UTSTARCOM INC
Form 10-Q
May 08, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from to

COMMISSION FILE NUMBER 000-29661

UTSTARCOM, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State of Incorporation)	**52-1782500** (I.R.S. Employer Identification No.)
1275 HARBOR BAY PARKWAY **ALAMEDA, CALIFORNIA** (Address of principal executive offices)	**94502** (zip code)

Registrant s telephone number, including area code: **(510) 864-8800**

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 x No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 29, 2009 there were 127,916,953 shares of the registrant s common stock outstanding, par value $0.00125.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UTSTARCOM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2009	December 31, 2008
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 299,570	$ 309,603
Short-term investments	964	4,262
Accounts receivable, net of allowances for doubtful accounts of $45,699 and $37,359, respectively	88,423	149,210
Accounts receivable, related parties	6,415	9,166
Notes receivable	4,666	11,120
Inventories	161,005	171,307
Deferred costs	135,726	133,409
Prepaids and other current assets	96,268	127,675
Short-term restricted cash	17,259	16,840
Total current assets	810,296	932,592
Property, plant and equipment, net	172,122	175,287
Long-term investments	12,192	17,691
Long-term deferred costs	142,246	149,258
Long-term deferred tax assets	13,464	13,464
Other long-term assets	23,299	22,514
Total assets	$ 1,173,619	$ 1,310,806
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 102,233	$ 176,384
Income taxes payable	10,481	7,162
Customer advances	160,659	144,700
Deferred revenue	123,880	117,584
Deferred tax liabilities	11,644	11,644
Other current liabilities	154,815	163,046
Total current liabilities	563,712	620,520
Long-term deferred revenue	196,936	210,050
Other long-term liabilities	8,742	12,594
Total liabilities	769,390	843,164
Commitments and contingencies (Note 10)		
Equity:		
UTStarcom, Inc. stockholders equity:		
Common stock: $0.00125 par value; 750,000 authorized shares; 127,917 and 126,566 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	152	152
Additional paid-in capital	1,243,219	1,239,074
Accumulated deficit	(908,919)	(841,486)

Accumulated other comprehensive income		68,970		69,094
Total UTStarcom, Inc. stockholders equity		403,422		466,834
Noncontrolling interests		807		808
Total equity		404,229		467,642
Total liabilities and equity	$	1,173,619	$	1,310,806

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

UTSTARCOM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended March 31, 2009	2008
	(In thousands, except per share data)	
Net sales		
Third party	$ 113,175	$ 574,195
Related party	6,165	11,794
	119,340	585,989
Cost of net sales		
Third party	93,771	487,153
Related party	3,917	6,757
Gross profit	21,652	92,079
Operating expenses:		
Selling, general and administrative	54,180	79,744
Research and development	21,508	41,400
Amortization of intangible assets		1,824
Restructuring	4,819	
Total net operating expenses	80,507	122,968
Operating loss	(58,855)	(30,889)
Interest income	749	2,817
Interest expense	(290)	(6,071)
Other (expense) income, net	(7,214)	53,970
(Loss) income before income taxes	(65,610)	19,827
Income tax (expense) benefit	(1,824)	5,020
Net (loss) income	(67,434)	24,847
Net loss attributable to noncontrolling interests	1	510
Net (loss) income attributable to UTStarcom, Inc.	$ (67,433)	$ 25,357
Net (loss) income per share attributable to UTStarcom, Inc. - Basic	$ (0.54)	$ 0.21
Net (loss) income per share attributable to UTStarcom, Inc. - Diluted	$ (0.54)	$ 0.21
Weighted average shares used in per-share calculation:		
- Basic	125,731	122,096
- Diluted	125,731	123,098

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

UTSTARCOM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three months ended March 31, 2009	2008
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (67,434)	$ 24,847
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,512	10,112
Gain on sale of investments and liquidation of ownership interest in a variable interest entity		(47,848)
Stock-based compensation expense	4,146	4,795
Provision for (recovery of) doubtful accounts	8,347	(680)
(Recovery of) provision for deferred costs	(142)	320
Deferred income taxes	(96)	(11,708)
Other	(62)	175
Changes in operating assets and liabilities, net of dispositions:		
Accounts receivable	54,938	75,177
Inventories and deferred costs	8,309	15,678
Other assets	38,006	(19,588)
Accounts payable	(66,151)	60,313
Income taxes payable	3,441	1,414
Customer advances	18,525	19,902
Deferred revenue	(6,191)	(5,771)
Other liabilities	(11,155)	(34,404)
Net cash (used in) provided by operating activities	(12,007)	92,734
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(1,055)	(7,630)
Purchase of an investment interest		(1,949)
Proceeds from repayment of loan by a variable interest entity		7,728
Change in restricted cash	2,068	(4,517)
Purchase of short-term investments	(2,055)	(6,578)
Proceeds from sale of short-term investments	5,341	58,740
Other	301	96
Net cash provided by investing activities	4,600	45,890
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on borrowings		(288,861)
Other	(163)	2,473
Net cash used in financing activities	(163)	(286,388)
Effect of exchange rate changes on cash and cash equivalents	(2,463)	8,797
Net decrease in cash and cash equivalents	(10,033)	(138,967)
Cash and cash equivalents at beginning of period	309,603	437,449
Cash and cash equivalents at end of period	$ 299,570	$ 298,482
Supplemental disclosure of cash flow information:		
Non-cash operating activity:		
Accounts receivable transferred to notes receivable	$ 110	$ 2,984

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

UTSTARCOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION AND LIQUIDITY

The accompanying unaudited condensed consolidated financial statements include the accounts of UTStarcom, Inc. (Company) and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the preparation of the condensed consolidated financial statements. The noncontrolling interests in consolidated subsidiaries are shown separately in the condensed consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the Company s December 31, 2008 financial statements, including the notes thereto, and the other information set forth in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenue, costs, expenses and gains and losses not affecting retained earnings that are reported in the consolidated financial statements and accompanying disclosures. Actual results may be different. See the Company s 2008 Annual Report for discussion of the Company s critical accounting policies and estimates.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair statement of the Company s financial condition, the results of its operations and its cash flows for the periods indicated. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the operating results for the full year.

The accompanying condensed consolidated financial statements are presented on the basis that the Company is a going concern. The going concern assumption contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company incurred net losses of $150.3 million, $195.6 million and $117.3 million during the years ended December 31, 2008, 2007 and 2006, respectively. During the three months ended March 31, 2009, the Company recorded a net loss of $67.4 million. The Company recorded operating losses in 16 of the 17 consecutive quarters in the period ended March 31, 2009. At March 31, 2009, the Company had an accumulated deficit of $908.9 million. The Company incurred net cash outflows from operations of $55.2 million and $225.1 million in 2008 and 2007 respectively. Cash used in operations was $12.0 million during the three months ended March 31, 2009. At March 31, 2009, the Company had cash and cash equivalents of $299.6 million in the aggregate to meet the Company s liquidity requirements of which $192.8 million was held by its subsidiaries in China. China imposes currency exchange controls on transfers of funds from China. Going forward, the amount of cash available for transfer from the China subsidiaries for use by the Company s non-China subsidiaries is limited both by the liquidity needs of the subsidiaries in China and by Chinese-government mandated limitations including currency exchange controls on transfers of funds outside of China. Management expects the Company to continue to incur losses and negative cash flows from operations over at least the remainder of

2009.

The Company s only committed sources for borrowings are its credit facilities in China. Each borrowing under these facilities is subject to the banks then current favorable opinion of the credit worthiness of the Company s China subsidiaries, the banks having funds available for lending, and other Chinese banking regulations and practices. As a result, management cannot be certain that borrowings under these facilities will be adequate, if available at all, to meet the Company s liquidity requirements. In addition, these credit facilities expire in the second half of 2009. Upon expiration of these facilities, management is not certain that new credit facilities will be available on commercially reasonable terms or at all. Even if these facilities are renewed upon expiration, based on the Company s recent financial performance, the total available credit may be reduced. Accordingly, management is not certain that borrowings under the Company s credit facilities in China will be adequate to meet the Company s financing requirements.

In 2008, the Company took a number of actions to improve its liquidity, including divesting the Company s non-core businesses. In December 2008, management announced further initiatives including efforts to eliminate functional duplications by consolidation of a number of functions into the Company s China operations. Management believes that these initiatives, if executed successfully, will help achieve significant operating expense reductions by the fourth quarter of 2009 and enable the Company s fixed cost base to be better aligned with operations, market demand and projected sales levels, which management expects will increase significantly in the latter half of 2009 as compared to the first two quarters of 2009. Uncertainties about sales levels that may be achieved in 2009 are heightened by recent market turmoil and the global economic downturn. If the level of sales anticipated by the Company s financial plan does not materialize, the Company will need to take further actions to reduce costs and expenses or explore other cost reduction options.

