

UTSTARCOM HOLDINGS CORP.
Form 20-F
April 26, 2013

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**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

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2012

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**

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)

**Room 303, Building H, Phoenix Place,
No. A5 Shuguangxili, Chaoyang District,
Beijing, P.R. China, 100028**

(Address of principal executive offices)

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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 Exchange on which Registered
Ordinary Shares, \$0.00375 par value	The NASDAQ Stock Market LLC

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: 47,656,092 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. Yes 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. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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 Accelerated Filer Non-Accelerated Filer

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

U.S. GAAP <input checked="" type="radio"/>	International Financial Reporting Standards as issued <input type="radio"/>	Other <input type="radio"/>
	by the International Accounting Standards Board <input type="radio"/>	

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: Item 17 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). Yes 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. Yes No

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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 incorporated 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, 2010, 2011 and 2012.

This annual report contains translations of certain Renminbi amounts into U.S. dollars at the rate of RMB6.2370 to \$1.00, the noon buying rate on December 31, 2012 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 Related to Doing Business in China Fluctuation in the value of the Renminbi 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 JPY86.7264 to \$1.00, the noon buying rate on December 31, 2012 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 Part I, Item 4.C for a list of our subsidiaries. We, together with our subsidiaries, continue to conduct our business in substantially the same manner as

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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 and for the years ended December 31, 2011 and 2012 reflect our financial position, results of operation and cash flows.

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, 2010, 2011 and 2012 and the selected consolidated balance sheet data as of December 31, 2011 and 2012 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 statements of operations data for the years ended December 31, 2008 and 2009 and our consolidated balance sheets as of December 31, 2008, 2009 and 2010 have been derived from our audited consolidated financial statements, which are not included in this annual report.

	Years Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Net sales(1)	\$ 186,728	\$ 320,576	\$ 291,535	\$ 386,344	\$ 1,640,449
Gross profit	\$ 68,158	\$ 114,334	\$ 70,238	\$ 64,979	\$ 261,242
Operating income (loss)(2)	\$ (32,586)	\$ 20,799	\$ (73,722)	\$ (218,688)	\$ (176,216)
Net income (loss) attributable to UTStarcom Holdings Corp.(3)	\$ (34,385)	\$ 13,387	\$ (65,129)	\$ (225,688)	\$ (150,316)
Net income (loss) per share attributable to UTStarcom Holdings Corp. Basic and Diluted.(4)	\$ (0.71)	\$ 0.26	\$ (1.43)	\$ (5.31)	\$ (3.66)

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	Years Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 179,880	\$ 301,626	\$ 351,507	\$ 265,843	\$ 309,603
Working capital	\$ 196,372	\$ 280,010	\$ 213,736	\$ 94,591	\$ 312,072
Total assets	\$ 488,091	\$ 600,940	\$ 784,283	\$ 929,111	\$ 1,310,806
Total short-term debt	\$	\$	\$	\$	\$
Long-term debt	\$	\$	\$	\$	\$
Total UTStarcom Holdings Corp. shareholders' equity	\$ 215,842	\$ 264,638	\$ 240,929	\$ 255,359	\$ 466,834

(1)

On July 1, 2008, we completed our divestiture of UTStarcom Personal Communications LLC, or PCD. Revenue for the year ended December 31, 2008 related to PCD was \$880 million. In July 2009, we sold our Korean operations and as of December 31, 2009, we had substantially completed the wind-down of our worldwide handset operations. As a result of this wind-down, net sales for the year ended December 31, 2010 decreased as compared to the year ended December 31, 2009. During 2011, driven by the increased sales of our Packet Transport Network, or PTN, products in Japan and RollingStream infrastructure products in India and Thailand, net sales in 2011 increased compared to 2010. On August 31, 2012, the Company completed the divestiture of its IPTV business. Revenue for the years ended December 31, 2012 and 2011 related to divested IPTV business was \$29.5 million and \$141.4 million, respectively, which partially contributed the net sales decrease in 2012. The net sales decrease in 2012 was primary due to the completion of amortization of deferred revenue associated with PAS infrastructure sales in 2011. The net sales from the amortization of deferred revenue associated with PAS infrastructure sales was \$95.3 million in 2011

In July 2012, we announced a number of strategic initiatives, including the divestiture of our IPTV business, which accounted for 44.1% and 15.8% of our total revenues in 2011 and 2012, respectively. The divestiture was closed in August 2012, which partially contributed the net sales decrease in 2012. The divested IPTV business became a privately-held standalone company led by Mr. Jack Lu, our former chief executive officer. As part of the transaction, we invested in the IPTV business through a \$20 million convertible bond that will be convertible into 33% of the new IPTV business's common stock in five years. The new IPTV business entered into a brand licensing arrangement with us to ensure business continuity for its customers and business partners. The divestiture served as a means of redeploying capital to support higher return opportunities, particularly in the value-added services area, and accelerated our ongoing transition into a higher growth business

(2)

Operating income (loss) includes the following items:

	Years Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
Bad debt expense (recovery)	\$ (1,154)	\$ 2,212	\$ 5,513	\$ (6,757)	\$ (5,227)
Impairment of goodwill, other long-lived assets and long-term investments(5)	\$ 3,043	\$ 476	\$	\$ 33,287	\$ 27,220
Restructuring	\$ 358	\$ 2,386	\$ 16,018	\$ 46,495	\$ 13,059
Net gain (Loss) on divestitures	\$ (16,239)	\$ 4,546	\$ 5,548	\$ 100	\$ 7,782

(3)

Net income (loss) attributable to UTStarcom Holdings Corp. for the years ended December 31, 2010 and 2009 included no significant non-operating income or expense items. In addition to the

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items included in the operating losses discussed above, net loss attributable to UTStarcom Holdings Corp. for the year ended December 31, 2008 included a \$47.9 million gain from sale of certain investments and liquidation of investment in a variable interest entity. We incurred foreign exchange losses of \$4.7 million, \$8.9 million and \$9.9 million for the years ended December 31, 2012, 2011 and 2008, respectively, and foreign exchange gains of \$8.0 million and \$6.3 million and for the years ended December 31, 2010 and 2009, respectively.

