UTSTARCOM HOLDINGS CORP.
Form 20-F
April 16, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2017.**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to
	OR
o	**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report . . . . . .

Commission file number: 001-35216

UTStarcom Holdings Corp.

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant s name into English)

Cayman Islands
(Jurisdiction of incorporation or organization)

Level 6, 28 Hennessy Road, Admiralty, Hong Kong
(Address of principal executive offices)

Fei Wang (IR Director)/Ning Jiang (Investor Relation)

Investor Relations

Level 6, 28 Hennessy Road,

Admiralty, Hong Kong

Phone: (852) 3951 9757

UTSI-IR@utstar.com
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

None

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, $0.00375 par value	The NASDAQ Stock Market LLC

Table of Contents

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 35,506,366 ordinary shares, par value US$0.00375 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15)(d) of the Securities Exchange Act of 1934.

o Yes x 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 such filing requirements for the past 90 days.

x Yes o 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).

x Yes o No

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x Emerging growth company o

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

o Yes o No

Table of Contents

UTSTARCOM HOLDINGS CORP.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
PART I	2
ITEM 1-Identity of Directors, Senior Management and Advisers	2
ITEM 2-Offer Statistics and Expected Timetable	2
ITEM 3-Key Information	2
ITEM 4-Information on the Company	22
ITEM 4A-Unresolved Staff Comments	27
ITEM 5-Operating and Financial Review and Prospects	28
ITEM 6-Directors, Senior Management and Employees	44
ITEM 7-Major Shareholders and Related Party Transactions	51
ITEM 8-Financial Information	51
ITEM 9-The Offer and Listing	51
ITEM 10-Additional Information	52
ITEM 11-Quantitative and Qualitative Disclosures about Market Risk	58
ITEM 12-Description of Securities other than Equity Securities	59
PART II	60
ITEM 13-Defaults, Dividend Arrearages And Delinquencies	60
ITEM 14-Material Modifications to the Rights of Security Holders and Use Of Proceeds	60
ITEM 15-Controls and Procedures	60
ITEM 16A-Audit Committee Financial Expert	61
ITEM 16B-Code of Ethics	61
ITEM 16C-Principal Accountant Fees and Services	62
ITEM 16D-Exemptions from the Listing Standards for Audit Committees	62
ITEM 16E-Purchases of Equity Securities by the Issuer and Affiliated Purchasers	62
ITEM 16F-Change in Registrant s Certifying Accountant	64
ITEM 16G-Corporate Governance	65
ITEM 16H-Mine Safety Disclosure	65
PART III	65
ITEM 17-Financial Statements	65
ITEM 18-Financial Statements	65
ITEM 19-Exhibits	66
SIGNATURES	67

Table of Contents

INTRODUCTION

Unless the context otherwise requires, in this annual report on Form 20-F:

- We, us, our, and our company refer to UTStarcom Holdings Corp., an exempted company incorpora under the laws of the Cayman Islands in April 2011, and its direct and indirect subsidiaries;

- UTStarcom refers to UTStarcom Holdings Corp.;

- Shares or ordinary shares refers to our ordinary shares, par value $0.00375 per share;

- China or PRC refers to the People s Republic of China, excluding, for the purpose of this annual report, Taiwan, Hong Kong and Macau; and

- RMB or Renminbi refers to the legal currency of China, JPY or Japanese Yen refers to the legal currency of Japan, and $ or U.S. dollars refers to the legal currency of the United States.

Names of certain PRC companies provided in this annual report are translated or transliterated from their original PRC legal names.

Discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2015, 2016 and 2017.

This annual report contains translations of certain Renminbi amounts into U.S. dollars at the rate of RMB6.5063 to $1.00, the noon buying rate on December 31, 2017, as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. See Item 3. Key Information-D. Risk Factors-Risks Relating to Conducting Business in China-Fluctuation in the value of the RMB relative to the U.S. dollar could affect our operating results and may have a material adverse effect on your investment.

This annual report also contains translations of certain Japanese Yen amounts into U.S. dollars at the rate of JPY112.6900 to $1.00, the noon buying rate on December 31, 2017, as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We make no representation that the Japanese Yen or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Japanese Yen, as the case may be, at any particular rate or at all. Fluctuation in the value of the Japanese Yen may have a material adverse effect on your investment. See Item 3. Key Information-D. Risk Factors-Risks Related to Our Business-Currency rate fluctuations may adversely affect our cash flow and operating results.

Our ordinary shares are listed on the NASDAQ Stock Market, or NASDAQ, under the symbol UTSI . On March 21, 2013, we effected a one-for-three reverse share split of our ordinary shares. Unless otherwise specified, all share and per share information in this annual report has been retroactively adjusted to reflect this reverse share split.

On June 24, 2011, we effected a merger, or the Merger, to reorganize the corporate structure of UTStarcom, Inc., a Delaware corporation incorporated in 1991, and its subsidiaries. The Merger resulted in shares of the common stock of UTStarcom, Inc. being converted into the right to receive an equal number of ordinary shares in our capital, which were issued by us in connection with the Merger. Following the Merger, UTStarcom, Inc. became our wholly owned subsidiary and we became the parent company of UTStarcom, Inc. and its subsidiaries. See Item 4. Information on the Company-C. Organizational Structure for a list of our subsidiaries. We, together with our subsidiaries, continue to conduct our business in substantially the same manner as was conducted by UTStarcom, Inc. and its subsidiaries. The transaction was accounted for as a legal re-organization of entities under common control. Accordingly, we have prepared our consolidated financial statements as if the current corporate structure had been in existence throughout all relevant periods. Our consolidated financial statements prior to the Merger reflect the financial position, results of operations and cash flows of UTStarcom, Inc. and its subsidiaries. Our consolidated financial statements as of December 31, 2016 and 2017 and for the years ended December 31, 2015, 2016 and 2017 reflect our financial position, results of operation and cash flows.

Table of Contents

PART I

ITEM 1-IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2-OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3-KEY INFORMATION

A. Selected Financial Data

The following selected consolidated statement of operations data for the years ended December 31, 2015, 2016 and 2017 and the selected consolidated balance sheet data as of December 31, 2016 and 2017 have been derived from our audited financial statements included elsewhere in this annual report. The selected consolidated financial data should be read in conjunction with those financial statements and the accompanying notes and Item 5. Operating and Financial Review and Prospects below. Our consolidated financial statements are prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods.

Our selected consolidated statement of operations data for the years ended December 31, 2013 and 2014 and our consolidated balance sheets as of December 31, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements, which are not included in this annual report.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share amount)				
Consolidated Statement of Operations Data:					
Net sales(1)	$ 98,292	$ 86,512	$ 117,103	$ 129,420	$ 164,439
Gross profit	$ 33,146	$ 28,356	$ 27,868	$ 22,128	$ 40,220
Operating income (loss)	$ 6,516	$ 1,708	$ (4,989)	$ (14,073)	$ (13,233)
	$ 6,981	$ 290	$ (27,158)	$ (30,264)	$ (22,721)

Net income (loss) attributable to UTStarcom Holdings Corp.					
Net income (loss) per share attributable to UTStarcom Holdings Corp.-Basic	$ 0.20	$ 0.01	$ (0.74)	$ (0.81)	$ (0.58)

(1) The sales decrease from 2013 to 2016 were mainly caused by lower market demand for old products and we streamlined our business to focus more on high-gross margin products after we announced our new strategy in June 2015.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 79,749	$ 83,922	$ 77,050	$ 77,824	$ 107,773
Working capital	$ 78,549	$ 75,850	$ 63,818	$ 76,383	$ 107,935
Total assets	$ 187,044	$ 178,703	$ 198,379	$ 279,063	$ 366,967
Total short-term debt	$	$	$	$	$
Long-term debt	$	$	$	$	$
Total UTStarcom Holdings Corp. shareholders equity	$ 90,992	$ 82,741	$ 83,777	$ 115,329	$ 150,380

B. Capitalization and Indebtedness

Not Applicable.

Table of Contents

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related To Our Business

We have a history of operating losses and may not have enough liquidity to execute our business plan or to continue our operations without obtaining additional funding or selling additional securities. We may not be able to obtain additional funding under commercially reasonable terms or issue additional securities.

We reported net income attributable to UTStarcom Holdings Corp. of $7.0 million, and $0.3 million and net loss attributable to UTStarcom Holding Corp. of $27.2 million for the years ended December 31, 2017, 2016 and 2015, respectively. As of December 31, 2017, we had $79.7 million in cash or cash equivalents. Our management considered our current financial status, business operation, market strategy, and products development in the twelve months following the issuance date of this report and believes that we will have sufficient liquidity to finance our anticipated operations, capital expenditure requirements and new business acquisitions and investments, as well as achieve projected cash collections from customers and contain expenses and cash used in operations over that period. However, we may not achieve such operating performance and our management expects to continue to implement our liquidity plans, including reducing operating expenses and improving cash collections and receivable turnover. If we cannot successfully implement our liquidity plans, it may be necessary for us to make significant changes to our business plans and strategy to maintain adequate liquidity. In addition, various other factors may negatively impact our liquidity, such as:

- our inability to achieve planned operating results, which may increase liquidity requirements beyond those considered in our business plans;

- our growth initiatives, which may increase liquidity requirements beyond those considered in our business plans;

- changes in our business conditions or the financial markets that could limit our access to existing credit facilities or make new sources of financing more-costly or commercially unviable; and

- changes in China s currency exchange control regulations, which could limit our ability to access cash outside of China to meet liquidity requirements for our operations in China, or vice-versa.

Although our management has developed liquidity plans, we may have difficulty maintaining existing relationships or developing new relationships with suppliers or vendors as a result of our current financial condition. Our suppliers may choose to provide products or services to us on more stringent payment terms than those currently in place, such as requiring advance payment or payment upon delivery, which may have a negative impact on our short-term cash flows, and in turn materially and adversely affect our ability to retain current customers, attract new customers and maintain contracts that are critical to our operations.

If we cannot meet our liquidity needs through improved operating results, we may need to obtain additional financing from financial institutions or other third parties. However, we may not be able to obtain financing under commercially reasonable terms, or at all. Additionally, we may not be able to sell additional securities to meet our liquidity needs, and any such sale of securities would dilute the ownership of our shareholders.

Our strategic plan may not be successful, which may materially and adversely affect our financial results.

On June 5, 2015, we announced a strategic plan to build on our past transition initiatives, further streamline our business model, focus on profitable broadband products and markets, and continue to monetize our investments. We expect that this strategic plan will in time result in a modified revenue profile and improve our margins. However, we may not be successful in reducing the costs, improving the efficiencies, or expanding our margins. If our current or future strategic plans for the business of our company are not as successful as originally anticipated, or at all, our company, financial prospects and results of operations may be materially and adversely affected.

Our cost-reduction initiatives and restructuring plans may not result in anticipated savings or more efficient operations. Our restructuring may disrupt our operations and adversely affect our operations and financial results.

In the past several years, we implemented certain cost-reduction initiatives and restructuring plans. However, our restructuring may not improve our results of operations and cash flows as we anticipated. Our inability to realize the benefits of our cost-reduction initiatives and restructuring plans may result in an ineffective business structure that could negatively impact our results of operations. In addition to severance and other employee-related costs, our restructuring plans may also subject us to litigation risks and expenses.

Table of Contents

Our restructuring may also have other adverse consequences, such as employee attrition beyond our planned reduction in workforce, the loss of employees with valuable knowledge or expertise, a negative impact on employee morale and gains in competitive advantages by our competitors. Our restructuring may also place increased demands on our personnel and could adversely affect our ability to attract and retain talent, develop and enhance our products and services, service our existing customers, achieve our sales and marketing objectives and perform our accounting, finance and administrative functions.

We may undertake future cost-reduction initiatives and restructuring plans that may materially and adversely impact our operations. If we do not realize the anticipated benefits of any future restructurings, our operations and financial results could be adversely affected.

Changes in our management may cause uncertainty in, or be disruptive to, our business. Certain of our directors and management team members have been with us in those capacities for only a short time.

We have experienced significant changes in our management and our Board of Directors in recent years. In 2016, we appointed a new chief executive officer, a new chief operating officer and a new director to the board. Additionally, in November 2017, one of directors has been replaced. Although we have endeavored to implement any director and management transition in a non-disruptive manner, any such transition might impact our business, and give rise to uncertainty among our customers, investors, vendors, employees and others concerning our future direction and performance, which may materially and adversely affect our business, financial condition, results of operations and cash flows, and our ability to execute our business model.

In addition, because certain members of our management and board of directors have served in their respective capacities for only limited durations, we face the additional risks that these persons:

- have limited familiarity with our past practices;
- lack experience in communicating effectively within our team and with other employees and directors;
- lack settled areas of responsibility; and
- lack established track records in managing our business strategy.

We rely on a Japanese customer for a significant portion of our net sales. Any deterioration of our relationship or any interruption to our ongoing collaboration with this customer may significantly harm our business, financial condition and results of operations.

A significant portion of our net sales is derived from a Japanese customer, SoftBank Corp. and its related entities (collectively Softbank), which previously was one of our principal shareholders. On January 14, 2014, Softbank sold all of our shares held by it to us and one of our other shareholders. In 2016 and 2017, our net sales to Softbank totaled approximately $43.2 million and $39.5 million, respectively, representing approximately 50% and 40%, respectively, of our total net sales in 2016 and 2017. We anticipate that our dependence on Softbank will continue for the foreseeable future. Consequently, any one of the following events may cause material fluctuations or declines in our net sales or liquidity position and have a material adverse effect on our financial condition and results of operations:

- changes in the regulatory environment in Japan that adversely affect the Softbank businesses that we supply;

- changes in the commercial environment in Japan that adversely affect the Softbank businesses we supply;

- Softbank s collaborations with our competitors;

- reduction, delay or cancellation of contracts from Softbank;

- the success of Softbank s business utilizing our products; and

- failure of Softbank to make timely payment for our products and services.

Although we have collaborated with Softbank since 2008, Softbank may not continue working with us in the future, whether due to changes in management preferences, business strategy, corporate structure or other factors. On January 14, 2014, Softbank sold its entire stake in our Company, consisting of 4,883,875 ordinary shares. We repurchased 3,883,875 ordinary shares, and Shah Capital Opportunity Fund LP, one of our shareholders, purchased 1,000,000 ordinary shares, for a price of $2.54 per ordinary share. After the consummation of the transaction, Softbank was no longer a related party. Our failure to continue collaborating with Softbank may adversely affect our business, financial conditions and results of operations.

Table of Contents

We have a rapidly evolving business model, and if our new product and service offerings fail to attract or retain customers or generate revenue, our growth and operating results could be harmed.

We have a rapidly evolving business model and are regularly exploring entry into new market segments and introduction of new products, features and services with respect to which we may have limited experience. In the past, we have added additional types of services and product offerings, and in some cases, we have modified or discontinued those offerings. We may continue to offer additional types of products or services in the future, but these products and services may not be successful. The additions and modifications to our business have increased its complexity and may present new and significant technological challenges, as well as strains on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. The future viability of our business will depend on the success of our new business model and product and service offerings, and if they fail to attract or retain customers or generate revenue, our growth and operating results could be materially and adversely affected.

Our future product sales are unpredictable and our operating results are likely to fluctuate from quarter to quarter as a result.

Our quarterly and annual operating results have fluctuated in the past and are likely to fluctuate in the future due to a variety of factors, some of which are outside of our control. Factors that may affect our future operating results include:

- the timing and size of the orders for our products;
- customer acceptance of new products we may introduce to market;
- changes in the growth rate of customer purchases of communications services;
- lengthy and unpredictable sales cycles associated with sales of our products;
- cancellation, deferment or delay in implementation of large contracts;
- quality issues resulting from the design or manufacture of the products, or from the software used in the products;

- cash collection cycles in the markets where we operate;

- reliance on product, software and component suppliers which may constitute a sole source of supply or may have going concern issues;

- the decline in business activity we typically experience during the Lunar New Year holiday in China, which leads to decreased sales and collections during our first fiscal quarter;

- issues that might arise from divestiture of non-core assets or operations or the integration of acquired entities and the inability to achieve expected results from such divestitures or acquisitions;

- shifts in our product mix or market focus; and

- availability of adequate liquidity to implement our business plan.

As a result of these and other factors, period-to-period comparisons of our operating results are not necessarily meaningful or indicative of future performance. In addition, the factors noted above may make it difficult for us to forecast our future financial performance. Furthermore, it is possible that in some future quarters our operating results will fall below our internal forecasts, public guidance or the expectations of securities analysts or investors, which may adversely affect the trading price of our ordinary shares.

Competition in our markets may lead to reduced prices, revenues and market share.

We currently face and will continue to face intense competition from both domestic and international companies in our target markets, many of which may operate under lower cost structures and have much larger sales forces than we do. Additionally, other companies not presently offering competing products may also enter our target markets. Many of our competitors have significantly greater financial, technical, product development, sales, marketing and other resources than we do. As a result, our competitors may be able to respond more quickly to new or emerging technologies and changes in service provider requirements. Our competitors may also be able to devote greater resources than we can to the development, promotion and sale of new products. These competitors may be able to offer significant financing arrangements to service providers, which may give them a competitive advantage in selling systems to service providers with limited financial resources. In many of the developing markets in which we operate or intend to operate, relationships with local governmental telecommunications agencies are important to establish and maintain through permissible means. In many such markets, our competitors may have or be able to establish better relationships with local governmental telecommunications agencies than we have, which could result in their ability to influence governmental policy formation and interpretation to their advantage. Additionally, our competitors might have better relationships with their third party suppliers and obtain component parts at reduced rates, allowing them to offer their end products at reduced prices. Moreover, the telecommunications and data transmission industries have experienced significant consolidation, and we expect this trend to continue. Increased customer concentration may increase our reliance on larger customers and our bargaining position and profit margins may suffer.

Table of Contents

Increased competition is likely to result in price reductions, reduced profit margin and loss of market share, any one of which could materially harm our business, cash flows and financial condition. In order to remain competitive, we must continually reduce the cost of manufacturing our products through design and engineering changes and other cost control measures. We may not be successful in these efforts or in delivering our products to market in a timely manner. In addition, any redesign may not result in sufficient cost reductions to allow us to reduce the prices of our products to remain competitive or to improve or maintain our profit margin, which would cause our financial results to suffer.

To remain competitive, we may enter into contracts with low profitability or even anticipated losses if we believe it is necessary to establish a relationship with a customer or a presence in a market that we consider important to our strategy. Entering into a contract with an anticipated loss requires us to recognize a provision for the entire loss in the period in which it becomes evident rather than in later periods in which contract performance occurs. Entering into contracts with low gross margins adversely affects our reported results when the revenues from such contracts are recognized.

The average selling prices of our products may decrease, which may reduce our revenues and our gross profit.

The average selling prices of our products may decrease in the future in response to product introductions by us or our competitors or other factors, including price pressures from customers. Sales of products with low gross profit margins may adversely affect our profitability and result in losses with respect to such products. Therefore, we must continue to develop, source and introduce new products and enhancements to existing products that incorporate features that can be sold at higher average selling prices. Failure to do so, or the failure of consumers or our direct customers to accept such new products, could cause our revenues and profitability to decline.

Our market is subject to rapid technological change and we must continually introduce new products and product enhancements that achieve market acceptance to compete effectively.

The market for broadband equipment is characterized by rapid technological developments, frequent new product introductions, changes in consumer preferences and evolving industry and regulatory standards. Our success will depend in large part on our ability to enhance our technologies and develop and introduce new products and product enhancements that anticipate changing service provider requirements, technological developments and evolving consumer preferences. We may need to make substantial capital expenditures and incur significant R&D expenses to develop and introduce new products and enhancements. If we fail to develop and introduce new products or enhancements to existing products that effectively respond to technological change on a timely basis, our business, financial condition and results of operations could be materially and adversely affected.

Certain of our products are subject to rapid changes in standards, applications and technologies. Moreover, from time to time, we or our competitors may announce new products or product enhancements, technologies or services that have the potential to replace or shorten the life cycles of our products and that may cause customers to defer purchasing our existing products, resulting in charges for inventory obsolescence reserves. Future technological advances in the communications industry may diminish or inhibit market acceptance of our existing or future products or render our products obsolete. Even if we are able to develop and introduce new products, they may not gain market acceptance. Market acceptance of our products will depend on various factors, including:

- our ability to obtain necessary approvals from regulatory organizations within the countries in which we operate and for any new technologies that we introduce;

- the length of time it takes service providers to evaluate our products, causing the timing of purchases to be unpredictable;

- the compatibility of our products with legacy technologies and standards existing in previously deployed network equipment;

- our ability to attract customers who may have pre-existing relationships with our competitors;

- product pricing relative to performance;

Table of Contents

- the level of customer service available to support new products; and

- the timing of new product introductions meeting demand patterns.

If our products fail to obtain market acceptance in a timely manner, our business and results of operations could be materially and adversely affected.

We purchase certain key components and materials used in our products from authorized distributors of sole source suppliers. If we cannot secure adequate supplies of high quality products at competitive prices or in a timely manner, our competitive position, reputation and business could be harmed.

We purchase certain key components and materials, such as chipsets, used in our products from authorized distributors of sole source suppliers. We do not have direct contractual arrangements with the sole source suppliers of chipsets used in our products. If we are unable to obtain high-quality components and materials in the quantities required and at the costs specified by us, we may not be able to find alternative sources on favorable terms, in a timely manner, or at all. Our inability to obtain or to develop alternative sources if and as required could result in delays or reductions in manufacturing or product shipments. From time to time, there may be shortages of certain products or components. Moreover, the components and materials we purchase may be inferior quality products. If an inferior quality product supplied by a third party is used in our end product and causes a problem, our end product may be deemed responsible and our competitive position, reputation and business could suffer.

Our ability to source a sufficient quantity of high-quality, cost-effective components used in our products may also be limited by import restrictions and duties in the foreign countries where we manufacture our products. We require a significant number of imported components to manufacture our products, and these imported components may be limited by a variety of permit requirements, approval procedures, patent infringement claims, import duties and licensing requirements. Moreover, import duties on such components increase the cost of our products and may make them less competitive.

Our multinational operations may strain our resources and subject us to various economic, political, regulatory and legal risks.

We market and sell our products globally. Our existing multinational operations require significant management attention and financial resources. To continue to manage our global business, we will need to continue to take various actions, including:

- enhancing management information systems, including forecasting procedures;

- further developing our operating, administrative, financial and accounting systems and controls;

- managing our working capital and sources of financing;

- maintaining close coordination among our engineering, accounting, finance, marketing, sales and operations organizations;

- successfully consolidating a number of functions in China to eliminate functional duplication;

- retaining, training and managing our employee base;

- reorganizing our business structure to allocate and utilize our internal resources more effectively;

- improving and sustaining our supply chain capability; and

- managing both our direct and indirect sales channels in a cost-efficient and competitive manner.

If we fail to implement or improve systems or controls or to manage any future growth and transformation effectively, our business could suffer.

Furthermore, our multinational operations are subject to a variety of risks, such as:

- the complexity of complying with a variety of foreign laws and regulations in each of the jurisdictions in which we operate;

- the complexity of complying with anti-corruption laws in each of the jurisdictions in which we operate, including United States regulations for foreign operations such as the Foreign Corrupt Practices Act as well as the anti-bribery and anti-corruption laws of China, Japan and India where we conduct substantial operations. There is rigorous enforcement of anti-corruption laws in the United States and in China, and the violation of these laws may result in substantial monetary and even criminal sanctions;

Table of Contents

- difficulty complying with continually evolving and changing global product and communications standards and regulations for both our end products and their component technology;

- market acceptance of our new products, including longer product acceptance periods in new markets into which we enter;

- reliance on local original equipment manufacturers, third party distributors, resellers and agents to effectively market and sell our products;

- unusual contract terms required by customers in developing markets;

- changes to import and export regulations, including quotas, tariffs, licensing restrictions and other trade barriers;

- the complexity of compliance with the varying taxation requirements of multiple jurisdictions;

- evolving and unpredictable nature of the economic, regulatory, competitive and political environments;

- reduced protection for intellectual property rights in some countries;

- longer accounts receivable collection periods; and

- difficulties and costs of staffing, monitoring and managing multinational operations, including but not limited to internal controls and compliance.

In addition, many of the global markets are less developed, presenting additional economic, political, regulatory and legal risks unique to developing economies, such as the following:

- customers that may be unable to pay for our products in a timely manner or at all;

- new and unproven markets for our products and the telecommunications services that our products enable;

- lack of a large, highly trained workforce;

- difficulty in controlling local operations from our headquarters;

- variable ethical standards and an increased potential for fraud;

- unstable political and economic environments; and

- lack of a secure environment for our personnel, facilities and equipment.

In particular, these factors create the potential for physical loss of inventory and misappropriation of operating assets. We have in the past experienced cases of vandalism and armed theft of our equipment that had been or was being installed in the field. If disruptions for any of these reasons become too severe in any particular market, it may become necessary for us to terminate contracts and withdraw from that market and suffer the associated costs and lost revenue.

Our success depends on our ability to hire and retain qualified personnel, including senior managers. If we are not successful in attracting and retaining these personnel and in managing key employee turnover, our business will suffer.

The success of our business depends in significant part upon the continued contributions of key technical and senior management personnel, many of whom would be difficult to replace. The loss of a key employee, the failure of a key employee to perform satisfactorily in his or her current position or our failure to attract and retain other key technical and senior management employees could have a significant negative impact on our operations.

Notwithstanding our recent workforce restructurings, to effectively manage our operations, we will need to recruit, train, assimilate, motivate and retain qualified employees, especially in China. Competition for qualified employees is intense, and the process of recruiting personnel in all fields, including technology, research and development, sales and marketing, finance and accounting, administration and management with the combination of skills and attributes required to execute our business strategy can be difficult, time-consuming and expensive. We must continue to implement hiring and training processes that are capable of quickly deploying qualified local residents to support our products and services knowledgeably. Alternatively, if there are an insufficient number of qualified local residents available, we might incur substantial costs importing expatriates to service new global markets. For example, we have historically experienced and continue to experience difficulty finding qualified accounting personnel knowledgeable in both U.S. and PRC accounting standards who are PRC residents. In addition, we made changes within our senior management team in China. If our current senior management in China cannot maintain and/or establish key relationships with

customers, governmental entities and other relevant parties in China, our business may decline significantly. If we fail to attract, hire, assimilate or retain qualified personnel, our business would be harmed. Our recent layoffs also have an adverse effect on our ability to attract and retain critical staff. Competitors and others have in the past, and may in the future, attempt to recruit our employees. In addition, companies in the telecommunications industry whose employees accept positions with competitors frequently claim that the competitors have engaged in unfair hiring practices. We may be the subject of these types of claims in the future as we seek to hire qualified personnel. Some of these claims may result in material litigation and disruption to our operations. We could incur substantial costs in defending ourselves against these claims, regardless of their merit.

Table of Contents

Currency rate fluctuations may adversely affect our cash flow and operating results.

Our business is subject to risk from changing foreign exchange rates because we conduct a substantial part of our business in a variety of currencies other than the U.S. dollar. In 2017, a majority of our sales were made in Japan and denominated in Japanese Yen. We also made significant sales denominated in Indian Rupees and significant purchases denominated in Renminbi. Additionally, we have exposures to emerging market currencies, which can have extreme currency volatility. Adverse movements in currency exchange rates may negatively affect our cash flow and operating results. We recorded a net foreign currency loss of $0.2 million in 2015, a net foreign currency gain of $1.5 million in 2016, and a net foreign currency gain of $0.6 million in 2017. We currently do not use forward and option contracts to hedge against the risk of foreign currency rate fluctuation in the eventual net cash inflows and outflows resulting from foreign currency denominated transactions with customers, suppliers, and non-U.S. subsidiaries. Furthermore, we would be limited in our ability to hedge our exposure to rate fluctuations in certain currencies, including the Japanese Yen, Renminbi and Indian Rupee, due to PRC-governmental currency exchange control regulations that restrict currency conversion and remittance. Even if we engage in hedging activities in the future, we may not be successful in minimizing the impact of foreign currency fluctuations. As a result, fluctuations in foreign currencies may have a material impact on our business, results of operations and financial condition.

We may not be able to take advantage of acquisition opportunities or achieve the anticipated benefits of completed acquisitions.

We have in the past acquired certain businesses, products and technologies. We will continue to evaluate acquisition prospects that would complement our existing product offerings, augment our market coverage, enhance our technological capabilities, or that may otherwise offer growth opportunities. To the extent we desire to raise additional funds for purposes not currently included in our business plan (such as taking advantage of acquisition opportunities, developing new or enhanced products, responding to competitive pressures, or raising capital for strategic purposes), additional financing for these or other purposes may not be available on acceptable terms or at all. If we raise additional funds through the issuance of equity securities, our shareholders will experience dilution of their ownership interest, and the newly issued securities may have rights superior to those of ordinary shares. If we raise additional funds by issuing debt, our ability to meet our debt service obligations will be dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. Additionally, debt obligations may subject us to limitations on our operations and increased leverage. In addition, acquisitions involve numerous risks, including difficulties in the assimilation of operations, technologies, products and personnel of the acquired company; failures in realizing anticipated synergies; diversion of management s attention from other business concerns; adverse effects on existing business relationships with customers; difficulties in retaining business relationships with suppliers and customers of the acquired company; risks of entering markets in which we have no direct or limited prior experience; the potential loss of key employees of the acquired company; unanticipated costs; difficulty in maintaining controls, procedures and policies during the transition and integration process; failure of our due diligence process to identify significant issues, including issues with respect to product quality, product architecture and legal and financial contingencies; product development; significant exit charges as impairment charges if products or businesses acquired are unsuccessful or do not perform as expected; potential future impairment of our acquisitions or investments; potential full or partial write-offs of acquired assets or investments and associated goodwill; potential expenses related to the amortization of intangible assets; and, in the case of the acquisition of financially troubled businesses, challenges as to the validity of such acquisitions from third party creditors of such businesses.

We may be unable to adequately protect against the loss or misappropriation of our intellectual property, which could substantially harm our business.

We rely on a combination of patents, copyrights, trademarks, trade secret laws and contractual obligations to protect our technology. We have patents issued in the United States and internationally and have pending patent applications internationally. Additional patents may not be issued from our pending patent applications, and our issued patents may not be upheld. In addition, we have, from time to time, chosen to abandon previously filed patent and trademark applications. Moreover, we may face difficulties in registering our existing trademarks in new jurisdictions

in which we operate, and we may be forced to abandon or change product or service trademarks because of the unavailability of our existing trademarks or because of oppositions filed or legal challenges to our trademark filings. The intellectual property protection measures that we have taken may not be sufficient to prevent misappropriation of our technology or trademarks and our competitors may independently develop technologies that are substantially equivalent or superior to ours. In addition, the legal systems of many foreign countries do not protect or honor intellectual property rights to the same extent as the legal system of the United States. For example, in China, the legal system in general, and the intellectual property regime in particular, are still in the development stage. It may be very difficult, time-consuming and costly for us to attempt to enforce our intellectual property rights in these jurisdictions.

Table of Contents

We may be subject to claims that we infringe the intellectual property rights of others, which could substantially harm our business.

The industry in which we compete is moving towards aggressive assertion, licensing and litigation of patents and other intellectual property rights. From time to time, we have become aware of the possibility or have been notified that we may be infringing certain patents or other intellectual property rights of others. Regardless of their merit, responding to such claims could be time consuming, divert management s attention and resources and cause us to incur significant expenses. In addition, although some of our supplier contracts provide for indemnification from the supplier with respect to losses or expenses incurred in connection with any infringement claim, certain contracts with our key suppliers do not provide for such protection. Moreover, certain of our sales contracts provide that we must indemnify our customers against claims by third parties for intellectual property rights infringement related to our products. There are no limitations on the maximum potential future payments under these guarantees. Therefore, we may incur substantial costs related to any infringement claim, which may substantially harm our results of operations and financial condition.

We have been and may in the future become subject to litigation to defend against claimed infringements of the rights of others or to determine the scope and validity of the proprietary rights of others. Future litigation may also be necessary to enforce and protect our patents, trade secrets and other intellectual property rights. Any intellectual property litigation or threatened intellectual property litigation could be costly, and adverse determinations or settlements could result in the loss of our proprietary rights, subject us to significant liabilities, require us to seek licenses from or pay royalties to third parties which may not be available on commercially reasonable terms, if at all, and/or prevent us from manufacturing or selling our products, which could cause disruptions to our operations.

In the event that there is a successful claim of infringement against us and we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, results of operations and financial condition could be materially and adversely impacted.

We are subject to risks related to our financial and strategic investments in third party businesses.

From time to time, we make financial and/or strategic investments in third party businesses. We cannot be certain that such investments will be successful. In certain instances, we have lost part or all of the value of such investments, resulting in a financial loss and/or the loss of potential strategic opportunities. We recognize an impairment charge on our investment when a decline in the fair value of such investment below the cost basis is judged to be other-than-temporary. In making this determination, we review several factors to determine whether the losses are other-than-temporary, including but not limited to: (i) the length of time the investment was in an unrealized loss position, (ii) the extent to which fair value was less than cost, (iii) the financial condition and near term prospects of the issuer, and (iv) our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. For the year ended December 31, 2017 and 2016, we recorded impairment charges of $1.7 million and $5.3 million related to investments respectively. If we have to write down or write off our investments, or if potential strategic opportunities do not develop as planned, our financial performance may suffer. Moreover, these investments are often illiquid, such that it may be difficult or impossible for us to monetize such investments.

We could incur asset impairment charges for long-lived assets or long-term investments, which could negatively affect our future operating results and financial condition.

As of December 31, 2017, we had long-lived assets and long-term investments. We are required to perform periodic assessments for any possible impairment of long-lived assets and long-term investments for accounting purposes. We review the recoverability of the carrying value of long-lived assets held and used and long-lived assets to be disposed of whenever events or changes in circumstances indicate that the carrying value of the assets or asset groups may not be recoverable. Any such charge may adversely affect our operating results and financial condition.

When determining whether an asset impairment has occurred or calculating such impairment for long-term investments or other long-lived asset, fair value is determined using the present value of estimated cash flows or comparable market values. Our valuation methodology requires management to make judgments and assumptions based on projected future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, the determination of appropriate comparable entities and the determination of whether a premium or discount should be applied to these comparable entities. Projections of future operating results and cash flows may vary significantly from actual results. Changes in estimates and/or revised assumptions impacting the present value of estimated future cash flows or comparable market values may result in a decrease in fair value of a reporting unit, or a decrease in fair value of long-lived assets or asset groups, our acquisitions or investments. The decrease in fair value could result in a non-cash impairment charge.

Table of Contents

Product defect or quality issues may divert management s attention from our business and/or result in costs and expenses that could adversely affect our operating results.

Product defects or performance quality issues could cause us to lose customers and revenue or to incur unexpected expenses. Many of our products are highly complex and may have quality deficiencies resulting from the design or manufacture of such product, or from the software or components used in the product. Often these issues are identified prior to the shipment of the products and may cause delays in market acceptance of our products, delays in shipping products to customers, or the cancellation of orders. In other cases, we may identify the quality issues after the shipment of products. In such cases, we may incur unexpected expenses and diversion of resources to replace defective products or correct problems. Such pre-shipment and post-shipment quality issues could result in delays in the recognition of revenue, loss of revenue or future orders, and damage to our reputation and customer relationships. In addition, we may be required to pay damages for failed performance under certain customer contracts, and may receive claims from customers related to the performance of our products.

Business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, external interference with our information technology systems, incidents of terrorism and other events beyond our control that affect us, either directly or indirectly through one or more of our key suppliers. Also, our operations and markets in China, Japan and India are located in areas prone to earthquakes. We do not have a detailed disaster recovery plan, and the occurrence of any events like these that disrupt our business could harm our business and operating results.

We may suffer losses with respect to equipment held at customer sites, which could harm our business.

We face the risk of loss relating to our equipment held at customer sites. In some cases, our equipment held at customer sites is under contract, pending final acceptance by the customer. We generally do not hold title or risk of loss on such equipment, as title and risk of loss are typically transferred to the customer upon delivery of our equipment. However, we do not recognize revenue and accounts receivable with respect to the sale of such equipment until we obtain acceptance from the customer. If we do not obtain final acceptance, we may not be able to collect the contract price or recover this equipment or its associated costs.

If our contract negotiations fail or if the government otherwise delays approving contracts, we may not recover or receive payment for this inventory. Moreover, our insurance may not cover all losses incurred if our inventory at customer sites not under contract is damaged or misappropriated prior to contract finalization. If we incur a loss relating to inventory for any of the above reasons, our financial condition, cash flows, and operating results could be harmed.

Failure to achieve and maintain effective internal control in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and share price.

We are subject to reporting obligations under the United States securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires that we establish and maintain an effective internal control structure and procedures for financial reporting and include a report of management on our internal control over financial reporting in our annual report. Our Annual Report on Form 20-F must contain an assessment by management of the effectiveness of our internal control over financial reporting and must include disclosure of any material weaknesses in internal control over financial reporting that we have identified.

As of December 31, 2017, we have identified material weakness in our internal control over financial reporting and have concluded that our internal controls over financial reporting were not effective as of December 31, 2017. The requirements of Section 404 of the Sarbanes-Oxley Act are ongoing and also apply to future years. We expect that our internal control over financial reporting will continue to evolve as we continue in our efforts to transform our business. Although we are committed to continue to improve our internal control processes and we will continue to diligently and vigorously review our internal control over financial reporting in order to ensure compliance with the Section 404 requirements, any control system, regardless of how well designed, operated and evaluated, can provide only reasonable, not absolute, assurance that its objectives will be met. In addition, successful remediation of the control deficiencies identified as of December 31, 2017 is dependent on our ability to hire and retain qualified employees and consultants. Therefore, we cannot be certain that in the future additional material weakness or significant deficiencies will not exist or otherwise be discovered. See Item 15-Controls and Procedures contained in UTStarcom Holdings Corp. s Annual Report on Form 20-F for the fiscal year ended December 31, 2017 .

Table of Contents

Risks Relating to Conducting Business in China

Uncertainties with respect to China s economic, political and social condition, as well as government policies, could adversely affect our business and results of operations.