Table of Contents

Management believes that if the Company is able to achieve projected sales levels in 2009 and contain expenses and cash used in operations to levels contemplated in the Company s 2009 financial plan, both the Company s China and non-China operations will have sufficient liquidity to finance working capital and capital expenditure needs during the next 12 months. If the Company is not able to execute its 2009 financial plan successfully, the Company may need to obtain funds from equity or debt financings. There can be no assurance that additional financing, if required, will be available on terms satisfactory to the Company or at all, and if funds are raised in the future through issuance of preferred stock or debt, these securities could have rights, privileges or preference senior to those of the Company s common stock and newly issued debt could contain debt covenants that impose restrictions on the Company s operations. Further, any sale of newly issued debt or equity securities could result in additional dilution to the Company s current shareholders.

Recently, global economies have experienced a significant downturn driven by a financial and credit crisis that will continue to challenge such economies for some period of time. Under the current macroeconomic environment there are significant risks and uncertainties inherent in management s ability to forecast future results. The operating environment confronting the Company, both internally and externally, raises significant uncertainties. While improvements in the Company s operating results, cash flows and liquidity are anticipated as the Company s 2009 financial plan and management s initiatives to control and reduce costs while maintaining and growing the Company s revenue base are fully implemented, the Company s recurring losses and expected negative cash flows from operations raise substantial doubt about the Company s ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts or the amounts and classification of liabilities or any other adjustments that may be necessary if the entity is unable to continue as a going concern.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

During the first quarter of fiscal year 2009, the Company adopted the following accounting standards:

On January 1, 2009, the Company adopted Financial Accounting Standards Board (FASB Statement No. 141 (revised), Business Combinations (SFAS 141(R)). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Company did not consummate any business combination transactions during the three months ended March 31, 2009.

On January 1, 2009, the Company adopted FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161), which amends and expands the disclosure requirements of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative instruments. This statement applies to all entities and all derivative instruments. There was no impact on the Company s financial position or results of operations upon adoption of SFAS 161.

On January 1, 2009, the Company adopted FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. There was no material impact on the Company s consolidated financial statements upon adoption of FSP EITF 03-6-1.

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160). The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders equity, and the elimination of minority interest accounting in results of operations with earnings attributable to non-controlling interests reported as part of consolidated earnings. Previously, noncontrolling interests were recorded within mezzanine (or temporary) equity. Additionally, SFAS 160 revises the accounting for both increases and decreases in a parent s controlling ownership interest. The Company s adoption of SFAS 160, effective January 1, 2009, resulted in a $0.8 million reclassification of noncontrolling minority interests to shareholders equity on the condensed consolidated balance sheet as of December 31, 2008. Minority interest in losses of consolidated subsidiaries of $0.5 million for the three months ended March 31, 2008 have been reclassified to net income attributable to noncontrolling interests on the condensed consolidated statement of operations to conform to the presentation requirements of SFAS 160. See Note 5, Comprehensive Loss, for additional SFAS 160 disclosures regarding the noncontrolling interest components of comprehensive loss.

Table of Contents

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to current accounting pronouncements that require or permit fair value measurements. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. Effective January 1, 2008, the Company adopted the measurement and disclosure requirements of SFAS 157 as it relates to financial assets and financial liabilities measured at fair value on a recurring basis. In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which delayed the effective date of SFAS 157 for non-financial assets and non-financial liabilities except those recorded or disclosed at fair value on a recurring basis. Effective January 1, 2009, the Company adopted the measurement and disclosure requirements of SFAS 157 as it relates to non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis. Examples include goodwill, intangibles, and other long-lived assets. The adoption of SFAS No. 157 for non-financial assets and non-financial liabilities did not have a material impact on the Company s financial condition or results of operations. The additional disclosures required by SFAS 157 are included in Note 7.

Recent Accounting Pronouncements Not Yet Adopted

In April 2009, the FASB issued three Staff Positions (FSPs) that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP FAS 157-4, Determining Whether a Market is Not Active and a Transaction Is Not Distressed , provides guidance on determining fair value when there is no active market or where the price inputs being used represent distressed sales. FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments , changes the method for determining when an other-than-temporary impairment exists for debt securities and the amount of the impairment to be recorded in earnings. FSP FAS 107-1 and APB 28-1, Interim Disclosures About Fair Value of Financial Instruments , requires fair value disclosures in both interim as well as annual financial statements in order to provide more timely information about the effects of current market conditions on financial instruments. All of these FSPs are effective for the Company beginning April 1, 2009. The Company does not anticipate the adoption of these standards will have a material impact on its financial condition or results of operations.

NOTE 3 DIVESTITURES

UTStarcom Personal Communications LLC (PCD)

On July 1, 2008, the Company completed the sale of UTStarcom Personal Communications LLC, a wholly-owned subsidiary of the Company (PCD), to Personal Communications Devices, LLC (PCD LLC). The Company also invested $1.6 million in equity securities representing approximately a 2.5% interest in PCD LLC. The Company recorded a $3.8 million gain on sale of PCD net assets during 2008. Pursuant to the terms of the divestiture agreement, the Company may be entitled to receive up to an additional $50 million earnout payment in 2011 based on the achievement of cumulative earnings levels of PCD LLC through December 31, 2010. Previously, PCD was a reportable segment of the Company. Concurrent with the closing of the transaction, the Company entered into a three-year supply agreement with PCD LLC whereby the Company indicated its intent to supply handset products to PCD LLC. Due to the expected ongoing direct cash flows pursuant to the supply agreement, the sale of the PCD assets did not meet the criteria for presentation as a discontinued operation under SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144).

Sale of Assets to Marvell Technology Group Ltd:

In February 2006, the Company sold substantially all of the assets and selected liabilities of its semiconductor design business division to Marvell Technology Group Ltd. (Marvell). In connection with the sale of assets, the Company entered into a supply agreement with Marvell to purchase chipsets for the Company s handset products over the next five years. The value allocated to the supply agreement of $20.2 million has been amortized in proportion to the quantities of chipsets purchased under the supply agreement. For the three months ended March 31, 2009 and 2008, approximately $8.5 million and $2.1 million, respectively, have been amortized against cost of sales. During the first quarter of 2009, the Company revised its estimates of customer demand for certain handset products and determined that future chipset purchases from Marvell would be negligible. As a result, the Company fully amortized the remaining value of the supply agreement of $8.5 million in the three months ended March 31, 2009.

Table of Contents

NOTE 4 - EARNINGS (LOSS) PER SHARE

Basic earnings per share (EPS) is computed by dividing net income (loss) available to common stockholders by the weighted average number of shares of the Company s common stock outstanding during the period, which excludes nonvested restricted stock. Diluted EPS presents the amount of net income (loss) available to each share of common stock outstanding during the period plus each share of common stock that would have been outstanding assuming the Company had issued shares of common stock for all dilutive potential common shares outstanding during the period. The Company s potentially dilutive common shares include convertible subordinated notes prior to their maturity, outstanding stock options, nonvested restricted stock and restricted stock units and Employee Stock Purchase Plan (ESPP), which are reflected in diluted net income per share by application of the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of stock-based compensation cost for future services that the Company has not yet recognized, and the amount of tax benefit that would be recorded in additional paid-in capital upon exercise are assumed to be used to repurchase shares.