In the fourth quarter of 2012, we performed the impairment assessment based on the information then available to us for the fair value of GCT Semiconductor, or GCT, one of the companies in which we invested, and recorded an impairment charge of \$1.0 million for the year ended December 31, 2012. On Apr 4, 2013, we received an official invitation from GCT to participate in its next round of financing in its preferred stock. However the value of GCT based on the latest information from such official financing invitation is lower than the value we previously assessed in the fourth quarter of 2012. Therefore, we recorded an additional \$1.2 million expense of impairment provision for long term investments for the year ended December 31, 2012 and as a result the total impairment provision for long term investments on our investment in GCT totaled \$2.2 million for the year ended December 31, 2012.

Net income (loss) attributable to UTStarcom Holdings Corp. for the years ended December 31, 2011 included \$8.9 million of foreign exchange loss mainly attributed to the depreciation of the INR against USD in the first nine months of 2011.

Net income (loss) attributable to UTStarcom Holdings Corp. for the years ended December 31, 2012 included income of \$1.5 million resulting from the release of a portion of the reserve related to a tax liability warranty provided to the buyers of UTStarcom's subsidiary in Korea due to the expiration of the statute of limitation and \$4.7 million of foreign exchange loss as a result of depreciation of JPY against USD in 2012.

(4)

On March 21, 2013, we effected a one-for-three reverse share split of our ordinary shares. As a result, our authorized share capital was amended by the consolidation of the 750,000,000 Ordinary Shares of US\$0.00125 par value each prior to the reverse share split into 250,000,000 Ordinary Shares of US\$0.00375 par value each after the reverse share split. The Net income (loss) per share attributable to UTStarcom Holding Corp basic and diluted for 2012, 2011, 2010, 2009 and 2008 were recomputed to reflect retroactively the one-for-three reverse share split.

(5)

In fourth quarter of 2012, we performed the impairment assessment based on the information then available to us for the fair value of GCT, one of the companies in which we invested, and recorded an impairment charge of \$1.0 million for the year ended December 31, 2012. On Apr 4, 2013, we received an official invitation from GCT to participate in its next round of financing in its preferred stock. However the value of GCT based on the latest information from such official financing invitation is lower than the value we previously assessed in the fourth quarter of 2012. Therefore, we recorded an additional \$1.2 million expense of impairment provision for long term investments for the year ended December 31, 2012 and as a result the total impairment provision for long term investments on our investment in GCT totaled \$2.2 million for the year ended December 31, 2012.

B.

Capitalization and Indebtedness

Not applicable.

C.

Reasons for the Offer and Use of Proceeds

Not applicable.

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D.

Risk Factors

Risks Related to Our Business

We have a history of operating losses and may not have sufficient 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 loss attributable to UTStarcom Holdings Corp. of \$34.4 million for the year ended December 31, 2012, compared to net income of \$13.4 million and net loss of \$65.1 million for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2012, we had an accumulated deficit of \$1,153.3 million, and we used \$25.6 million of cash in operations during the year ended December 31, 2012.

Our management has developed liquidity plans and implemented such plans, among other actions, through the sale of our facility in Hangzhou, China for approximately \$138.8 million in December 2009. As of May 31, 2010, the Company had received all of the sales proceeds and met all criteria for consummation of sale of the Hangzhou facility. In the third quarter of 2012, the company divested its loss-making IPTV equipment business through a one-time payment of \$30 million, which effectively helped the company to redeploy capital to support higher return opportunities. As of December 31, 2012 we had \$179.6 million in cash or cash equivalents. See Notes 3 and 7 to our consolidated financial statements included under Item 18 of this Annual Report on Form 20-F. Our management believes that we will have sufficient liquidity in 2013 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. 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. However, 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 or vendors 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

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sell additional securities to meet our liquidity needs, and any such sale of securities would dilute the ownership of our shareholders.

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

On November 15, 2012, we announced a new strategic plan to build on our past transition initiatives and focus our business on media operational support services and broadband equipment products and services, with the aim to become a next generation media company and participate in new and higher-margin business areas. We expect that the adoption of this new strategic plan will in time result in a more predictable, recurring revenue stream based on a large number of sources. However, we may not be successful in the redirection of the focus of our business or in the markets where we expect to focus our growth efforts. If our current or future strategic plans for the business of our company are not as successful as originally anticipated, or at all, our business, 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.

On June 11, 2009, we announced a restructuring of our worldwide operations in an effort to accelerate our return to profitability, strategically align our cost structure with expected revenues and reallocate resources into areas of our business that we believe have more growth potential. In February 2010, we announced that we would move our headquarters from California to Beijing, China, and also moved certain key functions such as finance management to China in order to eliminate functional duplication and reduce operating expenses. Throughout 2010 and 2011, we continued to execute our restructuring strategies. On June 24, 2011, we completed the Merger, which changed our place of incorporation from the United States to the Cayman Islands. By redomiciling to a jurisdiction outside the United States, we qualified as a "foreign private issuer" under the rules and regulations of the Securities and Exchange Commission, or the SEC, and thereby reduced our operational, administrative, legal and accounting costs. We substantially completed our 2009 restructuring plan as of the end of 2011. On August 31, 2012, we completed the divestiture of our IPTV business to redeploy capital to support higher return opportunities and reduce the operating expenses. On March 29, 2013, we completed to dispose our Next Generation Network, or NGN, related assets. On April 9, 2013, we completed the disposal of our DOCSIS-EOC related assets. 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.

