of continuous computing. Our integrations activities are progressing to plan and will continue to show improved operational leverage in future quarters.

Brian will speak to our Q1 results in more details later. But first let me talk a little about what we are seeing in the market for both design wins as well as customer demand. We had another good broad based design win quarter to back up the tremendous finish we had in 2012. The wins were with 23 different customers, 11 completely new to Radisys. Across a broad spectrum of technology including ATCA and COM Express products.

Of particular note though, we received customer wins that capitalize on our unique value proposition of bringing both hardware and software elements together, along with our professional services capability to create solutions that meet our customer's needs. These higher margin solutions include a network balancer, which evenly distributes network data across multiple processors enabling more efficient data flow and higher network performance, and a femto gateway that serves as an aggregation point for small cells access to the core network.

These two design wins combine our ATCA hardware and Trillium Software to meet our customers requirements and shorten their time to market. In addition, we won business that combines COM Express hardware with Trillium and Media Server application software to enable a push to talk functionality suitable for the defense communication market.

All three of these solutions bring together the value of our portfolio, bringing together the value that our portfolio can bring to the market, and successfully demonstrate our unique capabilities and differentiation. This is a strong competitive advantage.

Our software and solutions revenue, which includes both Media Server and Trillium, also saw a strong quarter. We deployed several new nodes with our existing customers and won some significant new to Radisys tier one customers. Our Trillion products continue to see good design momentum in the small cell market.

Now turning to customer demand. Overall customer demand continues to meet our expectations across the majority of our product categories. We continue to see ramping volumes in our growth products;ATCA, Trillium Software, and Media Server applications.

That said, we have begun to see some softening in demand from our largest customer in both the older pre-ATCA Telecom products and to a lesser extent within ATCA itself. As most of you know, this large customer historically comprised between 40% and 50% of our revenue mix. As stated in earlier calls, it has become a much smaller percentage.

While remaining an important customer, the CCPU acquisition, and the waning of our older legacy telecommunications revenue, has reduced them to between 20% and 25% of our revenue. At present, we believe this softening is confined to this one large customer, and given our already reduced volumes with them, we currently believe the changes are manageable when taking into account the rest of our customer base and product portfolio. We continue to believe we are well positioned to take advantage of the growth being fueled primarily by the LTE deployments around the globe.

Now for those of you who didn't attend the Mobile World Congress in late February, we rolled out three new products to enhance our competitive position and are directly aimed at captioning growth in the mobile infrastructure market. The MPX 12,000 is our new multimedia platform. It is positioned to leverage our strength in traditional audio conferencing application, but also enables growth application such as video conferencing.

In addition, this product has been tuned and optimized to satisfy our customer's requirement in providing voice over LTEcapabilities. We are excited about this multimedia resource function, or MRF, and the growth opportunities it will create in 2013.

The RMS-220 is a new network appliance targeted primarily at applications such as network policy enforcement, network monitoring, and de-packet inspection. We believe this product is a perfect care of great compliment to our ATCA products for customers that require a lower capacity and a more cost effective solution. The response from our customers thus far has been excellent. We have secured our first customer, and anticipating seeing revenue in late 2012.

Finally, as many of you may have observed, small cells were one of the key themes of the show. Small cell access points are one of the key network elements designed into the LTEnetworked [apology?] for optimizing costs and capacity.

As you may know, we have been quite active over the past several years in the 3G small cell market. At the show, we launched a complete LTEsoftware solution that dramatically simplified the development and integration of LTE small cells, reducing our customer's time to market. Our LTE Trillium software application, called TOTALeNodeB, is one of the key elements for enabling small cells to communicate with end user devices as well as the network core. We're excited about this opportunity. Now, while deployments of small cells in the 3G space have been long in coming, we are beginning to see some real deployments and we are optimistic about seeing good traction later this year. With that, I'll now turn the call over to Brian, who will speak more about the first quarter financial results and projections for the quarter.