A significant portion of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China s economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China s economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating financial services and institutions and providing preferential treatment to particular industries or companies. While the PRC economy has experienced significant growth in the past decades, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various economic and political policies and laws and regulations to encourage economic development and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. Our financial condition and results of operations could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the PRC government has implemented in the past certain measures to control the pace of economic growth. For example, from time to time, the PRC government may implement monetary, fiscal and other policies or otherwise make efforts to alter the investment-driven growth model of China s economy, which could result in decreased capital expenditures by our end customers in China, reduce their demand for our products, and adversely affect our business and results of operations.

There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

A significant portion of our operations are conducted in the PRC, and are governed by PRC laws, rules and regulations. Our PRC subsidiaries are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common-law system, prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws, rules and regulations governing economic matters in general. The overall effect of legislation since that time has significantly enhanced the protections afforded to various forms of foreign investment in China. However, China has not developed a fully integrated legal system, and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activities in China or may be subject to significant degrees of interpretation by PRC regulatory agencies. In particular, because these laws, rules and regulations are relatively new, and because of the limited number of published decisions and the nonbinding nature of such decisions, and because the laws, rules and regulations often give the relevant regulator significant discretion in how to enforce them, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, financial condition and results of operations.

China s currency exchange control and government restrictions on dividends may impact our ability to transfer funds outside of China.

A significant portion of our business is conducted in China where the currency is the RMB. Regulations in China permit foreign owned entities to freely convert the RMB into foreign currency for transactions that fall under the current account, which includes trade related receipts and payments, interest and dividends. Accordingly, our PRC subsidiaries may use RMB to purchase foreign exchange for settlement of such current account transactions without pre-approval. However, pursuant to applicable regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In calculating accumulated profits, foreign investment enterprises in China are required to allocate at least 10% of their realized profits each year, if any, to fund certain reserves, including mandated employee benefits funds, until these reserves have reached 50% of the registered capital of the enterprises.

Table of Contents

Transactions other than those that fall under the current account and that involve conversion of RMB into foreign currency are classified as capital account transactions; examples of capital account transaction include repatriations of investment by or loans to foreign owners, or direct equity investments in a foreign entity by a China domiciled entity. Capital account transactions will be examined and registered by banks or State Administration of Foreign Exchange (SAFE) in China to convert a remittance into a foreign currency, such as U.S. dollars, and transmit the foreign currency outside of China.

This system could be changed at any time and any such change may affect the ability of us or our subsidiaries in China to repatriate capital or profits, if any, outside China. Furthermore, SAFE has a significant degree of administrative discretion in implementing the laws and regulations and has used this discretion to limit convertibility of current account payments out of China. Whether as a result of a deterioration in the PRC balance of payments, a shift in the PRC macroeconomic prospects or any number of other reasons, China could impose additional restrictions on capital remittances abroad. As a result of these and other restrictions under the laws and regulations of the PRC, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the parent. We have no assurance that the relevant PRC governmental authorities in the future will not limit further or eliminate the ability of our PRC subsidiaries to purchase foreign currencies and transfer such funds to us to meet our liquidity or other business needs. Any inability to access funds in China, if and when needed for use by us outside of China, could have a material and adverse effect on our liquidity and our business.

Fluctuations in the value of the RMB relative to the U.S. dollar could affect our operating results and may have a material adverse effect on your investment.

We prepare our financial statements in U.S. dollars, while we conduct a significant portion of our operations in China where the only legitimate currency for use within is RMB. The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China s monetary or fiscal policies and political and economic conditions and supply and demand in local markets. Since July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Following the removal of the U.S. dollar peg, the RMB appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has started to appreciate slowly against the U.S. dollar, though there have been periods when the U.S. dollar has appreciated against the RMB. On August 11, 2015, the PBOC allowed the RMB to depreciate by approximately 2% against the U.S. dollar. Since then and until the end of 2016, the RMB has depreciated against the U.S. dollar by approximately 10%. Over the year of 2017, RMB has risen almost 7% against the U.S. dollar partly because of the weakened U.S. dollar but mainly due to Chinese government s policy to keep the currency stable in avoidance of capital flight outside of China. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

As we have significant operations in China, any significant revaluation of the RMB may materially and adversely affect our cash flows, revenue, earnings and financial position, and the value of, and any dividends payable on, our ordinary shares in U.S. dollars.

Under the PRC Enterprise Income Tax Law, or (the EIT Law), we may be classified as a resident enterprise of the PRC, which could result in unfavorable tax consequences to us and to non-PRC shareholders.

Under the EIT Law, an enterprise established outside of China with de facto management bodies within China is considered a resident enterprise, meaning that it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management as substantial and overall management and control over the production and operations, personnel, accounting, and properties of the enterprise. In April 2009, the State Administration of Taxation, or the SAT, released Notice on Issues Relating

to Determination of PRC-Controlled Offshore Enterprises as PRC Resident Enterprises Based on De Facto Management Bodies Test, or Circular 82. Under Circular 82, a foreign enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered as a resident enterprise if all of the following conditions are satisfied: (i) the senior management personnel responsible for its daily operations and the place where the senior management departments discharge their responsibilities are located primarily in the PRC; (ii) its finance and human resources related decisions are made by or are subject to the approval of institutions or personnel located in the PRC; (iii) its major assets, books and records, company seals and minutes of its board of directors and shareholder meetings are located or kept in the PRC; and (iv) senior management personnel or 50% or more of the members of its board of directors with voting power of the enterprise reside in the PRC. On September 1, 2011, the SAT issued the Announcement on Printing and Issuing the Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a PRC Enterprise or a PRC Enterprise Group, or Circular 45, to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise controlled by a PRC enterprise or PRC enterprise group. Because the above-mentioned two circulars were issued to regulate identification of PRC tax resident among companies established overseas and controlled by PRC companies, the criteria set forth in such circulars can only be used for reference purposes in our case. The PRC tax authorities can determine whether or not certain offshore companies shall be deemed as resident enterprises for PRC tax purposes.

Table of Contents

If the PRC tax authorities determine that we are a resident enterprise for PRC enterprise income tax purposes, the PRC tax authorities could impose a 10% PRC enterprise income tax on dividends we pay to our non-PRC shareholders and gains derived by our non-PRC shareholders from transferring our shares, if the non-PRC shareholders are deemed as non-resident enterprises and their income is considered PRC-sourced income by the relevant PRC authorities. Under the applicable tax regulations of the PRC, non-resident enterprises means the non-PRC enterprises which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business in the PRC. Circular 45 clarifies that the capital gains derived by the non-resident enterprises from alienation of shares of the foreign-incorporated resident enterprise are considered as China-sourced income. If we were considered a PRC resident enterprise, non-resident enterprise holders of our ordinary shares may be subject to enterprise income tax in China at a rate of 10% on the capital gains derived from the transfer of our ordinary shares. It is not clear, however, whether the capital gains derived by the non-resident individuals from the transfer of our ordinary shares will be considered as China-sourced and whether we are obliged to withhold the dividends distributed to our non-resident individual shareholders. In practice, we understand that the PRC tax authorities have not collected the individual income tax from the non-resident individuals.

In addition, if the PRC tax authorities determine that we are a resident enterprise for PRC enterprise income tax purposes, we could be subject to a number of unfavorable PRC tax consequences, including: (a) we could be subject to enterprise income tax at a rate of 25% on our worldwide taxable income, as well as PRC enterprise income tax reporting obligations; under Circular 45, we would be required to file provisional enterprise income tax returns quarterly and complete an annual settlement before May 31 of each year for the preceding year at the in-charge tax bureau; and (b) although under the EIT Law and its implementing rules, dividends paid to us from our PRC subsidiaries through our sub-holding companies may qualify as tax-exempt income, we cannot guarantee that such dividends will not be subject to withholding tax. Any increase in the taxation of our PRC-based revenues could materially and adversely affect our business, operating results and financial condition.

Dividends payable to our foreign investors and gains on the sale of our shares by our foreign investors may become subject to PRC tax.

Under the EIT Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. Similarly, any gain realized on the transfer of shares by such investors is also subject to PRC tax at a current rate of 10%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our shares, and any gain realized from the transfer of our shares, would be treated as income derived from sources within the PRC and would as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of shares by such investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions. If we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether holders of our shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends payable to our non-PRC investors, or gains from the transfer of our shares by such investors, are deemed as income derived from sources within the PRC and thus are subject to PRC tax, the value of your investment in our shares may decline significantly.

PRC regulations establish more complex procedures for acquisitions conducted by foreign investors which could make it more difficult for us to pursue growth through acquisitions.

On August 8, 2006, six PRC regulatory agencies, namely, the PRC Ministry of Commerce, the SASAC, the SAT, the State Administration for Industry and Commerce, the CSRC, and SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006and was amended on June 22, 2009. The M&A Rule established new procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. On February 3, 2011, the General Office of the State Council promulgated the Notice on Launching the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Security Review Notice, which became effective on March 6, 2011. The M&A Security Review Notice provides for certain circumstances under which foreign investors acquisition of domestic enterprises shall be subject to the security review of the PRC governments. The security review assesses such acquisition s impact on national security, stable operation of national economy, basic living of the people, and R&D capacity for key technologies related to national security. On August 25, 2011, the Ministry of Commerce of PRC promulgated the Regulation of Ministry of Commerce on Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Security Review Regulation, which became effective on September 1, 2011. The M&A Security Review Regulation stipulates the requirements of application documents and security review procedures of the Ministry of Commerce. In the future, we may grow our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rule, the M&A Security Review Notice and the M&A Security Review Regulation to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce or its provincial affiliates, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Table of Contents

Strengthened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our acquisition strategy.

In connection with the EIT Law, the Ministry of Finance and SAT jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. Circular 59 became effective retroactively on January 1, 2008. Under this circular, non-PRC-resident enterprises may be subject to income tax on capital gains generated from their transfers of equity interests in PRC resident enterprises. The PRC tax authorities have the discretion under Circular 59 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of the investment. In addition, by promulgating and implementing the circulars, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-PRC-resident enterprise.

On February 3, 2015, the SAT issued the Notice on Several Issues regarding Enterprise Income Tax for Indirect Transfer of Assets by Non-resident Enterprises, or SAT Bulletin 7, which specifies that the SAT is entitled to redefine the nature of an equity transfer where offshore vehicles are interposed for tax avoidance purposes and without reasonable commercial purpose, specifically, further specified the criteria for judging reasonable commercial purpose, and the legal requirements for the voluntary reporting procedures and filing materials in the case of indirect transfer of assets. Pursuant to this Bulletin, an indirect transfer of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to SAT Bulletin 7, PRC taxable assets include assets attributed to an establishment in China, immoveable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. SAT Bulletin 7 has listed several factors to be taken into consideration by tax authorities in determining whether an indirect transfer has a reasonable commercial purpose. However, despite these factors, an indirect transfer satisfying all the following criteria shall be deemed to lack reasonable commercial purpose and be taxable under the PRC laws: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from the PRC taxable properties; (ii) at any time during the one year period before the indirect transfer, 90% or more of the asset value of the intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries that directly or indirectly hold the PRC taxable properties are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gains derived from the indirect transfer of the PRC taxable properties is lower than the potential PRC tax on the direct transfer of such assets. Nevertheless, the indirect transfer falling into the scope of the safe harbor under SAT Bulletin 7 may not be subject to PRC tax and such safe harbor includes qualified group restructuring, public market trading and tax treaty exemptions. On October 17, 2017, the SAT promulgated the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source (SAT Circular 37), which became effective on December 1, 2017, and at the same time repealed the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698. SAT Circular 37, among other things, simplified procedures of withholding and payment of income tax levied on non-resident enterprises.

Under SAT Bulletin 7, the entities or individuals obligated to pay the transfer price to the transferor shall be the withholding agent and shall withhold the PRC tax from the transfer price. If the withholding agent fails to do so, the transferor shall report to and pay the PRC tax to the PRC tax authorities. In case neither the withholding agent nor the transferor complies with the obligations under SAT Bulletin 7, other than imposing penalties such as late payment interest on the transferors, the tax authority may also hold the withholding agent liable and impose a penalty of 50% to 300% of the unpaid tax on the withholding agent, provided that such penalty imposed on the withholding agent may be reduced or waived if the withholding agent has submitted the relevant materials in connection with the indirect transfer to the PRC tax authorities in accordance with SAT Bulletin 7.

Since we pursue acquisitions as one of our growth strategies, and have conducted and may conduct acquisitions involving complex corporate structures, the PRC tax authorities may, at their discretion, adjust the capital gains and impose tax return filing obligations on us or request us to

submit additional documentation for their review in connection with any of our acquisitions, thus causing us to incur additional acquisition costs.

Table of Contents

Restrictions on direct foreign investments in certain business sectors may require that we enter into contractual arrangements with our PRC business partners, which are subject to potential risks and uncertainties.

We anticipate that providing value-added support services to businesses in the telecom and cable sectors will be a significant component of our future business model. We will provide operators engaging in these businesses with services, including equipment installation, system installation and maintenance, technical services and other value-added services, in return for on-going income. We anticipate that these value-added support services will play an important role in the growth of our business.

Direct foreign investments are subject to certain restrictions with respect to the operating of telecom and cable sectors. Under the Telecommunications Regulations issued by the State Council on September 25, 2000, the Provisions on Administration of Foreign Invested Telecommunications Enterprises issued by the State Council on December 11, 2001, firstly amended on September 10, 2008 and secondly amended on February 6, 2016, and the Notice of the Ministry of Industry and Information Technology on Removing the Restrictions on Foreign Equity Ratios in Online Data Processing and Transaction Processing (Operating E-commerce) Business (Gongxinbutong [2015] No.196) issued by the Ministry of Industry and Information Technology on June 19, 2015, the shareholding of foreign investors is limited to up to 49% for basic telecom business and up to 50% for almost all value-added telecom business, only E-commerce business (our business not included) allows foreign equity to reach to 100%.

Because of the regulatory restrictions on direct foreign investments in the telecom and cable sectors, we may conduct business through contractual relationships with PRC business partners that are licensed or qualified to operate such businesses, or the Operating Companies. Our PRC subsidiaries may directly or indirectly provide certain technology services to the Operating Companies through an arrangement of technology service agreements and will receive service fees directly or indirectly from the Operating Companies. To ensure the payment of the service fee by the Operating Companies, the shareholders of the Operating Companies may pledge their equity interests in the Operating Companies to our PRC subsidiaries or affiliates. There may also be a call option arrangement so that our PRC subsidiaries may purchase the equity interests in the Operating Companies if permitted by the laws of the PRC.

The contractual arrangements are subject to potential risks and uncertainties and may not be as effective in providing operational control and economic benefits as direct equity ownership. If the PRC authorities determine that the contractual arrangements are designed with a view to circumvent PRC foreign investment restrictions and do not comply with PRC regulations, the validity and enforceability of the contractual arrangements may be of question. PRC tax authorities may scrutinize the contractual arrangements for whether the technology service fee paid by the Operating Companies to our PRC subsidiaries or affiliates will substantially reduce the income tax and business tax payable by the Operating Companies. Additionally, there is uncertainty with respect to the attitude of judicial authorities on the enforceability of the contractual arrangements in the event the Operating Companies or their shareholders breach the contracts. The inability to participate in the telecom, cable and/or media sectors as presently expected through the contractual arrangements or the inability to enforce our rights under such contractual arrangements could result in a negative impact on our business.

PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the offshore capital we raise to make loans to our PRC subsidiaries, or to make additional capital contributions to our PRC subsidiaries.

In utilizing the proceeds of any offshore fund raising, we, as an offshore holding company, are permitted under PRC laws and regulations to provide funding to our PRC subsidiaries, which is treated as a foreign-invested enterprise under PRC laws, through loans or capital contributions. However, loans by us to our PRC subsidiaries to finance its activities cannot exceed statutory limits and must be registered with

the local counterpart of SAFE and capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System, and registration with other governmental authorities in China.

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or Circular 19, effective on June 1, 2015, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular 142, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, or Circular 59, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45. According to Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign invested enterprise to be used for equity investments within the PRC, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in the PRC in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and Circular 16 could result in administrative penalties. Circular 19 and Circular 16 may significantly limit our ability to transfer any foreign currency we hold to our PRC subsidiaries, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

Table of Contents

In light of the various requirements imposed by PRC regulations on loans to, and direct investment in, PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or future capital contributions by us to our PRC subsidiaries. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries when needed. If we fail to complete such registrations or obtain such approvals, our ability to use foreign currency, including the proceeds we received from this offering, and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

PRC regulations relating to offshore investment activities by PRC residents and employee stock options granted by overseas-listed companies may increase our administrative burden. If our shareholders who are PRC residents, or our PRC employees who are granted or exercise stock options, fail to make any required registrations or filings, we may be unable to distribute profits and may become subject to fines and other legal or administrative sanctions under PRC laws.

The SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. According to the Notice on Further Simplify and Improve Administrative Policies Regarding Foreign Direct Investment issued by the SAFE on February 13, 2015, starting from June 1, 2015, all new such registrations (different from make-up registrations) will be handled by the authorized local banks instead of the local SAFE branches.

SAFE Circular 37 was issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75. If our shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, we also face regulatory uncertainties that could restrict our ability to adopt additional share incentive plans for our directors and employees under PRC law. Each of our directors and major shareholders has completed SAFE registration in connection with our financings and share transfer. However, we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations.

On March 28, 2007, SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas Listed Company, or the Stock Option Rule, to regulate foreign exchange procedures for PRC individuals participating in employee stock holding and stock option plans of overseas companies. Under the Stock Option Rule, a PRC domestic individual must comply with various foreign exchange procedures through a domestic agent institution when participating in any employee stock holding plan or stock option plan of an overseas listed company. Certain domestic agent institutions, such as the PRC subsidiaries of an overseas listed company, a labor union of such company that is a legal person or a qualified financial institution, among others things, shall file with SAFE and be responsible for completing relevant foreign exchange procedures on behalf of PRC domestic individuals, such as applying to obtain SAFE approval for exchanging foreign currency in connection with owning stock or stock option exercises. Concurrent with the filing of such applications with SAFE, the PRC subsidiary, as a domestic agent, must obtain approval from SAFE to open a special foreign exchange account at a PRC domestic bank to hold the funds in connection with the stock purchase or option exercise, any returns based on stock sales, any stock dividends issued and any other income or expenditures approved by SAFE. The PRC subsidiary also is required to obtain approval from SAFE to open an overseas special foreign exchange account at an

overseas trust bank to hold overseas funds used in connection with any stock purchase. The domestic agent institution is required to make a quarterly filing with SAFE to update SAFE with relevant information, including the exercise of options by employees, the holding of shares by employees and the funds in the special foreign exchange account and the overseas special foreign exchange account.

Under the Stock Option Rule, all proceeds obtained by PRC domestic individuals from sales of stock shall be fully remitted back to China after relevant overseas expenses are deducted. The foreign exchange proceeds from these sales can be converted into RMB or transferred to the individual s foreign exchange savings account after the proceeds have been remitted back to the special foreign exchange account opened at the PRC domestic bank. If the stock option is exercised in a cashless exercise, the PRC domestic individuals are required to remit the proceeds to the special foreign exchange account. The Stock Option Rule does not provide for specific forms of penalties for noncompliance but provides that SAFE may impose penalties in accordance with the Foreign Exchange Administration Regulation, Implementing Rules for Individual Foreign Exchange Regulation and other related PRC regulations under which the penalties for noncompliance with foreign exchange administration rules include fines against both our company and our implicated employees.

Table of Contents

On February 15, 2012, SAFE promulgated the Circular on Certain Foreign Exchange Issues Relating to Domestic Individuals Participation in Stock Incentive Plan of Overseas Listed Company, or the New Stock Option Rule. Upon the effectiveness of the New Stock Option Rule on February 15, 2012, the Stock Option Rule became void, although the basic requirements and procedures provided under the Stock Option Rule are kept unchanged in the New Stock Option Rule, i.e., the domestic employees participating in a stock incentive plan of an overseas listed company shall appoint the PRC subsidiary of the overseas listed company or a domestic qualified agent to make the registration of the stock incentive plan with SAFE and handle all foreign exchange-related matters of the stock incentive plan through the special bank account approved by SAFE. The New Stock Option Rule clarifies that the domestic subsidiary of an overseas listed company shall include the limited liability company, partnership and the representative office directly or indirectly established by such overseas listed company in China and the domestic employees shall include the directors, supervisors, senior management and other employees of the domestic subsidiary, including the foreign employees of the domestic subsidiary who continuously reside in China for no less than one year.

Similar to the Stock Option Rule, the New Stock Option Rule requires that the annual allowance with respect to the purchase of foreign exchange in connection with stock holding or stock option exercises shall be subject to the approval of SAFE. The New Stock Option Rule further requires that the material amendments of the stock incentive plan shall be filed with SAFE within three months following the occurrence of the material amendments. The domestic agent shall also make a quarterly update to SAFE to disclose the information with respect to the stock option exercises, the stock holding and foreign exchange matters. If the domestic employees or the domestic agent fails to comply with the requirements of the New Stock Option Rule, SAFE may require a remedy and even impose administrative penalties that SAFE deems appropriate.

We and our PRC employees who have been granted stock options are subject to the Stock Option Rule and the New Stock Option Rule. In May 2008, UTSC, our former PRC subsidiary, made a filing with SAFE s Beijing branch as required by the Stock Option Rule for UTSC s PRC employees who participate in our employee stock option plans and UTSC obtained approval to open a special foreign exchange account at a PRC domestic bank. Subject to the Stock Option Rule, UTSC submitted material amendments of the stock incentive plan for its PRC employees in June 2011. Along with this submission, UTSC, as the domestic subsidiary of our overseas listed company, submitted on behalf of HUTS, the materials for the necessary filings for their PRC employees who participate in our employee stock option plan, which was officially accepted by SAFE s Beijing branch in December 2011, but the final approval was not issued until March 31, 2012 when the New Stock Option Rule became effective. After the effectiveness of the New Stock Option Rule, we do not need to make a new registration for UTSC, HUTS and CUTS, but as required by SAFE, the application materials will have to be adjusted. Before we submitted the adjusted application material to SAFE, we divested our IPTV equipment business in August 2012, and as a result, UTSC is no longer our subsidiary. In addition, CUTS and UTST completed the cancellation registration on September 18, 2013 and December 3, 2014 respectively. Therefore, we are required and are currently in the process of making adjustments to the filings with SAFE for HUTS. We also shall comply with the requirements applicable to the companies which have completed the registration, including a quarterly update to SAFE, the registration of material amendments to our stock incentive plan and the registration for the foreign employees of our PRC subsidiaries when they continuously reside in China for no less than one year.

The enforcement of the laws on Employment Contracts and other labor-related regulations in the PRC may adversely affect our business and our results of operations.

On June 29, 2007, the National People s Congress of China enacted the laws on Employment Contracts, or the Employment Contract Law, which became effective on January 1, 2008, amended on December 28, 2012. The Employment Contract Law established new restrictions and increased costs for employers to dismiss employees, including specific provisions related to fixed- term employment contracts, temporary employment, probation, consultation with the labor union and employee assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the Employment Contract Law, an employer is obliged to sign a labor contract with an unlimited term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term

labor contracts subject to certain conditions or after the employee has worked for the employer for ten consecutive years. The employer also has to pay compensation to an employee if the employer terminates an unlimited-term labor contract. Such compensation is also required when the employer refuses to renew a labor contract that has expired, unless it is the employee who refuses to extend the expired contract or resign. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008 and its Implementation Rules on Paid Annual Leave for Employees, which became effective on September 18, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on their accumulative total length of service. Employers who fail to allow for such vacation time must compensate their employees three times their regular salaries for each vacation day disallowed, unless such employers can provide evidence, such as a copy of a written notice provided to their employees, that suggests the employers made arrangements for their employees to take such annual leaves, but such employees voluntarily waived taking their leaves or such employees waived their right to such vacation days in writing.

Table of Contents

Registered public accounting firms in China, including our independent registered public accounting firm, are not inspected by the U.S. Public Company Accounting Oversight Board, which deprives us and our investors of the benefits of such inspection.

Auditors of companies whose shares are registered with the U.S. Securities and Exchange Commission, or the SEC, and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the U.S. Public Company Accounting Oversight Board (the PCAOB) and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards applicable to auditors. Our independent registered public accounting firm is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB, notwithstanding the requirements of U.S. law, is currently unable to conduct inspections without the approval of the Chinese authorities. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission (CSRC) and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit inspections in the PRC of audit firms registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our common stock are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in the audit procedures and reported financial information and the quality of our audited financial statements.

Risks Related to the Performance of Our Ordinary Shares

Our share price is highly volatile. Our shareholders may not be able to resell their ordinary shares at or above the price they initially paid for our shares, or at all.

The trading price of our shares has fluctuated significantly since our initial public offering in March 2000. Our share price could be subject to wide fluctuations in the future in response to many events or factors, including those discussed in the preceding risk factors relating to our operations, as well as:

- actual or anticipated fluctuations in operating results, actual or anticipated gross profit as a percentage of net sales, levels of inventory, our actual or anticipated rate of growth and our actual or anticipated earnings per share;

- changes in expectations as to future financial performance or changes in financial estimates or buy/sell recommendations of securities analysts;

- changes in governmental regulations or policies in Japan, China and other countries in which we do business;

- our, or a competitor s, announcement of new products, services or technological innovations;

- changes in our senior management;

- the operating and stock price performance of other comparable companies;

- news and commentary emanating from the media, securities analysts or government bodies in China relating to us and to our industry in general;

- fluctuations in the exchange rates between the Renminbi, the Japanese yen and the U.S. dollar;

- the operating and share price performance of other comparable companies; and

- sales or anticipated sales of additional ordinary shares.

General market conditions and domestic or international macroeconomic factors unrelated to our performance may also affect our share price. For these reasons, investors should not rely on recent trends to predict future share prices or financial results. Furthermore, following periods of volatility in a company s securities, securities class action litigation against a company is sometimes instituted. We have experienced substantial costs and the diversion of management s time and resources on this type of litigation and may do so in the future.

Table of Contents

Some of our shareholders have significant influence over our management and affairs, which they could exercise against the best interests of our shareholders.

Entities affiliated with Shah Capital Management, or collectively, Shah Capital, E-Town International Holding (Hong Kong) Co. Limited, or E-Town, and The Smart Soho International Limited, or Smart Soho, beneficially owned approximately 21.0%, 10.6% and 13.9%, respectively, of our outstanding shares as of March 31, 2018. E-Town also has the right to designate a member of our board of directors. As a result, Shah Capital, E-Town and Smart Soho have the ability to influence all matters submitted to our shareholders for approval, as well as our management and affairs. Matters that could require shareholder approval include:

- election and removal of directors;
- our merger or consolidation with or into another entity; and
- sale of all or substantially all of our assets.

This concentration of ownership may delay or prevent a change of control or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which could decrease the market price of our ordinary shares.

We may need additional capital, and the sale of additional ordinary shares or other equity securities could result in additional dilution to our shareholders.

We believe that our current cash and cash equivalents will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

We are a foreign private issuer, and our disclosure obligations differ from those of U.S. domestic reporting companies. As a result, we may not provide you the same information as U.S. domestic reporting companies or we may provide information at different times, which may make it more difficult for you to evaluate our performance and prospects.

Under the Exchange Act, we as a foreign private issuer are subject to reporting obligations that, to some extent, are more lenient and less frequent than those of U.S. domestic reporting companies. For example, we are not required to issue quarterly reports or proxy statements. We are not required to disclose detailed individual executive compensation information. Furthermore, our directors and executive officers are not required to report equity holdings under Section 16 of the Exchange Act and are not subject to the insider short-swing profit disclosure and recovery regime.

As a foreign private issuer, we are also exempt from the requirements of Regulation FD (Fair Disclosure) which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. However, we are still subject to the anti-fraud and anti-manipulation rules of the SEC, such as Rule 10b-5 under the Exchange Act. Since many of the disclosure obligations imposed on us as a foreign private issuer differ from those imposed on U.S. domestic reporting companies, you should not expect to receive the same information about us and at the same time as the information provided by U.S. domestic reporting companies.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders may be more limited under Cayman Islands law than under U.S. law, you may have less protection of your shareholder rights than you would under U.S. law.

Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, the rights of minority shareholders to institute actions and the fiduciary responsibilities of our directors to our shareholders are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, the latter of which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a different body of securities law than the United States. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. As a result, our public shareholders may encounter more difficulty in protecting their interests against actions taken by the management, the board of directors or the controlling shareholders of our company than they would as shareholders of a public company incorporated in the United States.

Table of Contents

You may have difficulty enforcing judgments obtained against us.

We are a Cayman Islands company, and we conduct a significant portion of our operations in the PRC. Substantially all of our assets are located outside of the United States. In addition, some directors and officers are residents of countries other than the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult for you to bring an action against our directors and officers in the United States. Even if you are successful in bringing an action, it may still be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors.

Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments other than, in certain circumstances, Australian judgments), a judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (a) is given by a foreign court of competent jurisdiction, (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (c) is final, (d) is not in respect of taxes, a fine or a penalty; and (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

We have incurred additional costs as a result of being a public company, which could negatively impact our net income and liquidity.

We are a public company listed in the United States and as such, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002 and rules and regulations implemented by the SEC and NASDAQ require significantly heightened corporate governance practices for public companies. As a result, we have incurred additional legal, accounting and financial compliance costs and many of our corporate activities have become time-consuming and costly. If we fail to comply with these rules and regulations, we could become the subject of a governmental enforcement action, investors may lose confidence in us and the market price of our ordinary shares could decline.

Our failure to timely file periodic reports with the SEC or satisfy the ongoing NASDAQ listing requirements could result in the delisting of our shares from the NASDAQ, affect the liquidity of our shares and cause us to default on covenants contained in contractual arrangements.

If we are unable to maintain compliance with the conditions for continued listing required by NASDAQ, then our ordinary shares may be subject to delisting from NASDAQ. NASDAQ Listing Rule 5450(a) (1) requires that our shares trade above $1.00 per share. Our shares traded below $1.00 for periods in 2012 and 2013, and on March 15, 2013 we received formal notice from NASDAQ that we were not in compliance with NASDAQ s Listing Rules. While we returned to full compliance on April 11, 2013, our shares may trade below $1.00 per share again in the future. In addition, we failed to file our annual report on Form 20-F for 2016 on a timely basis, but regained compliance after filing such report in November 2017. If our ordinary shares are delisted from NASDAQ, our ordinary shares may not be eligible to trade on any national securities exchange or the over-the-counter market. If our ordinary shares are no longer traded through a market system, their liquidity may be greatly reduced, which could negatively affect their price. In addition, we may be unable to obtain future equity financing, or use our ordinary shares as consideration for mergers or other business combinations. A delisting from NASDAQ may also have other negative implications, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest, and fewer business development opportunities and could lead to a default under certain of our contractual arrangements.

We believe that we will be treated as a U.S. corporation for U.S. federal income tax purposes.

As discussed more fully under Item 10. Additional Information-E. Taxation-U.S. Federal Income Taxation, we have been treating UTStarcom as a U.S. corporation for all purposes of the U.S. Internal Revenue Code of 1986, as amended (the Code). As a result, we will be subject to U.S. federal income tax on our worldwide income. In addition, if UTStarcom pays dividends to a Non-U.S. Holder, as defined in the discussion under the section Item 10. Additional Information-E. Taxation-U.S. Federal Income Taxation, it will be required to withhold U.S. income tax at the rate of 30%, or such lower rate as may be provided in an applicable income tax treaty. Each investor should consult its own tax advisor regarding the U.S. federal income tax position of UTStarcom and the tax consequences of holding our shares.

Table of Contents

ITEM 4-INFORMATION ON THE COMPANY

A. History and Development of the Company

UTStarcom, Inc. was originally incorporated in 1991 as a Delaware corporation. In April 2011, we were incorporated as UTStarcom Holdings Corp. as an exempted company under the laws of the Cayman Islands. On June 24, 2011, we effected the Merger to reorganize the corporate structure of UTStarcom, Inc., and its subsidiaries. The Merger resulted in the shares of common stock of UTStarcom, Inc. being converted into the right to receive an equal number of ordinary shares in our capital, which were issued by us in connection with the Merger. Following the Merger, UTStarcom, Inc. became our wholly-owned subsidiary and we became the parent company of UTStarcom, Inc. and its subsidiaries. The transaction was accounted for as a legal re-organization of entities under common control. See Item 4. Information on the Company-C. Organizational Structure for a listing of our subsidiaries. We, together with our subsidiaries, continue to conduct our business in substantially the same manner as was conducted by UTStarcom, Inc. and its subsidiaries.

On March 31, 2017, we received a preliminary non-binding proposal letter dated March 31, 2017 from Shah Capital Opportunity Fund LP, Himanshu H. Shah, Mr. Lu and his affiliates, and Tenling Ti, to acquire all of our outstanding shares not currently owned by them in a going private transaction for $2.15 per ordinary share in cash, subject to certain conditions. Our Board of Directors had formed a special committee consisting of two independent and disinterested directors, Sean Shao and Xiaoping Li to consider the proposal.

On October 24, 2017, the special committee of our board of directors received a notice from Shah Capital Opportunity Fund LP, Himanshu H. Shah, Hong Liang Lu and certain of his affiliates and Tenling Ti to withdraw the preliminary non-binding take-private proposal.

Our ordinary shares are traded on NASDAQ under the same ticker symbol UTSI, under which UTStarcom, Inc. s common stock had previously traded. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our telephone number at this address is +1 (345) 949 8066. Our agent for service of process in the United States is CT Corporation System and its address is 208 LaSalle Ave, Suite 814, Chicago 1L 60604, USA. Our principal executive offices are located at Level 6, 28 Hennessy Road, Admiralty, Hong Kong. We can be reached by telephone at +852-3951-9757.

B. Business Overview

Our core business is providing next-generation broadband telecommunication network products, solutions and services. As a global telecom infrastructure provider, we focus on delivering innovative carrier-class packet optical, network synchronization and broadband access (both Wireless and fixed line) products and solutions, coupled with Software Defined Networking (SDN) platform, optimized for mobile backhaul, metro aggregation, broadband access and value added services.

Our technologies enable access, aggregation and transports of high-speed voice, video and data. The product lines include Packet Transport Network (PTN), Packet Aggregation Network (PAN), Multi-Services Access Network (MSAN), Carrier Wi-Fi solution and Software Defined

Network (SDN) controller.

In addition to the well-established product lines mentioned above, which we sell to our customers worldwide, UTStarcom is actively involved in new products and solutions developments in several key target areas including network synchronization, intelligent platforms for smart retail store, and smart merchandising machines. The new products and solutions utilize the experience and knowledge we have accumulated over the years in our key areas of expertise including optical communications, broadband access technologies, as well as hardware and software design.

We support full cycle in-house R&D and manufacturing equipped with advanced design, test and measurement tools. Our manufacturing is focused on production of high quality telecom equipment with comprehensive quality control process certified by LRQA for ISO9001/14001, OHSAS18001, QC080000, which results in very high equipment reliability. As a part of our efforts to support our customers on all stages of network planning, deployment and operation, we provide full range of pre- and post-sale services including turn-key deployments as may be required by our customers.

Packet Optical Products

PTN product line is represented by NetRing Transport Network (NetRing TN) Series products that are based on the Multi-Protocol Label Switch Transport Profile (MPLS-TP) and Carrier Ethernet (CE) technologies, and includes a complete line of network nodes from compact metro access boxes to high-performance core devices. This product line combines packet switch/forwarding, packet optical transport and time/clock synchronization technologies to meet customers metro networking requirements through support of wide range of protocols, standards and interfaces including TDM (SDH/SONET), ATM, and Ethernet, coupled with highest reliability and carrier-class set of features. It is a highly flexible, reliable, scalable and cost-effective solution designed for efficient use in key applications such as mobile backhaul, multiservice metro aggregation, enterprise Carrier Ethernet services, and broadband access and aggregation. The product line offers a broad feature set, including network-wide time/clock synchronization, carrier class sub 50ms recovery resiliency, guaranteed Quality of Service (QoS) and Service Level Agreement (SLA) enforcement, end-to-end multi-layer Operation Administration & Maintenance (OAM), and a wide range of interfaces. Products are managed a via comprehensive centralized network management system, which allows customers to aggregate the management of large-scale networks up to 50,000 nodes. Large volumes of NetRing TN products have already been deployed worldwide. In 2016-2017, we saw significant demand for new deployments and expansions of existing networks. We introduced new high bandwidth devices with 100GE e.g. TN765 and TN705E, and announced EOL (End of Life) / EoS (End of Sales) for some old products in 2017 e.g. TN701A.

Table of Contents

New PTN products of Next Generation Packet Transport Network (NG-PTN) portfolio offer some important improvements and include key features listed below:

- Improved and highly efficient hardware and software architecture, high port density, low power consumption
- A wide range of supported interfaces up to 100GE
- Full integration with UTStarcom s SDN solution SOOTM Network
- Support BoD and other advanced dynamic services from the SDN-based dynamic control plane
- Advanced automation features (with future software releases)
- Based on MPLS-TP/CE, a rich feature set including sub-50ms resiliency, and precise network time/clock synchronization with 1588v2 and SyncE, QoS etc.
- Overall capital and operating expense savings

The TN765, higher layer aggregation / core platform of NG-PTN product line aims to help operators enhance profitability by extending capacity, throughput and deployment flexibility of MPLS-TP networks. It offers enhanced throughput of 1Tbps, multiple 100 GE interfaces and a large number of 10GE interfaces for more efficient network deployment. By the end of 2017, over 1700 of NetRingTN765 devices with 100GE interfaces have been shipped to customers. The growing demand for 100GE interface has been driving TN765 sales, making TN765 one of the major products contributing to the Company s revenue in 2017. In 2017 we also introduced a new NG-PTN 100G-enabled device TN705E, a high-performance aggregation device offering 800Gbps switching capacity in just 5RU form-factor. The product drew significant interest of our customers and passed successful field tests in 2017. We expect to get orders and start shipping this product in 2018.

