

UTSTARCOM HOLDINGS CORP.
Form 20-F
April 17, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2018.

OR

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

For the transition period from to

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number: 001-35216

UTStarcom Holdings Corp.
(Exact name of Registrant as specified in its charter)

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

Cayman Islands
(Jurisdiction of incorporation or organization)

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

Investor Relations

Level 6, 28 Hennessy Road,

Admiralty, Hong Kong

Phone: (852) 3951 9757

UTSI-IR@utstar.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

None

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

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

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

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 35,317,742 ordinary shares, par value US\$0.00375 per share.

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

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

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

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

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

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

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

Item 17 Item 18

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

Yes No

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

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

Yes No

UTSTARCOM HOLDINGS CORP.

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INTRODUCTION

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

- “We,” “us,” “our,” and “our company” refer to UTStarcom Holdings Corp., an exempted company incorporated under the laws of the Cayman Islands in April 2011, and its direct and indirect subsidiaries;
- “UTStarcom” refers to UTStarcom Holdings Corp.;
- “Shares” or “ordinary shares” refers to our ordinary shares, par value \$0.00375 per share;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report, Taiwan, Hong Kong and Macau; and
- “RMB” or “Renminbi” refers to the legal currency of China, “JPY” or “Japanese Yen” refers to the legal currency of Japan, “INR” or “Indian Rupee” refer to the legal currency of India, and “\$” or “U.S. dollars” refers to the legal currency of the United States.

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

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

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2016, 2017 and 2018.

This annual report contains translations of certain Renminbi amounts into U.S. dollars at the rate of RMB 6.8755 to \$1.00, the noon buying rate on December 28, 2018, as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. See “Item 3. Key Information-D. Risk Factors-Risks Relating to Conducting Business in China-Fluctuation in the value of the RMB relative to the U.S. dollar could affect our operating results and may have a material adverse effect on your investment.”

This annual report also contains translations of certain Japanese Yen amounts into U.S. dollars at the rate of JPY 109.7000 to \$1.00, the noon buying rate on December 31, 2018, as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We make no representation that the Japanese Yen or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Japanese Yen, as the case may be, at any particular rate or at all. Fluctuation in the value of the Japanese Yen may have a material adverse effect on your investment. See “Item 3. Key Information-D. Risk Factors-Risks Related to Our Business-Currency rate fluctuations may adversely affect our cash flow and operating results.”

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

On June 24, 2011, we effected a merger, or the Merger, to reorganize the corporate structure of UTStarcom, Inc., a Delaware corporation incorporated in 1991, and its subsidiaries. The Merger resulted in shares of the common stock of UTStarcom, Inc. being converted into the right to receive an equal number of ordinary shares in our capital, which were issued by us in connection with the Merger. Following the Merger, UTStarcom, Inc. became our wholly owned subsidiary and we became the parent company of UTStarcom, Inc. and its subsidiaries. See “Item 4. Information on the Company-C. Organizational Structure” for a list of our subsidiaries. We, together with our subsidiaries, continue to conduct our business in substantially the same manner as was conducted by UTStarcom, Inc. and its subsidiaries. The

transaction was accounted for as a legal re-organization of entities under common control. Accordingly, we have prepared our consolidated financial statements as if the current corporate structure had been in existence throughout all relevant periods. Our consolidated financial statements prior to the Merger reflect the financial position, results of operations and cash flows of UTStarcom, Inc. and its subsidiaries. Our consolidated financial statements as of December 31, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018 reflect our financial position, results of operation and cash flows.

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PART I

ITEM 1-IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2-OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3-KEY INFORMATION

A. Selected Financial Data

The following selected consolidated statement of operations data for the years ended December 31, 2016, 2017 and 2018 and the selected consolidated balance sheet data as of December 31, 2017 and 2018 have been derived from our audited financial statements included elsewhere in this annual report. The selected consolidated financial data should be read in conjunction with those financial statements and the accompanying notes and “Item 5. Operating and Financial Review and Prospects” below. Our consolidated financial statements are prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods.