Brian Bronson - *Radisys Corp - President, CFO*

Thanks, Mike. As previously mentioned, our first quarter Non-GAAP revenue was $75.7 million, and our ATCA and Software & Solutions revenue rose to $49.7 million, or 66% of revenues,our highest percentage ever. We delivered Non-GAAP EPS of $0.05. Our top five customers in Q1 were Arrow, Danaher, NEC, Nokia Siemens Networks, and Phillips Healthcare. Most of these should be familiar to you as they have regularly bounced in and out of our top 5. That being said, a new one for you may be Arrow. Arrow was a distributor that primarily sells our COM Express products to a wide variety of end customers.

Our Q1 Non-GAAP gross margin rate was approximately 34%, up nearly five percentage points from the same quarter last year, as a result of the effort and focus we placed on driving growth in ATCA that typically carried gross margins in the 35% to 40% range, and Software & Solutions that can have gross margins upward of 80%. First quarter spending was very well managed and we're beginning to see some of the benefits resulting from our integration efforts as the combined Non-GAAP RND and SG&A expense dropped by roughly $3 million sequentially, to $23.6 million in the first quarter.

Our spending was less than expected and we now anticipate lower than expected spending for the balance of the year as our integration efforts have exceeded our initial expectations.

Now, switching over to the balance sheet. D.S.O. was 57 days in the first quarter compared to 56 days in the prior quarter. Total inventory and associated inventory deposit balance was better than expected at $30.1 million,down from $35.5 million last quarter.

Our contract manufacturer transitions continue to progress well. We have been able to manage the transition from Continuous Computing's relationship with [Sam Mina?] to [jay bill?] with lower buffer inventory than originally planned. Additionally, the mix of sales in our first quarter was bias towards remaining buffer inventory from our [Han High?] to jay bill transfer resulting in a better than expected first quarter inventory as well.

On the cash front, we consumed $900,000 of operating cash. When combined with the $3.6 million in capital expenditures, largely tied to the integration, this resulted in a cash balance of approximately $44 million. Total cash consumption of $4 million in Q1 was as expected.

Moving over the outlook for the second quarter. We expect Q2 Non-GAAP revenue of between $80 and $86 million which at the mid point represents a sequential increase of roughly $7 million or 10% from the first quarter. Our ATCA and Software & Solutions revenue is expected to represent the largest portion of the increase as several key customers have indicated strong demand. We expect second quarter Non-GAAP gross margin to range from 35% to 37%, an increase of a couple percentage points from the first quarter given the ongoing growth and higher margin Software & Solutions revenues combined with improving customer mix with an ATCA. Q2 Non-GAAP RND and SG&A expenses are expected to increase by approximately $1 million from the first quarter, to about $24.5 million.

As I indicated earlier, we saw lower spending in the first quarter resulting from additional synergy related reductions. We expect this lower spending to continue throughout the year, and result in approximately $5 million of lower expense in 2012. Non operating expense is expected to be around $400,000 in the second quarter. We currently expect our second quarter tax rate to be around 5% for Non-GAAP, and around 10% for GAAP.

We expect second quarter Non-GAAP EPSto range from $0.13 to $0.18. Our basic shares will be around $26.8 million and fully diluted shares will be $32.7 million,which includes $3.5 million convert shares.

As it relates to the balance sheet I expect our inventory balance to say roughly flat at $30 million in the second quarter and to materially decline in the second half of 2012 as we get past the final contract manufacturing transition. I currently expect that we will consume up to $1 million in cash in the second quarter, due to continued restructuring payments and overall integration costs. Specifically capitol expenditures will approximate $3.5 million. For the second half of the year, I expect us to generate meaningful cash to the tune of $20 to $25 million. With that I will hand the call back over to Mike.

Mike Dagenais - *Radisys Corp - CEO*

Thank you, Brian. I'm pleased with our first quarter performance. As it is in line with expectations we set entering the quarter. We have seen much progress in the organization as we continue to bring the two companies together, and our customers are responding well to our capabilities.

As I mentioned earlier, we recently launch add number of new products and capabilities to our customers and are beginning to see some real traction. Our increasing diverse product portfolio and customer set positions us well for the second half of 2012, and we are still driving towards our EPStarget for the year. With that, I believe we are ready to open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And your first question comes from the line of Rich Valera, Needham & Company.

Rich Valera - *Needham & Company - Analyst*

Thanks, good evening, gentleman. Did you say what percentage of business NSN represented in the quarter?