The following is a summary of the calculation of basic and diluted EPS:

	Three months ended March 31,			
	2009		2008	
	(in thousands except per share data)			
Numerator:				
Net earnings (loss) attibutable to UTStarcom, Inc. for basic EPS computation	$	(67,433)	$	25,357
Effect of dilutive securities - convertible subordinated notes				
Net earnings (loss) attributable to UTStarcom, Inc. adjusted for dilutive securities	$	(67,433)	$	25,357
Denominator:				
Shares used to compute basic EPS		125,731		122,096
Dilutive common stock equivalent shares				1,002
Shares used to compute diluted EPS		125,731		123,098
Earnings (loss) per share attributable to UTStarcom, Inc. - basic	$	(0.54)	$	0.21
Earnings (loss) per share attributable to UTStarcom, Inc. - diluted	$	(0.54)	$	0.21

Table of Contents

For the three months ended March 31, 2009, no potential common shares were dilutive because of the net loss in the period. For the three months ended March 31, 2008, certain stock options, nonvested restricted stock and nonvested restricted stock units whose combined exercise price, unrecognized compensation cost and excess tax benefits were greater than the average market price of the Company s common stock have also been excluded from the calculation of diluted EPS because to include them would have been anti-dilutive for the period. In addition, weighted shares subject to performance goals totaling 0.2 million were excluded from the computation of diluted earnings per share as of March 31, 2008 because the performance goals had not been attained as of March 31, 2008. The following table summarizes the total potential shares of common stock that were excluded from the diluted per share calculation:

	Three months ended March 31, 2009	2008
	(in thousands)	
Weighted-average stock options and awards outstanding	14,790	16,771
Conversion of convertible subordinated notes		7,611
Other	308	503
	15,098	24,885

NOTE 5 - COMPREHENSIVE LOSS

Total comprehensive loss for the three months ended March 31, 2009 and 2008 consisted of the following:

	Three months ended March 31, 2009	2008
	(in thousands)	
Net (loss) income	$ (67,434)	$ 24,847
Unrealized loss on investments, net of tax	(698)	(1,450)
Realization of previously unrealized gains, net of tax		(36,924)
Realization of previously unrealized foreign currency translation, net of tax		(1,378)
Foreign currency translation	573	7,764
	(67,559)	(7,141)
Comprehensive loss attributable to noncontrolling interests (1)	(1)	(510)
Comprehensive loss attributable to UTStarcom, Inc.	$ (67,558)	$ (6,631)

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(1) Comprehensive loss attributable to noncontrolling interests consisted primarily of net loss.

The changes in noncontrolling interests during the three months ended March 31, 2009 were as follows:

	Three months ended March 31, 2009 (in thousands)
Balance at January 1, 2009	$ 808
Comprehensive loss attributable to noncontrolling interests	(1)

Balance at March 31, 2009	$	807

Table of Contents

NOTE 6 BALANCE SHEET DETAILS

As of March 31, 2009 and December 31, 2008, total inventories consisted of the following:

	March 31, 2009	December 31, 2008
	(in thousands)	
Inventories:		
Raw materials	$ 8,488	$ 15,545
Work in process	5,288	33,524
Finished goods	147,229	122,238
Total inventories	$ 161,005	$ 171,307

NOTE 7 - CASH, CASH EQUIVALENTS, INVESTMENTS AND FAIR VALUE MEASUREMENTS

Cash and cash equivalents, consisting primarily of bank deposits and money market funds, are recorded at cost which approximates fair value because of the short-term nature of these instruments. There were no available-for-sale securities investments included in cash and cash equivalents at March 31, 2009 or December 31, 2008. Short-term investments, consisting of bank notes, were $1.0 million and $4.3 million at March 31, 2009 and December 31, 2008, respectively. During the first quarter of 2008, the Company sold investment with a carrying value of $42.4 million and recognized gains of $39.7 million in other income, net.

At March 31, 2009 and December 31, 2008, MRV is the only available-for-sale security investment recorded at fair value (see additional discussion below), all other long-term investments are accounted for under the cost method. Any unrealized holding gains or losses are reported as a component of other comprehensive income, net of related income tax effects. Realized gains and losses are reported in earnings. At March 31, 2009 and December 31, 2008, the long-term investments included $4.0 million and $3.3 million of unrealized holding loss which was recorded in accumulated other comprehensive income, respectively. There was no unrealized holding gain or loss in short-term investments.

The Company accepts bank notes receivable with maturity dates of between three and six months from its customers in China in the normal course of business. The Company may discount these bank notes with banking institutions in China. During the three months ended March 31, 2009 and 2008, the Company sold $9.9 million and $22.8 million of bank notes, respectively, and recorded costs of less than $0.1 million and $0.3 million, respectively, as a result of discounting the notes.

The following table shows the break-down of the Company s equity securities classified as long-term investments at March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
	(in thousands)	

TET	$		$	4,800
Cortina		3,348		3,348
MRV		471		1,170
GCT SemiConductor, Inc.		3,000		3,000
Xalted Networks		3,302		3,302
PCD LLC		1,600		1,600
Other		471		471
Total equity securities	$	12,192	$	17,691

Table of Contents

TET

In October 2008, the Company invested $4.8 million into Turnstone Environment Technologies LLC (TET), in exchange for approximately 22% of voting interest at both March 31, 2009 and December 31, 2008. The Company is not obligated to make further capital contributions. TET s mission is to secure the licensing rights to environmentally friendly, renewable energy technologies for distribution to various emerging markets, with an initial focus on India. TET is considered as a variable interest entity where the Company is the primary beneficiary and does not hold a majority voting interest. The assets, liabilities and operating results of TET were determined to be immaterial as of December 31, 2008 and, therefore, were not consolidated. As of and for the three months ended March 31, 2009, the financial statements of TET were included in the consolidated balance sheet and statement of operations of the Company. As a result of consolidation, the Company s initial investment in TET is included in other long-term assets, net of liabilities, in the condensed consolidated balance sheet at March 31, 2009, see Note 17.

MRV

On July 1, 2007, Fiberxon, an investment in which the Company had a 7% ownership interest, completed a merger with MRV Communications (MRV), which is a publicly-traded company in an active market. In exchange for the Company s interest in Fiberxon, the Company was entitled to receive $1.5 million in cash, 1,519,365 shares of MRV common stock valued at approximately $4.5 million and deferred consideration of approximately $2.7 million. The deferred consideration becomes payable upon the completion of certain milestones and may be reduced by legitimate claims of MRV for certain matters related to the merger. In the third quarter of 2007, the Company was paid the cash consideration of $1.5 million and received 1,519,365 shares of MRV common stock and recognized a gain on investment of $2.9 million. During the first quarter of 2009 and 2008, the Company recorded an unrealized loss of $0.7 million and $1.4 million, respectively, in other comprehensive income, representing the change in fair value of the investment during the quarter. Because the Company has the ability and intent to hold this investment until a recovery of fair value, the Company does not consider this investment to be other-than-temporarily impaired. At both March 31, 2009 and December 31, 2008, MRV is the only investment accounted for under SFAS 115, Accounting for Certain Investments in Debt and Equity Securities.

Fair Value Measurements

SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures certain financial assets at fair value, including its marketable securities.

At March 31, 2009, the Company s investment in MRV is recorded at fair value, classified within Level 1 of the fair value hierarchy and its money market funds are recorded at cost which approximates fair value, classified within Level 1 of the fair value hierarchy. The Company has no other financial assets or liabilities that are being measured at fair value at March 31, 2009.

NOTE 8 - WARRANTY OBLIGATIONS AND OTHER GUARANTEES

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

Table of Contents

The following table summarizes the activity related to warranty obligations during the three months ended March 31, 2009 and 2008:

	Three months ended March 31,	
	2009	2008
	(in thousands)	
Beginning of period	$ 29,840	$ 52,734
Accruals for warranties issued during the period	3,582	7,233
Settlements made during the period	(3,608)	(10,395)
Balance at end of period	$ 29,814	$ 49,572

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

NOTE 9 - RESTRUCTURING COSTS

During the fourth quarters of fiscal 2008 and 2007, the Company announced restructuring initiatives focused on aligning the Company s cost base with revenues. During the first quarter of 2009, the Company recorded an additional $4.8 million restructuring charge of which $4.6 million relates to the 2008 Restructuring Plan and $0.2 million relates to the 2007 Restructuring Plan. As of March 31, 2009 and December 31, 2008, the Company s total restructuring accrual was $8.4 million and $9.5 million, respectively which is included in other current liabilities in the condensed consolidated balance sheets. The Company continues to review its business for opportunities to reduce operating expenses and focus on executing its strategy based on core competencies and cost efficiencies.

2008 Restructuring Plan

During fiscal 2008, the Company implemented a restructuring plan (the 2008 Restructuring Plan) and recorded $13.1 million in restructuring charges primarily related to a global reduction in force across all functions and employee terminations at certain non-core operations which the Company is in the process of winding down. During the first quarter of 2009, the Company recorded an additional $4.6 million in restructuring charges related to the 2008 Restructuring Plan. These charges were primarily general and corporate charges not directly related to the Company s core business units and included $3.4 million for severance and benefits related to the transition of certain key functions, including finance, to China and $1.1 million for lease termination costs. Approximately 60 employees are affected by the transition of these key functions to China. The Company expects to incur additional restructuring charges during the remainder of 2009 as it continues to execute the 2008 Restructuring Plan. Payment of accrued amounts related to severance and benefits aggregating $5.8 million at March 31, 2009 are expected to be substantially completed by the end of 2009, payments of $1.1 million related to lease obligations will be settled over the remaining lease term, which expires in fiscal year 2010.