Newly introduced in 2017, the PAN solution is based on technologies similar to PTN, but optimized for high-performance aggregation scenarios. The portfolio includes three products: TN703B (CPE, 6Gbps switching capacity), TN705B (4RU rack-mountable, 40Gbps switching capacity), TN725B (4RU rack-mountable, 80Gbps switching capacity). Due to high demand in India and in order to comply with India governmental regulations, PAN Series products are manufactured in India. We shipped over 4000 units of PAN products in 2017 and expect shipment volumes to increase in 2018.

SDN Platform

UTStarcom offers a suite of products based on SDN technology combined in a SOOTM Network (Software-defined Open Packet Optical) solution which answers the needs of telecom operators for the next generation intelligent network, helping them to reduce capital expenditures and operating expenses, while enhancing overall network performance, availability and bandwidth efficiency and improving the customer experience. With SOO network operators gain unprecedented programmability, automation, and network control, which enables them to build highly scalable,

flexible networks that readily adapt to changing business needs.

The solution consists of three major elements:

- SOO Station a distributed hierarchical SDN Controller that provides a reliable solution for orchestration of abstracted underlying physical network resources, as well as the management of open APIs for vertical integration of applications.

- SOO Applications a set of native SOO and 3rd party applications designed to help carriers to optimize and automate network operation, while addressing customer needs with interactive customer-specific applications.

- SDN-ized Network Infrastructure UTStarcom s SDN-ized optical transport network infrastructure combining the carrier-grade features of optical packet transport with all the benefits of SOO SDN Technology.

The solution successfully passed Proof of Concept (PoC) testing with major Tier-1 operators in Tokyo in 2015. We won a commercial contract for SDN controller customization development which has successfully passed technical evaluation and moved to field trial phase in 2017. We expect that our SDN controller will be commercially deployed in 2018. At the same time, there are multiple ongoing SDN customization projects including domain controller development as a part of multi-vendor SDN integrated network, SDN controller with centralized PCE for Segment Routing networks, and other initiatives that may convert into commercial projects in 2018.

Table of Contents

Carrier Wi-Fi Products

Our Carrier Wi-Fi product line includes a complete carrier-grade solution for a managed wireless access network: Wireless Access Controllers, Value Added Services (VAS) Platform, Network Management System, and Wi-Fi Access Points (AP) for carrier and MSO markets and various deployment scenarios. Our Wireless Access Controllers portfolio provides a great scalable solution suited for different customers (Carrier , Enterprise) and different deployment scenarios. It includes the hardware-based MSG series of Wireless Access Controllers, and our newest MSC-C cloud-based Wireless Access Controller featuring planning, configuration, control, as well as operation and maintenance functions implemented in the cloud. MCS-C can be optionally bundled with an O2O Marketing platform in order to enable operators to provide value-added services and exploit additional monetization opportunities.

We have successfully deployed carrier Wi-Fi solution since 2013. In 2016 we added support of the newest 802.11ac Wave 2 technology to our portfolio of Wireless Access Points implemented in UIA3340, UOA5340D, and other latest products. Growing demand from the India market resulted in the recent deployment of a large Carrier Wi-Fi network in two cities of India. In 2017, we have already shipped eight units of MSG2000 Wireless Access Controllers and about 10,000 Wireless Access Points for that project. We expect to see growing demand from India and other markets in 2018.

MSAN Products

MSAN offers a wide range of services over twisted pair copper and optical fiber including IPTV, High-Speed Internet Access, POTS, VoIP. UTStarcom s iAN Multimedia Network Edge is a leading MSAN platform with accumulated over 40 million lines installed worldwide. The latest iAN platform-iAN1200 series MSAN portfolio accommodates carrier-grade broadband access, telephony and data service, and supports a range of technologies such as POTS, ADSL/ADSL2/ADSL2+, VDSL2, SHDSL(EFM) which allows service providers to serve highly interactive and bandwidth intensive applications, enabling operators to offer value added Triple Play and broadband business services and migration to NGN while maintaining the traditional telephony services. The MSAN B1200 product line includes high (iAN B1205F), medium (iAN B1205E) and low (iAN B1205) capacity devices acting act as a traditional TDM based DLC, IPDSLAM, Media Gateway platform integrated into a single device and supports seamless migration from V5/AN to VoIP/AG and IMS Access.

The MSAN B1200 Series products were widely deployed and expanded since 2015 to 2017, with shipments accumulating to about 1 Million ports. We expect growing shipments volumes moving forward in 2018 and beyond.

As telecom industry evolves, and new applications emerge including 5G mobile networks, IoT and others, UTStarcom is working on next generation networking platforms aimed at better addressing the needs of our existing customers, as well as attracting new customers in new markets. We are currently developing and introducing two new product lines:

Network Synchronization

The SyncRing product family was specifically designed for highly accurate time and frequency synchronization over packet switched network based on PTP (IEEE1588v2) and Synchronous Ethernet technologies. The product family includes XGM20 grand master device and XBC510 boundary clock switch centrally managed by our proven OMC-O NMS network management platform. The SyncRing solution is mainly aimed at mobile network operators due to its ability to meet the stringent synchronization accuracy requirements of LTE/LTE-A, as well as to meet lower TCO targets that are especially critical for the swiftly growing segment of small cell deployments. The SyncRing product can be deployed as a standalone solution working with the existing backhaul network infrastructure, or in combination with NG-PTN products to provide a complete comprehensive future-proof mobile backhaul solution. UTStarcom constantly works on further developments and improvements of this product line not only for existing customers and applications, but also to meet complex requirements of emerging 5G mobile technology.

In 2017, the SyncRing solution was deployed in the LTE mobile network of one of the largest Mobile network operators (MNO) in Japan. It was one of the first commercial deployments of sync-over-packet solution on mobile networks in Japan. Total of over 900 sets of XBC510 + XGM20 have been shipped by the end of 2017.

Advanced Routing Platform

The SkyFlux routing platform addresses the needs for service agility, automation and efficiency, and designed to provide an efficient solution for 4G/5G backhaul, high-volume traffic aggregation and provider edge scenarios, data center interconnect and others. The solution is based on the paradigm of source routing. It is an excellent match for SDN-based control with centralized PCE enabling service agility and automation sought after by operators today: centralized intelligence with full network view and data analytics capabilities are seamlessly used to define optimal path at the source. On top of that, this paradigm enables powerful network programming concept turning networks into fully programmable environment, enabling easy implementation of sophisticated scenarios such as traffic engineering, services chaining and more. The SkyFlux Series of networking products will provide support of high-speed interfaces up to 100GE, high port density, small form-factor, wide range of services including L2/L3VPN and EVPN, and of course will support full set of carrier-class features: sub-50ms protection, QoS, OAM, hardware redundancy. Product release is expected in 2018.

Table of Contents

MARKETS AND CUSTOMERS

The table below describes net sales by geographic region for the fiscal years ended December 31, 2017, 2016 and 2015.

	Years Ended December 31,					
	2017	% of net Sales	2016	% of net sales	2015	% of net sales
	(in thousands, except percentages)					
Net Sales by Region						
China	$ 2,926	3%	$ 4,021	5%	$ 9,490	8%
India	$ 42,352	43%	$ 33,021	38%	$ 34,836	30%
Japan	$ 49,185	50%	$ 45,561	52%	$ 57,483	49%
Taiwan	$ 3,018	3%	$ 3,217	4%	$ 7,904	7%
Other	$ 811	1%	$ 692	1%	$ 7,390	6%
Total	$ 98,292	100%	$ 86,512	100%	$ 117,103	100%

Our products and services are used primarily in Asia. In 2017, 2016 and 2015, Japan was our largest market, representing 50.0%, 52.0% and 49.1% of our net sales, respectively.

Our key target geographical markets for the deployment of our broadband infrastructure products are Japan, India, Taiwan and other Asia Pacific regions. We believe these geographical markets provide a significant amount of opportunity given their relatively low broadband penetration rates and strong consumer demand for new broadband services. We observe consistently high interest in our products in the India market, and see potential for growth there for many of our product lines including optical transport and aggregation, fixed and wireless broadband access. We expect more upgrade projects and new deployments to expand our market share for broadband Internet network equipment in India.

Our customers, typically telecommunications and cable service providers, enable delivery of wireless, wire line and broadband access services including data, voice, and/or television to their subscribers. They include, but are not limited to, local, regional, national and international telecommunications carriers, including broadband, cable, Internet, wire line and wireless providers. Telecommunications and cable service providers typically require extensive proposal review, product certification, test and evaluation and network design and, in most cases, are associated with long sales cycles. Our customers networking requirements are influenced by numerous variables, including their size, the number and types of subscribers that they serve, the relative tele-density (the number of phone lines per 100 persons) of the geography served, their subscriber demand for IP communications and access services in the served geography. A significant portion of our net sales is derived from a Japanese customer, Softbank, which is also one of our former shareholders. In 2017, our net sales to Softbank totaled approximately $39.5 million, representing approximately 40% of our total net sales. We anticipate that our dependence on Softbank will continue for the foreseeable future. See Item 3. Key Information-D. Risk Factors-Risks Related to Our Business-We rely on a Japanese customer for a significant portion of our net sales. Any deterioration of our relationship or any interruption to our ongoing collaboration with this customer may significantly harm our business, financial condition and results of operations. Another significant portion of our net sales is derived from an India customer, Bharat Sanchar Nigam Ltd. (BSNL). In 2017, our net sales to BSNL totaled approximately $38.2 million, representing approximately 39% of our total net sales. Additionally, in 2017 year-end and 2018, we won some important projects with BSNL.

COMPETITION

We compete in the telecommunications equipment market, providing IP-based core infrastructure products, and services for transporting data, voice and television traffic across IP-based networks. The markets in which we compete are characterized by rapid change, converging technologies, and a migration to IP-based networking and communications solutions that offer relative advantages to our customers and their subscribers. These market factors represent a competitive threat to UTStarcom. We compete with numerous vendors in each product and market category. The overall number of our competitors providing new products and solutions may increase. Also, the composition of competitors may change as we increase our activity in various technology markets. In particular, we have experienced price-focused competition from competitors in Asia, and we anticipate this will continue.

We believe our competitive strengths is derived from three main factors: our ability to introduce and deploy well-developed IP- based technologies and products; our reputation for providing a customer-centric business model; and our ability to solve complex problems. Our competitive disadvantages include our relatively smaller size in terms of revenues, working capital, and financial resources and headcount; our lack of historical sales to many of the largest carriers in well-established markets and our lack of consumer brand recognition in markets.

Table of Contents

The broadband infrastructure market is subject to intense competition worldwide from numerous global and regional competitors, including some of the world s largest companies. These companies leverage pricing, payment terms and their pre-existing customer relationships. Specific competitors in this segment include Cisco, Juniper, Nokia, Alcatel-Lucent, Coriant, CIENA Corporation, ECI Telecom, Huawei Technologies, and ZTE Corporation.

OPERATIONS

Sales, Marketing and Customer Support

We pursue a direct sales and marketing strategy in Japan, India, Taiwan, and South Asia, targeting sales to telecommunications operators and equipment distributors with closely associated customers. We maintain sales and customer support sites in Japan, India and Taiwan. Our customer service operations in Hangzhou and Chengdu China, serve as both a technical resources and liaisons to our product development organization.

Additionally, we maintain our Sales and Marketing presence in the United States, through our subsidiary, Virtual Gateway Labs, Inc. in Silicon Valley, to market and support our products and services in this key target market.

Manufacturing, Assembly and Testing

The manufacturing operations consist of circuit board assembly, final system assembly, software installation and testing. We assemble circuit boards primarily using surface mount technology. Assembled boards are individually tested prior to final assembly and tested again at the system level prior to system shipment. We use internally developed functional and parametric tests for quality management and process control and have developed an internal system to track quality statistics at a serial number level. System final testing and packaging are conducted at our own facilities as well as contracted to third parties.

We currently manufacture our products at our Hangzhou, China facility.

RESEARCH AND DEVELOPMENT

We believe it is essential to continue to develop and introduce new and enhanced products if we are to maintain our competitive position. While we use competitive analyses and technology trends as factors in our product development plans, the primary input for new products and product enhancements comes from soliciting and analyzing information about service providers needs. We have been able to cost-effectively hire highly skilled technical employees from a large pool of qualified candidates in China. We also have a development center in India to take advantage of the talent pool available there, and to support our operations in India. Our R&D centers are ISO 9001-2000 certified.

In the past we have made, and expect to continue to make, significant investments in research and development. For the years ended December 31, 2017, 2016 and 2015 our R&D expenses totaled $9.9 million, $8.5 million, and $11.3 million, respectively. The decrease in 2016 is primarily due to reduced spending in non-core business units and cost reductions resulting from streamlined operations. The increase in 2017 is primarily due to the higher headcount to strengthen the R&D team.

INTELLECTUAL PROPERTY

Our ability to compete depends in part on our proprietary technology. We rely on a combination of patent, copyrigh trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. In addition, we have, from time to time, chosen to abandon previously filed applications. Patents may not be issued and any patents issued may not cover the scope of the claims sought in the applications. Additionally, issued patents may be found to be invalid or unenforceable in the courts of those countries where we hold or have filed for such patents or patent applications. Our U.S. patents do not afford any intellectual property protection in China or other international jurisdictions. Additionally, patents that we hold in countries other than the United States do not afford any intellectual property protection in the United States. Please refer to the discussion of risks associated with our intellectual property in Item 3. Key Information-D. Risk Factors-Risks Related to Our Business-We may be unable to adequately protect against the loss or misappropriation of our intellectual property, which could substantially harm our business.

SEASONALITY

Although we experience some seasonality typical of the telecommunications industry, our revenues and earnings have not demonstrated consistent seasonal characteristics. In contrast, our results of operation are generally impacted more significantly by factors such as customer concentration and the timing of revenue recognition.

Table of Contents

RAW MATERIALS

We source and purchase components comprising of active and passive electronic parts, mechanical and electrical parts, OEM and third party parts in the open markets from China and overseas. Prices for these component parts typically vary with the global and local supply and demand dynamics as well as raw material price fluctuations. Component part price volatility is also affected by one-off events such as the earthquake in Japan and flooding in Thailand resulting in short-term electronic component and hard drive shortages respectively. See Item 3. Key Information-D. Risk Factors-Risks Related to Our Business.

REGULATIONS

Multiple government bodies are involved in regulating and administering affairs in the telecommunications and information technology industries in China, Japan and India, among which the MIIT, NDRC, SASAC and SAPPRFT play the leading roles. These government agencies have broad discretion and authority over all aspects of the telecommunications and information technology industry in China, including but not limited to, setting the telecommunications tariff structure, granting carrier licenses and frequencies, approving equipment and products, granting product licenses, approving of the form and content of transmitted data, specifying technological standards as well as appointing carrier executives, all of which may impact our ability to do business in China. See Item 3. Key Information-D. Risk Factors-Risks Relating to Conducting Business in China.

C. Organizational Structure

We are a holding company incorporated in the Cayman Islands.

The following table sets forth our subsidiaries, including their country of incorporation or residence and our ownership interest in such subsidiaries.

Name	Place of Incorporation or Organization	Proportion of Ownership Interest
UTStarcom, Inc.	U.S.A	100%
UTStarcom International Products, Inc.	U.S.A	100%
Issanni Communications, Inc.	U.S.A	100%
UTStarcom Telecom Co., Ltd.	China	100%
UTStarcom Hong Kong Ltd.	Hong Kong SAR	100%
UTStarcom Japan KK	Japan	100%
UTStarcom, S.A. de C.V.	Mexico	100%
UTStarcom Ireland Limited	Ireland	100%
UTStarcom Taiwan Ltd.	Taiwan	100%

UTStarcom Network Solutions Redes de Nova Geração Ltda.	Brazil	100%
UTStarcom India Telecom Pvt	India	100%
UTStarcom (Thailand) Limited	Thailand	100%
MyTV Corporation	Cayman Island	100%
UTStarcom (Philippines), Inc.	Philippines	100%
UTStarcom Hong Kong Investment Holding Ltd.	Hong Kong SAR	100%
Virtual Gateway Labs, Inc.	U.S.A	100%

D. Property, Plant and Equipment

Our principal executive offices are located in Hong Kong, China. Our research and development, manufacturing and back office functions are located at our office facilities in Hangzhou, China.

In July 2016, we entered into a new non-cancellable lease agreement for our office facilities in Hangzhou, China. Under the term of this lease agreement, we have leased 14,673 square meters (approximately 0.2 million square feet) of gross floor area, through Jul 31, 2021. In addition, we lease 0.01 million square feet are properties in North America. We lease sales and customer support offices in several countries covering Japan, India, Taiwan and the United States. We believe our facilities are suitable and adequate to meet our current needs.

ITEM 4A-UNRESOLVED STAFF COMMENTS

None.

Table of Contents

Item 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements for the periods specified and their related notes included in this Annual Report on Form 20-F, as well as Item 3. Key Information-A. Selected Financial Data. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words expect, anticipate, intend, believe, or similar language. All forward-looking statements included in this Annual Report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. In evaluating our business, you should carefully consider the information provided under Item 3. Key Information-D. Risk Factors. Actual results could differ materially from those projected in the forward-looking statements. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

OVERVIEW

We are a global telecom infrastructure provider dedicated to developing technology that will serve the rapidly growing demand for bandwidth from cloud-based services, mobile, streaming and other applications. We work with carriers globally, from Asia to the Americas, to meet this demand through a range of innovative broadband packet optical transport and wireless/fixed-line access products and solutions. We focus on delivering innovative carrier-class broadband transport and access products and solutions, optimized for mobile backhaul, metro aggregation, broadband access and Wi-Fi data offloading. Collectively, our range of solutions is designed to expand and modernize telecommunications networks through smooth network system integration, lower operating costs and increased broadband access. We also provide the carriers with increased revenue opportunities by enhancing their subscribers user experience. The majority of our business is based in Japan, India, Taiwan, China and other Asian markets.

We differentiate ourselves with products designed to reduce network complexity, integrate high performance capabilities and allow a simple transition to next generation networks. We design our products to facilitate cost-effective and efficient deployment, maintenance and upgrades.

Our customers can easily integrate our products, which are IP-based, with other industry standard hardware and software. Additionally, we believe we can introduce new features and enhancements that can be cost-effectively added to our customers existing networks. IP-based devices can be changed or upgraded in modules, saving our customers the expense of replacing their entire system installation. Our strategic priorities are summarized as follows:

- Focus primarily on providing a suite of IP-based solutions and broadband products and related services;

- Maintain our position in Japan, India and Taiwan while solidifying our presence in selective geographical markets in Asia;

- Leverage our strong reputation with telecom carriers and cable operators and our ability to solve complex network problems; and

- Improve our financial position by executing announced restructuring initiatives and reducing operating expense levels.

Divestitures

On August 31, 2012, we completed a sale of our IPTV business to an entity founded by our former CEO. We paid a total consideration of approximately $30.0 million related to the net liabilities transferred. In connection with this transaction, we recorded a net loss of $17.5 million during 2012.

Since the economic risks and benefits of the un-assigned contracts had been transferred to the buyer of the IPTV business, we recorded a portion of the payment made to the buyer at the time of the divestiture as the deferred service cost to offset such liabilities related to those un-assigned contracts. As of December 31, 2017, we had both liabilities and deferred costs of $5.9 million related to those un-assigned contracts. We will clean up those un-assigned contracts when legal obligation is at minimal or no impact. There will be no gross profit impact to clean up those contracts.

Investments

In September 2004, we invested $2.0 million in Series A preferred stock of ImmenStar, Inc., then acquired by Cortina Systems, Inc., or Cortina in February 2007. In 2015 and 2016, through the sale of shares and proceeds received, we recognized gains of $1.6 million and $0.1 million gain which were included in Other Income.

Table of Contents

In October 2004, we invested $3.0 million in Series D preferred convertible stock of GCT Semiconductor, Inc., or GCT, which designs, develops and markets integrated circuit products for the wireless communications industry. This investment represents approximately a 0.4% interest in GCT. This investment is accounted for using the cost method. We assess the fair value in every year-end. In 2012 and 2016, we recorded $2.1 million and $0.8 million investment impairment, respectively. As of December 31, 2016, the book value of the investment was zero.

In 2008, 2010, 2011 and 2012, we invested $0.5 million, $0.7 million, $0.7 million and $0.6 million into SBI NEO Technology, or SBI, respectively, to maintain a partnership interest of approximately 2%. We concluded that we do not have a controlling interest in SBI and account for the investment in SBI using the cost method. In 2014, 2015, and 2016, we received $0.1 million, $0.26 million and $0.7 million from SBI to reduce the SBI investment. In 2016, we recorded impairment of $0.2 million. In 2017, we received a final refund of $0.5 million and the book value of the investment was reduced to zero.

In December 2010, we invested $2.1 million into Aceland Investments Limited, or (Aceland). In the second quarter of 2011, we extended a shareholder loan to Aceland in the amount of $7.1 million with a maturity date of December, 31, 2015. We owned an approximately 35% interest in Aceland and accounted for the investment in Aceland using the equity method. In 2015, we recorded a $1.0 million impairment charge to the Aceland investment. In 2016, we received $6.7 million cash to offset the Aceland investment and realized a $1.0 million gain of foreign exchange. In 2017, we realized a $0.2 million loss as a result of depreciation of the US Dollar deposit. As of December 31, 2017, the book value of the investment was $2.4 million.

On August 31, 2012, we completed the sale of our IPTV business to UTStarcom Hong Kong Holdings Ltd.to our former Chief Executive Officer. On the same day, we purchased a $20.0 million Convertible Bond from UTStarcom Hong Kong Holdings Ltd. which bears interest at 6.5% per annum and matured on August 31, 2017. On April 7, 2015, we entered an agreement with UTStarcom Hong Kong Holdings Ltd. for the conversion of the $20.0 million Convertible Bond. Pursuant to the agreement, UTStarcom Hong Kong Holdings Ltd. paid $10.0 million in cash to us as partial payment of the principal of the Convertible Bond. The remaining principal and interest of the Convertible Bond were converted to 14% of equity interest of UTStarcom Hong Kong Holdings Ltd. We used the cost method to account for this investment. During 2015, we assessed the fair value of UTStarcom Hong Kong Holdings Ltd, and concluded $6.5 million impairment charge on this investment. During 2017, we assessed the fair value of UTStarcom Hong Kong Holdings Ltd, and concluded no impairment had occurred. As of December 31, 2017, the book value of this investment was $3.5 million.

In November 2012, we invested $8.0 million in Series B Preferred Stock of AioTV Inc, (AioTV), representing a 44% equity interest of AioTV. The Preferred Stock was reclassified as available-for-sale security as it was not considered to be in-substance common stock due to their redemption feature. In December 2015 and October 2016, we invested in a convertible bond of $0.5 million that matured on March 28, 2017 and of $0.3 million that matured on October 7, 2017, respectively. All convertible bonds bear interest at 10.0% per annum. During 2016, we assessed the fair value of the investment, and concluded that there was a $4.3 million impairment charge on fair value relating to this investment. On May 30, 2017, we converted all the existing Preferred Shares of AioTV into common shares of AioTV, and converted $0.5 million convertible bond issued in December 2015 into common shares of AioTV. After this conversion, we deemed that we have significant influence in AioTV and intend to use equity method to account for the investment in AioTV. On the same day, we signed a Note Purchase Agreement with AioTV. Pursuant to the agreement, the valuation cap of AioTV was reduced to $0.16 million, and we promised to purchase a $0.8 million convertible promissory note including $0.32 million of existing convertible bond issues in October 2016. As the result, we recorded $1.3 million investment impairment in the second quarter of 2017 and invested $0.1 million and $0.38 million in the second and third quarter of 2017 in the convertible promissory note, respectively. In the third quarter of 2017, we recorded $0.1 million in losses for the common stock investment to reflect 45% our shares in AioTV losses. After the common stock was reduced to zero, we started and will continued to record 45% of shares AioTV losses against our convertible promissory note investment balance until the carrying value of the convertible promissory note investment balance is reduced to zero. In the third and fourth quarters of 2017, we recorded $0.2 million and $0.2 million respectively in losses to reflect 45% of shares AioTV losses. At 2017 year-end, we assessed the fair value of AioTV, and concluded that a $0.4 million impairment charge to this investment was necessary. As of December 31, 2017, the book value of this investment was zero.

On October 16, 2010, we invested $ 30.0 million in UiTV Media Inc., or (UiTV), $10.0 million of which was paid by our common shares that we had the repurchased right and $20.0 million of which was paid by cash. We recorded this transaction as an acquisition because we then owned 75% interests in UiTV and had the controlling right. The transactions closed on November 8, 2010. On April 15, 2012, we then exercised our repurchase right, which trigged deconsolidation of UiTV from our consolidated financial statements starting from June 21, 2012 because we lost the controlling right due to our ownership decreasing from 75% to 49% and we lost one seat on the board of directors. Thereafter we recorded this investment using the equity method. From December 3, 2012 to December 31, 2015, we have totally purchased $35.1 million convertible bonds that bear interest at 6.5% per annum with various maturity dates and subsequently all maturity dates were extended to December 31, 2015. In 2013 and 2014, we recorded a total of $9.6 million and $5.3 million in losses for the preferred stock investment to reflect our 49% interest in UiTV losses. After the preferred shares was reduced to zero, we start to record 100% UiTV losses against our convertible bond investment balance until the carrying value of the convertible bond investment balance was reduced to zero. Therefore, in 2014 and 2015, we recorded $3.6 million and $14.0 million, respectively, in losses to reflect 100% of UiTV losses. Additionally, at every year-end, we assess the fair value of the UiTV, and recorded impairment charges of $9.1 million, $2.4 million and $6.0 million in 2013, 2014 and 2015, respectively. The convertible bond investments balance was reduced to zero as of December 31, 2015.

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial condition and results of operations are based on certain critical accounting policies and estimates, which include judgments, estimates and assumptions on the part of management. Estimates are based on historical experience, knowledge of economic and market factors and various other assumptions that management believes to be reasonable under the circumstances. Actual results may differ from those estimates. The following summary of critical accounting policies and estimates highlights those areas of significant judgment in the application of our accounting policies that affect our financial condition and results of operations.

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonable assured. Most of our multiple element arrangements primarily involve the sale of hardware systems, installation and training. In addition, while not separately sold, the arrangement may include extended warranties that cover product repairs, maintenance services, and software updates for the software components that are essential to the functionality of the hardware systems or equipment. For multiple-element arrangements, we allocate revenue to each unit of accounting based on an estimated selling price at the arrangement inception. The estimated selling price for each element is based upon the following hierarchy:

i) Vendor-specific objective evidence (VSOE) of selling price, if available,

ii) Third-party evidence (TPE) of selling price, if VSOE of selling price is not available, or

iii) Best estimate of selling price (BESP), if neither VSOE of selling price nor TPE of selling price are available.

We establish VSOE of selling price using the price charged for a deliverable when sold separately. When we are unable to establish selling price using VSOE, we use BESP in the allocation of arrangement consideration.

The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. Our management applies judgment in establishing pricing strategies and determines its BESP for a product or service using historical selling price trends and by considering multiple factors including, but not limited to, cost of products, gross margin objectives, geographies, customer classes, customer segment pricing practices and distribution channels. The determination of BESP is performed through consultation with our product management and marketing department and includes review and approval by our management. Our management regularly reviews VSOE and BESP and maintain internal controls over the establishment and updates of these estimates.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). (ASU 2014-09). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 supersedes most existing US GAAP on revenue recognition and eliminate industry-specific guidance. In August 2015, the FASB issued ASU 2015-14, Revenue from

Contracts with Customers (Topic 606): Deferral of Effective Date (ASU 2015-14), which defers the effective date of ASU 2014-09 to January 1, 2018 for the Company. The early adoption is permitted. The Company expects to adopt ASU 2014-09 utilizing the modified retrospective method in the first quarter of 2018.

We have completed a detailed review of revenue contracts representative of our business segments and their revenue streams as of the adoption date. The Company is on schedule in establishing new accounting policies, implementing systems and processes (including more extensive use of estimates), and internal controls necessary to support the requirements of the new standard. Upon adoption, the Company expects a material impact to the opening balance sheet as of January 1, 2018, related to the cumulative effect of adopting the standard, primarily as a result of the item discussed below:

Some of our contracts included final acceptance provisions or other price variability that precluded revenue recognition under Topic 605 due to the requirement that the revenue amount must be fixed or determinable. Topic 606 requires us to estimate and account for variable consideration as a reduction of the transaction price separately and not part of the revenue recognition consideration. This changes resulted in a $7.4 million cumulative increase which is the combination of our unearned revenue $14.4 million and related deferred cost $7.0 million to our retained earnings as of January 1, 2018.

Operating Leases

We lease office space under operating lease agreements with an initial lease term up to five years. Rental expense is recognized from the date of initial possession of the leased property on a straight-line basis over the term of the lease.

Table of Contents

Restructuring Liabilities, Litigation and Other Contingencies

We account for our restructuring plans using the guidance provided in ASC 420 *Exit or Disposal Cost Obligations* and ASC 712 *Compensation-Nonretirement Postemployment Benefits* . We account for litigation and contingencies in accordance with ASC 450, *Contingencies* , which requires that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

Stock-Based Compensation

Stock-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value. Stock-based compensation expense for restricted stock awards is measured based on the closing fair market value of our ordinary share on the date of grant. Stock-based compensation expense for stock options is estimated at the grant date based on each option s fair value as calculated by the Black-Scholes option pricing model, or Black-Scholes model. Stock-based compensation is expensed ratably on a straight-line basis over the requisite service period, which is generally the vesting term of the share-based payment awards. The performance-based restricted stock units are subject to the attainment of goals determined by the Compensation Committee of our board of directors. We record the relevant stock-based compensation for the performance-based restricted stock units based on the probability of meeting the performance conditions.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards require the input of subjective assumptions, including the expected term of the share-based payment awards and stock volatility. We estimate an expected term of options granted based on our historical exercise and cancellation data for vested options. We use historical volatility as management believes it is more representative of future stock price trends than implied volatility due to the relatively small number of actively traded options on our ordinary share available to determine implied volatility. The assumptions used in calculating the fair value of share-based payment awards represent management s best estimates, but these estimates involve inherent uncertainties and compensation expense could be materially different in the future. Because changes in the subjective assumptions can materially affect the estimated value, in management s opinion, the existing valuation models may not provide an accurate measure of the fair value of our employee stock options. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. 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.

We account for equity instruments issued to consultants and vendors in exchange for goods and services following the provisions of ASC 505-50, *Equity-Based Payments to Non-Employees* (Formerly FASB Staff Positions Emerging Issues Task Force Issue No. 96-18 and 00-18). The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor s performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement.

Product Warranty

We provide a warranty on our equipment for a period generally ranging from one to two years from the time of final acceptance. At times, we have entered into arrangements to provide limited warranty services for periods longer than two years. We provide for the expected cost of product warranties at the time that revenue is recognized based on an assessment of past warranty experience and when specific circumstances dictate. We assess the adequacy of our recorded warranty liability every quarter and make adjustments to the liabilities if necessary. Specific warranty accruals are reversed upon the expiration of the warranty period and are recorded as reduction of cost of sales. From time to time, we may be subject to additional costs related to non-standard warranty claims from our customers. If and when this occurs, we estimate additional accruals based on historical experience, communication with our customers and various assumptions that we believe to be reasonable under the circumstances. Such additional warranty accruals are recorded in the period in which the additional costs are identified.

Receivables

Although we evaluate customer credit worthiness prior to a sale, we provide an allowance for doubtful accounts for the estimated loss on trade and notes receivable when collection may no longer be reasonably assured. We assess collectability of receivables based on a number of factors including analysis of creditworthiness, our customer s historical payment history and current economic conditions, our ability to collect payment and on the length of time an individual receivable balance is outstanding. Our policy for determining the allowance for doubtful accounts includes both specific allowances for balances known to be uncollectible and a formula-based portfolio approach, based on aging of the accounts receivable, as a precursor to a management review of the overall allowance for doubtful accounts. This formula-based approach involves aging of our accounts receivable and applying a percentage based on our historical experience; this approach results in the allowance being computed based on the aging of the receivables. We evaluate the percentages applied to each category of aged accounts receivable periodically based on actual history of write-offs and collections and refine this formula-based approach accordingly for use in future periods. Receivable balances are written-off when we have sufficient evidence to indicate that they are uncollectible.

Table of Contents

Inventories

Inventories consist of product held at our manufacturing facility and warehouses, as well as finished goods at customer sites for which the customer has taken possession, but based on specific contractual terms, title has not yet passed to the customer. We may ship inventory to existing customers that require additional equipment to expand their existing networks prior to the signing of an expansion contract. Our inventories are stated at the lower of cost or market value, based on the FIFO method of accounting. Reserves are based on our assumptions about future market conditions and customer demand, including projected changes in average selling prices resulting from competitive pricing pressures. We continually monitor inventory valuation for potential losses and obsolete inventory at our manufacturing facilities as well as at customer sites. If actual market conditions are less favorable than those projected by management, additional reserves may be required. If actual market conditions are more favorable than anticipated, inventory previously reserves may be sold to customers, resulting in lower cost of sales and higher income from operations than expected in that period.

Deferred Costs

Deferred costs consist of product shipped to the customer for which the rights and obligations of ownership have passed to the customer but revenue has not yet been recognized due to prolonged acceptance periods for tests and the existence of undelivered elements, such as post-contract support including software update rights for which we do not have a vendor specific objective evidence of fair value. All deferred costs are stated at cost. Management periodically assesses the recoverability of deferred costs and provides reserves against deferred cost balances when recovery of deferred costs is not probable. Recoverability is evaluated based on various factors including the length of time the product has been held at the customer site, the viability of payment, including assessment of product demand if a revenue sharing arrangement exists and/or the evaluation if a related transaction will result in a gross margin loss. In a loss situation for a transaction, the deferred cost balance is adjusted for impairment equal to the value of the excess of cost over the amount of revenue that will be eventually recognized for the transaction. Revenue and cost of sales are recorded when final acceptance is received from the customer.

Income Taxes

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize the tax benefit (expense) from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We recognize interest expense and penalties related to income tax matters as part of the provision for income taxes.

We recognize deferred income taxes as the difference between the tax bases of assets and liabilities and their financial statement amounts based on enacted tax rates. Management judgment is required in the assessment of the recoverability of our deferred tax assets based on its assessment of projected taxable income. Numerous factors could affect our results of operations in the future. If there is a significant decline in our future operating results, management s assessment of the recoverability of our deferred tax assets would need to be revised, and any such adjustment to our deferred tax assets would be charged to income in that period. If necessary, we record a valuation allowance to reduce deferred tax assets to an amount which management believes is more likely than not to be realized. Changes in estimates of taxable income in the future could result in reversal of the valuation allowances which would be credited to income in the year of reversal.

We provide U.S. taxes on foreign undistributed earnings that are not considered to be permanently reinvested outside the United States.

Investments

Our investments consist principally of bank notes, debt and equity securities classified as available for sale and cost and equity investment in privately held companies. The investments in equity securities of privately held companies in which we hold less than 20% voting interest and on which we do not have the ability to exercise significant influence are accounted for under ASC 325, *Investments-Other* using the cost method. Under the cost method, these investments are carried at cost minus impairment. The investments in equity securities of privately held companies in which we hold at least 20% but less than 50% voting interests, and on which we have the ability to exercise significant influence are accounted for under ASC 323, *Investments-Equity Method and Joint Ventures* using the equity method. Investments in debt securities that are classified as available for sale are measured at fair value on the balance sheets under ASC 320, *Investments-Debt and Equity Securities* . Unrealized holding gains and losses for available-for-sale securities (including those classified as current assets) will be excluded from earnings and reported in other comprehensive income until realized except as indicated in the following paragraph.

Table of Contents

We recognize an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. In making this determination, we review several factors to determine whether the losses are other-than-temporary, including but not limited to: (i) the length of time the investment was in an unrealized loss position, (ii) the extent to which fair value was less than cost, (iii) the financial condition and near term prospects of the issuer, and (iv) our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. The determination of fair value of the investment involves considering factors such as current economic and market conditions, the operating performance of the companies including current earnings trends and forecasted cash flows, and other company and industry specific information. Investment impairments recorded as other-than-temporary were $1.7 million, $5.3 million, and $16.3 million, for the years ended December 31, 2017, 2016 and 2015, respectively.

Impairment of Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If undiscounted expected future cash flows are less than the carrying value of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. Long-lived assets that are to be disposed of by sale are measured at the lower of book value or fair value less cost to sell.

Advances

Advances from customers represent cash received from customers before revenue recognition for the purchase of the Company s products.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to our Consolidated Financial Statements included under Item 18 of this Annual Report on Form 20-F for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein by reference.

RESULTS OF OPERATIONS

Our reporting segments are as follows:

- Equipment-Focused on our equipment sales including network infrastructure and application products. Network infrastructure products mainly include broadband products. Network application products mainly include Wireless infrastructure technologies.

- Services-Providing services and support for our equipment products and also the new operational support segment.

Net Sales

Sales by Segment	Years Ended December 31, 2017	% of net sales	2016	% of net sales	2015	% of net sales
	(in thousands, except percentages)					
Equipment	$ 77,283	79%	$ 61,735	71%	$ 87,361	75%
Services	21,009	21%	24,777	29%	29,742	25%
Total	$ 98,292	100%	$ 86,512	100%	$ 117,103	100%
Net Sales by Region						
China	$ 2,926	3%	$ 4,021	5%	$ 9,490	8%
India	42,352	43%	33,021	38%	34,836	30%
Japan	49,185	50%	45,561	52%	57,483	49%
Taiwan	3,018	3%	3,217	4%	7,904	7%
Other	811	1%	692	1%	7,390	6%
Total	$ 98,292	100%	$ 86,512	100%	$ 117,103	100%

Table of Contents

Fiscal 2017 vs. 2016

Net sales increased by 13.6% to $98.3 million for 2017 compared to $86.5 million for 2016.

Sales from equipment were $77.3 million for 2017, an increase of $15.5 million compared to $61.7 million for 2016. The increase was mainly due to the increased sales quantities of the 100G PTN products in Japan region and Third Party Sales (TPS) in India.

Sales from services were $21.0 million for 2017, a decrease of $3.8 million compared to $24.8 million for 2016. The decrease primarily attributable to higher one-time India services revenue attained in 2016.