Mike Dagenais - *Radisys Corp - CEO*

No, we didn't explicitly, but it was I think about 25%, Allen, is that right?

Allen Muhich - *Radisys Corp - VP-Finance*

That's correct.

Mike Dagenais - *Radisys Corp - CEO*

Yeah.

Rich Valera - *Needham & Company - Analyst*

And it sounds like things have softened a bit with them, and clearly maybe strengthening with some other customers, so wondering if you had a sense of where they might be in the second quarter? Presumably something less than that.

Mike Dagenais - *Radisys Corp - CEO*

Yeah, I think rich lit be less than that, but right now it is still a little fluid. But I'd say it is probably in the lower end of that range.

Allen Muhich - *Radisys Corp - VP-Finance*

Yeah.

Rich Valera - *Needham & Company - Analyst*

Okay. So you mentioned that you are seeing softness from them, but yet your second quarter guidance was pretty solid, I think it was pretty much in line with consensus. So do you think it is more likely to effect you later in the year? Really more in the second half? I noticed you didn't specifically reiterate your full year guidance just wondering if you can comment more broadly on the full year.

Mike Dagenais - *Radisys Corp - CEO*

We expect to see some softness from that customer in the second half. And that's really where we expect some of the flow through. Q2 seems quite solid right now, and as the new customers come onboard, and the mix shifts a little bit, we believe from an earnings perspective we can be in line with expectations. But we still have yet to determine just how that softness will materialize from that large customer.

Rich Valera - *Needham & Company - Analyst*

Okay, and I guess at this pint, you don't really want to necessarily update that full year number but it sounds like maybe on the revenue side would be maybe looking at something a little less than that given this incremental softness here?

Mike Dagenais - *Radisys Corp - CEO*

I think that's an accurate reflection. I think some softness on the revenue side, but I don't believe that that will translate into any changes in our EPStargets.

Allen Muhich - *Radisys Corp - VP-Finance*

Yeah, and Rich, I don't know if you picked this up in the prepared remarks, but we had originally guided Operating Expenses to be in around $98 million to $100 million for 2012, and this incremental $5 million that I referenced in my notes is off that mid point. So you can infer that the new range is $94 million, $95 million, $96 million of experience.

Rich Valera - *Needham & Company - Analyst*

Okay. That's helpful. That's helpful. That definitelyhelp's close the gap there.

Allen Muhich - *Radisys Corp - VP-Finance*

Yeah.

Rich Valera - *Needham & Company - Analyst*

So in terms of the small cells, Mike, you made some reference to your historical success there in terms of design wins, and you thought you might start seeing some revenue traction with them later this year. Wondering if you can give us any sort of potential sizing on that? And maybe what kind of potential there might be for next year with both the 3G and 4G small cells.

Mike Dagenais - *Radisys Corp - CEO*

So on that particular one, we actually have gotten, a few of our customers, have gone beyond trial and have started deployment. So the range of success of that deployment will be determined by the market exceptions but primarily in the Asian geographies we're seeing some good traction there. On LTE I think deployments of the LTE small cells are still going to be relegated to 2013, and beyond. I think we are seeing a lot of good development and a lot of good activity, but I expect trials and deployments of those will not necessarily ramp until 2013.

Rich Valera - *Needham & Company - Analyst*

Okay that's helpful. In prior calls, and I think you made some reference to them in this call, you have talked about a number of LTEdeployments around the globe, that would be driving the bulk of that second half ramp, and it sounds like those are largely on track with prior expectations is that accurate?

Mike Dagenais - *Radisys Corp - CEO*

That is accurate. They are currently on track. We expect that we'll start seeing more of that in Q2 and Q3 as it ramps to the end of the year.

Rich Valera - *Needham & Company - Analyst*

Great, and then the final one for me, if I could. You had previously talked about $25 million of cash, I think this year, and you talked $20 million to $25 million, which is a slight moderation, is still suggestive of a big back half. But is there anything specific that is driving that slight moderation of the full year cash flow target?

Allen Muhich - *Radisys Corp - VP-Finance*

Nothing really in particular. You know, maybe the cash outlay from the integration has been a little bit higher than maybe I originally expected. That being said, we're enjoying higher levels of expense energy as well.