2007 Restructuring Plan

In the fourth quarter of 2007, the Company implemented a restructuring plan (the 2007 Restructuring Plan) to reduce operating costs. During the first quarter of 2008, the Company completed the planned reduction in force, reducing the Company s headcount by approximately 12%, or approximately 800 employees. The workforce reduction was primarily in the United States and China and, to a lesser degree, other international locations. At March 31, 2009 the restructuring accrual for the 2007 Plan included within other liabilities of approximately $0.9 million was related to a lease obligation and will be settled over the remaining lease term, which expires in fiscal year 2010.

Table of Contents

The activity in the accrued restructuring balances related to the plans described above was as follows for the three months ended March 31, 2009:

	Balance at December 31, 2008	Restructuring Charges	Cash Payments (in thousands)	Non-cash Settlement	Balance at March 31, 2009
2008 Restructuring Plan					
Worforce Reduction	$ 7,976	$ 3,414	$ (5,229)	$ (380)	$ 5,781
Lease Costs	249	1,101	(218)		1,132
Other Costs	498	101			599
Total 2008 Restructuring Plan	8,723	4,616	(5,447)	(380)	7,512
2007 Restructuring Plan - Lease Costs	788	203	(139)		852
Total	$ 9,511	$ 4,819	$ (5,586)	$ (380)	$ 8,364

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Litigation

Securities Class Action Litigation

Beginning in October 2004, several shareholder class action lawsuits alleging federal securities violations were filed against the Company and various officers and directors of the Company. The actions have been consolidated in United States District Court for the Northern District of California under the caption *In re UTStarcom, Inc. Securities Litigation*, Master File No. C-04-4908-JW (PVT). The lead plaintiffs in the case filed a First Amended Consolidated Complaint on July 26, 2005. The First Amended Complaint alleged violations of the Securities Exchange Act of 1934, and was brought on behalf of a putative class of shareholders who purchased the Company s stock after April 16, 2003 and before September 20, 2004. On April 13, 2006, the lead plaintiffs filed a Second Amended Complaint adding new allegations and extending the end of the class period to October 6, 2005. In addition to the Company defendants, the plaintiffs are also suing Softbank. Plaintiffs complaint seeks recovery of damages in an unspecified amount.

On June 2, 2006, the Company and the individual defendants filed a motion to dismiss the Second Amended Complaint. On March 21, 2007, the Court granted defendants motion and dismissed plaintiffs Second Amended Complaint. The Court granted plaintiffs leave to file a Third Amended Complaint, which plaintiffs filed on May 25, 2007. On July 13, 2007, the Company and the individual defendants filed a motion to dismiss and a motion to strike the Third Amended Complaint. On March 14, 2008, the Court granted defendants motion and dismissed plaintiffs Third Amended Complaint. The Court granted plaintiffs leave to file a Fourth Amended Complaint, which plaintiffs filed on May 14, 2008. On June 13, 2008, consistent with the Court s March 14, 2008 dismissal order, the Company and the individual defendants filed objections to the form and content of the Fourth Amended Complaint. On July 24, 2008, the Court overruled the objections. On September 8, 2008, the Company and the individual defendants filed a motion to dismiss and a motion to strike certain allegations from the Fourth Amended Complaint. On March 27, 2009, the Court denied defendants motion to dismiss and granted defendants motion to strike.

Due to the status of this lawsuit and uncertainties related to litigation, management is unable to evaluate the likelihood of either a favorable or unfavorable outcome. Accordingly, management is unable at this time to estimate the effects of this lawsuit on the Company s financial position, results of operations, or cash flows.

On September 4, 2007, a second shareholder class action complaint captioned *Peter Rudolph v. UTStarcom, et al.*, Case No. C-07-4578 SI, was filed in the United States District Court for the Northern District of California against the Company and some of its current and former directors and officers. The complaint alleges violations of the Securities Exchange Act of 1934 through undisclosed improper accounting practices concerning the Company s historical equity award grants. Plaintiff seeks unspecified damages on behalf of a purported class of purchasers of the Company s common stock between July 24, 2002 and September 4, 2007. On December 14, 2007, the Court appointed James R. Bartholomew lead plaintiff. On January 25, 2008, the lead plaintiff filed an amended complaint. On April 14, 2008, the Court granted defendants motion to dismiss the amended complaint. The Court granted the lead plaintiff leave to file a second amended complaint no later than May 16, 2008 which was filed by the lead plaintiff on May 16, 2008. On June 6, 2008, defendants filed a motion to dismiss the second amended complaint. On August 21, 2008, the Court granted in part and denied in part the motion to dismiss. The parties have reached a tentative settlement in the case, subject to final documentation and court approval. A preliminary approval hearing is currently set for June 19, 2009.

Table of Contents

The tentative settlement reached by the parties is subject to court approval, and there is no assurance that the court will grant approval of the settlement. Management is unable at this time to estimate the effects of this lawsuit, should the settlement not be approved, on the Company s financial position, results of operations, or cash flows.

Governmental Investigations

In December 2005, the U.S. Embassy in Mongolia informed the Company that it had forwarded to the Department of Justice (the DOJ) allegations that an agent of the Company s Mongolia joint venture had offered payments to a Mongolian government official in possible violation of the Foreign Corrupt Practices Act (the FCPA). The Company, through its Audit Committee, authorized an independent investigation into possible violations of the FCPA, and it has been in contact with the DOJ and U.S. Securities and Exchange Commission (the SEC) regarding the investigation. The investigation has identified possible FCPA violations in Mongolia, Southeast Asia, India, and China, as well as possible violations of U.S. immigration laws. The DOJ has requested that the Company voluntarily produce documents related to the investigation, the SEC has subpoenaed the Company for documents, and the Company has received a Grand Jury Subpoena requiring the production of documents related to one aspect of the DOJ investigation, that is, training programs the Company had sponsored. The SEC has indicated it regards travel arrangements provided to customers in China in connection with certain systems contracts, and other conduct, as violations. The Company has executed tolling agreements extending the statute of limitations for the FCPA issues under investigation by the DOJ. Such proceedings may result in criminal or civil sanctions, penalties and disgorgements against the Company. If it is probable that an obligation of the Company exists and will result in an outflow of resources, a provision will be recorded if the amount can be reasonably estimated. Regulatory and legal proceedings as well as government investigation often involve complex legal issues and are subject to substantial uncertainties. Accordingly, management exercises considerable judgment in determining whether it is probable that such a proceeding will result in outflow of resources and whether the amount of the obligation can be reasonably estimated. The Company periodically reviews the status of these proceedings and these judgments are subject to change as new information becomes available. At this time, the Company cannot predict when any inquiry will be completed or what the outcome of any inquiry will be. A judgment against the Company may have a material adverse effect on the Company s financial position, results of operations and cash flows.

Shareholder Derivative Litigation

On November 17, 2006, a shareholder derivative complaint captioned *Ernesto Espinoza v. Ying Wu et al.*, Case No. RG06298775, was filed against certain of the Company s current and former officers and directors in the Superior Court of the County of Alameda, California. The complaint alleges that the individual defendants, among other things, breached their duties, were unjustly enriched, and violated the California Corporations Code in connection with the timing of stock option grants. The complaint names the Company as a nominal defendant and seeks unspecified monetary damages against the individual defendants and various forms of injunctive relief. On February 2, 2007, the Company and the individual defendants filed demurrers against the complaint. On April 11, 2007, the Court sustained the individual defendants demurrer, overruled the Company s demurrer, ordered the plaintiff to file an amended complaint, and ordered the Company to answer the original complaint. The plaintiff filed an amended complaint and the Company has filed an answer to the amended complaint. On August 21, 2007, the individual defendants filed demurrers against the amended complaint. The Court sustained the individual defendants demurrers and ordered the plaintiff to file a second amended complaint. On September 26, 2008, plaintiff filed his second amended complaint. On November 21, 2008, the Company and the individual defendants filed demurrers against the second amended complaint. On February 27, 2009, the Court sustained the Company s demurrer and ordered the plaintiff to file a third amended complaint. On March 20, 2009, the plaintiff filed his third amended complaint. On May 5, 2009, the Company and the individual defendants filed demurrers against the third amended complaint.

Due to the status of this lawsuit and uncertainties related to litigation, management of the Company is unable to evaluate the likelihood of either a favorable or unfavorable outcome. Accordingly, management of the Company is unable at this time to estimate the effects of this lawsuit on the Company s financial position, results of operations, or cash flows.