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.

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Market turmoil may negatively impact our business.

Disruptions to worldwide financial markets in recent years resulting from, among other factors, severely diminished liquidity, credit availability and volatile and declining valuations of securities and other investments, have caused business and consumer confidence to fluctuate, business activities to slow down and unemployment to increase globally. These factors, along with the interconnectivity and interdependency of international economies, have created a global downturn in economic activity.

We are unable to predict how long the economic downturn will last. A continuing economic downturn may adversely impact our business in a number of ways, such as:

Reduced demand for our products and services. In a period of economic uncertainty, customers may adopt a strategy of deferring purchases to upgrade existing systems or deployment of new systems until the recoverability of their investment would be more assured. In addition, customers who must finance their capital expenditures by issuance of debt or equity securities may find capital markets unavailable to them.

Increased pricing pressure and lower margins. Our competitors include a number of global enterprises of relatively greater size in terms of revenues, working capital, financial resources and number of employees, and our customers are telecommunication service providers who typically are owned, controlled or sponsored by governments. If the size of our potential markets contract due to the global economic downturn, competition for available contracts may become more intense, which could require us to offer or accept pricing, payment or local content terms with worse commercial terms. In certain cases, we may be unwilling or unable to compete for business where competitive pressures make a potential opportunity unprofitable to us.

Greater difficulty in collecting accounts receivable. Many of our telecommunication carrier customers are either owned or controlled by governments and any changes in such governments' policies concerning the authorization or funding of payments for capital expenditures in response to global economic conditions could lengthen our cash collection cycle and thereby cause our liquidity to deteriorate. Additionally, while the vast majority of our net sales are to such large, well-capitalized telecommunication carriers, certain sales are made to distributors or other customers who have less stable financial resources, which could expose us to decreasing sales, delaying revenue recognition or accepting greater collection risks due to credit quality issues.

Greater difficulty in obtaining purchased goods and services. We expect that many of our suppliers will face the same or more challenging circumstances as we face in the current economic downturn, which could result in an adverse effect on our cash flows and liquidity. Some suppliers or vendors could 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. Additionally, certain suppliers may experience worsening financial conditions, causing them to either withdraw from the market or be unable to deliver goods that we have ordered on a timely basis, either of which could in turn adversely affect our ability to serve our customers and lengthen our production cycle. Additionally, if we need to seek alternative supply sources, our costs, production cycle and customer satisfaction may be materially and adversely affected.

Additional restructuring and asset impairment charges. If we are unable to generate the level of new contract bookings, sales and cash flow contemplated by our business plans, our management will be forced to take further action to focus our business activities and align our cost structure with anticipated revenues. These actions, if necessary, could result in additional restructuring charges and/or asset impairment charges being recognized in 2013 and beyond.

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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. For example, in August 2012, we appointed Mr. William Wong as our Chief Executive Officer and Mr. Xiaoping Li as our chairman of the Board of Directors. In addition, Ms. Jin Jiang resigned as Chief Financial Officer in October 2012, and we appointed Mr. Tianruo Pu, the former chairman of our Audit Committee of the Board of Directors, as our Chief Financial Officer. In the same month, we appointed Mr. Sean Shao as an independent director and the chairman of the Audit Committee. Although we have endeavored to implement any director and management transition in as non-disruptive a manner as possible, 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 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. For example, as part of our transition to being a provider of media operation support services, we launched our next generation video service cloud platform and several commercial applications associated with this platform in 2012. However, due to limited resources, we decided to discontinue the offering of these products and services in the same year. 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 overall financial performance continues to depend in large part on our China subsidiaries but is increasingly dependent on our sales to a related party in Japan.

Approximately 20.6% of our sales were generated in China in 2012, as compared to approximately 49% and 57% of our sales in 2011 and 2010, respectively. Subsequent to the divestiture of our IPTV business in August 2012, Japan accounted for a larger portion of our overall sales. In 2012, 53.2% of our sales were generated in Japan, with 92.7% of those sales being to SOFTBANK CORP. and its related entities, or collectively, Softbank. See " We rely on a Japanese customer, which is a related party to us, for a significant portion of our net sales. Any deterioration of our relationship or any

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interruption to our ongoing collaboration with this customer may significantly harm our business, financial condition and results of operations." Therefore, our business, financial condition and results of operations, in addition to being subject to the risk of changes in our relationship with Softbank, are to a significant degree subject to economic, political, legal and social developments and other events in Japan. If our business in Japan declines, our financial condition, results of operations and cash flows may be significantly harmed.

We may be unable or unwilling to accept additional purchase orders from existing customers, which could damage our relationships with such customers and lead to legal and financial consequences which could harm our business.

Due to commercial considerations or other strategic factors, we may from time to time be unable or unwilling to accept additional purchase orders from existing customers. If an existing customer places a purchase order with us that we subsequently refuse to accept, our relationship with such customer may be harmed. Moreover, any refusal or inability by us to accept additional purchase orders placed by an existing customer based on any standing contract may result in legal claims by our customers, reduced collections from previous purchase orders and financial penalties, which could distract our management and harm our business. Certain of our contracts have significant performance bank guarantees that, subject to the terms in the contracts, may be paid to the customer in the event of a default by us in addition to any other remedies it may have.