Rich Valera - *Needham & Company - Analyst*

Sure.

Allen Muhich - *Radisys Corp - VP-Finance*

Maybe called a trade off. I didn't think through that question, but that's how I would put it.

Rich Valera - *Needham & Company - Analyst*

Okay, fair enough, thanks gentlemen.

Mike Dagenais - *Radisys Corp - CEO*

Thanks, Rich.

Operator

And your next question comes from the line of Ted Moreau, Knight Capital Group, Inc .

Ted Moreau - *Knight Capital Group, Inc - Analyst*

Thanks. Good afternoon guys. Nice quarter.

Mike Dagenais - *Radisys Corp - CEO*

Hi Ted, thanks.

Ted Moreau - *Knight Capital Group, Inc - Analyst*

Just curious, what's the minimum cash balance you guys feel comfortable with having on the balance sheet?

Mike Dagenais - *Radisys Corp - CEO*

Well, you know, I think that on a steady state basis, $20 million to $30 million is the right answer. I pause because we do have a very robust and sound asset back line. That can give us anywhere from $20 million to $30 million as well. But $20 million to $30 million in general.

Ted Moreau - *Knight Capital Group, Inc - Analyst*

Okay. And gross margin guidance, two percentage point difference in the guideline or in the range. A little bit wider than in the past, is that really because of the uncertainty around your larger customer or is there anything else there?

Mike Dagenais - *Radisys Corp - CEO*

Part of it is mix. Our largest customer is lower margin. If they take more product, it lowers the margin. But again we have had some good traction on Software & Solutions which again is margin rich. So that's really where there is a little bit more uncertainty. That's why we have got it a little bit broader.

Allen Muhich - *Radisys Corp - VP-Finance*

We've got a $13 million, $14 million software business ultimately now, and with upwards of 80 points of gross margin, and it only takes $300,000 to move a penny, and same things goes with the gross margin rate, it just doesn't take much.

Ted Moreau - *Knight Capital Group, Inc - Analyst*

Right. And then on the products, can you update us as far as where you are on the product integration between the combined companies and then also, you have introduced several new products recently. Are you still looking to introduce, do you have meaningful products in the pipeline to be introduced yet? Or is this it for the near term? Can you give us an update there?

Mike Dagenais - *Radisys Corp - CEO*

From an overall product perspective, we launched those three products that I announced at the Mobile World Congress show. We have another product announcement that we are going to be announcing at the C.T.I.A. show. These are really bringing together collective assets of both companies and providing a stronger product offering as a total portfolio of products. So I think most of the product side synergies are about to be realized generally in the first half of this year. I think where we have made some tremendous strides, have been in the operational synergies of bringing the two companies together. As Brian has stated I think we are ahead of the game there, and we are seeing some nice outcomes coming there.

Ted Moreau - *Knight Capital Group, Inc - Analyst*

Okay, sounds great. And then final question for me, and just kind of curious, with the LTEstuff coming on in the second half of the year, and the excitement there, have you given a maybe like a size of the expected opportunity that you are expecting for the second half of he year? What kind of range you are thinking on those projects?

Mike Dagenais - *Radisys Corp - CEO*

We haven't actually specifically broken those out on those projects. We do know that the geographies primarily in Asia are deploying quite aggressively. And our products are supporting them. We haven't broken it out, and I don't think we plan on breaking it out specifically to that product, because we are also seeing some nice traction, although I haven't mentions it today, on some of our D.P.I. deployments as well. We are seeing a good up-tick of multiple dimensions in the second half on our existing portfolio.

Ted Moreau - *Knight Capital Group, Inc - Analyst*

Okay, sounds great, thanks a lot.

Mike Dagenais - *Radisys Corp - CEO*

Thank you. See you, Ted.

Operator

(Operator Instructions). Your next question comes from the line of David Duley, Steelhead.

David Duley - *Steelhead Securities - Analyst*

Hello, good afternoon.

Mike Dagenais - *Radisys Corp - CEO*

Good afternoon.

David Duley - *Steelhead Securities - Analyst*

Just a couple questions from me. On the SG&A and RND, you mentioned that you thought it would be $1 million sequentially, and then I think you mentioned a target for the year. Did you say $95 million, or $96 million for the year?