Fiscal 2016 vs. 2015

Net sales decreased by 26.1% to $86.5 million for 2016 compared to $117.1 million for 2015.

Sales from equipment were $61.7 million for 2016, a decrease of $25.6 million compared to $87.4 million for 2015. The decrease was mainly due to (i) a decrease of $7.7 million in the legacy Gigabit Ethernet Passive Optical Network (GEPON revenue and MSAN products (ii) a strategic reduction in lower margin value-added TPS sales by more than $12.1 million, which was partially offset by a PTN sales increase of $6.3 million; and (iii) the one-time recognition of $11.6 million from the India DoT in 2015.

Sales from services were $24.8 million for 2016, a decrease of $4.9 million compared to $29.7 million for 2015, primarily due to the expiration of a Japan service contract for a discontinued product line.

Cost of Sales

	Years Ended December 31,					
Cost of Sales by Segment	**2017**	**% of net sales**	**2016**	**% of net sales**	**2015**	**% of net sales**
	(in thousands, except percentages)					
Equipment	$ 50,636	66%	$ 41,472	67%	$ 65,891	75%
Services	14,510	69%	16,684	67%	23,344	78%
Total	$ 65,146	66%	$ 58,156	67%	$ 89,235	76%

Cost of sales consists primarily of material and labor costs associated with manufacturing, assembly and testing of products, costs associated with installation and customer training, warranty costs, fees to agents, inventory and contract loss provisions and overhead. Cost of sales also includes import taxes and tariffs on components and assemblies.

Fiscal 2017 vs. 2016

Cost of sales was $65.1 million, or 66.3% of net sales for 2017 compared to $58.2 million, or 67.2% of net sales, for 2016.

Cost of sales from equipment was $50.6 million, or 66% of net sales, for 2017, compared to $41.5 million, or 67% of net sales for 2016. The cost of sales percentage between 2017 and 2016 mixed by regions are essentially flat.

Cost of sales from services were $14.5 million, or 69% of net sales, for 2017, compared to $16.7 million, 67% of net sales for 2016.

Fiscal 2016 vs. 2015

Cost of sales was $58.2 million, or 67.2% of net sales for 2016 compared to $89.2 million, or 76.2% of net sales, for 2015.

Cost of sales from equipment were $41.5 million, or 67% of net sales, for 2016, compared to $65.9 million, or 75% of net sales for 2015. The decrease in the cost of sales mainly due to (i) highly focused on the high margin products that resulted lower revenue but with higher margin; (ii) effective cost control on our manufacturing.

Cost of sales from services were $16.7 million, or 67% of net sales, for 2016, compared to $23.3 million, 78% of net sales for 2015. The decrease in cost of sales primarily due to (i) revenue decreased by the expiration of a Japan service contract for a discontinued product line; (ii) higher service margin on new India annual maintenance contract.

Table of Contents

Gross Profit

Gross profit by Segment	Years Ended December 31, 2017	Gross Profit %	2016	Gross Profit %	2015	Gross Profit %
	(in thousands, except percentages)					
Equipment	$ 26,647	34%	$ 20,263	33%	$ 21,470	25%
Services	6,499	31%	8,093	33%	6,398	22%
Total	$ 33,146	34%	$ 28,356	33%	$ 27,868	24%

Our gross profit has been affected by average selling prices, material costs, product mix, the impact of warranty charges and contract loss provisions, as well as inventory reserve and release of deferred revenues and related costs pertaining to prior years. Our gross profit, as a percentage of net sales, varies among our product families. We expect that our overall gross profit, as a percentage of net sales, will fluctuate in the future as a result of shifts in product mix, stage of product life cycle, decreases in average selling prices and our ability to reduce cost of sales.

Fiscal 2017 vs. 2016

Gross profit was $33.1 million, or 33.7% of net sales, for 2017, compared to $28.4 million, or 32.8% of net sales, for 2016.

The equipment incurred a gross profit of $26.6 million, with a gross profit margin of 34%, for 2017, compared to a gross profit of $20.3 million, with a gross profit margin of 33%, for 2016. The gross margin between 2017 and 2016 remained flat.

The service incurred a gross profit of $6.5 million, or 31% of net sales of Services for 2017, compared to gross profit of $8.1 million, or 33%, for 2016. The slight decrease was primarily due to service product mix.

Fiscal 2016 vs. 2015

Gross profit was $28.4 million, or 32.8% of net sales, for 2016, compared to $27.9 million, or 23.8% of net sales, for 2015.

The equipment incurred a gross profit of $20.3 million, with a gross profit margin of 33%, for 2016, compared to a gross profit of $21.5 million, with a gross profit margin of 25%, for 2015. The increase in gross margin was primarily caused by the favorable mix of relatively high proportion of high margin PTN products sales.

The service incurred a gross profit of $8.1 million, or 33% of net sales of Services for 2016, compared to gross profit of $6.4 million, or 22%, for 2015. The increase in gross profit was primarily caused by a higher margin 3-year annual maintenance contract in India.

Operating Expenses

The following table summarizes our operating expenses:

	Years Ended December 31,					
	2017	% of net sales	2016	% of net sales	2015	% of net sales
	(in thousands, except percentages)					
Selling, general and administrative	$ 16,777	17%	$ 18,146	21%	$ 21,515	18%
Research and development	9,853	10%	8,502	10%	11,342	10%
Total operating expenses	$ 26,630	27%	$ 26,648	31%	$ 32,857	28%

Selling, general and administrative expenses, or SG&A, include compensation and benefits, professional fees, sales commissions, provision for doubtful accounts receivable and travel and entertainment costs. Research and development, or R&D, expenses consist primarily of compensation and benefits of employees engaged in research, design and development activities, cost of parts for prototypes, equipment depreciation and third party development expenses. We believe that continued and prudent investment in R&D is critical to our long-term success, and we will evaluate appropriate investment levels.

SELLING, GENERAL AND ADMINISTRATIVE

Fiscal 2017 vs. 2016

SG&A expenses were $16.8 million for 2017, a decrease of 7.5%, or $1.4 million, as compared to $18.1 million for 2016. The decrease was mainly due to the one-time reclassification of VGL expense and accelerated stock based compensation cost for resigned executives in 2016. This was partially offset by an increase in professional fee caused by the privatization which has been abandoned in October 2017 and the auditor change in 2017.

Table of Contents

Fiscal 2016 vs. 2015

SG&A expenses were $18.1million for 2016, a decrease of 15.7%, or $3.4 million, as compared to $21.5 million for 2015. The decrease was primarily due to a decreases in personnel and facility expenses.

RESEARCH AND DEVELOPMENT

Fiscal 2017 vs. 2016

R&D expenses were $9.9 million in 2017, an increase of 15.9%, or $1.4 million, compared to $8.5 million in 2016. The increase was due to higher headcount to strengthen the research and development team.

Fiscal 2016 vs. 2015

R&D expenses were $8.5 million in 2016, a decrease of 25.0%, or $2.8 million, compared to $11.3 million in 2015. The decrease was due to reductions in personnel and savings on occupancy.

STOCK-BASED COMPENSATION EXPENSE

The following table summarizes the stock-based compensation expense in our consolidated statement of operations:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Cost of net sales	$ 12	$ 1	$ 40
Selling, general and administrative	793	1,392	2,193
Research and development	61	114	44
Total	$ 866	$ 2,238	$ 1,546

As of December 31, 2017, there was approximately $0.8 million of total unrecognized compensation cost, as measured, related to unvested stock options and restricted stock and restricted stock units. This cost is expected to be recognized over a weighted-average period of 1.23 years.

Fiscal 2017 vs. 2016

Stock-based compensation expense was $0.9 million in 2017, decreasing 61%, or $1.4 million, compared to $2.2 million in 2016. The decrease was primarily due to the reversal of expenses related to our former CFO as a result of his resignation in 2017 and additional expenses incurred in 2016 due to the accelerated vesting of awards for our former CEO as part of his severance payment package.

Fiscal 2016 vs. 2015

Stock-based compensation expense was $2.2 million in 2016, increasing 45%, or $0.7 million, compared to $1.5 million in 2015, primarily due to the additional expenses incurred in 2016 due to the accelerated vesting of awards for our former CEO as part of his severance payment package.

OTHER INCOME (EXPENSE)

INTEREST INCOME

Fiscal 2017 vs. 2016

Interest income was $1.2 million and $0.9 million for 2017 and 2016, respectively. The increase in interest income for 2017 was a result of the increase in India term deposits.

Fiscal 2016 vs. 2015

Interest income was $0.9 million and $0.6 million for 2016 and 2015, respectively. The change in interest income for 2016 was a result of the increase in India term deposits.

Table of Contents

INTEREST EXPENSE

Fiscal 2017 vs. 2016

Interest expense was $0.1 million and $0.1 million for 2017 and 2016, respectively. The change in interest expenses for 2017 as compared to 2016 was immaterial.

Fiscal 2016 vs. 2015

Interest expense was $0.1 million and $0.1 million for 2016 and 2015, respectively. The change in interest expenses for 2016 as compared to 2015 was immaterial.

OTHER INCOME (EXPENSE), NET

Fiscal 2017

Other income, net was $3.0 million for 2017. Other income, net for 2017 primarily consisted of a $0.6 million gain on foreign exchange and a $1.7 million gain from cumulative translation adjustment that was recognized as a part of the liquidation of an entity.

Fiscal 2016

Other income, net was $2.7 million for 2016. Other income, net for 2016 primarily consisted of a $1.5 million gain on foreign exchange and $0.8 million tax reserve reversal, and $0.1 million realized gain from the Cortina investment.

Fiscal 2015

Other income, net was $3.5 million for 2015. Other income, net for 2015 primarily consisted of $2.8 million of ESA loan impairment reversal, $1.1 million of interest income from the EAS loan, and $1.5 million of realized investment gain from Cortina, partially offset by $2.3 million of impairment of loan to UiTV.

INVESTMENT IMPAIRMENT

Fiscal 2017

Investment impairment for 2017 was $1.7 million, decreasing 68.3%, or $5.3 million compared to 2016. Investment impairment for 2017 relates to the investment on AioTV. Please see Note 6 to our Consolidated Financial Statements included under Part III, Item 18 of this Annual Report on Form 20-F.

Fiscal 2016

Investment impairment for 2016 was $5.3 million, decreasing 67.4%, or $11.0 million compared to 2015. Investment impairment for 2016 reflects the $4.3 million impairment on investment on AioTV, $0.2 million impairment on SBI investment, and $0.8 million impairment on GCT investment. Please see Note 6 to our Consolidated Financial Statements included under Part III, Item 18 of this Annual Report on Form 20-F.

Fiscal 2015

Investment impairment for 2015 was $16.3 million. Investment impairment for 2015 reflects the $2.8 million impairment on investment on AioTV, $6.0 million impairment on UiTV convertible bonds, $6.5 million impairment on UTStarcom Hong Kong Holdings Ltd, and $1.0 million impairment on Aceland. Please see Note 6 to our Consolidated Financial Statements included under Part III, Item 18 of this Annual Report on Form 20-F.

EQUITY GAIN (LOSS)

Fiscal 2017

Equity losses were $0.7 million in 2017.

We held a 35% interest in Aceland and 45% interests in AioTV. We use the equity method to account for these two investments. In 2017, we picked up $0.2 million loss from our investment in Aceland and a $0.5 million loss from our investment in AioTV.

Table of Contents

Fiscal 2016

Equity gains from Aceland were $1.0 million in 2016.

We held a 35% interest in Aceland and use the equity method to account for this investment. In 2016, we picked up a $1.0 million realized gain on foreign exchange in Aceland.

Fiscal 2015

Equity losses from UiTV were $14.0 million for 2015 which related to the impairment charge of our investment in UiTV Media in 2015. As a result the convertible bond investment balance was reduced to zero as of December 31, 2015.

INCOME TAX EXPENSE (BENEFIT)

FASB ASC 740-10 establishes criteria for recognizing or continuing to recognize only more-likely-than-not tax positions, which may result in income tax expense volatility in future periods. While we believe that we have adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than our accrued position. Accordingly, additional provisions on income tax related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

For a full reconciliation of our effective tax rate to the U.S. federal statutory rate of 35% and further explanation of our provision for taxes, see Note 10 to our Consolidated Financial Statements included under Part III, Item 18, which is incorporated herein by reference.

Fiscal 2017 vs. 2016

Income tax expenses was $1.3 million in 2017, increasing $0.5 million, from $0.8 million of income tax expense in 2016. The increase in income tax expense in 2017 compared with 2016 was primarily due to there was $2.5 million of transfer pricing reserves being released in 2016. Our effective tax rate was 15.3% in 2017, compared to 85.6% in 2016, primarily due to the fluctuations of income before income taxes between the years.

Fiscal 2016 vs. 2015

Income tax expense was $0.8 million in 2016, increasing $5.0 million, from $4.2 million of income tax benefit compared to 2015. The increase in income tax expense in 2016 compared with 2015 was primarily due to there was $7.7 million of transfer pricing reserves being released in 2015. Our effective tax rate was 85.6% in 2016, compared to 16.8% in 2015, primarily due to the fluctuations of income before income taxes between the years.

Net Income (Loss) Attributable to UTStarcom Holdings Corp.

As a result of the foregoing, net income attributable to UTStarcom Holdings Corp. was $7.0 million and $0.3 million and net loss of $27.2 million in 2017, 2016 and 2015, respectively.

Foreign Currency Risk

See Item 11. Quantitative and Qualitative Disclosures About Market Risk-Foreign Exchange Rate Risk for information regarding the impact of foreign currency fluctuations on us.

Government Policies

For information regarding governmental economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, our operations or our shareholders investments, see Item 3. Key Information-D. Risk Factors-Risks Relating to Conducting Business in China and Item 10. Additional Information-E. Taxation.

B. Liquidity and Capital Resources

The following table sets forth a summary of our cash and cash equivalent and bank note balances as of the dates indicated.

	December 31, 2017	December 31, 2016	Change
		(in thousands)	
Cash and cash equivalents	$ 79,749	$ 83,922	$ (4,173)
Total	$ 79,749	$ 83,922	$ (4,173)

Table of Contents

The following table sets forth a summary of our cash flows for the periods indicated:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Cash provided by (used in) operating activities	$ 3,838	$ 5,732	$ (11,636)
Cash provided by(used in) investing activities	(10,096)	7,263	17,424
Cash used in financing activities	(27)	(4,400)	(3,656)
Effect of exchange rate changes on cash and cash equivalents	2,112	(1,723)	(2,906)
Net increase (decrease) in cash and cash equivalents	$ (4,173)	$ 6,872	$ (774)

Cash and cash equivalents, consisting primarily of bank deposits and money market funds, are recorded at cost which approximates fair value because of the short-term nature of these instruments. As of December 31, 2017, cash and cash equivalents of approximately $7.9 million, $27.0 million and $36.9 million were held by our subsidiaries in China, Japan and the U.S., respectively.

The PRC government imposes currency exchange controls on non-current accounts in China. Regulations in China permit foreign owned entities to freely convert the RMB into foreign currency for transactions that fall under the current account, which includes trade related receipts and payments, interest and dividends. Accordingly, our PRC subsidiaries may use RMB to purchase foreign exchange for settlement of such current account transactions without pre- approval. However, pursuant to applicable regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In calculating accumulated profits, foreign investment enterprises in China are required to allocate at least 10% of their accumulated profits each year, if any, to fund certain reserve funds, including mandated employee benefits funds, unless these reserves have reached 50% of the registered capital of the enterprises.

Other transactions that involve conversion of RMB into foreign currency are classified as capital account transactions; examples of capital account transactions include repatriations of investments by or loans to foreign owners, or direct equity investments in a foreign entity by a China domiciled entity. Capital account transactions require will be examined and registered by banks in China to convert a remittance into a foreign currency, such as U.S. dollars, and transmit the foreign currency outside of China. As a result of these and other restrictions under PRC laws and regulations, our China subsidiaries are restricted in their ability to transfer a portion of their net assets to the parent.

2017 Cash Flows

Net cash provided by operating activities during 2017 was $3.8 million. During the year ended December 31, 2017, our operating activities were significantly affected by the following:

- Net income of $7.0 million adjusted by non-cash income items, mainly including $1.4 million in tax provision reversals, $1.7 million in cumulative translation adjustment release for a liquidation entity, $1.1 million in changes in deferred income taxes, partially offset by non-cash charges, including $0.6 million of depreciation, $1.7 million of investment impairment, $0.9 million in share based compensation, $0.7 million in equity losses from associates.

- Changes in operating assets and liabilities used net cash of $2.8 million. The cash inflow included $1.4 million from account receivable, $1.2 million from inventory and deferred cost, $5.2 million from account payable, $7.1 million from other liabilities, offset by the cash outflow of $7.3 million from prepaids and other assets, $7.2 million from customer advances and $3.2 million from deferred revenue.

Net cash used in investing activities during 2017 was $10.1 million, including cash outflows of $6.2 million of changes in restricted cash, $3.2 million to purchase short-term investments, $0.4 million to purchase investment interests and $0.7 million of purchasing of property, plant and equipment, partially offset by the cash inflow of $0.5 million from proceeds from sale of investment interests.

Net cash used in financing activities during 2017 was $0.1 million, consisted of $0.1 million for repurchases of ordinary shares and $0.1 million from proceeds from exercise of stock options. See Note 8 to our Consolidated Financial Statements included under Part III, Item 18 of this Annual Report on Form 20-F for additional discussion.

Table of Contents

2016 Cash Flows

Net cash provided by operating activities during 2016 was $5.7 million. During the year ended December 31, 2016, our operating activities were significantly affected by the following:

- Net income of $0.1 million adjusted by non-cash income items, mainly including $3.3 million in tax provision reversals, , $0.1 million in short-term investment gain, $1.0 million in equity income from associates, partially offset by non-cash charges, including $1.2 million of depreciation, $5.3 million of investment impairment, $2.2 million in share based compensation, $1.6 million provision for doubtful accounts receivable and $0.8 million of changes in deferred income tax benefit.

- Changes in operating assets and liabilities used net cash of $1.1 million. The cash inflow included $2.8 million from other assets, $7.4 million from account payable and $3.2 million from other liabilities, offset by the cash outflow of $2.0 million from account receivable, $0.2 million from inventory and deferred cost, $0.8 million from income tax payable, $1.1 million from customer advances and $10.6 million from deferred revenue.

Net cash provided by investing activities during 2016 was $7.3 million, including cash inflows of $1.3 million of changes in restricted cash, $6.7 million from the repayment of investment in Aceland, $0.6 million refund from SBI investment and $0.3 million from Inphi investment, partially offset by the cash outflow of $1.5 million of purchasing of property, plant and equipment and $0.3 million convertible bonds issued by the AioTV.

Net cash used in financing activities during 2016 was $4.4 million, consisted of $4.1 million for repurchases of ordinary shares and $0.3 million for acquisition of non-controlling interests. See Note 8 to our Consolidated Financial Statements included under Part III, Item 18 of this Annual Report on Form 20-F for additional discussion.

2015 Cash Flows

Net cash used in operating activities during 2015 was $11.6 million. During the year ended December 31, 2015, our operating activities were significantly affected by the following:

- Net loss of $27.2 million adjusted by non-cash income items, including $7.7 million in tax provision reversals, $1.5 million in gain on sale of short-term investment, and $0.5 million in impairment charge reversals, partially offset by non-cash charges, including $2.2 million of depreciation, $0.2 million of loss on disposal of assets, $14.0 million of loss from equity investment, $16.3 million of investment impairment,$1.5 million in stock

based compensation and $1.0 million of changes in deferred income tax expenses.

- Changes in operating assets and liabilities using net cash of $10.0 million. The use of cash included net $18.6 million for decrease of deferred revenue and deferred cost, $12.2 million for settlement of accounts payable, $17.4 million from customer advances, and $2.7 million from accounts receivables and other liabilities, offset by the cash inflows of $40.9 million from inventories and deferred costs, income taxes payable and other assets.

Net cash provided by investing activities during 2015 was $17.4 million, including cash inflows of $0.7 million of changes in restricted cash, $10.0 million from the repayment of investment in convertible bonds of UTStarcom Hong Kong Holdings Ltd. $6.0 million from ESA loan, and $3.1 million from the sale of investment on Inphi, partially offset by cash outflows of $0.9 million in purchases of property, plant and equipment, $1.2 million for loan to UiTV for purchasing Set Top Box and $0.5 million for AioTV convertible bond.

Net cash used in financing activities during 2015 was $3.7 million, consisted primarily of $3.7million for repurchases of ordinary shares. See Note 8 to our Consolidated Financial Statements included under Part III, Item 18 of this Annual Report on Form 20-F for additional discussion.

Accounts Receivable, Net

Accounts Receivable decreased by $1.4 million to $16.9 million as of December 31, 2017 from $18.3 million as of December 31, 2016. As of December 31, 2017, our allowance for doubtful accounts was $2.4 million on gross receivable of $19.3 million. There were $nil and $3.8 million account receivable write-offs in 2017 and 2016, respectively.

Table of Contents

Inventories and Deferred Costs

The following table summarizes our inventories and deferred costs:

	December 31, 2017	December 31, 2016 (in thousands)	Increase/ (Decrease)
Inventories:			
Raw materials	$ 3,610	$ 3,821	$ (211)
Work in process	2,674	3,362	(688)
Finished goods	10,855	15,394	(4,539)
Total inventories	$ 17,139	$ 22,577	$ (5,438)
Short-term deferred costs	$ 23,545	$ 19,319	$ (110)
Long-term deferred costs	$ 277	$ 276	$ 1

Inventories consist of product held at our manufacturing facility and warehouses, as well as finished goods at customer sites for which the customer has taken possession, but based on specific contractual terms, title has not yet passed to the customer. Finished goods at customer sites were approximately $10.6 million and $14.5 million as of December 31, 2017 and 2016, respectively.

There were no significant inventory write-downs in 2017, 2016 and 2015.

Deferred costs consist of products shipped to the customer, but for which revenue has not yet been recognized due to revenue recognition criteria not being fully met. Given that there is uncertainty about customer acceptance until the customer completes its internal testing and procedures, we wait until the issuance of the final acceptance certificate to support its assertion of contract fulfillments. For significant customer contracts involving larger and complex projects where there is on-site testing at multiple locations and the taking over of product warranty and product title occurs after the acceptance of the products and services, acceptance is substantive to the transaction. For certain significant legacy contracts that required us to provide post-contract customer support over a long period of time (for example, seven years) for which we have been unable to establish vendor specific objective of fair value upon delivery of all elements except for post-contract support, we amortize the deferred revenue and related deferred costs of goods sold over the post-contract support period. We assess the recoverability of the deferred cost based on the project status of executed contracts that are in-progress and also their future collectability. Any unrecoverable deferred cost will be written down to the net realizable value in the period when it was determined or justified to be unrecoverable. As customers were unwilling to have customer contracts assigned to the buyer, we are still the primary obligor for most of the contracts. Therefore, we were not able to derecognize the related liabilities of those un-assigned contracts. Since all of the economic risks and benefits of the un-assigned contracts had been transferred to the buyer of the IPTV equipment business, we have recorded a portion of the payment made to the buyer at the time of the divestiture as the deferred cost to offset the remaining liabilities related to those un-assigned contracts. As of December 31, 2017, we had both liabilities and deferred costs of $5.9 million related to those un-assigned contracts.

LIQUIDITY

We recorded net income attributable to UTStarcom Holdings Corp. of $7.0 million and operating income of $6.5 million for the year ended December 31, 2017. We recorded a net income attributable to UTStarcom Holdings Corp. of $0.3 million and an operating income of

$1.7 million for the year ended December 31, 2016. Our accumulated deficit decreased from $1,233.2 million as of December 31, 2016 to $1,226.2 million as of December 31, 2017.

Net cash used in operating activities was $3.8 million in 2017, and net cash provided by operating activities were $5.7 million in 2016, respectively. As of December 31, 2017, we had cash and cash equivalents of $79.7 million, of which $7.9 million was held by our subsidiaries in China. The amount of cash available for transfer from the PRC subsidiaries for use by our non-PRC subsidiaries is limited both by the liquidity needs of the subsidiaries in China and by PRC-government mandated limitations including currency exchange controls on transfers of funds outside of China.

Our operating expenses have decreased year over year from 2015 to 2017. Our management believes that the continuing efforts to stream-line our operations will enable our fixed cost base to be better aligned with operations, market demand and projected sales level. If projected sales do not materialize, we will need to take further actions to reduce costs and expenses or explore other cost reduction options. Our management believes that both our PRC and non-PRC operations will have enough liquidity to finance working capital and capital expenditure needs for more than of 12 months subsequent to the date financial statement is issued. However, we have concentrated our business in Asia, particularly Japan, India and China. Any unforeseen prolonged economic and/or political risk in these markets could impact our customers in making their respective investment decisions and could have a material impact on the foregoing assessment. There can be no assurance that additional financing, if required, will be available on terms satisfactory to us or at all, and if funds are raised in the future through issuance of preference shares or debt, these securities could have rights, privileges or preference senior to those of our ordinary shares and newly issued debt could contain debt covenants that impose restrictions on our operations. Further, any sale of newly issued debt or equity securities could result in additional dilution to our current shareholders.

Table of Contents

C. Research and Development, Patents and Licenses

We believe that an integral part of our future success will depend on our ability to develop and enhance our services. Our product development efforts and strategies consist of incorporating new technologies from third parties as well as continuing to develop our own proprietary technology.

We have utilized and will continue to utilize the products and services of third parties to enhance our platform of technologies and services to provide competitive and diverse IP-based network solutions to our users. In addition, we plan to continue to expand our technologies, products and services through products and services developed internally. We will seek to continually improve and enhance our existing services to respond to rapidly evolving competitive and technological conditions. For the years ended December 31, 2017, 2016, and 2015, we spent $9.9 million, $8.5 million, and $11.3 million, respectively, on R&D activities. R&D expenses are expensed as incurred.

D. Trend Information

Although we experience some seasonality typical of the telecommunications industry, such as seasonally weak first quarters, our revenues and earnings have not demonstrated consistent seasonal characteristics.

For a discussion of significant recent trends in our financial condition and results of operations, please see Item 5. Operating and Financial Review and Prospects-A. Operating Results and Item 5. Operating and Financial Review and Prospects-B. Liquidity and Capital Resources.

E. Off-Balance Sheet Commitments and Arrangements

As of and during the year ended December 31, 2017, we had no off balance sheet arrangements.

F. Contractual Obligations and Other Commercial Commitments

The following table summarizes our significant contractual obligations as of December 31, 2017:

		Payments Due by Period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years

			(in thousands)			
Operating leases	$	4,676	1,575	3,101		
Letters of credit		20,938	12,099	6,015	2,613	211
Purchase commitments		106,324	97,514	3,712	5,098	
Total	$	131,938	111,188	12,828	7,711	211

Operating leases

We lease certain facilities under non-cancelable operating leases that expire at various dates in 2018 and 2019. In March 2011, we entered into the lease for a R&D and administrative office in Hangzhou, China. The lease became effective on March 7, 2011 and expired in July 2016. In April 2013, we gave up a portion of this leased space and negotiated an early termination to the contract with respect to that portion, and paid $0.1 million in early termination penalties. During 2014, we also gave up a portion of the lease due to its vacancy through the contractual early termination process and $0.1 million was incurred and paid as the penalty. In July 2016, we entered into a new non-cancellable lease agreement for our office facilities in Hangzhou, China. The lease contract will be expired on July 31, 2021.

Letters of credit

We issue standby letters of credit primarily to support international sales activities outside of China and in support of purchase commitments. When we submit a bid for a sale, often the potential customer will require that we issue a bid bond or a standby letter of credit to demonstrate our commitment through the bid process. In addition, we may be required to issue standby letters of credit as guarantees for advance customer payments upon contract signing or performance guarantees. The standby letters of credit usually expire six to twelve months from date of issuance without being drawn by the beneficiary thereof. As of December 31, 2017, our outstanding letters of credit approximated $20.9 million. These balances are included in the balance of Short-term restricted cash and Long-term restricted cash.

Table of Contents

Purchase commitments

We are obligated to purchase raw materials and work-in-process inventory under various orders from various suppliers, all of which should be fulfilled without adverse consequences material to our operations or financial condition.

Intellectual property

Certain sales contracts include provisions under which customers would be indemnified by us in the event of, among other things, a third-party claim against the customer for intellectual property rights infringement related to our products. There are no limitations on the maximum potential future payments under these guarantees. We have not accrued any amounts in relation to these provisions as no such claims have been made and we believe we have valid enforceable rights to the intellectual property embedded in our products.

Uncertain tax positions

As of December 31, 2017, we had $18.7 million of gross unrecognized tax benefits, of which $2.0 million related to tax benefits that, if recognized, would impact the annual effective tax rate. The remaining $16.7 million gross unrecognized tax benefits, if recognized, would impact certain deferred tax assets.

India Department of Telecommunication Security and Supply Chain Standards

India s Department of Telecommunications (DOT) requires equipment manufacturers to meet certain security and supply chain standards to the satisfaction of Indian authorities. The Company entered into these separate general security agreements with several customers in India which establish detailed security and supply chain standards covering products supplied to these telecommunication customers as required by the Indian authorities. At the beginning of signing agreement in 2010, we assumed we had unlimited penalty uncertainty and no revenue was recognized for any orders associated with the DOT agreement.

In 2015, the Company reassessed the revenue recognition on these agreements and concluded the likelihood of DOT non-compliance was low. This assessment is based on several factors, including 1) decreasing activities under these customer contracts; 2) no reports or findings of any spyware or malware in the equipment supplied by the Company in the past 5 year period, which is approximately the estimated useful life of such kind of equipment; and 3) quality assurance reports about the reliability of our equipment. As a result of this assessment, the Company considered it appropriate to recognize the related revenue. In 2015, the Company recognized $11.8 million revenue with $5.4 million cost of goods, which included equipment revenue $5.6 million with $5.4 million cost of goods and equipment based service revenue of $6.2 million with $0.01 million of cost of goods.

G. Safe Harbor

This Annual Report on Form 20-F contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 and the Securities Exchange Act of 1934. Forward-looking statements are based on current expectations, estimates, forecasts and projections about us, our future performance and the industries in which we operate as well as on our management s assumptions and beliefs. Such statements relate to, among other things:

- our business expectations regarding contract awards and telecom carriers;

- our plan to expand our market position in IP-based and broadband products;

- our expectations regarding the growth rates and telecom capital expenditure budgets of certain geographic regions;

- our anticipation regarding the growth of China s gross domestic product;

- our plan to grow in certain geographic regions; our expectations regarding growth in certain segments, uncertainties in obtaining future contracts in India; our intention to make significant investment in research and development, or R&D;

- our expectations regarding the IPTV or Internet TV markets;

- our plans to allocate resources to Internet TV;

- our anticipation regarding our new products on the cable market;

- our expected financial results;

- our expectations about our efforts to streamline our operations, new accounting pronouncements, liquidity and access to credit facilities and cash in our China subsidiary; sufficiency of liquidity and our ability to obtain funding or sell additional securities;

43

Table of Contents

- our relationships with suppliers, vendors and clients; our expectation regarding the current economic environment;

- our expectation regarding the impact of our strategy and the PRC government s policies on our financial results;

- changes in our board of directors and management;

- our expectations regarding litigation and the impact of legal proceedings and claims;

- our expectations that quarterly operating results will fluctuate from quarter to quarter; our expectations regarding competition and our ability to compete successfully in the markets for our products; our expectations regarding industry trends;

- our expectations that average selling prices of our products will continue to be subject to significant pricing pressures; our expectations regarding future growth based on market acceptance of our products; our expectations regarding revenue and gross margin; our expectations regarding the growth in business and operations;

- our expectations regarding our multinational operations; our ability to attract and retain highly skilled employees;

- our plans regarding the effect of foreign exchange rates; our expectations regarding acquisitions and investments;

- our continued efforts relating to the protections of our intellectual property, including claims of patent infringement;

- our expectations regarding future impairment review of our goodwill, intangible assets, and other long-lived assets;

- our expectations regarding costs of complying with environmental, health and safety laws; our expectations regarding defects in our products;

- our expectations regarding the effectiveness of our internal control over financial reporting;

- our estimations regarding stock-based compensation;

- our plans regarding cash dividends; and our expectations regarding our facilities and the sufficiency of our facilities.

Statements that contain words like expects, anticipates, may, will, targets, projects, intends, plans, believes, seeks, estimates such words and similar expressions are also forward-looking statements.

Readers are cautioned that these forward-looking statements are only predictions and are subject to risks and uncertainties related to, among other things, our ability to execute on our business plan and implement certain restructuring actions, China s control of currency exchanges, ongoing litigation, our ability to introduce and deploy IP-based technologies and products, our ability to satisfy certain security and supply chain standards in India, impact of economic and/or political risks in Asia on our customers investment decisions, the number of competitors and the composition of competitors, additional warranty expense and inventory reserves, availability of future financing, our ability to manage our resources and other items discussed in Part I, Item 3. Key Information-D. Risk Factors of this Annual Report on Form 20-F. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We do not guarantee future results, and actual results, developments and business decisions may differ from those contemplated by the forward-looking statements. We undertake no obligation to update these forward-looking statements to reflect events or circumstances occurring after the date of this Form 20-F.

ITEM 6-DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information about our directors and executive officers as of the date of this annual report. The business address of all of our directors and executive officers is Level 6, 28 Hennessy Road, Admiralty, Hong Kong.

Name	Age	Position
Tim Ti	53	Chief Executive Officer and Board Director
Zhaochen Huang	55	Chief Operating Officer
Eric Lam	68	Vice President, Finance
Steven Chen	45	Senior Vice President, Product Development
Himanshu Shah	52	Chairman of Board of Directors
Wendong Zhang	41	Independent Director
Hong Liang Lu	64	Independent Director
Sean Shao	61	Independent Director

Table of Contents

Biographical Information

Tim Ti has served as our Chief Executive Officer since January 2016, and as a director of the Board since November 2016. Mr. Ti brings more than twenty years of business and management expertise to the Company. Mr. Ti previously served as the CEO of Virtual Gateway Labs, Inc., a subsidiary of UTStarcom. Prior to that, Mr. Ti served various roles at UTStarcom, including Senior Vice-President of Advanced Network Architecture Technologies, Senior Vice-President of Research & Development, and General Manager of the Broadband Business Unit. Before joining UTStarcom, Mr. Ti was the Director of Application & Marketing of Advanced Communication Devices Corporation, which was acquired by UTStarcom in 2001. He received a Master of Science degree in Computer Engineering from Santa Clara University in 1993.

Dr. Zhaochen Huang has served as our Chief Operating Officer since January 2016. Dr. Huang brings more than twenty-five years of business and management expertise to the Company. He previously served as the Vice-President, Global Operations, at UTStarcom and General Manager of UTStarcom India. Prior to that, Dr. Huang served various positions at Soliton Systems, K.K. including General Manager of Soliton Systems USA and VP of Research and Development of Soliton Systems Shanghai. Prior to that, Dr. Huang served at SECOM Co., LTD. and Nanjing Institute of Solid Device. He received a Doctor of Engineer s degree in Electrical and Electronics from Tokyo Institute of Technology.

Eric Lam is Vice President of Finance responsible for overseeing UTStarcom s global finance and accounting function since October, 2016. During his previous tenure with UTStarcom, he has held various senior financial management positions supporting sales and global supply chain operations. Prior to rejoining UTStarcom, Eric served as a special advisor to Shanghai Phicomm Communications. His professional career includes senior financial and operational management positions with The Gillette Company, Hewlett Packet Corporation, China Light and Power and other multinationals, as well as, start-up companies. Eric has multi-faceted global and international experience spanning the high technology, semi-conductor, energy, consumer products and defense industries. Eric was educated in the United States, earning a bachelor s degree from Tufts University and a master s in business administration degree from Columbia Business School.

Steven Chen has more than twenty years of experience in the telecom industry. Mr. Chen currently serves as Senior Vice President of Product & Technology and has led the function since May, 2016. Previously he served various management roles in product management, marketing and R&D. Before joining UTStarcom in 2003, Mr. Chen served as leader of product marketing and technical at Hangzhou ECI Telecommunication Co. Ltd. He received an MBA degree from Zhejiang University in 2009 and a Bachelor of System Engineering from Xiamen University in 1995.

Himanshu H. Shah has served as our chairman of the board since June 2014 and director of the board since November 2013. Mr. Shah is the founder and president of Shah Capital and a managing general partner of Shah

Capital Opportunity Fund LP. Mr. Shah has over 26 years of experience in global capital markets. He also serves as chairman of Marius Pharmaceuticals Inc. He received his master of business administration degree from the University of Akron and bachelor of commerce degree from Gujarat University in India.

Wendong Zhang has served as the director since November, 2017. Ms. Zhang received an MBA degree from the Graduate University of Chinese Academy of Sciences. She earned a Bachelor degree in Economics at Minzu University of China. Ms. Zhang is experienced in the areas of investment and financial management, strategic management and organization restructuring. Since 2015, she has been the assistant to the general manager of Beijing E-town International Investment & Development Co., Ltd., as well as to the leaders of its subsidiaries. Before that, she had various management roles at Beijing E-town, Orient Cultural Asset Management Co., Ltd. and Sheng Andi Investment Management Consulting Co., Ltd.

Hong Liang Lu has served as our director since June 1991. Mr. Lu served as Chairman of the Board from March 2003 to December 2006 and from July 2008 to August 2009. From June 1991 until July 2008, Mr. Lu served as our Chief Executive Officer and from June 1991 until July 2007 he also served as our President. In June 1991, Mr. Lu cofounded UTStarcom, Inc. under its prior name, Unitech Telecom, Inc., which subsequently acquired StarCom Network Systems, Inc. in September 1995. From 1986 through December 1990, Mr. Lu served as President and Chief Executive Officer of Kyocera Unison, a majority-owned subsidiary of Kyocera International, Inc. Mr. Lu served as President and Chief Executive Officer of Unison World, Inc., a software development company from 1983 until its merger with Kyocera in 1986. From 1979 to 1983, Mr. Lu served as Vice President and Chief Operating Officer of Unison World, Inc. Mr. Lu holds a B.S. in Civil Engineering from the University of California at Berkeley.