Adverse resolution of pending civil litigation may harm our operating results or financial condition.

We are a party to lawsuits in the normal course of our business. These lawsuits and any future litigation could be time consuming and expensive and divert our management's attention away from our regular business. Additionally, the adverse resolution of litigation against us could have a material adverse effect on our financial condition, liquidity and reputation. Moreover, the results of complex legal proceedings are difficult to predict. For additional information regarding certain matters in which we are involved, see "Item 8. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings".

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;

consumer 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;

unpredictable revenue recognition timing, which is based primarily on customer acceptance of delivered 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 China, Japan and other emerging markets;

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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.

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

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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; in some cases revenue recognition must be deferred until all revenue recognition criteria have been met, which would result in the adverse effects of low gross margin contracts being reflected in periods subsequent to when contract performance occurred.

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

The average selling prices for communications access and switching systems and handsets have historically declined as a result of a number of factors, including:

increased competition;

aggressive price reductions by competitors;

rapid technological change; and

constant change in customer buying behavior and market trends.

The average selling prices of our products may continue to decrease in the future in response to product introductions by us or our competitors or other factors, including price pressures from customers. Certain of our products, including Multi-service Access Network, or MSAN, Gigabit Ethernet Passive Optical Network, or GPON or commonly referred to as Ethernet PON, or EPON, etc., historically have had low gross profit margins, and any further deterioration of our profit margins on such products could 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 gross profit 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 communications 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

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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;

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;

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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 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;

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;

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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, R&D, 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 is 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.

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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. Historically, a substantial portion of our sales have been made in China and denominated in Renminbi, or RMB. In 2012, a substantial portion of our sales have been made in Japan and denominated in Japanese Yen. We also have made significant sales denominated in Euros and Indian Rupees. 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. For example, during 2008, we incurred an approximately \$9.9 million net foreign currency loss attributed to adverse movements in currency exchange rates. Although we recognized a net foreign currency gain of \$6.3 million and \$8.0 million in 2009 and 2010, respectively, we recorded a \$8.9 million net foreign currency loss in 2011 and a \$4.7 million net foreign currency loss in 2012. 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 RMB, due to 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 may desire to raise additional funds for purposes not currently included in our business plan, such as to take advantage of acquisition opportunities or otherwise develop new or enhanced products, respond to competitive pressures or raise 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.

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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.

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.

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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, 2012, we recorded impairment charges of \$3.0 million related to long-term investment. 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 goodwill, intangible assets or other long-lived assets or long-term investments, which could negatively affect our future operating results and financial condition.

Historically, we had goodwill, intangible assets, other long-lived assets and long-term investments, the value of which may decrease, or be impaired, over time. As of December 31, 2012, we had no goodwill and intangible assets, but had other long-lived assets and long-term investments, and we may have goodwill and intangible assets in the future. We are required to perform periodic assessments for any possible impairment of our goodwill, intangible assets, other long-lived assets and long-term investments for accounting purposes. We test goodwill for impairment during the fourth quarter of each fiscal year, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. These events or circumstances include unfavorable variances from established business plans, significant changes in forecasted results or volatility inherent in external markets and industries. 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. For example, in the fiscal year ended December 31, 2009, we recorded impairment charges of \$33.3 million related to long-lived assets. 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 goodwill, an intangible asset 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, where goodwill is tested for impairment, or a decrease in fair value of intangible assets, long-lived assets or asset groups, our acquisitions or investments. The decrease in fair value could result in a non-cash impairment charge.

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Wireless handset products previously sold by us are subject to a wide range of environmental, health and safety laws, and may expose us to potential health and environmental liability claims.

Wireless handset products previously sold by us are subject to a wide range of environmental, health and safety laws, including laws relating to the use, disposal and clean up of, and human exposure to, hazardous substances. There have been claims made alleging a link between the use of wireless handsets and the development or aggravation of certain cancers, including brain cancer. The scientific community is divided on whether there is a risk from wireless handset use, and if so, the magnitude of the risk. Even if there is no link established between wireless handset use and cancer, the negative publicity and possible litigation could have a material adverse effect on our business. In the past, several plaintiffs' groups have brought class actions against wireless handset manufacturers and distributors, alleging that wireless handsets have caused cancer. To date, we have not been named in any of these actions and none of these actions have been successful. In the future we could incur substantial costs in defending ourselves against similar claims, regardless of their merit. Also, claims may be successful in the future and may have a material adverse effect on our financial condition.

Furthermore, there have been claims made alleging a link between the use of Bluetooth enabled mobile phone handsets and noise induced hearing loss. To date, we have not been named in any of these actions. In the future we could incur substantial costs in defending ourselves against similar claims, regardless of their merit. Also, claims may be successful in the future and may have a material adverse effect on our financial condition.

We are subject to a wide range of environmental, health and safety laws and efforts to comply with such laws may be costly and may adversely impact our financial performance.

Our operations and the products we manufacture and/or sell are subject to a wide range of global environmental, health and safety laws. Compliance with existing or future environmental, health and safety laws could subject us to future costs, liabilities, impact our production capabilities, constrict our ability to sell, expand or acquire facilities and generally impact our financial performance. Some of these laws relate to the use, disposal, clean up of, and exposure to, hazardous substances. Over the last several years, the European Union, or the EU, countries have enacted environmental laws regulating electronic products. For example, beginning July 1, 2006, our products have been subject to laws that mandate the recycling of waste in electronic products sold in the EU and that limit or prohibit the use of certain substances in electronic products. Other countries outside of Europe are expected to adopt similar laws. We may incur additional expenses to comply with these laws.