IPO Allocation

On October 31, 2001, a complaint was filed in United States District Court for the Southern District of New York against the Company, some of the Company s directors and officers and various underwriters for the Company s initial public offering. Substantially similar actions were filed concerning the initial public offerings for more than 300 different issuers, and the cases were coordinated as *In re Initial Public Offering Securities Litigation*, 21 MC 92 for pretrial purposes. In April 2002, a consolidated amended complaint was filed in the matter against the Company, captioned *In re UTStarcom, Initial Public Offering Securities Litigation*, Civil Action No. 01-CV-9604. Plaintiffs allege violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 through undisclosed improper underwriting practices concerning the allocation of IPO shares in exchange for excessive brokerage commissions, agreements to purchase shares at higher prices in the aftermarket and misleading analyst reports. Plaintiffs

Table of Contents

seek unspecified damages on behalf of a purported class of purchasers of the Company s common stock between March 2, 2000 and December 6, 2000. The Company s directors and officers have been dismissed without prejudice pursuant to a stipulation. On February 19, 2003, the Court granted in part and denied in part a motion to dismiss the claims brought by defendants including the Company. The order dismissed all claims against the Company except for a claim brought under Section 11 of the Securities Act of 1933, which alleges that the registration statement filed in accordance with the IPO was misleading. In 2007, a settlement that had been pending with the Court since 2004 was terminated by stipulation after it became unlikely that the settlement would receive final Court approval. Plaintiffs filed amended master allegations and amended complaints in six focus cases (the Company s case is not a focus case). In 2008, the Court largely denied the defendants motion to dismiss the amended complaints. The parties have reached a global settlement of the litigation. Under the settlement, which remains subject to Court approval, the insurers would pay the full amount of settlement share allocated to the Company, and the Company would bear no financial liability. The Company, as well as the officer and director defendants who were previously dismissed from the action pursuant to tolling agreements, would receive complete dismissals from the case. It is uncertain whether the settlement will receive final Court approval. If the settlement does not receive final Court approval, and litigation against the Company continues, the Company believes it has meritorious defenses and intends to defend the action vigorously.

UTStarcom, Inc. v. Starent Patent Infringement Litigations

On February 16, 2005, the Company filed a suit against Starent for patent infringement in the U.S. District Court for the Northern District of California. In the Complaint, the Company asserted that Starent infringes UTStarcom patent U.S. Reg. No. 6,829,473 (the 473 patent) through Starent s development and testing of a software upgrade for its customer s installed ST-16 Intelligent Mobile Gateways. The Company seeks declaratory and injunctive relief. Starent subsequently filed its answer and counterclaims, and the Company then filed a motion to dismiss Starent s counterclaim. On July 19, 2005, the parties stipulated that Starent would file an amended answer and counterclaim and the Company then responded to Starent s amended counterclaim. In early December 2006, the Company filed a reissue application for the 473 patent with the United States Patent and Trademark Office. Starent has also filed for reexamination of the 473 patent. The reexamination and reissue are currently co-pending. The litigation is still in a preliminary stage, and is stayed pending the outcome of the reissue. The litigation and its outcome cannot be predicted, although management of the Company believes the litigation has merit. Nonetheless, management of the Company believes that any adverse judgment on Starent s counterclaims will not have a material adverse effect on the Company s business, financial condition, results of operations or cash flows.

On May 8, 2007, the Company filed an additional suit against Starent and sixteen individual defendants (who were all former employees of 3Com s CommWorks division, of which the Company acquired certain assets in May of 2003) in the Northern District of Illinois. The causes of action include claims for patent infringement, misappropriation of trade secrets, intentional interference with business relations and prospective economic advantage and declarations of ownership of certain patent rights. The Company seeks compensatory damages, punitive damages and injunctive relief. On August 16, 2007, the Court denied the Defendants motion to dismiss the misappropriation of trade secrets claims in the complaint. On August 30, 2007, Defendants answered the Company s complaint, denying the Company s allegations and asserting a number of affirmative defenses and counterclaims. An amended complaint by the Company was deemed filed as of December 6, 2007, alleging additional causes of action. On January 4, 2008, Starent moved to dismiss certain causes of action contained in that complaint. On May 30, 2008, the Company filed a Third Amended Complaint, removing from suit U.S. patent 6,978,128, and adding additional factual allegations relating to all defendants. On July 23, 2008, the Court dismissed the Company s trade secret and contract-based counts in the Third Amended Complaint. On August 1, 2008, the Company asked the Court to clarify that ruling and filed a motion for leave to file a Fourth Amended Complaint containing the trade secret and contract-based counts. On August 27, 2008, the Company moved to partially dismiss Starent s counterclaims. On September 24, 2008, after initially granting Defendants motion to strike the Fourth Amended Complaint, the Court reconsidered its order and granted the Company leave to file a Fourth Amended Complaint. On September 25, 2008, the Fourth Amended Complaint was filed. On October 14, 2008, Defendants moved to dismiss various counts of the Fourth Amended Complaint, including again seeking to have the trade secret claims dismissed. On December 5, 2008, the Court partially granted the Company s motion to partially dismiss Starent s counterclaims. On January 9, 2009, Starent filed amended counterclaims for non-infringement, invalidity and unenforceability of the asserted patents, tortuous interference with prospective economic advantage and trade secret misappropriation. On January 26, 2009, the Company filed an answer to the counterclaims and asserted various affirmative defenses.

16

Table of Contents

On March 24, 2009, the Court ruled on Defendants October 14, 2008, motion to dismiss certain claims in the Company s Fourth Amended Complaint. It denied Defendants motion to dismiss the Company s trade secret claims. However, to the extent the Company s claims against Defendants for intentional interference with business relations are based on misappropriation of the Company s trade secrets, the Court partially dismissed those claims, based upon the doctrine of preemption. The Court also dismissed, as not yet ripe for adjudication, one of the patent claims brought by the Company. Finally the Court also dismissed contract-based claims and related claims against individual defendants who had previously been employed by 3Com s CommWorks division. On March 25, 2009, the Court denied the motion of Starent co-founder Anthony Schoener to dismiss him individually based upon lack of personal jurisdiction. On April 21, 2009, Defendants answered the remaining claims against them. Discovery and motion practice is ongoing. The Court has appointed a special master to handle discovery issues, issues related to identification of the trade secrets, summary judgments and certain other motions. The Company believes that any adverse judgment on Starent s counterclaims will not have a material adverse effect on the Company s business, financial condition, results of operations of cash flows.

Other Litigation

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

Letters of credit

The Company issues standby letters of credit primarily to support international sales activities outside of China and in support of purchase commitments. When the Company submits a bid for a sale, often the potential customer will require that the Company issue a bid bond or a standby letter of credit to demonstrate its commitment through the bid process. In addition, the Company may be required to issue standby letters of credit as guarantees for advance customer payments upon contract signing or performance guarantees. The standby letters of credit usually expire without being drawn by the beneficiary thereof. Finally, the Company may issue commercial letters of credit in support of purchase commitments. As of March 31, 2009 the Company had outstanding letters of credit approximating $51.1 million. At March 31, 2009 the Company had short-term restricted cash of $17.3 million, and had long-term restricted cash of $15.5 million included in other long-term assets. These amounts primarily collateralize the Company s issuances of standby and commercial letters of credit.

NOTE 11 STOCK INCENTIVE PLANS

During the quarter ended March 31, 2009, the Company granted equity awards including restricted stock, restricted stock units and stock options. Such awards generally vest over a period of one to four years from the date of grant. Restricted stock has the voting rights of common stock and the shares underlying restricted stock are issued and outstanding.

In February 2008, the Compensation Committee granted 1,073,333 performance-based awards to certain senior executive officers. During the third quarter of 2008, 233,333 of these contingently issuable shares were forfeited as a result of employee terminations. On October 6, 2008, the performance requirements with respect to 60,000 of these contingently issuable shares were eliminated, these restricted stock units have a fair value of $2.69 per share, which equals the closing price of the Company s common stock on the NASDAQ Stock Market on the measurement date of October 6, 2008. On February 18, 2009, the Committee determined, based on the Company s and each executive officer s level of performance during the Company s 2008 fiscal year, that an additional 367,500 shares underlying the previously granted performance-based restricted stock units had been earned, each of these performance-based restricted stock units has a fair value of $1.27 per share, which equals the closing price of the Company s common stock on the NASDAQ Stock Market on the measurement date of February 18, 2009. These restricted stock units vested 50% on February 27, 2009 and will vest 50% on February 26, 2010.

In February 2009, the Compensation Committee also granted to senior executive officers 313,293 restricted stock units with a four-year vesting and an additional 626,586 performance-based awards, subject to the attainment of goals determined by the Compensation Committee. The Company may be subject to variable levels of expense related primarily to the varying levels of performance, as well as for fluctuations in the Company s stock price as these awards are marked to market periodically prior to the date of the Compensation Committee s determination on performance.

To reduce the Company s long term cost structure and manage shareholder dilution, the Company has elected to terminate the ESPP program effective May 15, 2009. The cancellation has been accounted for as a settlement of shares for no consideration. This resulted in an immediate expense recognition in the current period of $1.2 million associated with the unrecognized compensation for canceled purchase periods of the 24-month offering.