Sean Shao currently serves as (i) independent director and chairman of the audit committee of: 21Vianet Group, Inc., a carrier-neutral internet data center services provider listed on NASDAQ since August 2015; Jumei International Holding Ltd., an e-commerce company listed on NYSE since May 2014; LightInTheBox Holdings Co. Ltd., an e-commerce company listed on NYSE since June 2013 and UTStarcom Holdings Corp., a provider of broadband equipment and solutions listed on NASDAQ since October 2012, and (ii) independent director and chairman of the audit and compensation committees of China Biologic Products, Inc., a biopharmaceutical company listed on NASDAQ since July 2008. He served as the chief financial officer and a Board member of Trina Solar Limited from 2006 to 2008 and from 2015 to 2017, respectively. In addition, Mr. Shao served from 2004 to 2006 as the chief financial officer of ChinaEdu Corporation, an educational service provider, and of Watchdata Technologies Ltd., a Chinese security software company. Prior to that, Mr. Shao worked at Deloitte Touche Tohmatsu CPA Ltd. for approximately a decade. Mr. Shao received his master s degree in health care administration from the University of California at Los Angeles in 1988 and his bachelor s degree in art from East China Normal University in 1982. Mr. Shao is a member of the American Institute of Certified Public Accountants.

Table of Contents

Relationships among Directors or Executive Officers; Right to Nominate Directors

There are no family relationships among any of our directors or executive officers. There are also no arrangements or understandings with any person pursuant to which any of our directors or executive officers were selected, except with respect to the selection of the director nominee designated by BEIID. See Item 6. Directors, Senior Management and Employees-C. Board Practices.

B. Compensation

Compensation of Directors and Executive Officers

In 2017, we paid an aggregate of $1,796,374 in cash compensation and granted 46,473 restricted shares under our 2017 Plan to our directors and executive officers. In 2016, we paid an aggregate of $1,138,164 in cash compensation and granted 1,034,806 restricted shares under our 2006 Plan to our directors and executive officers.

2017 Equity Incentive Plan

On November 4, 2016, our board of directors approved our 2017 Equity Incentive Plan, or the 2017 Plan. The 2017 Plan provides for the grant of the following types of incentive awards: (i) stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance shares and performance units, and (vi) other stock or cash awards. Those who are eligible for awards under the 2017 Plan include employees, directors and consultants who provide services to us and our affiliates.

As of December 31, 2017, 1,165,623 shares underlying options and restricted stock awards and units were outstanding under the 2017 Plan. The 2006 Equity incentive plan expired on December 31, 2016, 1,546,927 ordinary shares available for grant under this plan were transferred to the 2017 equity incentive plan.

The following table summarizes significant ranges of outstanding and exercisable stock options as of December 31, 2017:

Range of Exercise Prices		Number of shares Outstanding as of 12/31/2017	Weighted Average Remaining Contractual Term	Weighted Average Exercise Price	Number of shares Exercisable as of 12/31/2017	Weighted Average Exercise Price
$ 2.24	$ 2.24	241,600	5.08	$ 2.24	41,650	$ 2.24
$ 4.17	$ 4.17	2,721	0.67	$ 4.17	2,721	$ 4.17
$ 2.24	$ 4.17	244,321	5.03	$ 2.26	44,371	$ 2.36

As of December 31, 2017, we had total unvested restricted stock awards of approximately 0.9 million shares, with a weighted average grant date fair value of $1.96.

C. Board Practices

Our board of directors currently consists of five directors. We believe that most of the non-executive members of our board of directors are an independent directors as that term is used in the NASDAQ corporate governance rules.

No shareholder has the contractual right to designate persons to be elected to our board of directors except BEIID. In accordance with the Stockholders Rights Agreement we entered into as of February 1, 2010 with BEIID, Ms. Wendong Zhang has been appointed to our Board as the nominee of BEIID and as a Class II Director to serve on each committee of our board of directors. Notwithstanding the forgoing, our amended and restated memorandum and articles of association provide that directors will be elected upon a resolution passed at a duly convened shareholders meeting by holders of a majority of our outstanding shares being entitled to vote in person or by proxy at such meeting, to hold office until the expiration of their respective terms. There is no minimum shareholding or age limit requirement for qualification to serve as a member of our board of directors.

Table of Contents

We have a staggered board that is divided into three classes, designated as Class I, consisting of two directors, Class II, consisting of one director, and Class III, consisting of two directors, with no more than one class eligible for reelection at any annual shareholder meeting, or AGM. The terms of our Class I and Class II directors and Class III will expire on the date of our next AGM. The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control. For information regarding when each of our current directors became a member of our board of directors, please see Item 6. Directors, Senior Management and Employees-A. Directors and Senior Management.

Board Committees and Related Functions

The principal standing committees of the board of directors are the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. We have adopted a charter for each of these committees. Each committee s members and functions are described below.

Audit Committee

Our Audit Committee consists of Sean Shao, Hong Liang Lu and Wendong Zhang, each of whom meets the independence standards of NASDAQ and the SEC. Sean Shao is the Chairman of our Audit Committee. Members of our Audit Committee meet the criteria for independence set forth in rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended, and the listing standards of the NASDAQ Stock Market; have not participated in the preparation of the consolidated financial statements of UTStarcom or any of its current subsidiaries at any time during the past three years; and are able to read and understand fundamental financial statements, including a company s balance sheets, income statements, statement of shareholder s equity and statements of cash flow. Mr. Shao has been determined by the board of directors to qualify as an audit committee financial expert under applicable SEC and NASDAQ rules. The Audit Committee oversees our accounting and financial reporting processes and the audits of the financial statements of our Company. The Audit Committee, among other duties and responsibilities:

- reviews and approves the annual appointment of our independent registered public accounting firm;
- discusses and reviews in advance the scope and fees of the annual audit;
- reviews the results of the audit with the independent registered public accounting firm and discusses the foregoing with our management;
- reviews and approves non-audit services of the independent registered public accounting firm;

- reviews compliance with our existing major accounting and financial reporting policies;

- review the quality, adequacy and effectiveness of the internal controls and any significant deficiencies or material weaknesses in internal controls;

- reviews and approves all related party transactions that would require disclosure pursuant to the rules of the SEC and the policies and procedures related to such transactions; and

- provides oversight and monitoring of our management and their activities with respect to our financial reporting process.

Compensation Committee

Our Compensation Committee consists of Hong Liang Lu, Wendong Zhang, Hong Liang Lu and Sean Shao. Hong Liang Lu is the Chairman of our Compensation Committee. The Compensation Committee, among other duties and responsibilities:

- approves and oversees the total compensation package for our executives, including their base salaries, incentives, deferred compensation, equity-based compensation, benefits and perquisites;

- reviews and approves corporate goals and objectives relevant to the compensation of our Chief Executive Officer, or the CEO, evaluate CEO performance, and determine CEO compensation based on this evaluation, (iii) review the CEO s performance evaluation of all executive officers and approve pay decisions, (iv) review periodically and make recommendations to the board of directors regarding any equity or long-term compensation plans; and

- administer these plans.

Table of Contents

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee consists of Hong Liang Lu, Wendong Zhang and Sean Shao, each of whom meets the independence standards of NASDAQ and the SEC. Hong Liang Lu is the Chairman of our Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee s responsibilities include the selection of director nominees for the Board and the development and annual review of our governance principles. The Nominating and Corporate Governance Committee, among other duties and responsibilities:

- assists the Board by actively identifying individuals qualified to become Board members;
- recommends director nominees to the board of directors for election at the next annual meeting of shareholders;
- recommends chairs and members of each committee to the board of directors;
- monitors significant developments in the law and practice of corporate governance and of the duties and responsibilities of directors of public companies;
- leads the board of directors in its annual performance self-evaluation, including establishing criteria to be used in connection with such evaluation;
- reviews Board compensation and recommends to the board of directors any changes in Board compensation;
- oversees compliance with our Code of Business Conduct and Ethics; and
- develops and recommends to the Board and administers our corporate governance guidelines.

Duties of Directors

In summary, our directors and officers owe the following fiduciary duties under Cayman Islands law:

- duty to act in good faith in what the directors believe to be in the best interests of our company as a whole;
- duty to exercise powers for the purposes for which those powers were conferred and not for a collateral purpose;
- directors should not properly fetter the exercise of future discretion;
- duty to exercise powers fairly as between different sections of shareholders;
- duty not to put themselves in a position in which there is a conflict between their duty to our company and their personal interests; and
- duty to exercise independent judgment.

In addition to the above, directors also owe a duty of care which is not fiduciary in nature. This duty has been defined as a requirement to act as a reasonably diligent person having both:

- the general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as are carried out by that director in relation to our company; and
- the general knowledge skill and experience which that director has.

In addition to the above, directors also owe a duty of care which is not fiduciary in nature. This duty has been defined as a requirement to act as a reasonably diligent person having both:

- the general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as are carried out by that director in relation to our company; and
- the general knowledge skill and experience which that director has.

As set out above, directors have a duty not to put themselves in a position of conflict and this includes a duty not to engage in self-dealing, or to otherwise benefit as a result of their position. However, in some instances what would otherwise be a breach of this duty can be forgiven and/or authorized in advance by the shareholders provided that there is full disclosure by the directors. This can be done by way of permission granted in the memorandum and articles of association or alternatively by shareholder approval at general meetings.

Table of Contents

Shareholder Suits

Our Cayman Islands counsel is not aware of any reported class action having been brought in a Cayman Islands court. Derivative actions have been brought in the Cayman Islands courts, and the Cayman Islands courts have confirmed the availability for such actions. In most cases, we will be the proper plaintiff in any claim based on a breach of duty owed to us, and a claim against (for example) our officers or directors usually may not be brought by a shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority and be applied by a court in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

- a company is acting, or proposing to act, illegally or beyond the scope of its authority;

- the act complained of, although not beyond the scope of the authority, could be effected if duly authorized by more than the number of votes which have actually been obtained; or

- those who control our company are perpetrating a fraud on the minority.

Our shareholder may have a direct right of action against us where the individual rights of that shareholder have been infringed or are about to be infringed.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and executive officers that generally require that we indemnify and hold an indemnitee harmless to the fullest extent permitted by law for liabilities arising out of the indemnitee s current or past association with us, any of our subsidiaries or another entity where he or she is or was serving at our request as a director or officer or in a similar capacity that involves services with respect to any employee benefit plan.

D. Employees

As of December 31, 2017, we had approximately 481 full-time employees worldwide. From time to time, we also employ part-time employees and hire contractors. Our employees are not represented by any collective bargaining agreement and we have never experienced a work stoppage. We believe that we have good employee relations. During the past two years, we adopted a series of restructuring initiatives targeted at returning us to profitability, as a result of which, we reduced our headcount from 442 in 2015 to 438 in 2016. However, during 2017, the

headcount was increased to 481, which was mainly due to investment in business development.

The following table sets forth information regarding our staff as of December 31, 2017:

Manufacturing and supply chain	174
Research and development	162
Marketing, sales and support	98
Administration and other support	47
Total	481

E. Share Ownership

The following table sets forth certain information with respect to beneficial ownership of our ordinary shares as of March 31, 2018 by:

- Each current director;
- Each current executive officer;
- All of our current directors and executive officers as a group; and
- Each person who is known to us to beneficially own more than 5% of our ordinary shares.

Table of Contents

The percentage of shares beneficially owned and votes held by each listed person is based upon 35,893,421 ordinary shares outstanding as of March 31, 2018 together with options that are exercisable within 60 days from March 31, 2018 and shares issuable upon vesting of restricted shares within 60 days from March 31, 2018 for each shareholder. Beneficial ownership is determined in accordance with the rules of the SEC.

Name and Address of Beneficial Owner(1)	Shares Beneficially Owned (2)	Percent of Total Outstanding (2)
Directors and Executive Officers		
Tim Ti	*	*
Zhaocheng Huang	*	*
Eric Lam	*	*
Xiaofeng Chen	*	*
Wendong Zhang		
Hong Liang Lu(3)	1,180,164	3.3%
Sean Shao	*	*
Himanshu Shah(4)	7,550,000	21.0%
All current directors and executive officers as a group	9,622,815	26.8%
Principal Shareholders		
Entities affiliated with Himanshu Shah and Shah Capital Management(4)	7,550,000	21.0%
The Smart Soho International Limited	5,000,000	13.9%
E-Town International Holding (Hong Kong) Co. Limited(5)	3,787,878	10.6%
Tonghao (Cayman) Limited	3,500,000	9.8%
Talent Transmission, Ltd.	2,718,758	7.6%

* Less than 1%

(1) Unless otherwise indicated, the address for all beneficial owners is c/o 4th Floor, South Wing, 368 Liuhe Road, Binjiang District, Hangzhou, P.R. China.

(2) The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of March 31, 2018. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting power or investment power with respect to securities. Shares subject to options which are exercisable within 60 days of March 31, 2018 and shares underlying restricted share units that will vest within 60 days of March 31, 2018 are deemed to be outstanding and to be beneficially owned by the person holding such options or restricted share units for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding and to be beneficially owned for the purpose of computing the percentage ownership of any other person. The number of shares beneficially owned has been adjusted to reflect our one-for-three reverse splits effected on March 21, 2013.

(3) Includes (i) 1,050,498 Ordinary Shares, (ii) 26,925 Ordinary Shares registered in the name of Lu Charitable Remainder Trust, of which Mr. Lu is the trustee, (iii) 16,408 Ordinary Shares registered in the name of the Lu Family Trust, of which Mr. Lu is a trustee and of which Mr. Lu and his spouse are beneficiaries, (iv) 76,333 Ordinary Shares

registered in the name of The Lu Family Limited Partnership, of which Mr. Lu is a general partner, and (v) 10,000 Ordinary Shares registered in Hong Lu Traditional IRA.

(4) Includes 7,550,000 Ordinary Shares owned by Shah Capital Opportunity Fund. Shah Capital is the investment manager of Shah Opportunity Fund. Mr. Shah is the president and chief investment officer of Shah Management Capital. The address of the principal business office of Shah Capital and Shah Capital Opportunity Fund L.P. is 8601 Six Forks Road, Suite 630, Raleigh, NC 27615, USA.

(5) Information based on Schedule 13D, Amendment No. 1, jointly filed with the SEC on October 1, 2010 by E-Town and BEIID. As the parent company of E-Town (Hong Kong), BEIID has the power to direct the vote of the 11,363,636 (or 3,787,878 after reverse share split) shares and the disposition of the shares of 11,363,636 (or 3,787,878 after reverse share split) held by E-Town. The address of the principal business office of BEIID and E-Town is 8F Bldg 61 No.2 Jing Yuan North Street, BDA, Daxing District, Beijing, PRC.

None of the shareholders known by us to beneficially own 5% or more of our outstanding shares as of March 31, 2018, have voting rights that are different from the voting rights of our other shareholders.

Table of Contents

To our knowledge, except as disclosed above, we are not owned or controlled, directly or indirectly, by another corporation, by any foreign government or by any other natural or legal person or persons, severally or jointly.

To our knowledge, there are no arrangements the operation of which may at a subsequent date result in us undergoing a change in control.

As of March 31, 2018, our directors and executive officers held options to purchase an aggregate of 111,021 ordinary shares under our existing equity incentive plans. The per share exercise prices of these options held by our directors and executive officers range from $2.24 to $4.17, and the expiration dates of such options range from August 31, 2018 to January 29, 2023. In addition, as of Mar 31, 2018, our directors and executive officers held 173,925 restricted shares, 207,072 restricted share units and 400,633 performance stock units issuable upon vesting.

ITEM 7-MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to Item 6. Directors, Senior Management and Employees-E. Share Ownership.

B. Related Party Transactions

In 2016, we paid $0.2 million to Tim Ti, the Chief Executive Officer of the Company, for remuneration for service to Virtual Gateway Labs, Inc..

C. Interests of Experts and Counsel

Not applicable.

ITEM 8-FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See Item 18. Financial Statements for our audited consolidated financial statements filed as part of this Annual Report on Form 20-F.

Legal Proceedings

We are currently not a party to any material legal or administrative proceedings, and we are not aware of threatened material legal or administrative proceedings against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

Dividend Policy

To date, we have not paid any cash dividends on our ordinary shares. We currently anticipate that we will retain any available funds to finance the growth and operation of our business and we do not anticipate paying any cash dividends in the foreseeable future. Certain present or future agreements may limit or prevent the payment of dividends on our ordinary shares. Additionally, our cash held in countries outside the United States may be subject to certain control limitations or repatriation requirements, limiting our ability to use this cash to pay dividends. Please refer to the discussion in Item 5. Operating and Financial Review and Prospects-B. Liquidity and Capital Resources.

B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this Annual Report on Form 20-F.

ITEM 9-THE OFFER AND LISTING

A. Offer and Listing Details

The following table sets forth the highest and lowest sale prices per share of our ordinary shares following the Merger and of UTStarcom, Inc. s common stock prior to the Merger, as reported on NASDAQ for the periods indicated. The sale prices per share set forth below have been adjusted to reflected our one-for-three reverse share split effected on March 21, 2013.

Table of Contents

	High	Low
Annual highs and lows		
2013	$ 3.51	$ 5.00
2014	$ 3.58	$ 2.42
2015	$ 3.06	$ 1.60
2016	$ 2.49	$ 1.66
2017	$ 6.51	$ 1.69
Quarterly highs and lows		
Second Quarter 2016	$ 2.10	$ 1.59
Third Quarter 2016	$ 2.15	$ 1.66
Fourth Quarter 2016	$ 2.15	$ 1.60
First Quarter 2017	$ 2.40	$ 1.69
Second Quarter 2017	$ 2.34	$ 1.94
Third Quarter 2017	$ 2.40	$ 1.97
Fourth Quarter 2017	$ 6.51	$ 2.30
First Quarter 2018	$ 6.50	$ 4.66
Monthly highs and lows		
September 2017	$ 2.40	$ 2.04
October 2017	$ 3.20	$ 2.30
November 2017	$ 5.24	$ 3.05
December 2017	$ 6.51	$ 4.84
January 2018	$ 6.50	$ 5.63
February 2018	$ 6.07	$ 5.01
March 2018	$ 5.94	$ 4.66

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares are traded on NASDAQ under the ticker symbol UTSI, under which UTStarcom, Inc. s common stock had previously traded since its initial public offering on March 2, 2000.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10-ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

Table of Contents

B. Memorandum and Articles of Association

Our amended and restated memorandum and articles of association, as amended, are filed herein with this Annual Report on 20-F as Exhibit 1.1.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4. Information on the Company or elsewhere in this Annual Report on 20-F.

D. Exchange Controls

China s currency exchange control and government restrictions on dividends may impact our ability to transfer funds outside of China.

A significant portion of our business is conducted in China where the currency is the RMB. Regulations in China permit foreign owned entities to freely convert the RMB into foreign currency for transactions that fall under the current account, which includes trade related receipts and payments, interest and dividends. Accordingly, our PRC subsidiaries may use RMB to purchase foreign exchange for settlement of such current account transactions without pre-approval. However, pursuant to applicable regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In calculating accumulated profits, foreign investment enterprises in China are required to allocate at least 10% of their realized profits each year, if any, to fund certain reserves, including mandated employee benefits funds, until these reserves have reached 50% of the registered capital of the enterprises.

Transactions other than those that fall under the current account and that involve conversion of RMB into foreign currency are classified as capital account transactions; examples of capital account transaction include repatriations of investment by or loans to foreign owners, or direct equity investments in a foreign entity by a China domiciled entity. Capital account transactions will be examined and registered by banks or SAFE in China to convert a remittance into a foreign currency, such as U.S. dollars, and transmit the foreign currency outside of China.

This system could be changed at any time and any such change may affect the ability of us or our subsidiaries in China to repatriate capital or profits, if any, outside China. Furthermore, SAFE has a significant degree of administrative discretion in implementing the laws and regulations and has used this discretion to limit convertibility of current account payments out of China. Whether as a result of a deterioration in the PRC balance of payments, a shift in the PRC macroeconomic prospects or any number of other reasons, China could impose additional restrictions on capital remittances abroad. As a result of these and other restrictions under the laws and regulations of the PRC, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the parent. We have no assurance that the relevant PRC governmental authorities in the future will not limit further or eliminate the ability of our PRC subsidiaries to purchase foreign currencies and transfer such funds to us to meet our liquidity or other business needs. Any inability to access funds in China, if and when needed for use by us outside of China, could have a material and adverse effect on our liquidity and our business.

E. Taxation

The following summary of the material Cayman Islands, People s Republic of China and United States federal income tax consequences of an investment in our ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this Annual Report on Form 20-F, all of which are subject to change. This summary does not address all possible tax consequences relating to an investment in our ordinary shares, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

The Cayman Islands Government (or any other taxing authority in the Cayman Islands) currently does not levy taxes on individuals or corporations based upon profits, income, gains or appreciation, and there is no taxation in the Cayman Islands in the nature of inheritance tax or estate duty. There are no other taxes that are likely to have a material impact on us that may be levied by the Government of the Cayman Islands except for stamp duty which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. No stamp duties or other similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution or delivery of any of the documents relating the proposed merger or the performance or enforcement of any of them, unless they are executed in or thereafter brought within the jurisdiction of the Cayman Islands for enforcement purposes or otherwise. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Table of Contents

People s Republic of China Taxation

The New EIT Law, and the implementation regulations for the New EIT Law issued by the PRC State Council, became effective as of January 1, 2008. The New EIT Law provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% corporate income tax rate as to their worldwide income. Under the implementation regulations for the New EIT Law issued by the PRC State Council, a de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. In April 2009, the SAT released Circular 82. Under Circular 82, a foreign enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered as a resident enterprise if all of the following conditions are satisfied: (i) the senior management personnel responsible for its daily operations and the place where the senior management departments discharge their responsibilities are located primarily in the PRC; (ii) its finance and human resources related decisions are made by or are subject to the approval of institutions or personnel located in the PRC; (iii) its major assets, books and records, company seals and minutes of its board of directors and shareholder meetings are located or kept in the PRC; and (iv) senior management personnel or 50% or more of the members of its board of directors with voting power of the enterprise reside in the PRC. On September 1, 2011, the SAT issued Circular 45, to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise controlled by a PRC enterprise or PRC enterprise group. Currently we are not recognized as a PRC resident enterprise, but there is a risk that we may be recognized by the PRC tax authorities as a PRC resident enterprise. Pursuant to Circular 45, if we are recognized as a PRC resident enterprise, our worldwide income may be subject to enterprise income tax in China at a rate of 25%, and we would be required to file provisional enterprise income tax returns quarterly and complete an annual settlement before May 31 of each year for the preceding year at the in-charge tax bureau. Further, we would be obliged to withhold the enterprise income tax when we distribute dividends to non-resident enterprise holders of our ordinary shares, and the individual income tax when we distribute dividends to non-resident individual holders of our ordinary shares. Under the New EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, and PRC income tax at the rate of 20% is applicable to dividends payable to the investors that are non-resident individuals, subject to the provision of any applicable agreement for the avoidance of double taxation and to the extent such dividends have their sources within the PRC.

Circular 45 further clarifies that the capital gains derived by the non-resident enterprises from the alienation of shares of the foreign-incorporated resident enterprise are considered as China-sourced income. Under the New EIT Law and implementation regulations issued by the PRC State Council, non-resident enterprise holders of our ordinary shares may be subject to enterprise income tax in China at a rate of 10% on the capital gains derived from the transfer of our ordinary shares. Non-resident individual holders of our ordinary shares may be subject to PRC income tax at a rate of 20% on the capital gains derived from the transfer of our ordinary shares to the extent such capital gains are considered as China-sourced income.

For a discussion of the PRC tax consequences of an investment in our ordinary shares, see Item 3. Key Information-D. Risk Factors-Risks Relating to Conducting Business in China-Under the Enterprise Income Tax Law, or the EIT Law , we may be classified as a resident enterprise of the PRC, which could result in unfavorable tax consequences to us and to non-PRC shareholders.

U.S. Federal Income Taxation

The following discussion describes material U.S. federal income tax consequences to U.S. Holders and Non-U.S. Holders (each as defined below) of an investment in our ordinary shares. This discussion applies only to investors that hold the ordinary shares as capital assets and, in the

case of U.S. Holders, that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States, including the U.S. Internal Revenue Code of 1986, as amended, or the Code, U.S. Treasury regulations in effect, or, in some cases, proposed, as of the date of this Annual Report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations, including, without limitation:

- banks and certain other financial institutions;
- dealers in securities or currencies;
- insurance companies, regulated investment companies and real estate investment trusts;
- brokers and/or dealers;

Table of Contents

- traders that elect the mark-to-market method of accounting;

- tax-exempt entities;

- expatriates or entities subject to the U.S. anti-inversion rules;

- persons liable for alternative minimum tax;

- persons holding ordinary shares as part of a straddle, hedging, constructive sale, conversion transaction or integrated transaction;

- persons holding ordinary shares through a bank, financial institution or other entity, or a branch thereof, located, organized or resident outside the United States;

- persons who acquired ordinary shares through the exercise of an employee stock option or otherwise as compensation;

- persons that actually or constructively own 10% or more of our voting stock; or

- persons holding ordinary shares through partnerships or other pass-through entities.

(YOU SHOULD CONSULT YOUR OWN TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL INCOME TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS ANY TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ORDINARY SHARES ARISING UNDER THE FEDERAL ESTATE OR GIFT TAX LAWS OR THE LAWS OF ANY STATE, LOCAL OR NON-U.S. JURISDICTION AND UNDER ANY APPLICABLE TAX TREATY.)

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds ordinary shares, the tax treatment of a partner in such partnership will depend on the status of the partner and the activities of the partner and the partnership. If you are a partnership

holding ordinary shares, or a partner in such a partnership, you should consult your own tax advisors.

Treatment of the UTStarcom as a U.S. Corporation for U.S. Federal Income Tax Purposes

Although UTStarcom is organized as a Cayman Islands corporation, we have been treating UTStarcom as a U.S. corporation for U.S. federal income tax purposes pursuant to Section 7874 of the Code as a result of the Merger. As such, UTStarcom generally is treated as subject to U.S. federal income tax as if it were organized under the laws of the United States or a state thereof. Because we generally treat UTStarcom as a U.S. corporation for all purposes under the Code, we do not intend to treat UTStarcom as a passive foreign investment company, as such rules apply only to non-U.S. corporations for U.S. federal income tax purposes.

The remainder of this discussion assumes that UTStarcom is treated as a U.S. corporation for all U.S. federal income tax purposes.

Tax Consequences of the Ownership and Disposition of Ordinary Shares to U.S. Holders

The discussion below of the U.S. federal income tax consequences to U.S. Holders will apply to you if you are the beneficial owner of ordinary shares and you are, for U.S. federal income tax purposes:

- a citizen or resident of the United States;

- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia or otherwise treated as such under applicable U.S. tax law;

- an estate whose income is subject to U.S. federal income taxation regardless of its source; or

- a trust that (1) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Distributions. UTStarcom does not currently anticipate paying distributions on its ordinary shares. In the event that distributions are paid, however, the gross amount of such distributions will be included in the gross income of a U.S. Holder as dividend income on the date of receipt to the extent that the distribution is paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such dividends will be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations. Dividends received by non-corporate U.S. holders, including individuals, may be subject to reduced rates of taxation under current law. A U.S. holder may be eligible to claim a foreign tax credit with respect to any PRC

withholding tax imposed on dividends paid by us. However, the foreign tax credit rules are complex, and their application in connection with Section 7874 of the Code in the presence of the Agreement Between the Government of the United States of America and the Government of the People s Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, or the U.S.-PRC Tax Treaty, are not entirely clear at this time. U.S. Holders should consult their own tax advisors with respect to any benefits they may be entitled to under the foreign tax credit rules and the U.S.-PRC Tax Treaty.

Table of Contents

To the extent that dividends paid on our ordinary shares exceed current and accumulated earnings and profits, the distributions will be treated first as a tax-free return of tax basis on our ordinary shares, and to the extent that the amount of the distribution exceeds tax basis, the excess will be treated as capital gain.

Sale or Other Disposition. U.S. Holders of our ordinary shares will recognize taxable gain or loss on any sale, exchange, or other taxable disposition of ordinary shares equal to the difference between the amount realized for the ordinary shares and the U.S. Holder s tax basis in those ordinary shares. This gain or loss generally will be capital gain or loss. Non-corporate U.S. Holders, including individuals, may be eligible for reduced tax rates if the ordinary shares have been held for more than one year. The deductibility of capital losses is subject to limitations. A U.S. Holder may be eligible to claim a foreign tax credit with respect to any PRC withholding tax imposed on gain from the sale or other disposition of our ordinary shares. However, the foreign tax credit rules are complex, and their application in connection with Section 7874 of the Code in the presence of the U.S.-PRC Tax Treaty are not entirely clear at this time. U.S. Holders should consult their own tax advisors with respect to any benefits they may be entitled to under the foreign tax credit rules and the U.S.-PRC Tax Treaty.

Medicare Surtax. Certain U.S. Holders who are individuals, trusts or estates are required to pay a 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of shares of stock. U.S. holders should consult their own advisors regarding the effect, if any, of this legislation on their ownership and disposition of our ordinary shares.

Tax Consequences of the Ownership and Disposition of Ordinary Shares to Non-U.S. Holders

The discussion below of the U.S. federal income tax consequences to Non-U.S. Holders will apply to you if you are the beneficial owner of ordinary shares and you are, for U.S. federal income tax purposes:

- a non-resident alien individual;
- a foreign corporation; or
- a foreign trust.

Special rules, not discussed here, may apply to certain Non-U.S. Holders, such as:

- certain former citizens or residents of the United States;
- controlled foreign corporations;
- passive foreign investment companies;
- corporations that accumulate earnings to avoid U.S. federal income tax;
- investors in pass-through entities that are subject to special treatment under the Code.

Further, this discussion assumes that no item of income or gain recognized by any Non-U.S. Holder with respect to the ordinary shares is effectively connected with the conduct of a trade or business within the United States.

Distributions. UTStarcom does not currently anticipate paying distributions on its ordinary shares. In the event that distributions are paid, however, such distributions will constitute dividends for U.S. tax purposes to the extent paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent that dividends paid on UTStarcom ordinary shares exceed current and accumulated earnings and profits, the distributions will be treated first as a tax-free return of tax basis on the ordinary shares, and to the extent that the amount of the distribution exceeds tax basis, the excess will be treated as capital gain. Any dividends paid to a Non-U.S. Holder by UTStarcom are treated as income derived from sources within the United States and generally will be subject to U.S. federal income tax withholding at a rate of 30% of the gross amount of the dividends, or at a lower rate provided by an applicable income tax treaty if Non-U.S. Holders provide proper certification of eligibility for the lower rate (usually on IRS Form W-8BEN or W-8BEN-E).

Table of Contents

If Non-U.S. Holders are eligible for a reduced rate of U.S. withholding tax pursuant to an applicable income tax treaty, such Non-U.S. Holders may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS.

Sale or Other Disposition. Any gain realized upon the sale or other disposition of UTStarcom ordinary shares generally will not be subject to U.S. federal income tax unless:

- the holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are met; or

- UTStarcom is or has been a U.S. real property holding corporation, or USRPHC, for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition or the period during which such Non-U.S. Holder has held the ordinary shares.

Non-U.S. Holders whose gain is described in the first bullet point above will be subject to a flat 30% U.S. federal income tax rate on the gain derived from the sale, which may be offset by U.S.-source capital losses, even though such Non-U.S. Holders are not considered to be residents of the United States. A corporation will be a USRPHC if the fair market value of its U.S. real property interests equals or exceeds 50% of the aggregate value of its real property interests (U.S. and non-U.S.) and its assets used or held for use in a trade or business. Because we do not currently own significant U.S. real property, we believe, but our special United States counsel has not independently verified, that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, however, as long as our ordinary shares are regularly traded on an established securities market, such ordinary shares will be treated as U.S. real property interests only if you actually or constructively hold more than five percent of such regularly traded ordinary shares at any time during the applicable period that is specified in the Code.

Backup Withholding and Information Reporting

Payments of dividends or of proceeds on the disposition of stock made to a holder of UTStarcom ordinary shares may be subject to information reporting and backup withholding at a current rate of 28% unless such holder provides a correct taxpayer identification number on IRS Form W-9 (or other appropriate withholding form) or otherwise establishes an exemption from backup

withholding, for example by properly certifying your non-U.S. status on a Form W-8BEN, W-8BEN-E or another appropriate version of IRS Form W-8. Payments of dividends to holders generally must be reported annually to the IRS, along with the name and address of the holder and the amount of tax withheld, if any. A similar report is sent to the holder. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in the holder s country of residence.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the Code, commonly known as FATCA, generally impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our ordinary shares paid to a foreign financial institution (as specially defined under these rules) unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). FACTA also generally imposes a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our ordinary shares paid to a non-financial foreign entity unless such entity provides the withholding agent with a certification identifying the direct and indirect U.S. owners of the entity. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes. This legislation generally will apply to payments of gross proceeds only if made on or after January 1, 2017. An intergovernmental agreement between the United States and an applicable foreign country may modify these requirements. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of FATCA on their investment in our ordinary shares.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

Table of Contents

H. Documents on Display

The documents concerning our Company referred to in this document and required to be made available to the public are available at the offices of UTStarcom Holdings Corp. at 4th Floor, South Wing, 368 Liuhe Road, Binjiang District, Hangzhou, P.R. China.

In addition, we previously filed with the SEC our registration statement on Form F-4 (Registration No. 333-173828, as amended) and prospectus under the Securities Act, with respect to our ordinary shares.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

I. Subsidiary Information

See Item 4. Information on the Company- C. Organizational Structure for information about our subsidiaries.

ITEM 11-QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to the impact of interest rate changes, changes in foreign currency exchange rates and changes in the stock market.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair value of our investment portfolio would not be significantly affected by either a 10% increase or decrease in interest rates due mainly to the short term nature of most of our investment portfolio. However, our interest income can be sensitive to changes in the general level of U.S. and China interest rates since the majority of our funds are invested in instruments with maturities of less than one year. In a declining interest rate environment, as short term investments mature, reinvestment occurs at less favorable market rates. Given the short term nature of certain investments, anticipated declining

interest rates will negatively impact our investment income.

We maintain an investment portfolio of various holdings, types and maturities. We do not use derivative financial instruments. We place our cash investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines. Our policy is to limit the risk of principal loss and to ensure the safety of invested funds by generally attempting to limit market risk. Funds in excess of current operating requirements are mostly invested in money market funds which are rated AAA. Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of December 31, 2017, the carrying value of our cash and cash equivalents approximated fair value.

The table below represents carrying amounts and related weighted-average interest rates of our investment portfolio at December 31, 2017 and 2016:

	December 31,	
	2017	**2016**
	(in thousands)	
Cash and cash equivalents	$ 79,749	$ 83,922
Average interest rate	1.02%	0.88%
Restricted cash short-term	$ 12,099	$ 11,397
Average interest rate	0.99%	0.68%
Short-term investments	$ 3,143	$ 479
Average interest rate	2.86%	0%
Restricted cash long-term	$ 8,839	$ 3,321
Average interest rate	1.68%	1.57%
Total investment securities	$ 103,830	$ 98,640
Average interest rate	1.13%	0.88%

Table of Contents

Equity Investment Risk

We have invested in several privately-held companies as well as investment funds which invest primarily in privately held companies, many of which can still be considered in the start-up or development stages. These investments are inherently risky, as the market for the technologies or products they have under development is typically in the early stages and may never materialize.

Foreign Exchange Rate Risk

As a multinational company, we conduct our business in a wide variety of currencies and are therefore subject to market risk for changes in foreign exchange rates. We expect to continue to expand our business globally and, as such, expect that an increasing proportion of our business may be denominated in currencies other than U.S. dollars. As a result, fluctuations in foreign currencies may have a material impact on our business, results of operations and financial condition.

In 2017, the majority of our foreign-currency denominated sales have been made in Japan, denominated in Japanese yen. The balance of our cash and cash equivalents held in Japanese Yen was $14.7 million at December 31, 2017. Historically, the exchange rate between Japanese Yen and U.S. dollar has been volatile. Additionally, the majority of our expenses are denominated in RMB. Due to China s currency exchange control regulations, we are limited in our ability to convert and repatriate RMB, as well as in our ability to engage in foreign currency hedging activities in China. The balance of our cash and cash equivalents held in RMB was $2.8 million at December 31, 2017. Since China unpegged the RMB from the U.S. dollar in July 2005 through December 31, 2017, the RMB has appreciated by approximately 21.4% versus the U.S. dollar. We also made significant sales in Indian rupees in 2017.

We may manage foreign currency exposures using forward and option contracts to hedge and thus minimize exposure to the risk of the eventual net cash inflows and outflows resulting from foreign currency denominated transactions with customers, suppliers, and non-U.S. subsidiaries; however, we are not currently hedging any such transactions. As our foreign currency balances are not currently hedged, any significant revaluation of our foreign currency exposures may materially and adversely affect our business, results of operation and financial condition. We do not enter into foreign exchange forward or option contracts for trading purposes.

ITEM 12-DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Not applicable.

Table of Contents

PART II

ITEM 13-DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14-MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See Item 10. Additional Information for a description of the rights of securities holders, which remain unchanged.

ITEM 15-CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and our VP Finance, has performed an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a 15(e) and 15d 15(e) promulgated under the Exchange Act as of the end of the period covered by this report. Based upon that evaluation, our management has concluded that, as of December 31, 2017, our disclosure controls and procedures were ineffective because of the material weakness described below under Management s Annual Report on Internal Control over Financial Reporting. We have undertaken the remedial steps to address the material weaknesses in our disclosure controls and procedures as set forth below under Management s Plan for Remediation of Material Weaknesses.

Management s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a 15(f) under the Exchange Act, for our Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP and 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 a company s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. GAAP, and that a company s receipts and expenditures are being made only in accordance with authorizations of a company s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company s assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

As required by Section 404 of the Sarbanes Oxley Act of 2002 and related rules promulgated by the Securities and Exchange Commission, our management, including our chief executive officer and VP Finance, assessed the effectiveness of internal control over financial reporting as of December 31, 2017 using the criteria set forth in the report Internal Control-Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company s annual or interim financial statements will not be prevented or detected on a timely basis. As a result of management s evaluation of our internal control over financial reporting, the following material weakness in our internal control over financial reporting was identified as of December 31, 2017.