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.

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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 and Japan 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. In other cases, particularly in China, where governmental approval is required to finalize certain contracts, inventory not under contract may be held at customer sites. We hold title and risk of loss on this inventory until the contracts are finalized and, as such, are subject to any losses incurred resulting from any damage to or loss of this inventory.

If our contract negotiations fail or if the government of China 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.

The failure of our enhanced version of our enterprise resource planning system to operate appropriately could result in material financial misstatements and/or cause delays in our filings.

Since 2009, we have continued to implement and enhance modules of our enterprise resource planning system. We depend on this system in order to timely and accurately process and report key components of our results of operations, financial position and cash flows. We and our shareholders are subject to the risks associated with late filings, material misstatements to the quarterly and annual consolidated financial statements and/or financial restatements, any of which could cause investors to lose confidence in our reported financial information and lead to a decline in our share price, if the enterprise planning system fails to operate appropriately.

Failure to achieve and maintain effective internal controls 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. In addition, our independent registered public accounting firm must attest to the effectiveness of our internal control over financial reporting.

We have in the past and as of December 31, 2010 identified material weaknesses in our internal control over financial reporting and have concluded that our internal controls over financial reporting were not effective as of December 31, 2010. The material weaknesses were successfully remediated in

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2011. As of December 31, 2012, we have identified a material weaknesses in our internal control over financial reporting and have concluded that our internal controls over financial reporting were not effective as of December 31, 2012. 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, 2012 is dependent on our ability to hire and retain qualified employees and consultants. Therefore, we cannot be certain that in the future additional material weaknesses or significant deficiencies will not exist or otherwise be discovered.

We rely on a Japanese customer, which is a related party to us, 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, or collectively, Softbank, which is also one of our principal shareholders and beneficially owned approximately 10.2% of our outstanding shares as of December 31 2012. In 2012, our net sales to Softbank totaled approximately \$92.0 million, representing approximately 49.3% of our total net sales. 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 regulating 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 continued our collaboration with Softbank since 2008, there can be no assurance that this customer will continue working with us in the future, whether due to changes in management preferences, business strategy, corporate structure or other factors. Our failure to continue our collaboration with this customer may adversely affect our business, financial conditions and results of operations.

In addition, the relationship between China and Japan, which is often strained due to historical reasons, in 2012 reached reportedly the lowest point since the end of World War II due to territorial disputes surrounding what are called by China as the Diaoyu Islands but known in Japan as the Senkaku Islands. If the tension between the two countries further escalates or even results in regional military conflicts, the demand for our products from Softbank may decrease and the shipment of our products manufactured in China to Softbank may be disrupted. As a result, our business and results of operations may be materially and adversely affected.

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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. While the PRC economy has experienced significant growth in the past 20 years, 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. Any adverse changes to these policies of the PRC government or the laws and regulations of the PRC, or other factors detrimental to China's economic development, could have a material adverse effect on the overall economic growth of China, which could adversely affect our business. For example, from time to time, the PRC government implements monetary, credit and other policies or otherwise makes efforts to slow the pace of growth of the PRC 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.

Our business is subject to government regulation and benefits from certain government incentives, and changes in these regulations or incentives could adversely affect our business and results of operations.

The PRC government has broad discretion and authority to regulate the technology industry in China. China's government has also implemented policies from time to time to regulate economic expansion in China. In addition, the PRC government continues to play a significant role in regulating industrial development. It also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. New regulations or the readjustment of previously implemented regulations could require us to change our business model, increase our costs or limit our ability to sell products and conduct activities in China, which could adversely affect our business and results of operations.

In addition, the PRC government and provincial and municipal governments and other similar authorities have provided and may from time to time in the future provide various incentives to domestic companies in the semiconductor industry, including our Company, in order to encourage development of the industry. Such incentives include tax rebates, reduced tax rates, favorable lending policies and other measures. Any of these incentives could be reduced or eliminated by governmental authorities at any time in the future. Any such reduction or elimination of incentives currently provided to us could adversely affect our business and results of operations.

China's governmental and regulatory reforms may impact our ability to do business in China.

Since 1978, the PRC government has been in a state of evolution and reform. The reforms have resulted in and are expected to continue to result in significant economic and social development in China. Many of the reforms are unprecedented or experimental and may be subject to change or readjustment due to a variety of political, economic and social factors. Multiple government bodies are involved in regulating and administering affairs in the telecommunications and information technology industries, among which the Ministry of Industry and Information Technology and Telecommunications Administration, or the MIIT, the National Development and Reform Commission, or NDRC, the State-owned Assets Supervision and Administration Commission, or SASAC, and the State Administration of Radio, Film and Television, or SARFT, play the leading roles. These government agencies have broad

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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 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.

Any of the following changes in China's political and economic conditions and governmental policies could have a substantial impact on our business:

the promulgation of new laws and regulations and the interpretation of those laws and regulations;

inconsistent enforcement and application of the telecommunications industry's rules and regulations by the PRC government between foreign and domestic companies;

the restructuring of telecommunications carriers in China, including policy making governing next generation network infrastructure and licensing;

restrictions on IPTV license grants, which could limit the potential market for our products;

the introduction of measures to control inflation or stimulate growth;

the introduction of new guidelines for tariffs and service rates, which affect our ability to competitively price our products and services;

changes in the rate or method of taxation;

the imposition of laws, rules or regulations affecting the direct or indirect nationalization of assets controlled by non-governmental persons or entities;

the imposition of additional restrictions on currency conversion and remittances abroad; or

any actions that limit our ability to develop, manufacture, import or sell our products in China, or to finance and operate our business in China.