Table of Contents

The total stock-based compensation expense, including the ESPP expense described above, recognized in the condensed consolidated statement of operations for the three months ended March 31, 2009 and 2008 was as follows:

	Three months ended March 31, 2009		2008	
	(in thousands)			
Cost of net sales	$	430	$	260
Selling, general and administrative		2,439		3,997
Research and development		897		538
Restructuring		380		
Total	$	4,146	$	4,795

Option activity as of March 31, 2009 and changes during the three months ended March 31, 2009 was as follows:

	Number of shares outstanding (in thousands)		Weighted average exercise price
Options outstanding, December 31, 2008	8,767	$	9.63
Options granted	100	$	1.01
Options exercised	(1)	$	0.25
Options forfeited or expired	(668)	$	11.33
Options outstanding, March 31, 2009	8,198	$	9.39

Nonvested restricted stock and restricted stock units as of March 31, 2009, and changes during the three months ended March 31, 2009, were as follows:

	Shares (in thousands)		Weighted average grant date fair value
Nonvested at December 31, 2008	6,712	$	2.96
Granted	1,365	$	1.01
Vested	(1,741)	$	2.97
Forfeited	(570)	$	2.86
Total nonvested at March 31, 2009	5,766	$	2.50

At March 31, 2009, there was approximately $16.6 million of total unrecognized compensation cost, related to non-vested stock options, restricted stock and restricted stock units, as measured, which the Company expects to recognize over a weighted-average period of 2.5 years. For additional information regarding the Company s stock-based compensation plans, see the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

NOTE 12 - INCOME TAXES

As of December 31, 2008, the Company s gross unrecognized tax benefits totaled $92.8 million and are included in other long-term liabilities, net of certain deferred tax assets and the federal tax benefit of state income tax items totaling $82.1 million. If recognized, the portion of gross unrecognized tax benefits that would decrease the provision for income taxes and increase the Company s net income is approximately $10.7 million.

Table of Contents

As of March 31, 2009, the Company s gross unrecognized tax benefits totaled $67.0 million and are included in other long-term liabilities, net of certain deferred tax assets and the federal tax benefit of state income tax items totaling $57.6 million. If recognized, the portion of gross unrecognized tax benefits that would decrease the provision for income taxes and increase the Company s net income is approximately $9.4 million. The Company has reduced its total unrecognized tax benefits by approximately $26.5 million during the quarter due to statute of limitations expirations and settlements of income tax audits. The portion of this $26.5 million reduction of gross unrecognized tax benefits that decreased the provision for income taxes and increased the Company s net income during the quarter was approximately $1.4 million. The total unrecognized tax benefits relate primarily to the allocations of revenue and costs among our global operations.

The Company recognizes interest expense and penalties related to the above unrecognized tax benefits within income tax expense. The Company had accrued interest and penalties of approximately $3.9 million as of December 31, 2008 and approximately $2.8 million as of March 31, 2009. The Company has reduced its interest expense and penalties recorded within income tax expense by approximately $1.4 million during the quarter due to statute of limitations expirations and settlements of income tax audits.

The Company is subject to taxation in the U.S. federal jurisdiction and various U.S. state and foreign jurisdictions. The Company is under audit by the taxing authorities in China on a recurring basis. The material jurisdictions that the Company is subject to examination are in the United States and China. The Company s tax years for 1998 through 2008 are still open for examination in China. The Company s tax years for 2006 through 2008 are still open for examination in the United States.

FIN 48 established criteria for recognizing or continuing to recognize only more-likely-than-not tax positions, which may result in income tax expense volatility in future periods. While the Company believes that it has adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than the Company s accrued position. Accordingly, additional provisions on income tax related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

In establishing its deferred income tax assets and liabilities, the Company makes judgments and interpretations based on the enacted tax laws and published tax guidance applicable to its operations. The Company records deferred tax assets and liabilities and evaluates the need for valuation allowances to reduce the deferred tax assets to realizable amounts. The likelihood of a material change in the Company s expected realization of these assets is dependent on future taxable income and its ability to use foreign tax credit carryforwards and carrybacks.

Income tax expense was $1.8 million for the three months ended March 31, 2009 compared to a tax benefit of $5.0 million for the three months ended March 31, 2008.

Income tax expense for the three months ended March 31, 2009 included a tax benefit of $2.8 million related to the recognition of previously unrecognized tax benefits and the reversal of interest and penalties due to statute of limitations expirations and income tax audit settlements.

The Company s income tax expense for the first quarter of 2008 at statutory rates was $3.5 million. This amount was adjusted for the two items discussed below. The China Corporate Income Tax Law (CIT Law) was effective on January 1, 2008. As a result of the enactment of regulations during the first quarter of 2008 which addressed CIT Law, the Company recorded an income tax benefit of $11.7 million related to reversing a deferred tax liability on foreign withholding taxes related to the unremitted earnings of the Company s subsidiaries which the

Company had previously determined to not be permanently reinvested outside the United States. The Company also accrued $3.2 million of foreign withholding taxes related to the realized gain on the sale of its investment in Gemdale.

For 2009 and 2008, the Company has not provided any tax benefit on any forecasted losses incurred and tax credits generated in the United States and other countries, because management believes that it is more likely than not that the tax benefit associated with these losses will not be realized. Also, for 2009 and 2008, the Company continues to accrue tax expense in jurisdictions where the Company has been historically profitable. Estimates of the annual effective tax rate at the end of the interim periods are based on evaluations of possible future events and transactions and may be subject to subsequent refinement or revision.

Table of Contents

NOTE 13 - OTHER (EXPENSE) INCOME, NET

Other (expense) income, net for the three months ended March 31, 2009 and 2008, respectively were comprised of the following:

	Three months ended March 31, 2009		2008
	(in thousands)		
Gain on sale of investments	$	$	39,679
Gain on liquidation of investment in a variable interest entity (see Note 17)			8,169
Foreign exchange (losses) gains	(7,258)		5,709
Other	44		413
Total	$ (7,214)	$	53,970

NOTE 14 - SEGMENT REPORTING

To align the business units with its corporate strategy to focus on core businesses, on July 1, 2008 the Company sold PCD to PCD LLC (see note 3). Prior to July 1, 2008, PCD sold and supported handsets other than PAS handsets, mainly in the United States. Included in the Other segment are Mobile Solutions Business Unit (MSBU) and Custom Solutions business unit (CSBU). On July 31, 2008, the Company sold MSBU which was responsible for the development, sales and service of the Company s wireless IPCDMA/IPGSM product line. In the first quarter of 2009, the Company completed the wind-down of CSBU and the consolidation of voice messaging technology into its Multimedia Communications segment. CSBU historically had been responsible for the development, sales and service of other non-core products. As a result of these changes the Company revised its internal reporting structure, operating segments and reporting segments.

Effective January 1, 2009, the new reporting segments are as follows:

- Multimedia Communications Focused on development and market opportunities in IPTV solutions and Wireless infrastructure technologies.

- Broadband Infrastructure Focused on the Company s world class portfolio of broadband products.

- Handsets Focused on mobile phone business with continued focus on the PAS and CDMA handset market, as well as data cards markets. Handset sales to PCD LLC, which commenced after the July 1, 2008 sale of PCD, are included in this segment.

- Services Focused on providing services and support of the Company s Broadband Infrastructure and Multimedia Communications product lines.

The Company s chief operating decision makers make financial decisions based on information it receives from its internal management system and currently evaluates the operating performance of and allocates resources to the reporting segments based on segment revenue and gross profit. Cost of sales and direct expenses in relation to production are assigned to the reporting segments. The accounting policies used in measuring segment assets and operating performance are the same as those used at the consolidated level.