(i) The Company did not have sufficient resources with an appropriate level of knowledge and experience in U.S. GAAP to properly account for complex accounting issues under U.S. GAAP. Complex issues such as investment accounting, impairment assessment and loss contract reserve may not be accounted for properly in the future.

The material weakness described above may result in misstatement of the Company s consolidated financial statements that would result in a material misstatement to the Company s quarterly or annual consolidated financial statements that would not be prevented or detected. As a result of the material weakness, management has concluded that our internal control over financial reporting was ineffective as of December 31, 2017.

Table of Contents

Management s Plan for Remediation of Material Weaknesses

Our management has been engaged in, and continues to be engaged in making necessary changes and improvements to the overall design of its control environment to address the material weaknesses in internal control over financial reporting and the ineffectiveness of the Company s disclosure controls and procedures described above.

(i) To remediate the material weakness described above with respect to controls over complex transactions, we have done and plan to continue to: (1) retain additional accounting personnel with appropriate knowledge and experience; (2) provide more comprehensive training on U.S. GAAP to our accounting team and other relevant personnel; (3) conduct peer financial statements review and validation within finance team for items that are complex in nature; and (4) continue to engage an external consultant to review the accounting of our complex transactions. We plan to continue to assess our standardized processes to further enhance the effectiveness of our financial review, including the analysis and monitoring of financial information in a consistent and thorough manner.

Changes in Internal Control over Financial Reporting

Management has evaluated, with the participation of our chief executive officer and VP Finance whether any changes in our internal control over financial reporting that occurred during our last fiscal year have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, management has concluded that, other than controls implemented for the remediation of the material weakness in internal control over financial reporting identified in 2016 as disclosed above, no such changes occurred during the period covered by this annual report on Form 20-F.

Attestation Report of the Independent Public Accounting Firm

This annual report on Form 20-F does not include an attestation report of our independent public accounting firm because we are neither an accelerated filer nor a large accelerated filer, as such terms are defined in Rule 12b-2 under the Exchange Act.

ITEM 16A-AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Sean Shao qualifies as an Audit Committee Financial Expert as defined by the applicable rules of the SEC and that Mr. Shao is independent as that term is defined in NASDAQ Marketplace Rule 5605(c)(2)(A). Please refer to Item 6. Directors, Senior Management and Employees-A. Directors and Senior Management-Biographical Information for a brief biographical listing of Mr. Shao s relevant experience.

ITEM 16B-CODE OF ETHICS

We have adopted a Code of Business Conduct and Ethics, or Code of Ethics that applies to all employees including our principal executive officers. The Code of Ethics is designed to promote: (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, (ii) full, fair, accurate, timely and understandable disclosure in reports and documents that we are required to file to the SEC and in other public communications, (iii) compliance with applicable laws, rules and regulations, (iv) the prompt internal reporting of violations of the Code of Ethics to an appropriate person or entity, and (v) accountability for adherence to the Code of Ethics.

As a supplement to the Code of Ethics, we have also adopted a Code of Ethics for Chief Executive Officer and Senior Financial Officers, or Code of Ethics for Financial Officers, which is designed to highlight the legal and ethical obligations of the Chief Executive Officer and financial officers. The Code of Ethics for Financial Officers imposes upon applicable officers certain additional internal reporting requirements for acts committed in violation of the Code of Ethics and/or the securities laws.

Copies of the Code of Ethics and the Code of Ethics for Financial Officers are available on our website at *http://www.utstar.com*. Any amendment or waiver of the Code of Ethics or Code of Ethics for Financial Officers pertaining to a member of our Board or one of our executive officers will be disclosed on our website at *http://www.utstar.com.* Information contained in our website is not incorporated by reference into this Form 20-F and you should not consider information on our website to be part of this Form 20-F.

Table of Contents

ITEM 16C-PRINCIPAL ACCOUNTANT FEES AND SERVICES

Disclosure of Fees Charged by Independent Accountants

The aggregate fees billed for professional accounting services by Grant Thornton for the fiscal year ended December 31, 2017 and by Grant Thornton and Crowe Horwath LLP for the fiscal year ended December 31, 2016 are as follows:

	Years Ended December 31,	
	2017	2016
	(in thousands)	
Audit fees(1)	$ 460	$ 350
Audit-related fees(2)		
Tax fees(3)		
All other fees(4)	94	
Total	$ 554	$ 350

(1) Audit fees are fees for professional services rendered for the integrated audit of our consolidated financial statements, for review of interim consolidated financial information included in quarterly reports or earnings releases, and for services that are normally provided by Grant Thornton in connection with statutory and regulatory filings or engagements in 2016 and 2017.

(2) Audit-related fees represent aggregate fees paid or accrued for professional services rendered for accounting consultations and other procedures performed with respect to certain UTStarcom acquisition and divestiture efforts.

(3) Tax fees are fees for tax services related to tax compliance, tax planning and tax advice.

(4) All other fees are fees for an online accounting research tool and out of pocket expenses.

The Audit Committee has determined that the provision to us by independent registered public accounting firms of non-audit services as listed above is compatible with independent registered public accounting firms maintaining its independence.

Audit Committee Pre-approval Policies and Procedures

Our Audit Committee has adopted procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by an independent registered public accounting firm before that firm is retained for such services. The pre-approval procedures are as follows:

- Any audit or non-audit service to be provided to us by the independent accountant must be submitted to the Audit Committee for review and approval, with a description of the services to be performed and the fees to be charged.

- The Audit Committee in its sole discretion then approves or disapproves the proposed services and documents such approval, if given, through written resolutions or in the minutes of meetings, as the case may be.

ITEM 16D-EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

ITEM 16E-PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On November 12, 2014, our board of directors approved a share repurchase program of up to $40 million of our outstanding shares over the next 24 months. On November 4, 2016, our board of directors approved for extension of the repurchase plan to November 2018. During the repurchase program period, we will maintain flexibility to turn the program to an accelerated repurchase program and/or a cash tender offer, and we are not obligated to make repurchases at any specific time or situation. Our board of directors will review the share repurchase program periodically and may authorize adjustment of its terms and size accordingly. We plan to fund any share repurchases made under this program from our available cash balance. Purchases under the program are as follows:

Table of Contents

Period	Total Number of shares (or Units) purchased	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum approximate dollar value that may yet be purchased under the Plans
December 2014	166,421	$ 2.63	166,421	$ 39,561,613
January 2015	207,272	$ 2.90	373,693	$ 38,960,627
February 2015	191,685	$ 2.75	565,378	$ 38,434,451
March 2015	150,038	$ 2.68	715,416	$ 38,032,006
April 2015	142,696	$ 2.65	858,112	$ 37,654,473
May 2015	27,443	$ 2.17	885,555	$ 37,594,886
June 2015	328,703	$ 2.01	1,214,258	$ 36,935,426
July 2015	156,320	$ 1.91	1,370,578	$ 36,636,344
August 2015	145,975	$ 1.95	1,516,553	$ 36,352,399
September 2015	103,300	$ 2.02	1,619,853	$ 36,143,984
October 2015	55,500	$ 2.22	1,675,353	$ 36,020,775
November 2015	21,370	$ 2.20	1,696,723	$ 35,973,850
December 2015	33,000	$ 2.20	1,729,723	$ 35,901,220
January 2016	165,392	$ 2.20	1,895,115	$ 35,538,178
February 2016	80,660	$ 2.12	1,975,775	$ 35,367,443
March 2016	176,386	$ 2.01	2,152,161	$ 35,012,890
April 2016	505,593	$ 1.80	2,657,754	$ 34,102,109
May 2016	390,648	$ 2.02	3,048,402	$ 33,313,145
June 2016	146,542	$ 1.99	3,195,944	$ 33,021,480
July 2016	76,210	$ 1.93	3,271,154	$ 32,874,525
August 2016	239,104	$ 2.05	3,510,258	$ 32,384,860
September 2016	36,500	$ 2.16	3,546,758	$ 32,306,056
October 2016		$	3,546,758	$ 32,306,056
November 2016	112,200	$ 1.98	3,658,958	$ 32,083,499
December 2016	125,420	$ 1.98	3,784,378	$ 31,835,274
January 2017	12,380	$ 1.99	3,796,758	$ 31,810,649
February 2017		$	3,796,758	$ 31,810,649
March 2017	60,359	$ 1.89	3,857,117	$ 31,696,485
April 2017		$	3,857,117	$ 31,696,485
May 2017		$	3,857,117	$ 31,696,485
June 2017		$	3,857,117	$ 31,696,485
July 2017		$	3,857,117	$ 31,696,485
August 2017		$	3,857,117	$ 31,696,485
September 2017		$	3,857,117	$ 31,696,485
October 2017		$	3,857,117	$ 31,696,485
November 2017		$	3,857,117	$ 31,696,485
December 2017		$	3,857,117	$ 31,696,485
January 2018		$	3,857,117	$ 31,696,485
February 2018		$	3,857,117	$ 31,696,485
March 2018		$	3,857,117	$ 31,696,485

Table of Contents

ITEM 16F-CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT

Dismissal of Crowe Horwath LLP

Effective September 1, 2017, we dismissed Crowe Horwath LLP as our independent registered public accounting firm. Effective September 1, 2017, we engaged Grant Thornton as our independent registered public accounting firm for the fiscal years ended December 31, 2016 and 2015. The change was approved by our audit committee and board of directors.

Since Crowe Horwath LLP s engagement in February 2017 and through September 1, 2017, there were no (i) disagreements with Crowe Horwath LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to its satisfaction would have caused Crowe Horwath LLP to make reference in its reports on our consolidated financial statements for such years to the subject matter of the disagreement, or (ii) reportable events, as such term is defined in Item 16F(a)(1)(v) of Form 20-F, except that (a) prior to its dismissal, Crowe Horwath LLP was in the process of performing procedures on (1) accounting treatment with respect to deferred revenues and the costs of certain divested businesses, and (2) accounting policies with respect to certain contracts primarily in India, including multiple-element arrangements, customer acceptance provisions, accounting for long-term contracts, accounting for service contracts, and accounting for performance security deposits, each of which resulted in an actual, or planned, expansion of audit scope by Crowe Horwath LLP, and (b) material weaknesses in internal control over financial reporting were communicated to us related to having insufficient resources with an appropriate level of knowledge and experience in U.S. GAAP to properly account for complex accounting transactions, including investment accounting and revenue recognition. Our Audit Committee and Board of Directors discussed with Crowe Horwath LLP the subject matter of these disagreements and internal controls over financial reporting matters. We dismissed Crowe Horwath LLP prior to concluding on the items listed above and prior to Crowe Horwath LLP issuing any audit reports on our consolidated financial statements. We have authorized Crowe Horwath LLP to respond fully to the inquiries of Grant Thornton concerning these matters.

We provided a copy of this disclosure to Crowe Horwath LLP and requested that Crowe Horwath LLP furnish us with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the statements made above, and if not, stating the respects in which it does not agree. A copy of Crowe Horwath LLP s letter dated November 14, 2017 is attached as Exhibit 4.15 to our annual report on Form 20-F filed on November 14, 2017.

During the two fiscal years ended December 31, 2015 and 2016, and subsequent interim period preceding the appointment of the new auditors, neither we nor anyone on our behalf consulted Grant Thornton regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, nor has Grant Thornton provided to us a written report or oral advice that Grant Thornton concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a disagreement with Crowe Horwath LLP as that term is defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to Item 16F of Form 20-F, or a reportable event, as that term is described in Item 16F(a)(1)(v) of Form 20-F.

Disengagement of GHP Horwath, P.C.

Effective January 13, 2017, GHP Horwath, P.C. was disengaged as our independent registered public accounting firm after GHP Horwath, P.C. s partners and employees joined Crowe Horwath LLP. Effective February 6, 2017, we engaged Crowe Horwath LLP as our independent registered public accounting firm for the fiscal year ended December 31, 2016. The change was approved by our audit committee and board of directors.

GHP Horwath, P.C. s report on our consolidated financial statements as of and for the year ended December 31, 2015, did not contain any adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal year ended December 31, 2015, and subsequent interim period through January 13, 2017, there were no disagreements, as that term is defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to Item 16F of Form 20-F, with GHP Horwath, P.C. on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures that, if not resolved to the satisfaction of GHP Horwath, P.C., would have caused them to make reference to the subject matter of the disagreement in connection with its report on our consolidated financial statements for the fiscal year ended December 31, 2015.

During the fiscal year ended December 31, 2015, and subsequent interim period through January 13, 2017, there were no reportable events (hereinafter defined) requiring disclosure pursuant to Item 16F (a) (1) (v) of Form 20-F, other than the material weaknesses reported in the Company s Form 20-F filed with the SEC on April 22, 2016.

Table of Contents

During the fiscal years ended December 31, 2015 and 2016, and subsequent interim period preceding the appointment of the new auditors, neither we nor anyone on our behalf consulted Crowe Horwath LLP regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, nor has Crowe Horwath LLP provided to us a written report or oral advice that Crowe Horwath LLP concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a disagreement with GHP Horwath, P.C.as that term is defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to Item 16F of Form 20-F, or a reportable event, as that term is described in Item 16F(a)(1)(v) of Form 20-F.

We provided a copy of this disclosure to GHP Horwath, P.C. and requested that GHP Horwath, P.C. furnish us with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the statements made above, and if not, stating the respects in which it does not agree. A copy of GHP Horwath, P.C. s letter dated November 13, 2017 is attached as Exhibit 4.14 to our annual report on Form 20-F filed on November 14, 2017.

ITEM 16G-CORPORATE GOVERNANCE

We are incorporated in the Cayman Islands and our corporate governance practices are governed by applicable Cayman Islands law as well as our memorandum and articles of association. In addition, because our ordinary shares are listed on NASDAQ, we are subject to NASDAQ s corporate governance requirements.

NASDAQ Marketplace Rule 5620(a) requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer s fiscal year end. However, NASDAQ Marketplace Rule 5615(a)(3) permits a foreign private issuer like us to follow home country practices in lieu of certain requirements of Rule 5600, provided that such foreign private issuer discloses in its annual report filed with the SEC each requirement of Rule 5600 that it does not follow and describes the home country practice followed in lieu of such requirement. We follow home country practice with respect to annual meetings and did not hold an annual shareholder meeting in 2016. Our Cayman Islands counsel has provided a letter to NASDAQ certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings. We may, however, hold annual shareholder meetings in the future if there are significant issues that require shareholders approvals.

ITEM 16H-MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17-FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18-FINANCIAL STATEMENTS

The consolidated financial statements of UTStarcom Holdings Corp. and its subsidiaries are included at the end of this Annual Report.

The consolidated financial statements of iTV Media Inc. are incorporated herein by reference to Exhibit 15.3.

Table of Contents

ITEM 19-EXHIBITS

Exhibit Number	Description	Form	Incorporated by Reference From Exhibit Number	Date Filed
1.1	Amended and Restated Memorandum and Articles of Association.	20-F	1.1	4/26/2013
4.1	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 of Form F-4 (File No. 333-173828) filed with the SEC on April 29, 2011	F-4	10.1	4/29/2011
4.2	Stockholder Rights Agreement, made as of February 1, 2010, by and between UTStarcom, Inc. and Beijing E-town International Investment and Development Co., Ltd.	8-K	4.1	2/4/2010
4.3	Stockholder Rights Agreement, made as of February 1, 2010, by and among UTStarcom, Inc., Elite Noble Limited and Shah Capital Opportunity Fund L.P.	8-K	4.2	2/4/2010
4.4	2006 Equity Incentive Plan, as amended February 18, 2009.	10-K	10.14	3/2/2009
4.5	Form of Stock Option Award Agreement for use under 2006 Equity Incentive Plan.	10-Q	10.2	8/7/2009
4.6	Form of Stock Option Agreement for Directors and Officers for use under the 2006 Equity Incentive Plan.	10-Q	10.3	8/7/2009
4.7	Form of Restricted Stock Agreement for use under the 2006 Equity Incentive Plan.	10-K	10.17	3/2/2009
4.8	Form of Restricted Stock Unit Agreement for use under the 2006 Equity Incentive Plan.	10-K	10.18	3/2/2009
4.9	Form of Stock Option Amendment Election Form executed by key executive officers and directors.	8-K	10.1	1/4/07
4.10	UTStarcom, Inc. Amended and Restated Executive Involuntary Termination Severance Pay Plan.	10-Q	10.2	5/8/2009
4.11	Form of Performance Share Agreement for use under the 2006 Equity Incentive Plan.	10-K	10.33	3/2/2009
4.12	Form of Performance Unit Agreement for use under the 2006 Equity Incentive Plan.	10-K	10.34	3/2/2009
4.13	Letter dated April 22, 2016 from PricewaterhouseCoopers Zhong Tian LLP	20-F	4.24	4/22/2016
4.14	Letter dated November 13, 2017 from GHP Horwath, P.C.	20-F	4.14	11/14/2017
4.15	Letter dated November 14, 2017 from Crowe Horwath LLP	20-F	4.15	11/14/2017
8.1	Subsidiaries of UTStarcom Holdings Corp.	Filed herewith		
12.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith		
12.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith		
13.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith		
13.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith		
15.1	Consent of Grant Thornton	Filed herewith		
15.3		Filed herewith		

	Consolidated financial statements of iTV Media Inc. for the fiscal years ended December 31, 2017, 2016 and 2015.	
15.4	Consent of Grant Thornton, independent registered public accounting firm of iTV Media Inc.	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

UTSTARCOM HOLDINGS CORP.

Date: April 16, 2018

By: /s/ Tim Ti
Name: Tim Ti
Title: *Chief Executive Officer*

Table of Contents

UTSTARCOM HOLDINGS CORP.

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets at December 31, 2017 and 2016	F-3
Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2017, 2016 and 2015	F-4
Consolidated Statements of Shareholders Equity for the years ended December 31, 2017, 2016 and 2015	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015	F-6
Notes to the Consolidated Financial Statements	F-7
Schedule I-Condensed Financial Information of Registrant	F-35
Schedule II-Valuation and Qualifying Accounts and Reserves	F-38

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

UTStarcom Holdings Corp.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of UTStarcom Holdings Corp. (a Cayman Islands corporation) and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive income (loss), changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedules (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the Company s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON

We have served as the Company s auditor since 2017.

Shanghai, China

April 16, 2018

Table of Contents

UTSTARCOM HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 79,749	$ 83,922
Short-term investments	3,143	479
Accounts receivable, net of allowances for doubtful accounts of $2,437 and $2,339, respectively	16,911	18,329
Inventories	17,139	22,577
Deferred costs	23,545	19,319
Prepaid and other current assets	14,227	6,995
Short-term restricted cash	12,099	11,397
Total current assets	166,813	163,018
Property, plant and equipment, net	1,714	1,610
Long-term investments	5,856	7,753
Long-term deferred costs	277	276
Long-term deferred tax assets	3,012	2,049
Long-term restricted cash	8,839	3,321
Other long-term assets	533	676
Total assets	187,044	178,703
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	27,452	22,480
Income taxes payable	7,952	8,140
Customer advances	21,828	29,046
Deferred revenue	7,286	10,779
Other current liabilities	23,746	16,723
Total current liabilities	88,264	87,168
Long-term deferred revenue	4,135	3,813
Other long-term liabilities	3,653	4,981
Total liabilities	96,052	95,962
Commitments and contingencies (Note 7)		
Shareholders equity:		
Ordinary shares: $0.00375 par value; 250,000 authorized shares; 39,363 and 39,009 shares issued at December 31, 2017 and December 31, 2016, respectively; 35,506 and 35,225 shares outstanding at December 31, 2017 and December 31, 2016, respectively	122	122
Additional paid-in capital	1,263,006	1,262,005
Treasury stock, at cost: 3,857 and 3,784 shares at December 31, 2017 and December 31, 2016, respectively	(8,374)	(8,234)
Accumulated deficit	(1,226,173)	(1,233,154)
Accumulated other comprehensive income	62,411	62,002
Shareholders equity	90,992	82,741
Total liabilities and equity	$ 187,044	$ 178,703

See accompanying notes to consolidated financial statements

Table of Contents

UTSTARCOM HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

	Years ended December 31,		
	2017	**2016**	**2015**
Net sales			
Products	$ 77,283	$ 61,735	$ 87,361
Services	21,009	24,777	29,742
	98,292	86,512	117,103
Cost of net sales			
Products	50,636	41,472	65,891
Services	14,510	16,684	23,344
	65,146	58,156	89,235
Gross profit	33,146	28,356	27,868
Operating expenses:			
Selling, general and administrative	16,777	18,146	21,515
Research and development	9,853	8,502	11,342
Total operating expenses	26,630	26,648	32,857
Operating income (loss)	6,516	1,708	(4,989)
Interest income	1,177	871	557
Interest expense	(48)	(55)	(76)
Other income, net	2,976	2,748	3,489
Equity income (loss) of associates	(687)	984	(13,954)
Investment impairment	(1,690)	(5,336)	(16,347)
Income (loss) before income taxes	8,244	920	(31,320)
Income tax benefit (expense)	(1,263)	(788)	4,162
Net income (loss)	6,981	132	(27,158)
Net loss attributable to non-controlling interests		158	
Net income (loss) attributable to UTStarcom Holdings Corp.	$ 6,981	$ 290	$ (27,158)
Net income (loss) per share attributable to UTStarcom Holdings Corp.-Basic	$ 0.20	$ 0.01	$ (0.74)
Net income (loss) per share attributable to UTStarcom Holdings Corp.-Diluted	$ 0.19	$ 0.01	$ (0.74)
Weighted average shares outstanding-Basic	35,467	35,806	37,003
Weighted average shares outstanding-Diluted	36,176	36,402	37,003
Net Income (loss)	6,981	132	(27,158)
Other comprehensive income (loss), net of tax			
Net change in cumulative translation adjustment	409	532	(1,611)
Gain on available-for-sale investments			(673)
Comprehensive income (loss)	7,390	664	(29,442)
Comprehensive loss attributable to non-controlling interests		158	
Comprehensive income (loss) attributable to UTStarcom Holding Corp.	$ 7,390	$ 822	$ (29,442)

See accompanying notes to consolidated financial statements

Table of Contents

UTSTARCOM HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands, except share data)

	Common Stock		Additional			Accumulated Other		
	Shares outstanding	Amount	Paid-in Capital	Treasury Stock	(Accumulated Deficit)	Comprehensive Income	Non-controlling interest	Total Stockholders Equity
	(In thousands, except number of shares)							
Balance at December 31, 2014	**38,148,076**	**$ 122**	**$ 1,258,182**	**$ (443)**	**$ (1,206,286)**	**$ 63,754**	**$**	**$ 115,329**
Common stock issued upon option exercises	11,543	0	39					39
Repurchase of ordinary shares	(1,563,302)			(3,695)				(3,695)
Restricted stock issued and restricted stock units released	138,997							
Stock-based compensation			1,546					1,546
Treasury stock retirement								
Net loss					(27,158)			(27,158)
Other comprehensive income:								
Foreign currency translation						(1,611)		(1,611)
Realized loss from available-for-sale investments						(673)		(673)
Balance at December 31, 2015	**36,735,314**	**$ 122**	**$ 1,259,767**	**$ (4,138)**	**$ (1,233,444)**	**$ 61,470**	**$**	**$ 83,777**
Repurchase of ordinary shares	(2,054,655)			(4,096)				(4,096)
Restricted stock issued and restricted stock units released	543,894							
Stock-based compensation			2,238					2,238
Net income					290		-158	132
Acquisition of non-controlling interests							158	158
Other comprehensive income:								
Foreign currency translation						570		570
Recognition due to closure of the subsidiaries						(38)		(38)
Balance at December 31, 2016	**35,224,553**	**$ 122**	**$ 1,262,005**	**$ (8,234)**	**$ (1,233,154)**	**$ 62,002**	**$**	**$ 82,741**
Repurchase of ordinary shares	(72,739)			(140)				(140)
Restricted stock issued and restricted stock units released	302,886		866					866
Common stock issued upon option exercises	51,666		135					135
Net income					6,981			6,981
Other comprehensive income:								
Foreign currency translation						2,112		2,112
Recognition due to closure of the subsidiaries						(1,703)		(1,703)
Balance at December 31, 2017	**35,506,366**	**$ 122**	**$ 1,263,006**	**$ (8,374)**	**$ (1,226,173)**	**$ 62,411**		**$ 90,992**

See accompanying notes to consolidated financial statements

Table of Contents

UTSTARCOM HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended December 31,		
	2017	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 6,981	$ 132	$ (27,158)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	628	1,208	2,202
Net loss (gain) on disposal of assets		(62)	180
Gain on cumulative translation adjustment recognition from liquidation of subsidiaries	(1,703)	(38)	
Gain on release of tax liability due to expiration of statute of limitations	(1,409)	(3,272)	(7,747)
Equity loss (gain) of associates	687	(984)	13,954
Investment impairment	1,690	5,336	16,347
Gain on sale of short- term investment		(83)	(1,529)
Stock-based compensation expense	866	2,238	1,546
Provision for doubtful accounts receivable	4	1,564	79
Loan recovery, net			(538)
Deferred income taxes	(1,092)	771	1,030
Changes in operating assets and liabilities			
Accounts receivable	1,413	(1,966)	(1,491)
Inventories and deferred costs	1,212	(190)	35,973
Prepaids and other assets	(7,280)	2,821	1,558
Accounts payable	5,183	7,393	(12,233)
Income taxes payable	(26)	(751)	3,369
Customer advances	(7,218)	(1,054)	(17,352)
Deferred revenue	(3,172)	(10,556)	(18,610)
Other liabilities	7,074	3,225	(1,216)
Net cash provided by (used in) operating activities	3,838	5,732	(11,636)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment	(732)	(1,527)	(917)
Net proceeds from sales of property, plant and equipment		85	
Change in restricted cash	(6,219)	1,322	707
Purchase of short-term investments	(3,164)		
Purchase of investments	(481)	(300)	(1,670)
Proceeds from sale of investments	500	7,683	16,228
Proceeds from sale of short-term investments			3,076
Net cash provided by (used in) investing activities	(10,096)	7,263	17,424
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	113		39
Acquisition of non-controlling interests		(304)	
Repurchase of ordinary shares	(140)	(4,096)	(3,695)
Net cash used in financing activities	(27)	(4,400)	(3,656)
Effect of exchange rate changes on cash and cash equivalents	2,112	(1,723)	(2,906)
Net increase (decrease) in cash and cash equivalents	(4,173)	6,872	(774)
Cash and cash equivalents at beginning of year	83,922	77,050	77,824
Cash and cash equivalents at end of year	$ 79,749	$ 83,922	$ 77,050
Supplemental disclosure of cash flow information:			
Cash paid (Recovered):			

Interest	$ 47	$ 55	$ 76
Income taxes	$ 2,012	$ 3,311	$ (363)

See accompanying notes to consolidated financial statements

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1-BASIS OF PRESENTATION, LIQUIDITY

UTStarcom Holdings Corp., and its wholly owned subsidiaries (collectively, the Company), a Cayman Islands corporation incorporated in 2011, is a global telecom infrastructure provider dedicated to developing technology that will serve the rapidly growing demand for bandwidth from mobile, streaming and other applications. The Company works with carriers from Asia to the Americas, to meet this demand through a range of innovative broadband packet optical transport and wireless/fixed-line access products and solutions.

UTStarcom Inc. was founded in 1991 and started trading on NASDAQ in 2000. On June 24, 2011, the stockholders of UTStarcom Inc. approved the proposed merger (the Merger), to reorganize UTStarcom, Inc. as a Cayman Islands company. Pursuant to the approval of the shareholders, UTSI Mergeco Inc., a Delaware corporation and a wholly-owned subsidiary of UTStarcom Holdings Corp., merged with and into the existing public company, UTStarcom, Inc., which is incorporated under the laws of the State of Delaware. As a result of the reorganization, UTStarcom Holdings Corp. became the parent company of UTStarcom, Inc. and its subsidiaries.

Also pursuant to the Merger, the Company issued an equal number of ordinary shares in exchange for the common stock of UTStarcom, Inc. The Company s business is conducted in substantially the same manner as was conducted by UTStarcom, Inc. The transaction was accounted for as a legal re-organization of entities under common control. The accompanying consolidated financial statements include the accounts of the Company and its wholly- and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements. The non-controlling interests in consolidated subsidiaries are shown separately in the consolidated financial statements.

The accompanying Consolidated Balance Sheets as of December 31, 2017 and 2016, and the Consolidated Statements of Operations and Comprehensive Income (Loss) for each of the three years ended December 31, 2017, 2016 and 2015 have been prepared by the Company pursuant to the rules and regulations of the U.S Securities and Exchanges Commission (SEC) and in conformity with generally accepted accounting principles in the United States (US GAAP).

The accompanying consolidated financial statements are presented on the basis that the Company is a going concern. The going concern assumption contemplates the realization of assets and the satisfaction of liabilities in the normal course of business and considers the Company s current financial status, business operation, market strategy, and products development in the twelve months following the issuance date of these financial statements. The Company has concluded there was no substantial doubt about the Company s ability to continue as a going concern.

The Company earned net income of $7.0 million, net income of $0.3 million and incurred net losses of $27.2 million during the years ended December 31, 2017, 2016, and 2015, respectively. As of December 31, 2017 and 2016, the Company had an accumulated deficit of $1,226.2 million and $1,233.2 million, respectively. The Company generated net cash inflow from operation of $3.8 million and $5.7 million, and had a net cash outflows from operations of $11.6 million during the years ended December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, the Company had cash and cash equivalents of $79.7 million and $83.9 million, of which $7.9 million and $13.5 million, respectively, were held by subsidiaries in China. China imposes currency exchange controls on certain transfers of funds to and from China. The Company s China subsidiaries are subject to pre-approval from the State Administration of Foreign Exchange (SAFE) for non-domestic financing. Additionally, the amount of cash available for transfer from the China subsidiaries for use by the Company s non-China subsidiaries is also limited both by the liquidity needs of the subsidiaries in China and the restriction on foreign currency exchange by Chinese-government mandated limitations including currency exchange controls on certain transfers of funds outside of China. The Company s China subsidiaries have no accumulated profit as of December 31, 2017 determined in accordance with Chinese accounting standards that can be paid as dividends. In 2017, 2016 and 2015, the Company s China subsidiaries did not pay dividends.

Management believes that the continuing efforts to stream-line the Company s operations will enable the Company to control operating costs to be better aligned with operations, market demand and projected sales levels. As of December 31, 2017, the Company s working capital was $78.5 million. Therefore, management believes both the Company s China and non-China operations will have sufficient liquidities to finance working capital and capital expenditure needs for more than 12 months following the issuance date of these financial statements. Furthermore, the Company has concentrated its business in Asia, particularly Japan, India and Taiwan. Any unforeseen prolonged economic and /or political risks in these markets could impact the Company s customers in making their respective investment decisions and could have a material impact on the foregoing assessment. There can be no assurance that additional financing, if required, will be available on terms satisfactory to the Company or at all, and if funds are raised in the future through issuance of preferred stock or debt, these securities could have rights, privileges or preference senior to those of the Company s ordinary shares and newly issued debt could contain debt covenants that impose restrictions on the Company s operations. Further, any sale of newly issued debt or equity securities could result in additional dilution to the Company s current shareholders.

Table of Contents

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates:

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant judgment and estimates are used for revenue recognition, allowances for doubtful accounts and sales returns, tax valuation allowances, inventory write-down, impairment of property, plant and equipment, deferred costs, accrued product warranty costs, provisions for contract losses, investment impairments, going concern assessment, stock-based compensation expense, and loss contingencies among others. Actual results could differ materially from those estimates.

Cash and Cash Equivalents:

Cash and cash equivalents consist of highly liquid instruments with maturities of three months or less when acquired. Approximately 46.3%, or $36.9 million of cash and cash equivalents were held by the Company s subsidiaries in the United States as of December 31, 2017. The remainder was held by the other UTStarcom entities throughout the world. As of December 31, 2017, approximately 9.9%, or $7.9 million, of the Company s cash and cash equivalents were held by its subsidiaries in China, and China imposes currency exchange controls on transfers of funds outside of China.

Restricted Cash:

As of December 31, 2017, the Company had short-term restricted cash of $12.1 million, and had long-term restricted cash of $8.8 million. As of December 31, 2016, the Company had short-term restricted cash of $11.4 million, and had long-term restricted cash of $3.3 million. These amounts primarily collateralize the Company s issuances of performance bonds, warranty bonds, and standby and commercial letters of credit.

Investments:

The Company s investments consist principally of debt and equity securities classified as available for sale, and cost and equity method investments in privately held companies. The investments in equity securities of privately held companies in which the Company does not have the ability to exercise significant influence are accounted for under ASC 325, *Investments-Other* using the cost method. Under the cost method, these investments are carried at cost minus impairment. The investments in equity securities of privately held companies in which the Company has the ability to exercise significant influence, but does not own a majority equity interest or otherwise control are accounted for under ASC 323, *Investments-Equity Method and Joint Ventures* using the equity method. Investments in debt securities classified as available for sale are measured at fair value on the balance sheets under ASC 320, *Investments-Debt and Equity Securities.* Unrealized holding gains and losses for available-for-sale securities (including those classified as current assets) are excluded from earnings and reported in other comprehensive income until realized except as indicated in the following paragraph.

The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The Company reviews several factors to determine whether the losses are other-than-temporary, including but not limited to: (i) the length of time the investment was in an unrealized loss position, (ii) the extent to which fair value was less than cost, (iii) the financial condition and near term prospects of the issuer, and (iv) the Company s intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. The determination of fair value of the investment involves considering factors such as current economic and market conditions, the operating performance of the companies including current earnings trends and forecasted cash flows, and other company and industry specific information. Investment impairments recorded as other-than-temporary were $1.7 million, $5.3 million, and $16.3 million, for the years ended December 31, 2017, 2016 and 2015, respectively.

Revenue Recognition:

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonable assured. Most of the Company s multiple element arrangements primarily involve the sale of hardware systems, installation and training. In addition, while not separately sold, the arrangement may include extended warranties that cover product repairs, maintenance services, and software updates for the software components that are essential to the functionality of the hardware systems or equipment. For multiple-element arrangements, the Company allocates revenue to each unit of accounting based on an estimated selling price at the arrangement inception. The estimated selling price for each element is based upon the following hierarchy:

Table of Contents

i) Vendor-specific objective evidence (VSOE) of selling price, if available,

ii) Third-party evidence (TPE) of selling price, if VSOE of selling price is not available, or

iii) Best estimate of selling price (BESP), if neither VSOE of selling price nor TPE of selling price are available.

The Company establishes VSOE of selling price using the price charged for a deliverable when sold separately. When the Company is unable to establish selling price using VSOE, the Company uses BESP in the allocation of arrangement consideration.

The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company s management applies judgment in establishing pricing strategies and determines its BESP for a product or service using historical selling price trends and by considering multiple factors including, but not limited to, cost of products, gross margin objectives, geographies, customer classes, customer segment pricing practices and distribution channels. The determination of BESP is performed through consultation with its product management and marketing department and includes review and approval by our management. The Company s management regularly reviews VSOE and BESP and maintain internal controls over the establishment and updates of these estimates.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). (ASU 2014-09). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 supersedes most existing US GAAP on revenue recognition and eliminate industry-specific guidance. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date (ASU 2015-14), which defers the effective date of ASU 2014-09 to January 1, 2018 for the Company. Early adoption is permitted. The Company adopts ASU 2014-09 using the modified retrospective method in the first quarter of 2018.

The Company has completed a detailed review of revenue contracts representative of its business segments and their revenue streams as of the adoption date. The Company is established new accounting policies, implementing systems and processes (including more extensive use of estimates), and internal controls necessary to support the requirements of the new standard. Upon adoption, the Company expects a material impact to the opening balance sheet as of January 1, 2018, related to the cumulative effect of adopting the standard, primarily as a result of the item discussed below:

Some of the Company s contracts included final acceptance provisions or other price variability that precluded revenue recognition under Topic 605 due to the requirement that the revenue amount must be fixed or determinable. Topic 606 requires the Company to estimate and account for variable consideration as a reduction of the transaction price separately and not part of the revenue recognition consideration. This changes resulted in $7.4 million cumulative increase which is the combination of the Company s unearned revenue $14.4 million and related deferred cost $7.0 million to the Company s retained earnings as of January 1, 2018.

Product Warranty:

The Company provides a warranty on its equipment and terminal sales for periods generally ranging from one to two years from the time of final acceptance. At times, the Company has entered into arrangements to provide limited warranty services for periods longer than two years. The Company provides for the expected cost of product warranties at the time that revenue is recognized based on an assessment of past warranty experience and when specific circumstances dictate. The Company assesses the adequacy of its recorded warranty liability every quarter and makes adjustments to the liabilities if necessary. From time to time, the Company may be subject to additional costs related to non-standard warranty claims from its customers. If and when this occurs, the Company estimates additional accruals based on historical experience, communication with its customers and various assumptions that the Company believes to be reasonable under the circumstances. Such additional warranty accruals are recorded in the period in which the additional costs are identified. Specific warranty accruals are reversed upon the expiration of the warranty period and are recorded as reduction of cost of sales.

Receivables:

Although the Company evaluates customer credit worthiness prior to a sale, the Company provides an allowance for doubtful accounts for the estimated loss on trade when collection may no longer be reasonably assured. The Company assesses collectability of receivables based on a number of factors including analysis of creditworthiness, the Company s historical collection history and current economic conditions, its ability to collect payment and on the length of time an individual receivable balance is outstanding. The Company s policy for determining the allowance for doubtful accounts includes both specific allowances for balances known to be doubtful of recovery and a formula-based portfolio approach, based on aging of the accounts receivable, as a part of management s review of the overall allowance for doubtful accounts. This formula-based approach involves aging of the Company s accounts receivable and applying a percentage based on the Company s historical experience. The Company evaluates the percentages applied to each category of aged accounts receivable periodically based on actual history of write-offs and collections and refines this formula-based approach accordingly for use in future periods. Receivable balances are written-off when the Company has sufficient evidence to prove that they are uncollectible.