In addition to modifying the existing telecommunications regulatory framework, the PRC government is currently preparing a draft of a standard, national telecommunications law, or Telecommunications Law, to provide a uniform regulatory framework for the telecommunications industry. Currently, Telecommunications Law has been included in the law legislation plan of the Standing Committee of the 11th National People's Congress. We do not yet know the final nature or scope of the regulations that would be created if the Telecommunications Law is passed. Accordingly, we cannot predict whether it will have a positive or negative effect on us or on some or all aspects of our business.

Under China's current regulatory structure, the communications products that we offer in China must meet government and industry standards. In addition, a network access license for the equipment must be obtained. Without a license, telecommunications equipment is not allowed to be connected to public telecommunications networks or sold in China. Moreover, we must ensure that the quality of the telecommunications equipment for which we have obtained a network access license is stable and reliable, and will not negatively affect the quality or performance of other installed licensed products.

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

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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.

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" transactions 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 require prior approval from China's State Administration of Foreign Exchange, or SAFE, or its provincial branch 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 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 China 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 primarily in RMB. The conversion of financial information using a functional currency of RMB will be subject to risks related to foreign currency exchange rate fluctuations. 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 political and economic conditions and supply and demand in local markets. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. Dollar. Under the new policy, the RMB is permitted to fluctuate within a managed band based on market supply and demand and by reference to a basket of certain foreign currencies. This change in policy has resulted in a significant appreciation of the RMB against the U.S. Dollar. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which may result in a further and more significant appreciation of the RMB against the U.S. Dollar. 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. For example, to the extent that we need to convert U.S. Dollars into RMB for our operations, appreciation of the RMB against the U.S. Dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert our RMB into U.S. Dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of the U.S. Dollar against the RMB would have a negative effect on the U.S. Dollar amount available to us.

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If China imposes economic restrictions to reduce inflation, future economic growth in China could be severely curtailed, reducing the profitability of our operations in China.

Rapid economic growth can lead to growth in the supply of money and rising inflation. If prices for any products or services in China are unable, for any reason, to increase at a rate that is sufficient to compensate for any increase in the costs of supplies, materials or labor, it may have an adverse effect on our operations in China. In order to control inflation in the past, China has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending and could adopt additional measures to further combat inflation. Such measures could harm the economy generally and hurt our business by (i) limiting the income of our customers available to spend on our products and services, (ii) forcing us to lower our profit margins, and (iii) limiting our ability to obtain credit or other financing to pursue our expansion plans or maintain our business. We cannot predict with any certainty the degree to which our business will be adversely affected by slower economic growth in China.

China's changing economic environment may impact our ability to do business in China.

Since 1978, the PRC government has been reforming the economic system in China to increase the emphasis placed on decentralization and the utilization of market forces in the development of China's economy. These reforms have resulted in significant economic growth. However, any economic reform policies or measures in China may from time to time be modified or revised by the PRC government. While we may be able to benefit from the effects of some of these policies, these policies and other measures taken by the PRC government to regulate the economy could also have a significant negative impact on economic conditions in China, which would result in a negative impact on our business.

China's entry into the World Trade Organization and relaxation of trade restrictions have led to increased foreign investment in China's telecommunications industry and may lead to increased competition in our markets which may have an adverse impact on our business.

China's economic environment has been changing as a result of China's entry, in December of 2001, into the World Trade Organization, or WTO. Foreign investment in the telecommunications sector is regulated by the "Provisions on Administration of Foreign Invested Telecommunications Enterprises" promulgated by the State Council in December 2001 and effective as of January 1, 2002, which was amended on September 10, 2008. The provisions brought foreign equity limits into conformity with China's WTO commitments, allowing foreign investors to own equity generally up to 49% for basic telecom services enterprises and up to 50% for value-added telecom services enterprises.

As the existing international vendors increase their investment in China, and more vendors enter the China market, the competition in the telecommunication equipment market may increase, and as a result, our business may suffer. If China's entry into the WTO results in increased competition or has a negative impact on China's economy, our business could suffer. In addition, although China is increasingly according foreign companies and foreign investment enterprises established in China the same rights and privileges as PRC domestic companies as a result of its admission into the WTO, special laws, administrative rules and regulations governing foreign companies and foreign investment enterprises in China may still place foreign companies at a disadvantage in relation to PRC domestic companies and may adversely affect our competitive position.

Uncertainties with respect to the PRC legal system may adversely affect us.

We conduct our business in China primarily through our wholly owned subsidiaries incorporated in China. Our subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. Accordingly, our business might be affected by China's developing legal system. Since 1978, many new laws and regulations covering general economic matters have been promulgated in China,

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and the overall effect of legislation over the past 30 years has enhanced the protections afforded to various forms of foreign investment in China. However, foreign investors may be adversely affected by new laws, frequent changes to existing laws (or interpretations thereof) and preemption of provincial or local regulations by national laws or regulations. In addition, certain government policies and internal rules promulgated by governmental agencies may not be published in time, or at all. As a result, we may operate our business in violation of new rules and policies without having any knowledge of their existence. The PRC legal system is based on written statutes, and prior court decisions have limited precedential value. Because many laws, rules and policies in China are relatively new and the PRC legal system is still evolving, the interpretation and enforcement of laws, rules and policies in China are not always uniform and involve uncertainties. The PRC government has broad discretion in dealing with violations of laws, rules and policies, including levying fines, revoking business and other licenses and requiring actions necessary for compliance, and enforcement of existing laws or contracts based on existing law may be sporadic; therefore, it may be difficult to predict the effect of existing or new PRC laws, rules or policies on our businesses and it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. Any litigation in China may be protracted and result in substantial costs and diversion of resources and management's attention.