Table of Contents

Summarized below are the Company s segment net sales, gross profit and segment margin for the three months ended March 31, 2009 and 2008 based on the current reporting segment structure:

	Three months ended March 31,					
		2009	% of net sales		2008	% of net sales
	(in thousands)					
Net Sales by Segment						
Multimedia Communications	$	34,033	28%	$	67,446	12%
Broadband Infrastructure		15,419	13%		25,590	4%
Handsets		56,060	47%		44,023	8%
Services		13,828	12%		11,091	2%
PCD					430,724	73%
Other					7,115	1%
	$	119,340	100%	$	585,989	100%

	Three months ended March 31,					
		2009	Gross profit %		2008	Gross profit %
	(in thousands)					
Gross profit by Segment						
Multimedia Communications	$	10,554	31%	$	33,156	49%
Broadband Infrastructure		1,620	11%		2,221	9%
Handsets		6,302	11%		16,215	37%
Services		3,176	23%		2,319	21%
PCD					32,836	8%
Other					5,332	75%
	$	21,652	18%	$	92,079	16%

	Three months ended March 31,			
		2009		2008
	(in thousands)			
Segment Margin and Operating Loss				
Multimedia Communications	$	(1,580)	$	16,195
Broadband Infrastructure		(3,164)		(4,225)
Handsets		236		1,021
Services		3,012		946
PCD				24,964
Other				(4,158)
Total segment margin		(1,496)		34,743
General and Corporate		(57,359)		(65,632)
Operating Loss	$	(58,855)	$	(30,889)

Table of Contents

Assets by segment are as follows:

	March 31, 2009	December 31, 2008
	(in thousands)	
Property, Plant and Equipment, net		
Multimedia Communications	$ 77,290	$ 78,890
Broadband Infrastructure	39,004	39,649
Handsets	39,327	39,975
Services	16,501	16,773
	$ 172,122	$ 175,287

	March 31, 2009	December 31, 2008
	(in thousands)	
Total assets		
Multimedia Communications	$ 558,321	$ 602,207
Broadband Infrastructure	362,565	337,571
Handsets	181,823	288,050
Services	70,910	75,633
Other		7,345
	$ 1,173,619	$ 1,310,806

Sales are attributed to a geographical area based upon the location of the customer. Sales data by geographical area are as follows:

	Three months ended March 31,			
	2009	% of net sales	2008	% of net sales
	(in thousands)			
Net Sales by region				
United States	$ 41,259	35%	$ 421,863	72%
China	51,219	43%	117,122	20%
Other	26,862	22%	47,004	8%
Net sales	$ 119,340	100%	$ 585,989	100%

Long-lived assets, consisting of property, plant and equipment, by geographical area are as follows:

	March 31, 2009	December 31, 2008
	(in thousands)	
U.S.	$ 533	$ 627
China	170,552	172,844
Other	1,037	1,816
Total long-lived assets	$ 172,122	$ 175,287

Table of Contents

NOTE 15 - CREDIT RISK AND CONCENTRATION

The Company s accounts receivable balance included amounts due from PCD LLC, representing approximately 15% and 39% at March 31, 2009 and December 31, 2008, respectively.

The following customers accounted for 10% or more of the Company s net sales:

For the three months ended March 31,	**% of net sales**
2009	
PCD LLC	32%
2008	
Verizon Wireless	25%
Sprint Spectrum	18%
T-Mobile USA, Inc.	10%

Approximately 22% and 12% of the Company s net sales during the three months ended March 31, 2009 and 2008, respectively, were to entities affiliated with the government of China. Accounts receivable balances from these China government affiliated entities or state owned enterprises were $77.3 million and $86.2 million as of March 31, 2009 and December 31, 2008, respectively. The Company extends credit to its customers in China generally without requiring collateral. With respect to global sales outside of China, the Company may require letters of credit from its customers. The Company monitors its exposure for credit losses and maintains allowances for doubtful accounts.

Approximately 43% and 20% of the Company s sales for the three months ended March 31, 2009 and 2008, respectively, were made in China. Accordingly, the political, economic and legal environment, as well as the general state of China s economy may influence the Company s business, financial condition and results of operations. The Company s operations in China are subject to special considerations and significant risks not typically associated with companies in the United States. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company s results may be adversely affected by, among other things, changes in the political, economic and social conditions in China, and by changes in governmental policies with respect to laws and regulations, changes in China s telecommunications industry and regulatory rules and policies, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

NOTE 16 - RELATED PARTY TRANSACTIONS

Softbank and affiliates

The Company recognizes revenue with respect to sales of telecommunications equipment to affiliates of Softbank, a significant stockholder of the Company. Softbank offers ADSL coverage throughout Japan, which is marketed under the name YAHOO! BB. The Company supports

Softbank s fiber-to-the-home service through sales of its carrier class GEPON product as well as its NetRing™ product. In addition, the Company supports Softbank s new internet protocol television (IPTV), through sales of its RollingStream™ product. During the three months ended March 31, 2009 and 2008, the Company recognized revenue of $6.2 million and $11.8 million, respectively, for sales of telecommunications equipment and services to affiliates of Softbank.

Included in accounts receivable at March 31, 2009 and December 31, 2008 were $6.4 million and $9.2 million, respectively, related to these transactions. The Company had immaterial amounts of accounts payable to Softbank and its affiliates at March 31, 2009 and December 31, 2008.

Sales to Softbank include a three year service period and a penalty clause if product failure rates exceed a certain level over a seven year period. As of March 31, 2009 and December 31, 2008, the Company s customer advance balance related to Softbank agreements was $0.2 million and $0.7 million, respectively. The current deferred revenue balance related to Softbank was $2.1 million and $4.0 million as of March 31, 2009 and December 31, 2008, respectively. As of March 31, 2009, the Company s noncurrent deferred revenue balance related to Softbank was $9.1 million compared to $9.2 million as of December 31, 2008.

As of March 31, 2009, Softbank beneficially owned approximately 12% of the Company s outstanding stock.

Table of Contents

NOTE 17 VARIABLE INTEREST ENTITIES

In October 2008, the Company made an investment in Turnstone Environment Technologies LLC (TET), a Delaware limited liability company formed for the purpose of licensing and developing energy efficient renewable cooling solutions for cell towers in the telecommunications industry. In exchange for 5,180,788 Series A Preferred units representing approximately 22% of voting interest in TET and 500,000 Series A Preferred warrants at an exercise price of $0.9265 per unit and with an expiration term of 5 years, the Company contributed $4.8 million in cash. The Company currently does not have any representation on TET s board of directors nor the ability to control the management and operation decisions of TET. The operations of TET are in the development stage and the entity is actively seeking additional investors. The Company does not intend to and has no obligation to fund future losses or make additional contributions other than its initial investment. As of March 31, 2009 and December 31, 2008, TET was in effect entirely funded by the Company s initial investment as the capital contributions of the current investors were not substantive. The Company has determined that the venture is a variable interest entity and the Company is the primary beneficiary because it is exposed to the majority of the variable interest entity s expected losses. Therefore, the Company is required to consolidate TET s financial statements under FIN 46R, Consolidation of Variable Interest Entities. Beginning January 1, 2009, the assets, liabilities and operating results of TET were consolidated into the Company s balance sheet and statement of operations. The assets, liabilities and operating results of TET were determined to be immaterial as of December 31, 2008 and to the results of operations and cash flows for the full year and the fourth quarter of 2008 and, therefore, were not consolidated. TET had no revenue and had a loss of $0.5 million for the three months ended March 31, 2009. The consolidation of TET represented $4.6 million of the total assets and $0.3 million of the total liabilities of the Company as of March 31, 2009.

During the fourth quarter of 2005, the Company provided an interest free, $12.4 million loan to a party in China as seed capital for a venture organized to participate in providing technical service, networking technology and equipment to the emerging market for IPTV products in China. The loan, partially secured by an indirect ownership interest in the venture, was payable in 10 years and could be called early without penalty. As a result of the foregoing, and the fact that the venture s continuing viability was heavily dependent on the further provision of network and terminal equipment by the Company, the Company determined that the venture was a variable interest entity (VIE) and that the Company was the primary beneficiary of the venture. Therefore, the Company was required to consolidate the VIE s financial statements. The consolidation of this VIE in prior years did not have a significant impact on the Company s consolidated financial statements. In March 2008, the Company received a repayment in full of the loan s principal balance, eliminating its interest in the VIE, and resulting in reconsideration of the Company s position as the primary beneficiary. Based on this reconsideration event, management has concluded the Company is no longer the primary beneficiary under FIN 46R, Consolidation of Variable Interest Entities and is no longer required to consolidate the VIE s financial statements. The Company s Consolidated Statement of Operations for the three month period ended March 31, 2008 includes the operating results of the VIE through February 2008, at which point the VIE was deconsolidated from the Company s financial statements. The Company recorded an $8.2 million gain upon the repayment of the loan and deconsolidation that was included in other income, net, for the three months ended March 31, 2008. As management expects continuing involvement with the ongoing entity s business as a supplier of IPTV equipment, the Company has determined the conditions for presentation as a discontinued operation have not been met.

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 and the Securities Exchange Act of 1934. Forward-looking statements are based on current expectations, estimates, forecasts and projections about us, our future performance and the industries in which we operate as well as on our management s assumptions and beliefs. Statements that contain words like expects, anticipates, may, will, targets, projects, intends, believes, seeks, estimates, or variations of such words and similar expressions are forward-looking statements. In addition, any statements that refer to trends in our businesses, future financial results, and our liquidity and business plans are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks and uncertainties, including those discussed in "Part II, Item 1A-Risk Factors" of this Form 10-Q. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We do not guarantee future results, and actual results, developments and business decisions may differ from those contemplated by those forward-looking statements. We undertake no obligation to update these forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-Q.