Table of Contents

Inventories:

Inventories consist of product held at the Company s manufacturing facility and warehouses, as well as finished goods at customer sites for which the customer has taken possession, but based on specific contractual terms, title has not yet passed to the customer. The Company may ship inventory to existing customers that require additional equipment to expand their existing networks prior to the signing of an expansion contract. Inventories are stated at the lower of cost or market value, based on the first-in-first-out (FIFO) method of accounting. Write-downs are based on assumptions about future market conditions and customer demand, including projected changes in average selling prices resulting from competitive pricing pressures. The Company continually monitors inventory valuation for potential losses and obsolete inventory at its manufacturing facilities as well as at customer sites. If actual market conditions are less favorable than those projected by management, additional write-downs may be required. If actual market conditions are more favorable than anticipated, the previously written down inventory may be sold to customers and result in lower cost of sales and higher income from operations than expected in that period.

Deferred Costs:

Deferred costs consist of products shipped to the customer, but revenue has not yet been recognized due to revenue recognition criteria not fully met. Given that there is uncertainty about customer acceptance until the customer completes its internal testing and procedures, we defer the recognition of costs until the issuance of the final acceptance certificate to support its assertion of contract fulfillments. Management periodically assesses the recoverability of deferred costs and provides reserves against deferred cost balances when recovery of deferred costs is not probable. Recoverability is evaluated based on various factors including the length of time the product has been held at the customer site, the likelihood of collection, or it is determined that a related transaction will result in a gross margin loss. When a loss situation is identified, the deferred cost balance is impaired to reduce the value of the deferred cost to the amount of revenue that will be ultimately recognized for the transaction. Revenue and cost of sales are recorded when final acceptance is received from the customer.

Property, Plant and Equipment:

Property, plant and equipment are recorded at cost and are stated net of accumulated depreciation. Depreciation is provided for on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful lives or the term of the lease. When assets are disposed, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are included in results of operations. The Company generally depreciates its property, plant and equipment over the following periods:

	Years
Equipment and furniture	5
Computers and software	2 - 3
Automobiles	5
Leasehold improvements	Lesser of the lease term or estimated useful life

Depreciation expense was $0.6 million, $1.2 million, and $2.3 million, for the years ended December 31, 2017, 2016 and 2015, respectively.

Impairment of Long-Lived Assets:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If undiscounted expected future cash flows are less than the carrying value of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. Long-lived assets that are to be sold are measured at the lower of book value or fair value less cost to sell.

Advances:

Advances from customers represent cash received from customers before revenue recognition for the purchase of the Company s products.

Table of Contents

Advertising Costs:

The Company expenses all advertising costs as incurred. Payment to customers for marketing development costs are accounted for as incurred as a reduction of the revenue associated with customers. For the years ended December 31, 2017, 2016 and 2015, advertising costs totaled $0.1 million, $0.1 million, and $0.1 million, respectively.

Operating Leases:

The Company leases office space under operating lease agreements with an initial lease terms up to five years. Rental expense is recognized from the date of initial possession of the leased property on a straight-line basis over the term of the lease.

Stock-Based Compensation:

Stock-based compensation expense for all share-based payment awards granted to employees is determined based on the grant-date fair value. Stock-based compensation expense for restricted stock awards is measured based on the closing fair market value of the Company s ordinary shares on the date of grant. Stock-based compensation expense for stock options is estimated at the grant date based on each option s fair value as calculated by the Black-Scholes model. Stock-based compensation is expensed ratably on a straight-line basis over the requisite service period, which is generally the vesting term of the share-based payment awards. The performance-based restricted stock units are subject to the attainment of goals determined by the Compensation Committee of the Company s Board of Directors. The Company records the relevant stock-based compensation for the performance-based restricted stock units based on the probability of meeting the performance conditions.

Accumulated Other Comprehensive Income (AOCI):

AOCI mainly consisted of foreign currency translation adjustments and the unrealized gain or loss from available-for-sale investments. The changes in AOCI, including the amounts reclassified to income, were as follows:

		Foreign currency translation and unrealized gains (losses), net of tax (in thousands)
Balance at December 31, 2015	$	61,470
Gain recorded in other comprehensive income		570
Gain reclassified from AOCI to income		(38)
Balance at December 31, 2016	$	62,002
Gain recorded in other comprehensive income		2,112

Gain reclassified from AOCI to income		(1,703)
Balance at December 31, 2017	$	62,411

As of December 31, 2017, no accumulated other comprehensive income or loss is attributable to non-controlling interests.

The Company reclassifies foreign currency translation adjustments from AOCI to income upon sale or upon complete or substantially complete liquidation of investments in foreign entities, when the amounts attributable to the entities and accumulated in the translation adjustment component of equity is both: (a) removed from the separate component of equity; and (b) reported as part of the gain or loss on sale or liquidation of the investment for the period during which the sale or liquidation occurs. During fiscal 2016, the Company recognized and reclassified $0.1 million to net income from cumulative translation adjustment previously recorded in accumulated to other comprehensive income upon the liquidation of two entities. During fiscal 2017, the Company recognized and reclassified $1.7 million to net income from cumulative translation adjustment previously recorded in accumulated other comprehensive income upon the liquidation of one entity. The prior cumulative translation adjustment primarily resulted from the difference between the local functional currency and the Company s reporting currency.

Income Taxes:

The Company is subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating the Company s tax positions and determining its provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes the tax benefit (expense) from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company recognizes interest expense and penalties related to income tax matters as part of the provision for income taxes.

Table of Contents

The Company recognizes deferred income taxes as the difference between the tax bases of assets and liabilities and their consolidated financial statement amounts based on enacted tax rates. Management judgment is required in the assessment of the recoverability of the Company s deferred tax assets based on its assessment of projected taxable income. Numerous factors could affect the Company s results of operations in the future. If there was a significant decline in the Company s future operating results, its assessment of the recoverability of its deferred tax assets would need to be revised, and any such adjustment to its deferred tax assets would be charged to income in that period. If necessary, the Company records a valuation allowance to reduce deferred tax assets to an amount management believes is more likely than not to be realized. Changes in estimates of taxable income in the future could result in reversal of the valuation allowances which would be credited to income in the year of reversal.

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (the Tax Act) was enacted. The Tax Act significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate income tax rate (federal tax rate) from 35% to 21% effective January 1, 2018, implementing a modified territorial tax system, and imposing a mandatory one-time transition tax on accumulated earnings of foreign subsidiaries.

In December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118, which addresses how a company recognizes provisional amounts when a company does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effect of the changes in the Tax Act. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. The final impact of the Tax Act may differ from the above provisional amount due to changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, by changes in accounting standard for income taxes and related interpretations in response to the Tax Act, any updates or changes to estimates used in the provisional amounts.

Financial Instruments:

Financial instruments consist of cash and cash equivalents, short and long-term investments, notes receivable, accounts receivable and payable and accrued liabilities. The carrying amounts of cash and cash equivalents, bank notes, accounts receivable and payable, notes receivable, and accrued liabilities approximate their fair values because of the short-term nature of those instruments. The fair value of long term investments in debt and equity securities is determined based on quoted market prices or available information about investees.

Foreign Currency Translation:

The Company s operations are conducted through international subsidiaries where the local currency is the functional currency and the financial statements of those subsidiaries are translated from their respective functional currencies into U.S. Dollars which is the functional currency of the Company. All foreign currency assets and liabilities are translated at the period-end exchange rate and all revenues and expenses are translated at the average exchange rate for the period. The effects of translating the financial statements of foreign subsidiaries into U.S. Dollars are reported as a cumulative translation adjustment, a separate component of accumulated other comprehensive income in shareholders equity.

The foreign currency translation gain (loss) related to the remeasurement of transactions denominated in other than the functional currency is included in other income (expenses), net on the Company s Consolidated Statements of Operations and Comprehensive Income (Loss) . In

connection with this remeasurement process, the Company recorded gains of $0.6 million and of $1.5 million and losses of $0.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Earnings per Share:

Basic earnings per share is computed by dividing the net loss available to shareholders by the weighted average number of the Company s ordinary shares outstanding, as applicable, during the period, which excludes unvested restricted stock. Diluted earnings per share reflects the amount of net loss available to each ordinary share outstanding during the period plus number of additional shares that would have been outstanding if potentially dilutive securities had been issued. The Company s potentially dilutive ordinary shares include outstanding stock options, unvested restricted stock, restricted stock units and performance- based units. The following table summarizes the total potential ordinary shares that were excluded from the diluted per share calculation, because their effect was anti-dilutive.

	Years ended December 31,		
	2017	**2016**	**2015**
		(in thousands)	
Anti-dilutive stock options and awards/units outstanding		605	1,295
Total(1)		605	1,295

Table of Contents

(1) Calculated using the treasury stock method, which assumes proceeds are used to reduce the dilutive effect of outstanding stock awards. Assumed proceeds include the unrecognized deferred compensation of share awards, and assumed tax proceeds from excess stock-based compensation deductions.

For the year ended December 31, 2015, no potential ordinary shares were dilutive because of the net loss incurred in this year, therefore basic and dilutive EPS were the same.

For the years ended December 31, 2016 and 2017, 1.4 million and 1.2 million potential ordinary shares were dilutive. After the dilution, the diluted earnings per share during the years ended December 31, 2016 and 2017 were as follows.

		2017		2016
		(in thousands, except per shares amounts)		
Net Income attributable to UTStarcom Holdings Corp.	$	6,981	$	290
Weighted average shares outstanding Diluted		36,176		36,402
Net Income per shares attributable to UTStarcom Holdings Corp. Diluted	$	0.19	$	0.01

Recent Accounting Pronouncements:

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows- Restricted Cash (a consensus of the FASB Emerging Issues Task Force)* , effective for fiscal years beginning after December 15, 2017, and interim periods within that fiscal year. The standard addresses whether restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopts the ASU 2016-18 using the retrospectively method in the first quarter of 2018, and it would decrease the Company s cash used in investing activities by $6.2 million in 2017, and would decrease the Company s cash provided by investing by $1.3 million in 2016.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). (ASU 2014-09). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 supersedes most existing US GAAP on revenue recognition and eliminate industry-specific guidance. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date (ASU 2015-14), which defers the effective date of ASU 2014-09 to January 1, 2018 for the Company. Early adoption is permitted. The Company adopts ASU 2014-09 using the modified retrospective method in the first quarter of 2018.

In January, 2017, the FASB issued 2017-01 *Business Combinations* , effective for the annual reporting period beginning after December 15, 2017, and interim period within that period. This updated clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions of assets or business. The Company evaluated the impact of adopting the new standard on its consolidated financial statements and concluded there was no material impact to the Company s financial statements.

In February 2017, the FASB issued ASU 2017-05 *Other Income Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)* , effective for the annual reporting period beginning after the December 15, 2017, including the interim reporting period within that period. This update provides guidance on the recognition of gains and losses on transfers of nonfinancial assets and in substance nonfinancial assets to counterparties that are not customers. The Company evaluated the impact of adopting the new standard on its consolidated financial statements and concluded there was no material impact to the Company s financial statements.

In May 2017, the FASB issued ASU 2017-09 *Compensation Stock Compensation (Topic 718)* , effective for the annual report period beginning after the December 15, 2017, including the interim reporting period within that period. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The Company evaluated the impact of adopting the new standard on its consolidated financial statements and concluded there was no material impact to the Company s financial statements.

In January 2018, the FASB issued ASU 2018-01 *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842* . The effective date and transition requirement for this amendment is the same as the effective date and transition requirement in update 2016-02. This update provides an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity s adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. In addition, the update clarifies that a new or modified land easement should be assessed prospectively under Topic 842 to determine whether it is or contains a lease. The Company evaluated the impact of adopting the new standard on its consolidated financial statements and concluded there was no material impact to the Company s financial statements.

Table of Contents

In February 2018, the FASB issued ASU 2018-02 *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* , effective for the annual report period beginning after the December 15, 2018 including the interim reporting period within that period. This update allows companies to reclassify from Accumulated Other Comprehensive Income to Retained Earnings stranded tax effects resulting from the enactment of the Tax Cuts and Jobs Act (the Tax Act). The Company will adopt this accounting standard update in the first quarter of 2018 on a retrospective basis. The application of this accounting standard update will not have a material impact on the Company s Consolidated Financial Statements.

NOTE 3-DIVESTITURES

During the year ended December 31, 2012, the Company completed its divestiture of the IPTV equipment business.

IPTV operations

On August 31, 2012, the Company completed a sale of its IPTV business to an entity founded by our former CEO (the Buyer), for an aggregate purchase price of $30.0 million related to the net liabilities transferred. In connection with this transaction, we recorded a net loss of $17.5 million during 2012.

The Company is still the primary obligor for certain contracts that some customers were not willing to assign to the Buyer. Even though the Company signed back-to-back contracts to transfer all obligations and associated economic risks and benefits to the Buyer, from the customer point of view, the Company is still the sole and only obligor to their contracts. If the Buyer fails to fulfill its obligations with respect to these un-assigned contracts with the Company, the Company is still obligated to fulfill its obligations under the un-assigned contracts. Therefore, the Company did not derecognize the related liabilities of those un-assigned contracts. According to the back-to-back contracts with the Buyer, all of the obligations and associated economic risks and benefits of the un-assigned customer contracts were transferred to the Buyer. Therefore, the Company recorded the portion of the payment made to the Buyer at the time of the divestiture as service cost payment to fulfill the remaining liabilities related to those un-assigned contracts. The Company will settle those un-assigned contracts when the legal obligation is at minimal or no impact. There will be no gross profit impact to settle those contracts. As of December 31, 2017 and 2016, the Company had both liabilities and deferred costs of $5.9 million and $10.2 million, respectively, related to these remaining un-assigned contracts.

NOTE 4-COMPREHENSIVE INCOME (LOSS)

Total Comprehensive Income (Loss) for the years ended December 31, 2017, 2016 and 2015 consisted of the following:

	Years ended December 31,		
	2017	2016	2015
	(in thousands)		
Net income (loss)	$ 6,981	$ 132	$ (27,158)
Other comprehensive loss			

Realized loss from available-for-sales investment			(673)
Net Change in Foreign currency translation	409	532	(1,611)
Total comprehensive income (loss)	7,390	664	(29,442)
Comprehensive loss attributable to non-controlling interests(1)		158	
Comprehensive income (loss) attributable to UTStarcom Holdings Corp.	$ 7,390	$ 822	$ (29,442)

(1) Comprehensive loss attributable to non-controlling interests consisted solely of net loss.

Table of Contents

NOTE 5-BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

	December 31, 2017	December 31, 2016
	(in thousands)	
Inventories:		
Raw materials	$ 3,610	$ 3,821
Work in process	2,674	3,362
Finished goods(1)	10,855	15,394
Total Inventory	$ 17,139	$ 22,577

(1) Includes finished goods at customer sites of approximately $10.6 million and $14.5 million at December 31, 2017 and 2016, respectively, for which the customer has taken possession, but based on specific contractual terms, title has not yet passed to the customer and for which revenue has not yet been recognized.

	December 31, 2017	December 31, 2016
	(in thousands)	
Prepaid and other current assets		
Prepaid tax	$ 3,927	$ 3,468
Advance to suppliers (1)	6,542	53
Other receivable	983	811
Prepaid others	2,775	2,663
Total Prepaid and other current assets	$ 14,227	$ 6,995

(1) The $6.5 million advance to supplier as of December 31, 2017 for financing purpose.

	December 31, 2017	December 31, 2016
	(in thousands)	
Property, plant and equipment, net:		
Leasehold improvements	$ 1,768	$ 1,591
Automobiles	1,885	1,765
Software	3,140	3,267
Computer, Equipment and Furniture	28,569	26,507
Other		67
Total	35,362	33,197
Less: accumulated depreciation	(33,648)	(31,587)
Total Property, plant and equipment, net	$ 1,714	$ 1,610

During the years ended December 31, 2017, 2016 and 2015, the Company wrote-off $0.6 million with accumulated depreciation of $0.6 million, $19.6 million with accumulated depreciation of $19.6 million, and $2.8 million with accumulated depreciation of $2.8 million of fully depreciated property, plant and equipment, respectively. In 2015, the Company wrote off $0.1 million of lease improvements related to the early termination of a lease of the Hangzhou facility.

	December 31, 2017	December 31, 2016
	(in thousands)	
Other current liabilities:		
Accrued contract costs(1)	$ 7,734	$ 3,627
Accrued payroll and compensation	7,040	5,897
Warranty costs	51	44
Accrued professional fees	897	394
Accrued other taxes	3,133	2,523
Other	4,891	4,238
Total other current liabilities	$ 23,746	$ 16,723

(1) Accrued contract costs include $7.3 million and $2.9 million cost related to product and service sales contracts from India as of December 31, 2017 and 2016, respectively.

Table of Contents

	December 31, 2017	December 31, 2016
	(in thousands)	
Other long-term liabilities		
Non-current income tax payable	$ 2,530	$ 3,906
Other	1,123	1,075
Total other long-term liabilities	$ 3,653	$ 4,981

NOTE 6-CASH, CASH EQUIVALENTS AND SHORT AND LONG TERM INVESTMENTS

Cash and cash equivalents, consisting primarily of bank deposits and money market funds, are recorded at cost which approximates fair value because of the short-term nature of these instruments.

Short-term investments consist of available-for-sale securities and held to maturity investment with original maturities longer than three months and less than twelve months when acquired. The Company holds $3.1 million held to maturity investments in India as of December 31, 2017. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. In making this determination, the Company reviews several factors to determine whether the losses are other-than-temporary, including but not limited to: (i) the length of time the investment was in an unrealized loss position, (ii) the extent to which fair value was less than cost, (iii) the financial condition and near term prospects of the issuer, and (iv) the Company s intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2016, the Company had investments in convertible bonds and redeemable convertible preferred stock that were classified as available-for-sale securities and are subject to fair value accounting. Investments in debt securities classified as available for sale will be measured subsequently at fair value on the balance sheets. An impairment charge will be recognized by the Company when a decline in the fair value below the cost basis is judged to be other-than-temporary.

The following table shows the break-down of the Company s total long-term investments as of December 31, 2017 and December 31, 2016:

	Accounting Method	December 31, 2017	December 31, 2016
		(in thousands)	
UTStarcom Hong Kong Holdings Ltd	Cost Method	$ 3,499	$ 3,499
GCT Semiconductor, Inc.	Cost Method		
Xalted Networks	Cost Method		
Cortina	Cost Method		
SBI	Cost Method		
Total Investments using Cost Method		3,499	3,499
ACELAND	Equity Method	2,357	2,554
UiTV	Equity Method		
AioTV	Equity Method		
Shareholder Loan to ACELAND	Equity Method		
Total Investments using Equity Method		2,357	2,554
AioTV	AFS		1,700

Total Investments Classified as AFS				1,700
Total Investment	$	5,856	$	7,753

Table of Contents

UTStarcom Hong Kong Holdings Ltd.,

On August 31, 2012, the Company completed the sale of our IPTV business to UTStarcom Hong Kong Holdings Ltd.to its former Chief Executive Officer. On the same day, the Company purchased a $20.0 million Convertible Bond from UTStarcom Hong Kong Holdings Ltd. which bears interest at 6.5% per annum and matured on August 31, 2017. On April 7, 2015, the Company entered an agreement with UTStarcom Hong Kong Holdings Ltd. for the conversion of the $20.0 million Convertible Bond. Pursuant to the agreement, UTStarcom Hong Kong Holdings Ltd. paid $10.0 million in cash as partial payment of the principal of the Convertible Bond. The remaining principal and interest of the Convertible Bond were converted to 14% of equity interest of UTStarcom Hong Kong Holdings Ltd. The Company used the cost method to account for this investment. The Company assesses the fair value every year-end. In 2015, the Company recorded $6.5 million investment impairment. In 2016 and 2017, the Company assessed the fair value of UTStarcom Hong Kong Holdings Ltd, and concluded no impairment was need to record. As of December 31, 2017, the book value of this investment was $3.5 million.

Cortina

In September 2004, the Company invested $2.0 million in Series A preferred stock of ImmenStar, Inc., which was then acquired by Cortina Systems, Inc., (Cortina) in February 2007. In 2015 and 2016, through the sale of shares and proceeds received, the Company recognized gains of $1.6 million and $0.1 million which were included in Other Income.

GCT Semiconductor

In October 2004, the Company invested $3.0 million in Series D preferred convertible stock of GCT Semiconductor, Inc., or GCT, which designs, develops and markets integrated circuit products for the wireless communications industry. This investment represents approximately a 0.4% interest in GCT. The Company assesses the fair value every year-end. In 2012 and 2016, the Company recorded $2.1 million and $0.8 million investment impairment, respectively. As of December 31, 2016, the book value of the investment was zero.

SBI NEO Technology A Investment LPS, or SBI

In 2008, 2010, 2011 and 2012, the Company invested $0.5 million, $0.7 million, $0.7 million and $0.6 million into SBI NEO Technology, or (SBI), respectively, to maintain a partnership interest of approximately 2%. The Company concluded that it does not have a controlling interest in SBI and accounts for the investment in SBI using the cost method. In 2014, 2015, and 2016, the Company received $0.1 million, $0.26 million and $0.7 million from SBI to reduce the SBI investment. In 2016, the Company recorded impairment of 0.2 million. In 2017, the Company received a final refund of $0.5 million and the book value of the investment was reduced to zero.

Aceland Investment Limited

In December 2010, the Company invested $2.1 million into Aceland Investments Limited, or (Aceland). In the second quarter of 2011, the Company extended a shareholder loan to Aceland in the amount of $7.1 million with a maturity date of December, 31, 2015. The Company owned an approximately 35% interest in Aceland and accounted for the investment in Aceland using the equity method. In 2015, the Company recorded a $1.0 million impairment charge to the Aceland investment. In 2016, Aceland returned capital of $6.7 million to the Company through a cash payment and the Company realized a $1.0 million gain of foreign exchange. In 2017, the Company realized a $0.2 million loss as a result of the depreciation of the US Dollar deposit. As of December 31, 2017, the book value of the investment was $2.4 million.

Table of Contents

AioTV Inc.

In November 2012, the Company invested $8 million in Series B Preferred Stocks of AioTV, at $0.320937 per share. AioTV stands for all-in-one TV and is an international cloud-based video aggregation and distribution platform. The investment objective is to give the Company access to technology that will support its rollout of subscription-based, value- added media services. The Company owned a 45% equity interest in AioTV as of December 31, 2017. The preferred stock has been classified as available- for-sale securities as it is not considered to be in-substance common stock due to their redemption feature and is thus subject to fair value accounting. AioTV currently cooperates with consumer electronics makers, cable and telecommunications service providers in North America, South America and Europe. To estimate its fair value in 2016, the Company used the option-pricing method and Ross and Rubinstein Binomial Model (Binomial-Model), which is based on the fair value of invested capital evaluated by an income approach. The significant inputs for the valuation model included the following:

	Year Ended December 31, 2016
Total fair value of invested Capital as at valuation date (in thousands)	900
Risk free rate of interest	0.8%
Dividend yield	0%
Expiration date	2017/11/14
Volatility	41.0%

The fair value of the invested capital has been determined using income approach including a discounted cash flow model and unobservable inputs including assumptions of projected revenue, expenses, capital spending, other costs and a discount rate of 50% by using the weighted average cost of capital method in 2016.

Risk free rate of interest adopted for the valuation was estimated based on the US Sovereign Strips Curve plus default risk spread between US and China.

Dividend yield was assumed to be 0% considering that AioTV plans to retain profit for corporate expansion and hence have no plan to distribute dividends in the near future.

Expiration date is the expected date of illiquidity event estimated by management.

The expected equity volatility was estimated based on the annualized standard deviation of the daily stock price return of comparable companies for the period before the valuation date and with a similar time span as to expiration.

Based on the above assessment of the preferred stock, the Company concluded the fair value is less than the book value of the preferred stock as of December 31, 2016, which will not recover in foreseeable future, thus in the year ended December 31, 2016, the Company recorded $4.3 million in impairment charges in investment impairments.

On December 7, 2015, the Company invested $0.5 million in a convertible bond of AioTV. The convertible bond bears interest at 10.0% per annum and mature on May 7, 2016 and subsequently extended to March 28, 2017. The Company converted the bond to 2,269,856 common shares at the conversion price of $0.253790596 per share on May 30, 2017. In the fourth quarter of 2016, the Company invested an additional $0.3 million in convertible bonds issued by AioTV. The convertible bond bears interest at 10% per annum and mature on October 6, 2017.The convertible bonds are classified as an AFS security and are subject to fair value accounting. During 2016, and in connection with the fair value analysis of the investment capital, the Company assessed the fair value of these convertible bonds, and concluded that there was no impairment.

As of December 31, 2016, the carrying amount on the investment of AioTV was $1.7 million, including $0.9 million preferred shares and $0.8 million convertible bonds.

On May 30, 2017, the Company converted all the existing 25,527,008 Series B Preferred Shares of AioTV into 25,527,008 common shares of AioTV at a conversion price of $0.320937 per share, and converted $576,068 of the principal amount and the accrued and unpaid interests of the $0.5 million convertible debenture issued on December 7, 2015 into 2,269,856 common shares of AioTV at a conversion price of $0.253790596 per share. After this conversion, the Company deemed that we have significant influence in AioTV and use the equity method to account for the investment in AioTV.

Table of Contents

On May 30, 2017, the Company signed a Note Purchase Agreement with AioTV. Pursuant to the agreement, the valuation cap of AioTV was reduced to $0.16 million, and the Company promised to purchase $0.8 million convertible promissory note including $0.32 million existing convertible bond issued in October 2016. As the result, the Company recorded $1.3 million investment impairment in the second quarter of 2017 and invested $0.1 million and $0.38 million in the second and third quarter of 2017 in a convertible promissory note, respectively. In the third quarter of 2017, the Company recorded $0.1 million in losses to reflect its 45% interest in AioTV losses. After the recorded balance of common stock is reduced to zero, the Company records 45% of AioTV losses against our convertible promissory note investment balance until the carrying value of the convertible promissory note investment balance is reduced to zero. In the third and fourth quarter of 2017, the Company recorded $0.2 million and $0.2 million, respectively, in losses to reflect its 45% of AioTV losses. As of December 31, 2017, the Company assessed the fair value of AioTV, and recorded a $0.4 million impairment charge to this investment, reducing its book value to zero.

UiTV Media Inc. or UiTV

On October 16, 2010, the Company invested $ 30.0 million in UiTV Media Inc., or (UiTV), $10.0 million of which was paid by the Company s common shares that it had the repurchased right and $20.0 million of which was paid by cash. The Company recorded this transaction as an acquisition because the Company owned 75% interest of UiTV and had the controlling rights. The transactions closed on November 8, 2010. On April 15, 2012, the Company exercised its repurchase right, and this trigged deconsolidation of UiTV from the Company s consolidated financial statements starting from June 21, 2012 as the Company lost the controlling right due to reduced ownership from 75% to 49% and loss of a board of directors seat. As the result, the Company accounted for this investment using the equity method. From December 3, 2012 to December 31, 2015, the Company has totally purchased $35.1 million convertible bonds that bear interest at 6.5% per annum with various maturity dates, and subsequently all maturity dates were extended to December 31, 2015. In 2013 and 2014, the Company recorded a total of $9.6 million and $5.3 million, respectively, in losses for the preferred stock investment to reflect 49% interest in UiTV losses. After the value of the preferred shares was reduced to zero, the Company started to record 100% of UiTV losses against our convertible bond investment balance until the carrying value of the convertible bond investment balance was reduced to zero. Therefore, in 2014 and 2015, the Company recorded $3.6 million and $14.0 million in losses to reflect 100% of UiTV losses. At every year-end, the Company assessed the fair value of the UiTV, and recorded impairment charges of $9.1 million, $2.4 million and $6.0 million in 2013, 2014 and 2015, respectively. The convertible bond investments balance was reduced to zero as of December 31, 2015.

The Company presents the below summarized financial information of the Company s equity method investees, other than those whose financial statements have been separately presented.

	Condensed Year Ended December 31, 2017 (in thousands)	Condensed Year Ended December 31, 2016 (in thousands)	Condensed Year Ended December 31, 2015 (in thousands)
Operating data:			
Revenue	$ 15	$	$
Gross profit	$ 15	$	$
Income (loss) from operations	$ (1,906)	$ 950	$ (9)
Net income (loss)	$ (2,524)	$ 2,812	$ (9)
Net income (loss) attributable to Equity method investees	$ (1,079)	$ 984	$ (3)

	Year Ended December 31,	Year Ended December 31,	Year Ended December 31,

	2017 (in thousands)	2016 (in thousands)	2015 (in thousands)
Balance sheet data:			
Current assets	$ 14,859	$ 18,616	$ 7
Long-term assets	$ 148	$ 105	$ 18,238
Current liabilities	$ (12,150)	$ (11,669)	$ (14,135)
Long-term liabilities	$	$	$
Non-controlling interests	$	$	$

Fair Value Measurements

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The accounting guidance also establishes a three-tier fair value hierarchy which requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The fair value hierarchy prioritizes the inputs into three levels that may be used in measuring fair value as follows:

Table of Contents

Level 1-observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2-inputs other than the quoted prices in active markets for identical assets or liabilities that are observable either directly or indirectly.

Level 3-unobservable inputs based on the Company s assumptions.

The Company s financial instruments consist principally of cash and cash equivalents, short-term investments, restricted cash, accounts receivable, long-term investments, accounts payable and certain accrued expenses. Short-term investments consist of bank notes, available-for-sale securities and term deposits with maturities longer than three months and less than one year when acquired. As of December 31, 2017 and 2016, the respective carrying values of financial instruments except for long-term investments approximated their fair values based on their short-term maturities. As of December 31, 2017, the combined fair value of the entity s long-term investments in available-for-sale Level 3 convertible bond and redeemable securities was nil.

The following is a summary of available-for-sale investment as of December 31, 2017:

	Cost	Cash Collection	Impairment charges and equity losses	Transfer-out from available-for-sale investments	Realized gain	Estimated fair value
			(in thousands)			
Shares of a private company	$ 479	$ (479)	$	$	$	$
Convertible bonds of privately-held company	800		(408)	(392)		
Preferred convertible shares of private company	900		(900)			
Total available-for-sale investments	$ 2,179	$ (479)	$ (1,308)	$ (392)	$	$

The following is a summary of available-for-sale investment as of December 31, 2016:

	Cost	Cash Collection	Impairment charges and equity losses	Transfer-out from available-for-sale investments	Realized gain	Estimated fair value
			(in thousands)			
Shares of a private company	$ 479	$	$	$	$	$ 479
Convertible bonds of a private company	800					800
Preferred convertible shares of a private company	5,200		(4,300)			900
Total available-for-sale investments	$ 6,479	$	$ (4,300)	$	$	$ 2,179

Table of Contents

Financial assets measured and recognized at fair value on a recurring basis and classified under the appropriate level of the fair value hierarchy as described above were as follows:

	Level 1	Level 2	Level 3	Total
			(in thousands)	
As of December 31, 2017				
Short-term investments	$	$	$	$
Long-term investments				
As of December 31, 2016				
Short-term investments			479	479
Long-term investments	$	$	$ 1,700	$ 1,700

The following is the changes in financial assets using unobservable inputs (Level 3) for the years ended December 31, 2017, 2016 and 2015.

	Amount In thousands
As of December 31, 2014	$ 48,200
Less: Share of loss from associates	(13,954)
Less: Impairment charges	(8,846)
Less: Cash collection	(10,000)
Less: Transfer-out from available-for-sale investments	(10,000)
Add: New investment in convertible bonds	500
Add: Unrealized gain	(200)
As of December 31, 2015	$ 5,700
Less: Impairment Charges	(4,300)
Add: New investment in convertible bonds	300
As of December 31, 2016	$ 1,700
Less: Impairment charges	(1,308)
Less: Transfer-out from available-for-sale investments	(392)
As of December 31, 2017	$

NOTE 7-COMMITMENTS AND CONTINGENCIES

Leases

The Company has entered into various non-cancelable operating, office space, manufacturing facilities leases. Future minimum lease payments under all non-cancelable operating leases with an initial term in excess of one year as of December 31, 2017 are as follows:

	Amount (in thousands)
2018	$ 1,575
2019	1,497

2020		1,013
2021		591
2022		
Thereafter		
Total	$	4,676

Rent expense for the years ended December 31, 2017, 2016 and 2015 was $1.9 million, $1.4 million and $1.6 million, respectively.

India Department of Telecommunication Security and Supply Chain Standards

India s Department of Telecommunications (DOT) requires equipment manufacturers to meet certain security and supply chain standards to the satisfaction of Indian authorities. The Company entered into these separate general security agreements with several customers in India which establish detailed security and supply chain standards covering products supplied to these telecommunication customers as required by the Indian authorities. When signing agreement in 2010, we assumed we had unlimited penalty uncertainty and no revenue was recognized for any orders associated with the DOT agreement.

Table of Contents

In 2015, the Company reassessed the revenue recognition on these agreements and concluded the likelihood of DOT non-compliance was low. This assessment is based on several factors, including 1) decreasing activities under these customer contracts; 2) no reports or findings of any spyware or malware in the equipment supplied by the Company in the past 5 year period, which is approximately the estimated useful life of such kind of equipment; and 3) quality assurance reports about the reliability of our equipment. As a result of this assessment, the Company considered it appropriate to recognize revenue. In 2015, the Company recognized $11.8 million revenues with $5.4 million cost of goods, which included equipment revenue of $5.6 million with $5.4 million cost of goods, and equipment based service revenue of $6.2 million with $0.01 million cost of goods.

Contractual obligations and commercial commitments

Letters of credit:

The Company issues bid bond, commercial letters of credit or standby letters of credit primarily to support international sales activities outside of China and in support of purchase commitments. When the Company submits a bid for a sale, often the potential customer will require that the Company issue a bid bond or a standby letter of credit to demonstrate its commitment through the bid process. In addition, the Company may be required to issue standby letters of credit as guarantees for advance customer payments upon contract signing or performance guarantees. The standby letters of credit usually expire without being drawn by the beneficiary thereof. Finally, the Company may issue commercial letters of credit in support of purchase commitments. As of December 31, 2017, the Company s outstanding letters of credit approximated $20.9 million. These balances are included in the balance of Short-term restricted cash and Long-term restricted cash.

Purchase commitments:

The Company is obligated to purchase raw materials and work-in-process inventory under various orders from various suppliers, all of which should be fulfilled without adverse consequences material to the Company s operations or financial condition. At December 31, 2017, the Company had outstanding purchase commitments, including agreements that are non-cancelable and cancelable, approximating $106.3 million.

Intellectual property:

Certain sales contracts include provisions under which customers are indemnified by the Company in the event of, among other things, a third party claim against the customer for intellectual property rights infringement related to the Company s products. There are no limitations on the maximum potential future payments under these guarantees. The Company has not accrued any amounts in relation to these provisions as no such claims have been made and the Company believes it has valid enforceable rights to the intellectual property embedded in its products.

Uncertain Tax Positions:

As of December 31, 2017, the Company had $18.7 million of gross unrecognized tax benefits, of which $2.0 million related to tax benefits that, if recognized, would impact the annual effective tax rate. The remaining $16.7 million gross unrecognized tax benefits, if recognized, would impact certain deferred tax assets.

Litigation:

The Company is a party to other litigation matters and claims that are normal in the course of operations, and while the results of such litigation matters and claims cannot be predicted with certainty, management of the Company believes that the final outcome of such matters will not have a material adverse impact on the Company s financial position, results of operations or cash flows.

NOTE 8-COMMON STOCK REPURCHASE AND ISSUANCE

On November 12, 2014, the Company s Board of Directors approved a share repurchase program of up to $40.0 million of its ordinary shares outstanding over the 24 months through 2016. On November 4, 2016, the Company s Board of Directors approved an extension for this program to November 2018. For the years ended December 31, 2017, 2016 and 2015, the Company repurchased 72,739, 2,054,655 and 1,563,302 shares at the cost of $0.1 million, $4.1 million and $3.7 million, respectively. All of the repurchased shares under the repurchase program are classified as treasury shares of the Company until they are retired or reissued.

NOTE 9-COMMON STOCK AND STOCK INCENTIVE PLANS

Stock Incentive Plans

As of December 31, 2017, the Company has the stock incentive plans described below. Substantially all outstanding awards are subject to potential accelerated vesting in the event of a change in control of the Company. The Company repurchases and cancels its ordinary shares forfeited with respect to the tax liability associated with certain vesting of restricted stock and restricted stock unit grants under these plans.

Table of Contents

2017 Equity Incentive Plan:

The 2017 Equity Incentive Plan, or (the 2017 Plan), was approved by the Board of Director on November 4, 2016, and will expire on December 31, 2021. The 2017 Plan provides for the grant of the following types of incentive awards: (i) stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance shares and performance units, and (vi) other stock or cash awards (Award, collectively, Awards). Those who are eligible for Awards under the 2017 Plan include employees, directors and consultants who provide services to the Company and its affiliates.

The maximum aggregate number of shares that may be awarded and sold under the Plan is 2,000,000 Shares plus (i) any shares that, as of December 31, 2016, have been reserved but not issued pursuant to any awards granted under UTStarcom Holdings Corp. s Amended and Restated 2006 Equity Incentive Plan (the 2006 Plan), (ii) any shares subject to stock options or similar awards granted under the 2006 Plan that expire or otherwise terminate without having been exercised in full and Shares issued pursuant to awards granted under the 2006 Plan that are forfeited to or repurchased by the Company. The shares may be authorized but unissued, or reacquired common Stocks.

As of December 31, 2017, 1,165,623 shares underlying options and restricted stock awards and units were outstanding under the 2017 Plan. The 2006 Equity incentive plan expired on December 31, 2016, and 1,546,927 ordinary shares available for grant under this plan were transferred to the 2017 equity incentive plan.