Our selected consolidated statement of operations data for the years ended December 31, 2014 and 2015 and our consolidated balance sheets as of December 31, 2014, 2015 and 2016 have been derived from our audited consolidated financial statements, which are not included in this annual report.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share amount)				
Consolidated Statement of Operations Data:					
Net sales(1)	\$115,944	\$98,292	\$86,512	\$117,103	\$129,420
Gross profit	\$32,268	\$33,146	\$28,356	\$27,868	\$22,128
Operating income (loss)	\$4,367	\$6,516	\$1,708	\$(4,989)	\$(14,073)
Net income (loss) attributable to UTStarcom Holdings					
Corp.	\$4,820	\$6,981	\$290	\$(27,158)	\$(30,264)
Net income (loss) per share attributable to UTStarcom					
Holdings Corp.-Basic	\$0.14	\$0.20	\$0.01	\$(0.74)	\$(0.81)

(1)The sales decrease from 2014 to 2016 was mainly caused by lower market demand for old products as we streamlined our business to focus more on high-gross margin products after we announced our new strategy in June 2015. In 2018, we recognized revenues in accordance with Accounting Standard Update (“ASU 2014-09”). The disclosure for the quantitative effect and the significant changes between the reported results under the new standard and those that would have been reported under legacy GAAP (i.e., ASC 605), please see Note 2 to our Consolidated Financial Statements included under Part III, Item 18 of this Annual Report on Form 20-F.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$57,049	\$79,749	\$83,922	\$77,050	\$77,824
Working capital	\$90,362	\$78,549	\$75,850	\$63,818	\$76,383
Total assets	\$177,435	\$187,044	\$178,703	\$198,379	\$279,063
Total short-term debt	\$—	\$—	\$—	\$—	\$—
Long-term debt	\$—	\$—	\$—	\$—	\$—
Total UTStarcom Holdings Corp. shareholders' equity	\$102,166	\$90,992	\$82,741	\$83,777	\$115,329

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related To Our Business

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

We reported net income attributable to UTStarcom Holdings Corp. of \$4.8 million, \$7.0 million, and \$0.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, we had \$57.0 million in cash or cash equivalents. Our management considered our current financial status, business operation, market strategy, and products development in the twelve months following the issuance date of this report and believes that we will have sufficient liquidity to finance our anticipated operations, capital expenditure requirements and new business acquisitions and investments, as well as achieve projected cash collections from customers and contain expenses and cash used in operations over that period. However, we may not achieve such operating performance and our management expects to continue to implement our liquidity plans, including reducing operating expenses and improving cash collections and receivable turnover. If we cannot successfully implement our liquidity plans, it may be necessary for us to make significant changes to our business plans and strategy to maintain adequate liquidity. In addition, various other factors may negatively impact our liquidity, such as:

- our inability to achieve planned operating results, which may increase liquidity requirements beyond those considered in our business plans;
- our growth initiatives, which may increase liquidity requirements beyond those considered in our business plans;
- changes in our business conditions or the financial markets that could limit our access to existing credit facilities or make new sources of financing more-costly or commercially unviable; and
- changes in China's currency exchange control regulations, which could limit our ability to access cash outside of China to meet liquidity requirements for our operations in China, or vice-versa.

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

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

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

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

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

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

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

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

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

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

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

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

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

A significant portion of our net sales is derived from a Japanese customer, SoftBank Corp. and its related entities (collectively “Softbank”), and an Indian customer, Bharat Sanchar Nigam Limited and its related entities (collectively “BSNL”).