Mike Dagenais - *Radisys Corp - CEO*

Yeah, in Q2 it's all in RND. The sequential increase, so flat in SG&A, and Dave, originally again we talked about a guidance range in $98 million to $100 million back in February. We now believe it's about $5 million lower than that. Or $94 million $95 million, plus or minus, depending on where you want to go.

David Duley - *Steelhead Securities - Analyst*

Okay. And should we just kind of assume the second half of the year it falls off linearly.

Mike Dagenais - *Radisys Corp - CEO*

Yeah, you can assume it goes down $1 million Q2 to Q3 and then it says flat in Q4 'ish.

David Duley - *Steelhead Securities - Analyst*

Okay. And then, is most of your largest customers business in the legacy bucket?

Mike Dagenais - *Radisys Corp - CEO*

I would say it is about half in Q1.

David Duley - *Steelhead Securities - Analyst*

Okay. And one thing I was just a bit confused about, I guess you mentioned that legacy business will probably get weaker in the second half, but wasn't that really what you were expecting to begin with?

Mike Dagenais - *Radisys Corp - CEO*

So the answer is yes. But when products are declining they sometimes decline faster than you expect them to decline. At the end of last year in January we stated that we felt that that was going to be a pretty significant drop off from the $90 plus million in legacy business that we had last yearto this year in the $45 million range, it may be a bit less than that.

Allen Muhich - *Radisys Corp - VP-Finance*

Yeah we said down 50% back in February, so to Mike's point, could it be a bit north of that, it might.

David Duley - *Steelhead Securities - Analyst*

Okay. I guess kind of the delta with your largest customers is the legacy business is falling off faster?

Mike Dagenais - *Radisys Corp - CEO*

Yeah.

David Duley - *Steelhead Securities - Analyst*

I guess in my perspective that's kind of good news, since it's under 15% gross margins.

Mike Dagenais - *Radisys Corp - CEO*

That's correct.

David Duley - *Steelhead Securities - Analyst*

Okay, in retrospect, if you are losing legacy business it makes it easy to make up on the EPSfront, because it isn't high margin stuff.

Allen Muhich - *Radisys Corp - VP-Finance*

You've got it, Dave.

Mike Dagenais - *Radisys Corp - CEO*

That's clearly one of the factors and the other one is on the operational synergy's that we are seeing which are better than planned.

David Duley - *Steelhead Securities - Analyst*

Right. Okay. One final thing from me, do you typically attach a dollar value to your design wins? And if so, can you compare the wins you got this quarter to the past or any commentary you can give us would be helpful. And then specifically, you talked about I think a load balancer. Can you just give me a little bit more detail on what's going on there?

Mike Dagenais - *Radisys Corp - CEO*

So on the actual design wins, as we had reported in January, we had a great second half of last year. We had some pretty substantial forward-looking revenue opportunities from those design wins. We actually had more design wins this quarter but they were of smaller magnitude. So from a overall forward-looking revenue opportunity it's not quite as large as we had seen in the second half. Each quarter of the last half of last year. So forward-looking is still good design wins. Still good broad diversity of customers. But from a monetary value, not quite as rich in future value as the last two quarters prior to that.

Allen Muhich - *Radisys Corp - VP-Finance*

Balancer.

Mike Dagenais - *Radisys Corp - CEO*

The load balancer. As traffic flows through a network, in many cases it needs to be processed in real time, the more you can distribute the payload and the various packets to different processing units, the more effectively they get processed in real time, and re-aggregated and sent to their ongoing destination. If you can trade an effective load balancer you can allocate packets of some video stream to one set of processors. Packets to some security application to another set of processors. And allows the actual real time performance of the network to go up. So you actually can approach line rate performance by actually balancing where the traffic gets managed and dealt with and that's really what a load balancer does. It essentially disperses the packets and then reconfigures it back together. Sorry if it's a little too technical.

David Duley - *Steelhead Securities - Analyst*

No, no that's okay. And I was just wondering, does that butt up against the F5 product line? Or is this in the network level and the do it at the data center level?

Mike Dagenais - *Radisys Corp - CEO*

It is at the network level, similar to what F5 does at the enterprise side.