The PRC government has enacted laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, the PRC government's experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the PRC government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance or to seek an injunction under PRC law are severely limited, and without a means of recourse by virtue of the PRC legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have an adverse effect on our business, financial condition and results of operations.

A significant portion of our assets is located in the PRC, and all of our executive officers and all of our directors reside outside of the United States. As a result, investors may not be able to enforce federal securities laws or their other legal rights.

A substantial portion of our assets is located in the PRC and all of our executive officers and all of our directors reside outside of the United States. The PRC does not have treaties with the United States and many other countries providing for the reciprocal recognition and enforcement of judgments of courts. As a result, it may be difficult for investors in the U.S. to enforce their legal rights, to effect service of process upon certain of our directors or officers or to enforce judgments of U.S. courts predicated upon civil liabilities and criminal penalties against our directors and officers located outside of the U.S.

If tax benefits available to our subsidiaries located in China are reduced or repealed, our business could suffer.

On March 16, 2007, China's top legislature, the National People's Congress, passed the PRC Enterprise Income Tax Law or the EIT Law. The EIT Law became effective on January 1, 2008. Under the EIT Law, China's dual tax system for domestic enterprises and foreign investment enterprises, or FIEs, are 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.

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Prior to this change in tax law, certain subsidiaries and joint ventures located in China enjoyed tax benefits in China which were generally available to FIEs. The tax holidays/incentives for FIEs were applicable or potentially applicable to UTStarcom Chong Qing Telecom Co. Ltd. or CUTS and UTStarcom Telecom Co., Ltd., or HUTS, our active subsidiaries in China, because these entities may have qualified as accredited technologically advanced enterprises.

The EIT Law provides the reduced 15% enterprise income tax rate for qualified high and new technology enterprises. One of UTStarcom's China subsidiaries, HUTS, through which the majority of our business in China is conducted, obtained its High and New Technology Enterprise Certificate, or High-tech Certificate, from the relevant approval authority on September 19, 2008, and thereafter was approved to pay EIT 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 extended for three years on October 14, 2011. However, since HUTS is in significant loss position, the change in tax rate will not have a material adverse impact on the business or liquidity until it begins to generate profit and deplete all the net operating loss carry forwards.

The PRC central government may review and audit tax benefits granted by local or provincial authorities and could determine to disallow such benefits. Certain of our subsidiaries and joint ventures located in China enjoy tax benefits in China that are generally available to foreign investment enterprises. If these tax benefits are reduced, disallowed or repealed due to changes in tax laws or determination by the PRC government, our business could suffer.

Moreover, unlike the tax regulations effective before 2008, which specifically exempted withholding taxes on dividends payable to non-PRC investors from foreign-invested enterprises in the PRC, the EIT Law and its implementation rules provide that a withholding income tax rate of 10% will be applicable to dividends payable by PRC companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and the governments of other countries or regions. While the Arrangement between Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income provides that dividends paid by a foreign-invested enterprise in the PRC to its corporate shareholder, which is a Hong Kong tax resident and directly holds at least 25% of the equity interest in such foreign-invested enterprise, will be subject to withholding tax at the rate of 5%, this is limited to instances where the corporate shareholder directly holds at least 25% of the equity interest of the foreign-invested enterprise for at least twelve consecutive months immediately prior to receiving the dividends and meets certain other criteria prescribed by the relevant tax circulars issued by the PRC State Administration of Taxation, or SAT. Entitlement to a lower withholding tax rate on dividends according to tax treaties or arrangements between the PRC central government and governments of other countries or regions is further subject to approval of the competent PRC tax authority pursuant to the Circular on Printing and Distributing the Tentative Administrative Measures on Tax Convention Treatments for Non-Residents issued by SAT on August 24, 2009 and effective on October 1, 2009.

Furthermore, the SAT promulgated the Notice on How to Understand and Determine the "Beneficial Owners" under Tax Treaties on October 27, 2009, or Circular 601, which provides guidance for determining whether a resident of a contracting state is the "beneficial owner" of an item of income under China's tax treaties or tax arrangements with other jurisdictions when such resident applies for the treaty benefits with respect to dividends, interest or royalties. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities; an agent or conduit company will not be regarded as a beneficial owner and, therefore, will not be qualified for treaty benefits. A conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. On June 29, 2012, SAT issued the

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Announcement on the Determination of "Beneficial Owners" under Tax Treaties, providing further guidance on the identification of beneficial owner. The PRC tax authorities could challenge the eligibility for the treaty benefits or use of treaty jurisdictions pursuant to the above-mentioned tax circulars and other relevant tax regulations issued by the SAT, general anti-tax avoidance provisions in the EIT Law and anti-treaty shopping provisions under applicable treaties. We cannot assure you that any dividends to be distributed by our subsidiaries to us or by us to our non-PRC shareholders, whose jurisdiction of incorporation has a tax treaty with China providing a different withholding arrangement, will be entitled to the benefits under the relevant withholding arrangement.

Under 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 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.