Although we have collaborated with Softbank since 2008, Softbank may not continue working with us in the future, whether due to changes in management preferences, business strategy, corporate structure or other factors. Softbank previously was one of our principal shareholders. On January 14, 2014, Softbank sold its entire stake in our Company, consisting of 4,883,875 ordinary shares. We repurchased 3,883,875 ordinary shares, and Shah Capital Opportunity Fund LP, one of our shareholders, purchased 1,000,000 ordinary shares, for a price of \$2.54 per ordinary share. After the consummation of the transaction, Softbank was no longer a related party. In 2017 and 2018, our net sales to Softbank totaled approximately \$39.5 million and \$31.9 million, respectively, representing approximately 40% and 28%, respectively, of our total net sales in 2017 and 2018. Our net sales to BSNL totaled approximately \$38.2 million and \$67.0 million, respectively, representing approximately 39% and 58%, respectively, of our total net sales in 2017 and 2018. We anticipate that our dependence on Softbank and BSNL will continue for the foreseeable future.

Consequently, our failure to continue collaborating with Softbank and BSNL may adversely affect our business, financial conditions and results of operations. Any of the following events may cause material fluctuations or declines in our net sales or liquidity position and have a material adverse effect on our financial condition and results of operations:

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

changes in the commercial environment in Japan or India that adversely affect the Softbank or BSNL businesses we supply;
Softbank or BSNL's collaborations with our competitors;
local manufacture requirement;
reduction, delay or cancellation of contracts from Softbank or BSNL;
the success of Softbank or BSNL utilizing our products; and
failure of Softbank or BSNL to make timely payment for our products and services.

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Investigation by Taiwan Investment Commission (“TWIC”) may cause significantly negative impacts on our business in Taiwan

In February 19, 2019, UTStarcom Taiwan Ltd. (“UTTW”), one of our wholly-owned subsidiaries, received a letter from Taiwan Investment Commission (the “TWIC”) of the Ministry of Economic Affairs (the “MOEA”) requesting UTTW to provide information in relation to its shareholders background. The purpose of this investigation is to judge whether UTTW is a PRC investor under the local laws. We have provided the first response to TWIC on March 7, 2019 and may be required to provide more information in the near future.

According to Article 3 of the “Measures Governing Investment Permit to the People of Mainland Area” (the “Measures”), a PRC investor refers to any individual, juristic person, organization or any other institution from Mainland China (a “Mainland Person”) that invests in Taiwan in accordance with the Measures. A PRC investor also includes any company located in any third area (an area other than the PRC or Taiwan) and invested in by Mainland Person(s) whereby (i) the shares held or capital contributed directly or indirectly by Mainland Person(s) in aggregate exceed 30% of the total number of shares or total amount of capital contribution of said third-area company, or (ii) any Mainland Person has control over said third-area company.

Currently, the total percentage of shareholding in UTTW directly or indirectly by PRC individuals or entities is approximately 42.13%. If UTTW is determined to be a PRC investor, pursuant to the local laws in Taiwan, UTTW may be prohibited to continue its operations in Taiwan. In 2016, 2017 and 2018, the net sales contributed from Taiwan market were \$3.2 million, \$3.0 million and \$6.4 million, which accounted for 4%, 3% and 6% of our total net sales in 2016, 2017 and 2018, respectively. If UTTW is prohibited from operating in Taiwan, we may lose our Taiwan market and revenues from Taiwan, and our business, financial condition and results of operations will be adversely affected.

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

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

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

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

- the timing and size of the orders for our products;
- customer acceptance of new products we may introduce to market;
- changes in the growth rate of customer purchases of communications services;

lengthy and unpredictable sales cycles associated with sales of our products;
cancellation, deferment or delay in implementation of large contracts;
quality issues resulting from the design or manufacture of the products, or from the software used in the products;
cash collection cycles in the markets where we operate;
reliance on product, software and component suppliers which may constitute a sole source of supply or may have going concern issues;
the decline in business activity we typically experience during the Lunar New Year holiday in China, which leads to decreased sales and collections during our first fiscal quarter;
issues that might arise from divestiture of non-core assets or operations or the integration of acquired entities and the inability to achieve expected results from such divestitures or acquisitions;

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- shifts in our product mix or market focus; and
- availability of adequate liquidity to implement our business plan.

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

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

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

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

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

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

The average selling prices of our products may decrease in the future in response to product introductions by us