Table of Contents

EXECUTIVE SUMMARY

We design, manufacture and sell IP-based telecommunications infrastructure products including our primary product suite of Internet Protocol TV (IPTV), Next Generation Network (NGN) and broadband solutions along with the ongoing services relating to the installation, operation and maintenance of these products. In addition, we also sell handsets that are designed and manufactured primarily for the China market. Our products are sold primarily to telecommunications service providers or operators. We sell an extensive range of products that are designed to enable voice, data and video services for our operator customers and consumers around the world. Over the past few years, we have expanded our focus to build a global presence and currently sell our products in several established and emerging growth markets in Asia, Latin America and Europe. We intend to continue to enhance our manufacturing capabilities and improve our internal supply chain and inventory management processes to ensure timely deliveries of quality products. We also intend to continue to implement and enhance our administrative infrastructure to assist our globalization.

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

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

Restructuring Programs

On December 16, 2008, our Board of Directors approved a restructuring plan (the 2008 Restructuring Plan) designed to reduce operating costs. The plan includes, among other things, winding down our Korea based handset operations (Korea Operations) and implementing an additional worldwide reduction in force of approximately 10% of our headcount by the end of the second quarter of 2009. In connection with the 2008 Restructuring Plan, during the fourth quarter of 2008 we incurred a restructuring charge of $13.1 million comprised largely of cash payments associated with one-time severance benefits. During the first quarter of 2009, we recorded an additional $4.8 million in restructuring charges of which $4.6 million relates to the 2008 Restructuring Plan. These charges were primarily general and corporate charges not directly related to our core business units and included $3.4 million for severance and benefits primarily related to the transition of certain key functions, including finance, to China and $1.1 million for lease termination costs. Approximately 60 employees are affected by the transition of these key functions to China. We expect to incur additional restructuring charges during the remainder of 2009 as we continue to execute the 2008 Restructuring Plan. Payment of accrued amounts related to severance and benefits aggregating $5.8 million at March 31, 2009 are expected to be substantially completed by the end of 2009, payments of $1.1 million related to lease obligations will be settled over the remaining lease term, which expires in fiscal year 2010.

We will continue our efforts to evaluate certain operations and will consider opportunities to divest additional non-core assets and may incur additional costs associated with future actions to further align our business operations and streamline our business processes.

Revenue Effects of Non-Core Asset Sales

The sale of UTStarcom Personal Communications LLC, a wholly-owned subsidiary of the Company (PCD), in July 2008 resulted in a substantial reduction in sales during the three months ended March 31, 2009 compared with the same period in 2008. Net sales decreased by $466.6 million to $119.3 million during the three months ended March 31, 2009 compared to the same period in 2008. The decrease was primarily due to the disposal of PCD in 2008. The PCD segment accounted for $430.7 of the net sales for the three months ended March 31, 2008.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management s Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Condensed Financial Statements, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Estimates are based on historical experience, knowledge of economic and market factors and various other assumptions that management believes to be reasonable under the circumstances. Actual results may differ from those estimates.

Table of Contents

On a regular basis we evaluate our estimates, assumptions and judgments and make changes accordingly. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. We believe that the estimates, assumptions and judgments involved in revenue recognition, receivables and allowances for doubtful accounts, accruals including third party commissions payable, restructuring liabilities, litigation and other contingencies, stock-based compensation, product warranty, variable interest entities, inventories, deferred costs, research and development and capitalized software development costs, income taxes, impairment of intangible assets and long-lived assets, and valuation and impairment of investments have the greatest potential impact on our Condensed Consolidated Financial Statements, so we consider these to be our critical accounting policies. Management believes that there have been no significant changes during the three months ended March 31, 2009 to the items that we disclosed as our critical accounting policies and estimates in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2008.

RECENT ACCOUNTING PRONOUNCEMENTS

For a description of the new accounting standards that affect us, see Note 2 of Notes to our Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

To align the business units with our corporate strategy to focus on core businesses, on July 1, 2008 we sold PCD to PCD LLC (see Note 3 of Notes to our Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q). Prior to July 1, 2008, PCD sold and supported handsets other than PAS handsets, mainly in the United States, Included in the Other segment are Mobile Solutions Business Unit (MSBU) and Custom Solutions business unit (CSBU). On July 31, 2008, we sold MSBU which was responsible for the development, sales and service of our wireless IPCDMA/IPGSM product line. In the first quarter of 2009, we completed the wind-down of CSBU and the consolidation of voice messaging technology into our Multimedia Communications segment. CSBU historically had been responsible for the development, sales and service of other non-core products. As a result of these changes we revised our internal reporting structure, operating segments and reporting segments.

Effective January 1, 2009, the new reporting segments are as follows:

- Multimedia Communications Focused on development and market opportunities in IPTV solutions and Wireless infrastructure technologies.

- Broadband Infrastructure Focused on our world class portfolio of broadband products.

- Handsets Focused on mobile phone business with continued focus on the PAS and CDMA handset market, as well as data cards markets. Handset sales to PCD LLC, which commenced after the July 1, 2008 sale of PCD, are included in this segment.

- Services Focused on providing services and support of our Broadband Infrastructure and Multimedia Communications product lines.

Table of Contents

NET SALES

	Three months ended March 31, 2009	% of net sales	2008	% of net sales
	(in thousands)			
Net Sales by Segment				
Multimedia Communications	$ 34,033	28%	$ 67,446	12%
Broadband Infrastructure	15,419	13%	25,590	4%
Handsets	56,060	47%	44,023	8%
Services	13,828	12%	11,091	2%
PCD			430,724	73%
Other			7,115	1%
	$ 119,340	100%	$ 585,989	100%

	Three months ended March 31, 2009	% of net sales	2008	% of net sales
	(in thousands)			
Net Sales by region				
United States	$ 41,259	35%	$ 421,863	72%
China	51,219	43%	117,122	20%
Other	26,862	22%	47,004	8%
Net sales	$ 119,340	100%	$ 585,989	100%

Three months ended March 31, 2009 and 2008

Net sales decreased by 80% to $119.3 million during the three months ended March 31, 2009 compared to the same period in 2008. The decrease was primarily due to disposal of PCD and MSBU in 2008 and disbandment of the operations formerly included in the Other segment in the first quarter of 2009. The PCD and Other segments accounted for $437.8 million of the decrease. Net sales for the segments other than the PCD and Other decreased by $28.8 million or 19%. Multimedia Communications net sales decreased by $33.4 million, or 50%, for the three months ended March 31, 2009 compared to the same period in 2008, mainly due to continued weakening demand for our PAS Infrastructure products partially offset by increased sales in our IPTV and STB products. Broadband Infrastructure segment net sales decreased by $10.2 million or 40% for the three months ended March 31, 2009 compared to the same period in 2008 mainly due to decrease in CPE and MSAN sales. Handsets segment net sales increased by $12.0 million, or 27%, in the first quarter of 2009 primarily due to increase of CDMA handset sales to PCD LLC during the three months ended March 31, 2009 partially offset by declines of our PAS handsets sales.

For additional discussion, see the Segment Reporting section of this Item 2.

The economic uncertainty that we are operating in today could adversely impact our business. However, the majority of our business is based in China and India two countries that are still projected to have economic growth in 2009. In 2009 and beyond, we expect that new orders for PAS handsets and infrastructure equipment will continue to decline due to the China telecommunications industry restructuring as well as increased pricing pressures. We expect our CDMA and TD-SCDMA handsets will positively contribute to our revenue and partially offset the decline of our PAS business. In order to capitalize on the growing data business in China, in mid-2009 we also plan to introduce HSDPA (High Speed

Downlink Packet Access) data cards supported by TD-SCDMA networks which we expect to have relatively higher gross margins and average selling prices. However, we do not anticipate that these sales will fully offset the expected decline in PAS handsets and infrastructure sales. We currently offer and have initial market acceptance of our IPTV products in China, India, Taiwan and other geographic regions. We believe that the IPTV market presents a meaningful growth opportunity in these regions as well as other regions where we have targeted to expand our IPTV offerings.

Table of Contents

GROSS PROFIT

	Three months ended March 31,			
	2009	Gross profit %	2008	Gross profit %
	(in thousands)			
Gross profit by Segment				
Multimedia Communications	$ 10,554	31%	$ 33,156	49%
Broadband Infrastructure	1,620	11%	2,221	9%
Handsets	6,302	11%	16,215	37%
Services	3,176			