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

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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.

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 State Administration for Taxation, 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, 2006. 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, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Recent value-added tax, or VAT reform pilot program introduced in Shanghai and other major cities and provinces in China may adversely affect our business, financial condition and results of operations.

On November 16, 2011, the Ministry of Finance and the SAT jointly issued the Circular on the Pilot Program for Replacing Business Tax with Value-Added Tax, or Circular 110, and the Circular on the Pilot Program for Replacing Business Tax with Value-Added Tax in the Transportation and Certain Modern Service Sectors in Shanghai, or Circular 111, both of which became effective on January 1, 2012. Pursuant to Circular 110 and Circular 111, a tax reform pilot program came into effect in

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Shanghai, which was chosen by the PRC government as the first pilot city for such reform. Starting from January 1, 2012, companies located in Shanghai are subject to VAT in lieu of business tax when they provide transportation and certain specified services. The pilot program is currently implemented in a number of major cities and provinces, including Shanghai, Beijing, Tianjin, Jiangsu, Zhejiang, Anhui, Fujian, Hubei and Guangdong, and will be implemented nationwide on August 1, 2013. As a result of the VAT reform, we may be subject to unfavorable tax treatment with respect to our business operations, and our business, financial condition and results of operations could be materially and adversely affected.

We face uncertainty from PRC's Circular on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises' Equity Transfer, or Circular 698.

The SAT released a circular on December 10, 2009, retroactively effective as of January 1, 2008, that addresses the PRC enterprise income tax treatment with respect to transfer of equity of PRC resident enterprises by non-PRC tax resident enterprises. Under Circular 698, the overseas controlling party that effectively controls a PRC resident enterprise through an overseas intermediate holding company, and "indirectly transfers" the equity interest in such PRC resident enterprise by selling shares of the intermediate holding company, is required to report such transfer to the PRC tax authority within thirty days after the execution of the offshore share transfer agreement if the intermediate holding company is located in a foreign jurisdiction that has an effective tax rate of less than 12.5% or does not levy tax on such foreign-sourced capital gains of its residents. If the intermediate holding company mainly serves as tax avoidance vehicle and does not have any reasonable commercial purpose, the PRC in-charge tax authority may, upon verification of the SAT, disregard the intermediate holding company and re-characterize the equity transfer by referring to its economic essence, and as a result, the overseas controlling party may be subject to a 10% PRC withholding tax for the capital gains realized from the equity transfer.

There is still uncertainty as to the interpretation and application of Circular 698 by PRC tax authorities in practice. As a result, we may be subject to tax under Circular 698 with respect to indirect transfers of the equity interest in our PRC tax resident enterprises and we may be required to expend valuable resources to comply with Circular 698 or to establish that we should not be taxed under Circular 698, any of which could have an adverse effect on our financial condition and results of operations.

Restrictions on direct foreign investments in certain business sectors, such as IPTV, Interactive Digital TV, or iDTV, and Internet TV service businesses, 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, cable and/or media sectors, such as Internet TV and related services businesses, 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 long-term 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, cable and media businesses. Under the "Telecommunications Regulations" issued by the State Council on September 25, 2000 and the "Provisions on Administration of Foreign Invested Telecommunications Enterprises" issued by the State Council on December 11, 2001, amended on September 10, 2008, the shareholding of foreign investors is limited to up to 49% for basic telecom business and is limited to up to 50% for value-added telecom business. Under the "Measures on Administration of Publication of Audio-Visual Programs through Internet or Other Information Network" issued by SARFT on July 6, 2004, the "Administration Measures on Transmitting Business of

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Radio and Television Programs" issued by SARFT on July 6, 2004, the "Administration Measures on Wireless Transmitting Web of Radio and Television Programs" issued by SARFT on November 15, 2004, the "Administrative Provisions on Internet Audio-visual Program Service" jointly issued by SARFT and MIIT on December 20, 2007, and the related implementing rules of these regulations, foreign investors are prohibited from holding any equity interest in enterprises operating IPTV, iDTV and Internet TV business in the PRC.

Because of the regulatory restrictions on direct foreign investments in the telecom, cable and/or media 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 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 liability under PRC laws.

SAFE has promulgated regulations that require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. On October 21, 2005, SAFE issued the Circular on Issues Relating to Foreign Exchange Administration of Financings and Return Investments by Onshore Residents Utilizing Offshore Special Purpose Companies, or SAFE Circular 75, which became effective on November 1, 2005. On May 20, 2011, SAFE issued the Circular on Issuance of Foreign Exchange Administration Guidelines of Financings and Return Investments by Onshore Residents Utilizing Offshore Special Purpose Companies, which became effective on July 1, 2011 and further specified the procedures and document requirements as provided under SAFE Circular 75. Under the SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to file or update the registration with the local branch of SAFE with respect to that offshore company any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest. If any PRC shareholder fails to

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make the required SAFE registration or file or update the registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into its PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

Certain of our shareholders who are PRC residents may not make or obtain any applicable registrations or approvals required by these SAFE regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth therein may subject us to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends or obtain foreign-exchange denominated loans to our company.

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 or 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 the both the company and its implicated employees.

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

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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 and CUTS, 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. Therefore, we are required and are currently in the process of making adjustments to the filings with SAFE for HUTS, CUTS and UTStarcom Telecom Co., Ltd, or UTST, another PRC subsidiary of our company. 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. 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

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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.

The audit report included in this Annual Report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the US Public Company Accounting Oversight Board (United States), or 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. Because our auditors are located in the PRC, a jurisdiction where the P