David Duley - *Steelhead Securities - Analyst*

Okay, thank you. That's it for me.

Operator

And your next question comes from the line of Aalok Shaw, D. A. Davidson.

Uidentified Participant - *D.A. Davidson & Co. - Analyst*

Hi, guys this is Mike sitting in for Aalok. Just a question on margin expansion going throughout the year. How much of that will be attributable to the revenue mix, and then how much of that would be with the shift to contract manufacturers?

Mike Dagenais - *Radisys Corp - CEO*

Well, mostly mix, but you are quite right. We are wrapping up the transitional work in the second quarter, so there is some benefit there, but it is largely mix.

Unidentified Participant

Okay, can you get any more in depth than that? Is that percentage wise?

Mike Dagenais - *Radisys Corp - CEO*

No. I would say it's two-thirds mix related and a third around contract manufacturing and potential other COGS related items.

THOMSON REUTERS

Unidentified Participant

Okay.

Allen Muhich - *Radisys Corp - VP-Finance*

The synergy number that we provided previously on the COGS side, that was roughly $5 million, right?So you can do the math from a percentage standpoint based upon that amount.

Unidentified Participant

All right that sounds great that's all I've got. Thanks guys.

Mike Dagenais - *Radisys Corp - CEO*

Thank you.

Operator

And your final question comes from the line of Russell Vestry, [inaudible] Capital.

Russell Vestry - - *Analyst*

Hello good afternoon.

Mike Dagenais - *Radisys Corp - CEO*

Good afternoon.

Russell Vestry - - *Analyst*

I'm trying to get my arms around the size of the small cell deployment, and then also in the 4G side of the equation. How big do you estimate those margins to be, and if you can help me understand who your competition is in those two markets?

Mike Dagenais - *Radisys Corp - CEO*

Well, it's hard to assess right now. If you look, especially in the 3G side of the market, there are numbers out there, that are about 1.5 to 2 million small cells have been deployed globally over the last couple of years. Projections are for it to go to between 3 to 4 million this year, and beyond that continue to rise. Over the last couple of years that market size has been there and has just shifted to the right. So we're seeing not quite as aggressive ramp up in the 3G side of the business, but there's still a lot of trials and as I said, we are actually seeing some deployments starting now. So it will ramp, but it is of the order of millions two, three, four million type of units that will get shipped a year. And from the Radisys perspective, we actually provide the software and the percentage of those and therefore we'll get a revenue stream with deployment.

On the LTE side, these are still new appliances that actually will be deployed in the market going forward. The LTE topologyhas been designed to actually incorporate these as elements that are recognized in the network. I expect that we'll see a much larger proliferation and a much greater volume in the LTEside, but as I said, it is a newer technology, and it won't likely start to ramp until probably 2013, and again it will probably be in

THOMSON REUTERS

the sub million number of units in 2013 but possibly could go up to the tens of millions by 2015. And that's the area. We actually sell to the equipment providers and what I will call the original O.D.M. type of customers. So we sell our software primarily into those markets. The market itself is quite large, but our portion of the market is a software part of that market.

Russell Vestry - - *Analyst*

So if you look at it on a revenue per unit basis, what kind of numbers would be associated with that?

Mike Dagenais - *Radisys Corp - CEO*

Well, it varies. Small cells go from residential to enterprise to metro to what is called PICO, which is multiple hundreds of lines. We generally command between 2% and 3% of the EPS.

Russell Vestry - - *Analyst*

Okay, thank you.

Operator

And this does conclude our question and answer session. Mr. Dagenais, are there any closing remarks?

Mike Dagenais - *Radisys Corp - CEO*

I just want to correct that, it was EPS. I meant it was APS, Average Selling Price. ASP, Average Selling Price. Yes, so thank you, Holly. In closing we are actually quite excited about our strategy. The opportunities ahead of us and our platforms our software, our new solutions and the meaningful earnings expansion expected in the second half of 2012. So, I'm looking forward to the remainder of the year. With that I want to thank you for your support and I look forward to speaking to you throughout the year, and throughout the quarter, thank you.

Operator

Thank you. This does conclude today's Radisys first quarter earnings conference call, you may now disconnect.