Stock Award and Stock Option Activity

During 2017, the Company granted equity awards primarily consisting of restricted stock, restricted stock units, stock options and performance shares. Such awards generally vest over a period of four years from the vesting start date. Restricted stock has the voting rights of ordinary shares and the shares underlying restricted stock are issued and outstanding. As of December 31, 2017, the number of ordinary shares available for issuance pursuant to future grants under the 2017 plan, including remaining unissued shares under Prior Plans that have been transferred into the 2017 plan were 3,469,239. The 2006 Plan expired on December 31, 2016, and 960,940 shares were transferred to the 2017 Plan that was approved by the Board of Director on November 4, 2016. The following table summarizes the Company s stock option activities:

	Number of shares outstanding (in thousands)		Weighted average exercise price
Options Outstanding, December 31, 2016	605	$	2.78
Options Granted			
Options Exercised	(52)		2.62
Options Forfeited or Expired	(309)		3.22
Options Outstanding, December 31, 2017	244	$	2.26

Under the Plans, the Company granted restricted stock awards. Restricted stock awards are unvested stock awards that may include grants of restricted stock or grants of restricted stock units. Such awards generally vest over a period of four years from the date of grant. Restricted stock has the voting rights of ordinary share and the shares underlying restricted stock are considered to be currently issued and outstanding. Restricted stock units do not have the voting rights of ordinary shares, and the shares underlying the restricted stock units are not considered issued and outstanding. The expense for such awards is based on the fair market value of the shares at the date of grant and is recognized on a straight- line basis over the requisite service period. The grant of restricted stock awards is deducted from the shares available on a one to one basis for grant under the Company s stock plan. Unvested restricted awards as of December 31, 2017 and changes during the year ended December 31, 2017 is summarized below:

Table of Contents

	Shares (in thousands)	Weighted average grant date fair value
Total nonvested restricted stock at December 31, 2016	1,438	$ 2.28
Granted	76	2.34
Vested	(364)	2.27
Forfeited	(229)	3.64
Total nonvested restricted stock at December 31, 2017	921	$ 1.96

During 2017, 0.4 million shares of restricted stock awards vested. The total fair value of restricted stock awards vested, as measured on the date of vesting, during 2017 was $0.8 million. During 2017, the Company also granted 0.1 million restricted stock awards.

The following table summarizes significant ranges of outstanding and exercisable stock options as of December 31, 2017:

Range of Exercise Prices		Number of shares Outstanding as of 12/31/2017	Weighted Average Remaining Contractual Term	Weighted Average Exercise Price	Number of shares Exercisable as of 12/31/2017	Weighted Average Exercise Price
$ 2.24	$ 2.24	241,600	5.08	$ 2.24	41,650	$ 2.24
$ 4.17	$ 4.17	2,721	0.67	$ 4.17	2,721	$ 4.17
$ 2.24	$ 4.17	244,321	5.03	$ 2.26	44,371	$ 2.36

	Number of shares	Weighted average exercise price
Options exercisable as of December 31, 2017	44,371	$ 2.36
Options vested and expected to vest as of December 31, 2017	244,321	$ 2.26

The intrinsic value represents the total pre-tax intrinsic value and is calculated as the difference between the market value as reported by NASDAQ on December 29, 2017 of $5.63 and the exercise price of the in-the-money shares. During 2017, the total pre-tax intrinsic value of options exercised was negligible. The weighted average remaining contractual life of options exercisable was 2.08 years, and the weighted average remaining contractual life of options expected to vest was 5.03 years as of December 31, 2017. The weighted average remaining contractual life of options exercisable was 2.13 years, and the weighted average remaining contractual life of options expected to vest was 4.45 years as of December 31, 2016.

2006 Equity Incentive Plan:

The 2006 Equity Incentive Plan, or 2006 Plan, was implemented on July 21, 2006 after being adopted by the Board of Directors on June 6, 2006 and approved by the Company s stockholders on July 21, 2006, expired on December 31, 2016. The 2006 Plan replaces the 1997 Plan, the 2001 Plan, and the 2003 Plan, (collectively, the Prior Plans), and no further awards will be granted pursuant to the Prior Plans. The 2006 Plan provides for the grant of the following types of incentive awards: (i) stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance shares and performance units, and (vi) other stock or cash awards. Those who are eligible for Awards under the 2006 Plan

include employees, directors and consultants who provide services to the Company and its affiliates.

The maximum aggregate number of shares that may be awarded and sold under the 2006 Plan is 1,500,000 shares, which was amended on January 4, 2016, to add an additional 1,500,000 shares to the 2006 Plan, plus (i) any shares that have been reserved but remain unissued under the Prior Plans as of July 21, 2006, and (ii) any shares subject to stock options or similar awards granted under the Prior Plans that expire or become exercisable without having been exercised in full and shares issued pursuant to awards granted under the Prior Plans that are forfeited to or repurchased by the Company. As of December 31, 2016, the number of shares transferred from the Prior Plans to the 2006 plan totaled 8,474,347. As of December 31, 2016, 2,042,798 options and restricted stock awards and units were outstanding under the 2006 Plan.

The Board of Directors or the Compensation Committee of the Board, or Compensation Committee, administers the 2006 Plan. Subject to the terms of the 2006 Plan, the Administrator has the sole discretion to select the employees, consultants, and directors who will receive Awards, determine the terms and conditions of Awards, and to interpret the provisions of the 2006 Plan and outstanding Awards. Options granted under the 2006 Plan generally vest and become exercisable over four years.

Table of Contents

Awards granted under the 2006 Plan are generally not transferable, and all rights with respect to an Award granted to a participant generally may be exercised during a participant s lifetime only by the participant; provided, however, that with the Administrator s approval, a participant may (i) transfer an Award to a participant s spouse or former spouse pursuant to a court-approved domestic relations order which relates to the provision of child support, alimony payments or marital property rights, or (ii) transfer an Award by gift to or for the benefit of the participant s immediate family.

The exercise price of all stock options and stock appreciation rights granted under the 2006 Plan must be at least equal to 100% of the fair market value of the ordinary share on the date of grant (or at least 110% of such fair market value for an incentive stock option, or (ISO), granted to a shareholder with greater than 10% voting power of the Company s stock). The maximum term of a stock option granted to any participant must not exceed seven years from the date of grant or five years for an ISO granted to a shareholder with greater than 10% of the voting power of the ordinary share. The Administrator will determine the terms and conditions of all other Awards granted under the 2006 Plan.

Stock Award and Stock Option Activity

During 2016, the Company granted equity awards primarily consisting of restricted stock, restricted stock units, stock options and performance shares. Such awards generally vest over a period of one to four years from the vesting start date. Restricted stock has the voting rights of ordinary shares and the shares underlying restricted stock are issued and outstanding. As of December 31, 2015, the number of ordinary shares available for issuance pursuant to future grants under the 2006 plan, including remaining unissued shares under Prior Plans that have been transferred into the 2006 plan were 1,022,114. The 2006 Plan expired on December 31, 2016, and 960,940 shares were transferred to the 2017 Plan that was approved by the Board of Director on November 4, 2016. Therefore, as of December 31, 2016, the number of ordinary shares available for issuance was 2,960,940 under the 2017 Plan. The following table summarizes the Company s stock option activities:

	Number of shares outstanding (in thousands)	Weighted average exercise price
Options Outstanding, December 31, 2014	558	$ 6.33
Options Granted		
Options Exercised	(12)	3.48
Options Forfeited or Expired	(131)	7.3
Options Outstanding, December 31, 2015	415	$ 6.11
Options Granted	267	2.24
Options Exercised		
Options Forfeited or Expired	(77)	18.79
Options Outstanding, December 31, 2016	605	$ 2.78

Under the 2006 Plans, the Company granted restricted stock awards. Restricted stock awards are unvested stock awards that may include grants of restricted stock or grants of restricted stock units. Such awards generally vest over a period of one to four years from the date of grant. Restricted stock has the voting rights of ordinary share and the shares underlying restricted stock are considered to be currently issued and outstanding. Restricted stock units do not have the voting rights of ordinary shares, and the shares underlying the restricted stock units are not considered issued and outstanding. The expense for such awards is based on the fair market value of the shares at the date of grant and is recognized on a straight-line basis over the requisite service period. The grant of restricted stock awards is deducted from the shares available on a one to one basis for grant under the Company s stock plan. Unvested restricted awards as of December 31, 2016 and changes during the year ended December 31, 2016 and 2015 are summarized below:

Table of Contents

	Shares (in thousands)		Weighted average grant date fair value
Total nonvested restricted stock at December 31, 2014	1,481	$	2.9
Granted	422	$	2.47
Vested	(427)	$	3.07
Forfeited	(420)	$	2.76
Total nonvested restricted stock at December 31, 2015	1,056	$	2.72
Granted	1,124	$	2.19
Vested	(624)	$	2.77
Forfeited	(118)	$	2.7
Total nonvested restricted stock at December 31, 2016	1,438	$	2.28

During the year ended December 31, 2015, 0.4 million shares of restricted stock awards vested. The total fair value of restricted stock awards vested, as measured on the date of vesting, during the year ended December 31, 2015 was $1.3 million. The Company also granted 0.4 million restricted stock awards.

During the year ended December 31, 2016, 0.6 million shares of restricted stock awards vested. The total fair value of restricted stock awards vested, as measured on the date of vesting, during the year ended December 31, 2016 was $1.7 million. The Company also granted 1.1million restricted stock awards.

The intrinsic value represents the total pre-tax intrinsic value and is calculated as the difference between the market value as reported by NASDAQ on December 30, 2016 of $2.0 and the exercise price of the in-the-money shares. During the years ended December 31, 2016 and 2015, the total pre-tax intrinsic value of options exercised was negligible. The weighted average remaining contractual life of options exercisable was 2.13 years, and the weighted average remaining contractual life of options expected to vest was 4.45 years as of December 31, 2016.

Stock-Based Compensation

Stock-based compensation expense for stock options is estimated at the grant date based on each option s fair value as calculated by the Black-Scholes model. The Black-Scholes model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including the expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

The Company uses historical volatility as management believes it is more representative of future stock price trends than implied volatility due to the relatively small number of actively traded options on the Company s ordinary shares available to determine implied volatility. The Company estimates an expected term of options granted based upon the Company s historical exercise and cancellation data for vested options. In addition, separate groups of employees that have similar exercise behavior are considered separately. The expected term of employee stock purchase plan shares is the average of the remaining purchase periods under each offering period. The Company bases the risk free interest rate used in the option valuation model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if

actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

The fair values of stock-based payment awards excluding non-employee, were estimated using the Black-Scholes option pricing model with the following assumptions:

	Years ended December 31,	
Stock Options:	**2016**	**2015**
Expected term in years	4.75	4.75
Weighted average risk-free interest rate	1.3%	1.5%
Expected dividend rate	0.0%	0.0%
Volatility	51.6%	72.7%

Table of Contents

At December 31, 2017, there was approximately $0.8 million of total unrecognized compensation cost, as measured, related to unvested stock options and restricted stock and restricted stock units, which is expected to be recognized over a weighted-average period of 1.23 years.

At December 31, 2016, there was approximately $1.8 million of total unrecognized compensation cost, as measured, related to unvested stock options and restricted stock and restricted stock units, which is expected to be recognized over a weighted-average period of 1.87 years.

The following table summarizes the stock-based compensation expense recognized in the Company s Consolidated Statement of Operations:

	Years ended December 31,		
	2017	2016	2015
	(in thousands)		
Cost of net sales	$ 12	$ 1	$ 40
Selling, general and administrative	793	2,193	1,392
Research and development	61	44	114
Total	$ 866	$ 2,238	$ 1,546

NOTE 10 INCOME TAXES

Cayman Islands

Under the current tax laws of Cayman Islands, the Company and its subsidiaries are not subject to tax on their income or capital gains. In addition, upon of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

United States and Foreign Income Taxes

United States and foreign income (loss) before income taxes and minority interest were as follows:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
United States	$ (29,673)	$ 7,905	$ 19,717
Foreign	37,917	(6,985)	(51,037)
	$ 8,244	$ 920	$ (31,320)

The components of the provision (benefit) for income taxes are as follows:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Current			
Federal	$	$	$
State			
Foreign	$ 2,355	$ 17	(5,193)
Total Current	$ 2,355	$ 17	$ (5,193)
Deferred			
Federal			
State			
Foreign	(1,092)	771	1,031
Total Deferred	(1,092)	771	1,031
Total	$ 1,263	$ 788	$ (4,162)

On December 22, 2017, the Tax Act was enacted. The Tax Act significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate income tax rate (federal tax rate) from 35% to 21% effective January 1, 2018, implementing a modified territorial tax system, and imposing a mandatory one-time transition tax on accumulated earnings of foreign subsidiaries.

Table of Contents

The 21% federal tax rate will apply to the Company s calendar year ending December 31, 2018 and each year thereafter. The Company must remeasure its deferred tax assets and liabilities (DTA) using the federal tax rate that will apply when the related temporary differences are expected to reverse.

The Company has $0 deemed repatriation tax liability because its foreign subsidiaries accumulated earnings and profits was negative as of both November 2, 2017 and December 31, 2017.

As of December 31, 2017, the Company had gross unrecognized tax benefits of approximately $18.7 million and had certain deferred tax assets and the federal tax benefit of state income tax items totaling $16.7 million. Of the total $18.7 million gross unrecognized tax benefits, $2.0 million related to tax benefits that, if recognized, would impact the annual effective tax rate. The Company has reduced its unrecognized tax benefits by approximately $1.4 million during 2017 mainly due to statute of limitations expirations.

The Company s policy is to recognize interest expense and penalties related to the above unrecognized tax benefits as a component of income tax expense. The Company had accrued interest and penalties of approximately $0.4 million as of December 31, 2017 and approximately $0.4 million as of December 31, 2016.

The Company is subject to taxation in the U.S. federal jurisdiction and various U.S. state and foreign jurisdictions. The Company is also under audit by the taxing authorities in China on a recurring basis. The material jurisdictions that the Company is subject to examination are in the United States and China. The Company s tax years for 2006 through 2017 are still open for examination in China. The Company s tax years for 2009 through 2017 are still open for examination in the United States.

FASB ASC 740-10 establishes criteria for recognizing or continuing to recognize only more-likely-than-not tax positions, which may result in income tax expense volatility in future periods. While the Company believes that it has adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than the Company s accrued position. Accordingly, additional provisions on income tax related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

A summary of the Company s unrecognized tax benefits is as follows:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Beginning balance-gross unrecognized tax benefits (UTB s)	$ 20,137	$ 22,694	$ 45,382
Additions based on tax positions related to the current year			48
Reductions for tax positions related to prior years			(835)
Lapse of statute of limitations	(1,409)	(2,557)	(21,901)
Ending balance gross unrecognized tax benefits (UTB s)	18,728	20,137	22,694
UTB s as a credit in deferred taxes	(14,604)	(14,604)	(14,604)
Federal benefit of state taxes	(2,063)	(2,063)	(2,063)

UTB s that would impact the effective tax rate	$ 2,061	$ 3,470	$ 6,027

In establishing its deferred income tax assets and liabilities, the Company makes judgments and interpretations based on the enacted tax laws and published tax guidance applicable to its operations. The Company records deferred tax assets and liabilities and evaluates the need for valuation allowances to reduce the deferred tax assets to realizable amounts. The likelihood of a material change in the Company s expected realization of these assets is dependent on future taxable income and its ability to use foreign tax credit carryforwards and carrybacks.

Table of Contents

A summary of the components of net deferred tax assets is as follows:

	December 31, 2017	December 31, 2016
	(in thousands)	
Deferred Tax Assets		
Allowances and reserves	$ (9,689)	$ (8,969)
Net operating loss carryforwards	165,408	237,393
Tax credit carryforwards	60,807	67,579
Writedown/amortization of intangible assets and goodwill	1,421	5,554
Fixed assets	3,448	5,997
Demo equipment income	4,415	7,357
Other	13,230	16,352
Total Deferred Tax Assets	239,040	331,263
Deferred Tax Liabilities		
Prepaid expense	(29)	736
Accrued warranties	663	(92)
Other	(330)	(334)
Total Deferred Tax Liabilities	304	310
Total Net Deferred Tax Assets	$ 239,344	$ 331,573
Less: Valuation Allowance	$ (236,332)	$ (329,523)
Total Net Deferred Tax Assets	3,012	2,050

As of December 31, 2017, the Company s U.S. federal net operating loss carryforwards were $570.3 million and expire in varying amounts between 2025 and 2034. As of December 31, 2017, state net operating loss carryforwards were $292 million and expire in varying amounts between 2018 and 2038. The Company has concluded that these federal and state net operating losses did not meet the more likely than not standard contained in FASB ASC 740-10 and has therefore placed a $140.2 million valuation allowance against the related deferred tax assets. In the event the tax benefits related to the valuation allowance are realized, an immaterial amount would be credited to paid-in capital. As of December 31, 2017, the Company also had net operating loss carryforwards (NOLs) in China of approximately $55.7million. The China NOLs will expire in varying amounts between 2018 and 2022. The Company has also concluded that these China net operating losses did not meet the more likely than not standard and has therefore provided a $8.3 million valuation allowance against the related deferred tax assets. As of December 31, 2017, the Company had NOLs in countries other than the U.S. and China. These NOLs are approximately $102.8 million. The majority of the NOLs do not expire and can be carried forward indefinitely. However, the Company concluded majority of these losses did not meet the more likely than not standard and has therefore placed a valuation allowance of $17.7 million against the related deferred tax assets.

As of December 31, 2017, the Company has U.S. alternative minimum tax credit carryforwards of $1.0 million which have an indefinite life. The Company also has U.S. research and development credit carryforwards of $8 million, $2.5 million of the credits have an indefinite life and $5.5 million of the credits expire in varying amounts between 2018 and 2032. The Company has U.S. foreign tax credits of $51.8 million which expire in varying amounts between 2018 and 2027. The Company has concluded that these U.S. tax credit carryforwards did not meet the more likely than not standard contained in FASB ASC 740-10 and has therefore provided a $60.8 million valuation allowance against the related deferred tax assets.

The difference between the Company s effective income tax amount and the federal statutory amount are reconciled below:

	Years Ended December 31,		
	2017	2016	2015

			(in thousands)			
Federal tax (benefit) at statutory rate	$	2,885	$	322	$	(10,962)
Stock compensation expense		295		463		508
Effect of differences in foreign tax rates		(6,793)		4,475		(1,520)
FIN48 reserve		(1,478)		(2,465)		(7,433)
Change in deferred tax valuation allowance		5,971		(3,015)		14,241
Other		383		1,008		1,004
Total Tax Expense	$	1,263	$	788	$	(4,162)

On June 24, 2011, the Company effected the Merger to reorganize the corporate structure of UTStarcom, Inc., a Delaware corporation incorporated in 1991, and its subsidiaries. The Merger resulted in shares of the common stock of UTStarcom, Inc. being converted into the right to receive an equal number of ordinary shares in our capital, which were issued by us in connection with the Merger. Following the Merger, UTStarcom, Inc. became our wholly-owned subsidiary and the Company became the parent company of UTStarcom, Inc. and its subsidiaries. The Company, together with its subsidiaries, continues to conduct its business in substantially the same manner as was conducted by UTStarcom, Inc. and its subsidiaries. The transaction was accounted for as a legal re-organization of entities under common control. The Company remains subject to U.S. taxes at a statutory rate of 35%.

The China Corporate Income Tax Law (CIT Law) became effective on January 1, 2008. Under the CIT Law, China s dual tax system for domestic enterprises and foreign investment enterprises (FIEs) was effectively replaced by a unified system. The new law establishes a tax rate of 25% for most enterprises and a reduced tax rate of 15% for certain qualified high technology enterprises.

Table of Contents

The CIT Law provides the reduced 15% enterprise income tax rate for qualified high and new technology enterprises. One of the Company s China subsidiaries, HUTS, through which the majority of our business in China is conducted obtained the High and New Technology Enterprise Certificate, or (High-tech Certificate), from the relevant approval authorities on September 19, 2008, and thereafter were approved to pay CIT at the reduced tax rate of 15%. The approval for the reduced 15% tax rate is valid for three years and applies retroactively from January 1, 2008, subject to possible re-assessment by the approval authorities. During the re-assessment, the tax authority may suspend the implementation of the reduced 15% rate. HUTS s High-tech Certificate renewal was approved on November 13, 2017. HUT s approval extended the reduced 15% tax rate terms for three years . However, since HUTS is currently in significant loss position, the reduced in tax rate will not have a material adverse impact on the business or liquidity until HUTS begin to generate profit and deplete all the net operating loss carry forwards.

As of September 30, 2005, the Company did not believe it was more likely than not that it would generate a sufficient level and proper mix of taxable income within the appropriate period to utilize all the deferred tax assets in China and the United States. As a result of the review undertaken at September 30, 2005, the Company has concluded that it was appropriate to establish a full valuation allowance for the net deferred tax assets in China and the United States wherein the cumulative losses weigh heavily in the overall assessment. The Company has continued to provide full valuation allowances since 2005 as it did not believe it was more likely than not that it would generate sufficient taxable income within the appropriate period to utilize those deferred tax assets.

In 2017, the change in deferred tax valuation allowance of $6.0 million is primarily attributable to the tax expense related to continuing to provide full valuation allowance on the Company s deferred tax assets at December 31, 2017 in the United States and China. In 2016, the change in deferred tax valuation allowance of $3.0 million is primarily attributable to the tax expense related to continuing to provide full valuation allowance on the Company s deferred tax assets at December 31, 2016 in the United States and China. In 2015, the change in deferred tax valuation allowance of $14 million is primarily attributable to the tax expense related to continuing to provide a full valuation allowance on the Company s deferred tax assets at December 31, 2015 in the United States and China.

In 2017, 2016, and 2015, there was no income tax benefit related to tax credits.

NOTE 11-OTHER INCOME, NET

Other income, net consists of the following:

	Years ended December 31,		
	2017	2016	2015
	(in thousands)		
Foreign exchange gains (loss)	$ 619	$ 1,459	$ (190)
Gain from the currency translation adjustment	1,703	38	
Tax reversal for expiration of the statute of limitations(1)		807	
ESA loan impairment(2)			2,788
ESA loan interest(2)			1,129
Realized investment gain(3)		83	1,529
UiTV loan impairment(4)			(2,250)
Other	654	361	483
Total	$ 2,976	$ 2,748	$ 3,489

(1) Previously, when the Company divested its Korean subsidiary, the Company provided a tax reserve as it offered indemnification to the buyer for the uncertain tax position arising in the periods before the divestiture. In 2016, approximately $0.8 million of such tax reserve was released due to expiration of statute of limitations.

(2) The Company signed the loan agreement to for a total amount of $5.6 million in 2012. In the third quarter of 2015, the Company received $6.0 million, including $1.1 million interest income. Accordingly, $2.8 million reserve was reversed and recorded in Other income (expense), net. Therefore, all principal of the outstanding entrusted loan was collected and the contract was closed.

(3) The Company received 124,395 shares of Inphi on November 14, 2014 to exchange for the 1% interest in Cortina. Management assessed the shares and classified them as available-for-sale securities and subject to fair value accounting. In the first quarter of 2015, the Company sold the 124,395 shares of Inphi stock for a total cash consideration of $2.4 million, which resulted in a realized gain of $0.6 million in Other Income. In the second quarter of 2015, the Company also received $0.7 million in cash proceeds in connection with the sale of assets that had a $0 net carrying value, resulting in a realized gain in Other Income. In the fourth quarter of 2015, another $0.3 million was released from escrow deposited by Inphi during the transaction and the Company recorded as a realized gain in Other Income. In the second quarter of 2016, another $0.1million was released from escrow deposited by Inphi during the transaction and the Company recorded as a realized gain in Other Income.

Table of Contents

(4) The other receivable balance includes loans to UiTV of approximately $2.3 million as of December 31, 2015. UiTV used this amount to purchase Set Top Boxes for the Internet television service in Thailand. Pursuant to the contract, UiTV repays in installments, starting from January of 2015 to July of 2018. The Company has performed an assessment on the need for a valuation reserve due to collectability risk and $2.3 million was reserved as of December 31, 2015.

NOTE 12-NET INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted net loss per share for the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Numerator:			
Net income (loss) attributable to UTStarcom Holdings Corp.	$ 6,981	$ 290	$ (27,158)
Denominator:			
Weighted average shares outstanding-Basic	35,467	35,806	37,003
Potentially dilutive common stock equivalents-stock options and restricted stock	709	596	
Weighted average shares outstanding-Diluted	36,176	36,402	37,003
Net Income(loss) per share attributable to UTStarcom Holdings Corp.- Basic	$ 0.20	$ 0.01	$ (0.74)
Net Income(loss) per share attributable to UTStarcom Holdings Corp.-Diluted	$ 0.19	$ 0.01	$ (0.74)

The dilutive effect of share-based awards is reflected in diluted net loss per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense and the dilutive effect of in-the-money options and unvested restricted stock units. Under the treasury stock method, the amount the employee must pay for exercising stock options and unamortized share-based compensation expense are assumed proceeds to be used to repurchase hypothetical shares. An increase in the fair market value of the Company s ordinary share can result in a greater dilutive effect from potentially dilutive awards.

For the year ended December 31, 2015, no potential ordinary shares were dilutive because of the net loss incurred in that year, therefore basic and dilutive EPS were the same.

For the years ended December 31, 2016 and 2017, 1.4 million and 1.2 million potential ordinary shares were dilutive.

NOTE 13-SEGMENT REPORTING

The Company s reporting segments are as follows:

- Equipment-Focused on our equipment sales including network infrastructure and application products. Network infrastructure products mainly include broadband products. Network application products mainly include Wireless infrastructure technologies.

- Services-Providing services and support for our equipment products and also the new operational support segment.

The Company s Chief Operating Decision Makers make financial decisions and resource allocations based on information they receive from their internal management system and currently evaluate the operating performance and allocates resources to the reporting segments based on segment revenue, gross profit and income (loss) before income taxes. Cost of sales and direct expenses in relation to production are assigned to the reporting segments. The accounting policies used in measuring segment assets and operating performance are the same as those used at the consolidated level.

Summarized below are the Company s segment net sales, gross profit and income (loss) before income taxes for the years ended December 31, 2017, 2016 and 2015 based on the current reporting segment structure.

Table of Contents

Net Sales by Segment	Years ended December 31, 2017	% of net sales	2016	% of net sales	2015	% of net sales
	(in thousands, except percentages)					
Equipment	$ 77,283	79%	$ 61,735	71%	$ 87,361	75%
Services	21,009	21%	24,777	29%	29,742	25%
Total Sales	$ 98,292	100%	$ 86,512	100%	$ 117,103	100%

Gross profit (loss) by Segment	Years ended December 31, 2017	Gross profit %	2016	Gross profit %	2015	Gross profit %
	(in thousands, except percentages)					
Equipment	$ 26,647	34%	$ 20,263	33%	$ 21,470	25%
Services	6,499	31%	8,093	33%	6,398	22%
Total Gross profit	$ 33,146	34%	$ 28,356	33%	$ 27,868	24%

Segment Margin and Income (loss) before income taxes	Years ended December 31, 2017	2016	2015
	(in thousands)		
Equipment	$ 16,847	$ 12,010	$ 12,097
Services	6,499	8,093	6,399
Total Segment Margin	23,346	20,103	18,496
General and Corporate	(15,102)	(19,183)	(49,816)
Income (loss) before income taxes	$ 8,244	$ 920	$ (31,320)

General and corporate expenses include all un-allocated expenses such as sales and marketing, general and administration and common R&D expenses, equity income (loss) of associates, investment impairment, etc.

Sales are attributed to a geographical area based upon the location of the customer. Sales data by geographical area are as follows:

	Years Ended December 31, 2017	% of net sales	2016	% of net sales	2015	% of net sales
	(in thousands, except percentages)					
Net Sales by Region						
China	$ 2,926	3%	$ 4,021	5%	$ 9,490	8%
Japan	49,185	50%	45,561	52%	57,483	49%
India	42,352	43%	33,021	38%	34,836	30%
Taiwan	3,018	3%	3,217	4%	7,904	7%
Other	811	1%	692	1%	7,390	6%
Total	$ 98,292	100%	$ 86,512	100%	$ 117,103	100%

Long-lived assets, consisting of property, plant and equipment, by geographical area are as follows:

	December 31,	
	2017	2016
	(in thousands)	
China	$ 1,369	$ 1,357
Other	345	253
Total long-lived assets	$ 1,714	$ 1,610

Table of Contents

NOTE 14-CREDIT RISK AND CONCENTRATION

Financial Risks:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, cash equivalents, short-term investments and accounts and notes receivable. The Company places its temporary cash and short-term investments with several financial institutions. Approximately $46.0 million and $53.8 million of the Company s cash and cash equivalents and short-term investments were on deposit in accounts outside the U.S. at December 31, 2017 and 2016, respectively, of which approximately $7.9 million and $13.5 million were held by subsidiaries in China.

The Company s exposure to market risk for changes in interest rates relates primarily to its investment portfolio. The fair value of its investment portfolio would not be significantly affected by either a 10% increase or decrease in interest rates due mainly to the short-term nature of most of its investment portfolio with the exception of the available-for-sale securities. The investment classified as available-for-sales securities is reported at fair value. It will be measured subsequently at fair value on the balance sheets with unrealized gains and losses will be recorded in accumulated other comprehensive income (loss) in shareholders equity. Any negative events or deterioration in financial well-being with respect to the counterparties of the long-term investments and the underlying collateral may cause material losses to the Company and have a material effect on the Company s financial condition and results of operations. In addition, the Company s interest income can be sensitive to changes in the general level of U.S. and China interest rates since the majority of its funds are invested in instruments with maturities of less than one year. In a declining interest rate environment, as short-term investments mature, reinvestment occurs at less favorable market rates. Given the short-term nature of certain investments, declining interest rates will not negatively impact the Company s investment income.

The Company maintains an investment portfolio of various holdings, types and maturities. The Company does not use derivative financial instruments. The Company places its cash investments in instruments that meet high credit quality standards, as specified in its investment policy guidelines. The Company s policy is to limit the risk of principal loss and to ensure the safety of invested funds by generally attempting to limit market risk.

The Company s available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive loss in shareholders equity. Any negative events or deterioration in financial well-being with respect to the counterparties of these investments may cause material losses to the Company and have a material effect on the Company s financial condition and results of operations.

Concentration of Credit Risk and Major Customers:

At December 31, 2017 and 2016, the Company s accounts receivable balance included amounts due from Softbank and its affiliates, representing approximately 2% and 57% of the Company s total accounts receivable, net of allowances for doubtful accounts, respectively.

The following customers accounted for 10% or more of the Company s net revenues:

	For the years ended December 31,		
	2017	2016	2015
Softbank and affiliates	40%	50%	47%
Bharat Sanchar Nigam Ltd. and affiliates	39%	35%	17%

Country Risks:

Approximately 3%, 5% and 8% of the Company s sales for the year ended December 31, 2017, 2016, and 2015, respectively, were from China. Accordingly, the political, economic and legal environment, as well as the general state of China s economy may influence the Company s business, financial condition and results of operations. The Company s operations in China are subject to special considerations and significant risks not typically associated with companies in the United States. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company s results may be adversely affected by, among other things, changes in the political, economic and social conditions in China, and by changes in governmental policies with respect to laws and regulations, changes in China s telecommunications industry and regulatory rules and policies, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

In addition, the major customers of the Company are Japan-based customers and India-based customers. Therefore, our results of operations may be adversely affected by the political and business relationship between as well as other events affecting Japan or India in general. From time to time there have been tensions and conflicts among China, Japan and India. Adverse changes in political and economic policies, geopolitical uncertainties, and international conflicts may lead to a reduction in our sales. Any future conflicts among China, Japan and India have an adverse impact on the political and business relationship of the countries. Furthermore, events affecting Japan or India in general, such as natural disasters, or a local currency devaluation may also have a negative impact on our business, financial condition and results of operations.

Table of Contents

NOTE 15-RELATED PARTY TRANSACTIONS

In 2016, the Company paid $0.2 million to Tim Ti, the Chief Executive Officer of the Company, for remuneration for service to Virtual Gateway Labs, Inc.. These amounts were expensed as employee compensation.

NOTE 16-SUBSEQUENT EVENTS

On March 28, 2018, the Company became a shareholder of Hangzhou uSTAR Technologies Limited ,or (uSTAR), a newly established JV Company, UT owns 49% equity interest of uSTAR and will make capital injection of $2.2 million subsequently. uSTAR will offer individual smart appliances that further capitalize on our IT expertise while expanding the market opportunity. In addition to the development of smart refrigerators, uSTAR will provide a comprehensive retail automation solution for the fast-growing Chinese smart retail store market. The product line includes smart shopping machines with hardware and software support. Smart retail solutions are expected to enhance the customer experience and save operating costs. The product utilizes integrated technologies such as facial recognition, image analysis, behavior identification, load sensor, RFID, and mobile payment. Moreover, the cloud-based operations center will offer various types of value-added services, enabling the real-time interaction of people, products and localities.

Table of Contents

SCHEDULE I

UTSTARCOM HOLDINGS CORP. (UNCONSOLIDATED-PARENT COMPANY BASIS)

REGISTRANT BALANCE SHEETS

(In thousands, except par value)

	December 31,	
	2017	**2016**
	(in thousands)	
ASSETS		
Investment in subsidiaries	$ 101,817	$ 93,973
Total assets	101,817	93,973
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable-intercompany	10,825	11,232
Total current liabilities	10,825	11,232
Total liabilities	10,825	11,232
Stockholders equity:		
Ordinary shares: $0.00375 par value; 250,000 authorized shares; 39,363 and 39,009 shares issued at December 31, 2017 and December 31, 2016, respectively; 35,506 and 35,225 shares outstanding at December 31, 2017 and December 31, 2016, respectively	122	122
Additional paid-in capital	1,263,007	1,262,005
Treasury stock, at cost: 3,857 and 3,784 shares at December 31, 2017 and December 31, 2016, respectively	(8,374)	(8,234)
Accumulated deficit	(1,226,174)	(1,233,154)
Accumulated other comprehensive income	62,411	62,002
Total stockholders equity	90,992	82,741
Total liabilities and stockholders equity	$ 101,817	$ 93,973

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

Table of Contents

UTSTARCOM HOLDINGS CORP. (UNCONSOLIDATED-PARENT COMPANY BASIS)

CONDENSED INFORMATION AS TO THE RESULTS OF OPERATIONS OF THE REGISTRANT

(In thousands)

	Years ended December 31,		
	2017	2016	2015
		(in thousands)	
Sales			
Unrelated parties	$	$	$
Related parties			
Intercompany			
Cost of sales			
Unrelated parties			
Related parties			
Intercompany			
Gross profit			
Operating expenses:			
Selling, general and administrative	852	671	928
Research and development			
Total operating expenses	852	671	928
Operating loss	(852)	(671)	(928)
Interest income			
Interest expense			
Other income, net			
Loss before income taxes and equity in loss of affiliated companies	(852)	(671)	(928)
Equity in net income (loss) of affiliated companies	7,833	803	(26,230)
Income tax benefit (expense)			
Net income (loss) and comprehensive income (loss)	$ 6,981	$ 132	$ (27,158)

The accompanying notes are an integral part of these financial statement

Table of Contents

UTSTARCOM HOLDINGS CORP.

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1-BASIS OF PRESENTATION

UTStarcom Holdings Corp., or the Company, a Cayman Island corporation, is the parent company of all UTStarcom Holdings Corp. subsidiaries. The condensed financial statements of the Company have been prepared pursuant to the rules and regulations of the SEC and in conformity with U.S. GAAP. The Company determined cash flow activities during the period were not material and therefore omitted the statement of cash flows from these financial statements.

On June 24, 2011, the Company effected a merger, or the Merger, to reorganize the corporate structure of UTStarcom, Inc., a Delaware corporation incorporated in 1991, and its subsidiaries. As a result of the reorganization, UTStarcom Holdings Corp. became the parent company of UTStarcom, Inc. and its subsidiaries. Pursuant to the Merger, the Company issued an equal number of ordinary shares in exchange for the common stock of UTStarcom, Inc. Given the reorganization of the corporate structure on June 24, 2011, the prior period numbers have been adjusted as if the new corporate structure had been in place since the beginning of the earliest period presented in the above condensed financial statements.

The Company is generally a holding company of certain subsidiaries, or collectively subsidiaries. The condensed financial statements of the Company have been prepared with the assumption that the current corporate structure has been in existence throughout all relevant periods.

The Company records its investment in subsidiaries under the equity method of accounting as prescribed in ASC 323-10, *The Equity Method of Accounting for Investments in Common Stock.* Such investment is presented on the balance sheet as Investment in affiliated companies and the subsidiaries profit or loss are recognized based on the effective shareholding percentage as Equity in net income (loss) of affiliated companies on the results of operations.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company.

The Company is a shell company and does not have any activities. Operating expenses for the Company for the years ended December 31, 2017, 2016 and 2015 consisted mainly of the retaining fee for the Board of Directors, its director and officer insurance expenses and the expenses associated with investor relations. As the Company does not have any cash activity, the recorded expenses were paid on behalf of the Company by UTStarcom, Inc., its subsidiary, and statements of cash flows have been omitted.

Table of Contents

SCHEDULE II

UTSTARCOM HOLDINGS CORP.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Years Ended December 31, 2017, 2016, and 2015

Description	Balance at beginning of the period	Charged (credited) to costs and expenses	Credited to other accounts	(Deductions) Adjustments (1)	Balance at end of the period
Year ended December 31, 2017					
Allowance for doubtful accounts	$ 2,339	$ (56)	$ 154	$	$ 2,437
Tax valuation allowance	$ 329,523	$ 6,162	$	$ (99,353)	$ 236,332
Year ended December 31, 2016					
Allowance for doubtful accounts	$ 4,564	$ 1,564	$	$ (3,789)	$ 2,339
Tax valuation allowance	$ 328,397	$ (3,016)	$ 4,142	$	$ 329,523
Year ended December 31, 2015					
Allowance for doubtful accounts	$ 10,877	$ 103	$	$ (6,416)	$ 4,564
Tax valuation allowance	$ 368,672	$ (11,090)	$ (29,185)(2)	$	$ 328,397

(1) Represents write-offs of allowance for doubtful accounts and foreign exchange adjustments.

(2) Includes $3 million removal of tax valuation allowance for expiration of net operating loss carryforwards in China and $27 million for utilization of foreign tax credits in US.