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UTSI - Q1 2014 Utstarcom Inc Earnings Conference Call

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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by for UTStarcom's First Quarter 2014 Earnings Conference Call. (Operator Instructions). As a reminder, this conference is being recorded. If you have any objections, you may disconnect at this time.

It is now my pleasure to introduce your host, Ms. Jane Zuo, Investor Relations Senior Manager for UTStarcom. You may begin.

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**Jane Zuo** - *UTStarcom Holdings Corp. - IR Senior Manager*

Hello everyone and welcome to UTStarcom's first quarter 2014 earnings conference call. Earlier today, we distributed our earnings press release and you can find a copy on our website at www.utstar.com. In addition, we have posted a slideshow presentation on our website, which you can download and use to follow along with today's call. On today's call, we have Mr. William Wong, our CEO; Mr. Robert Pu, our CFO and Mike Earle CEO of aioTV.

Before we get started, I will read the company's advisory on forward-looking statements. This call will include forward-looking statements relating to the company's business, strategic initiatives and the performance in the first quarter of 2014. These statements are forward-looking in nature and subject to risks and uncertainties that may cause actual results to differ materially and adversely from the company's current expectations.

This includes risk and uncertainties related to, among other things, changes in the financial conditions and the cash position of the company, changes in the compositions of the company's management and their effect on the company. The company's ability to realize anticipated results of operational improvements, and benefits of the divestiture transactions, their ability to successfully identify and acquire appropriate technologies and businesses for key organic growth and to integrate such acquisitions, the ability to internally innovate and develop new products, assumptions the company makes regarding the growth of the market and the success of the company's offerings in the market and the company's ability to execute its business plans and manage regulatory matters.

The risks and uncertainties also include the risk factors identified in the company's last annual report on Form 10-F, and current reports on Form 6-K as filed with the Securities and Exchange Commission. Company is [in a period] of strategic transitions and the conduct of its business is exposed to additional risks as a result. All forward-looking statements included in this conference call are based upon information available to the company as of the date of this conference call which may change and the company assumes no obligation to update any such forward-looking statements.

I will now turn the call over to our CEO, Mr. William Wong.

**William Wong** - *UTStarcom Holdings Corp. - CEO*

Thank you, Jane and hello to everyone. As Jane mentioned, you can follow along with today's call by downloading the presentation from our website at www.utstar.com. Also, unless otherwise stated all figures mentioned during the call are in U.S. dollars.

Please turn to slide five. As we have said recently, we are now emerging from the transformation and restructuring that we have undergone for nearly two years. That restructuring and sales looking changes to the structure of our business including divestitures of non-core businesses, dramatic reductions to our cost basis, and we're focusing the business on the sort of highly competitive broadband products.

I think with much of the restructuring behind us, we're now embarking on a new growth oriented path and have gained significant traction already. This was certainly the story of the first quarter of this year as we continued to grow the high-end of our product portfolio, further set the stage for our global sales and market push, increased our engagement with prospective customers in new markets and launched a significant new sales win.

Operational highlights. There were several operational highlights and milestones in the first quarter. We expanded our broadband product portfolio with the launch of the TN765, a 100 gigabit packet optical transport product. We secured a significant new sales win, a $24 million contract to supply technology and services to expand broadband access in India.

This bolsters our already strong position in the Indian market where we have achieved 35% market share. We signed a memorandum of understanding with DASAN Networks of Korea to collaborate on the design, development, manufacturing and marketing of telecommunication infrastructure products. We surpassed $250 million in sales of packet optical transport products, a critical milestone. So we've made great strides in setting the stage for global growth.

Financial highlights. As usual, Robert will go into the details of the financial results. But let me here provide top-line summary of financial results for the quarter. Revenue decreased 13% year-over-year to $32.3 million. However, it is important to note that the revenue achieved is ahead of our internal plan for the quarter. Gross margin was 14.2% for first quarter as compared to 31.4% for the corresponding period of 2013. As we will explain, this was primarily caused by a shift in product mix as well as depreciation of the yen against the U.S. dollar.

Operating expenses decreased nearly 50% versus the same period last year, building on the significant cost savings we have achieved in prior quarters as we have right-sized our business. We narrowed our operating loss by 8% compared to first quarter of last year. We achieved incremental improvement in operating cash flow and ended the quarter with $100.3 million in cash on our balance sheet.

Let me put the sales and margin numbers in context for you as they reflect temporary trends. First we are navigating our cost between product cycles as our customers have not yet migrated to the higher value products that we have launched in the last several months. The pace of adoption of higher value products has led to a fall in sales of higher margin products that but we are [thrilled] by reselling third party products. While this helped us exceed our sales expectations, our margins suffered because the resulting product mix favored lower margin products.

Second, our gross margin continued to suffer from the Japanese yen depreciation. This exacerbated the pressure on our margin from the shift in product mix to third party products. But on slide six, these trends are temporary and are not reflective of its fundamental strength of our business. We anticipate our revenue sales this year of our higher value higher margin products and our customers shift their purchases in an effort to build and upgrade their networks. Second, growing sales in new markets such as in the Americas, particularly in the United States and parts of Asia outside of Japan, will dilute the impact of the weaker yen.

This is update; broadband. Please turn to slide six. In the first quarter, we continue what was a prolific year for broadband product development. First, we launched our latest MPLS-TP and carrier Ethernet-based packet optical transport network product, the TN765 product in March. This is a significant addition to UTStarcom's broadband infrastructure product suite and this supports the 100 gigabit in environments that our carrier customers are migrating to us.





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100 gig services is a positive development part of the telecommunications industry and we have a long life cycle. Shipments of the TN765 began earlier in March. According to recent reports on [Informatics] released in April 2014, UTStarcom has a 2.7 revenue market share in calendar year 2015 in the worldwide carrier Ethernet Switch Router category, trailing closely behind Alcatel-Lucent with 4.1% and Tellabs with 3.5%. If there were a more refined category, excluding routers for example, it would probably be more reflective of our much larger actual share of the product in markets where we compete.

Second, we continue making progress on our Software Defined Networking efforts. As we have said, we believe SDN transforms area network operating environments. There is a platform for us to grow and provide products that has involved our simple network, simple operation design philosophy. This design philosophy recognizes the need for operators to deploy new services, while reducing CapEx and OpEx.

We showcased our SDN technology during the optical fiber conference in March. And we'll begin proof-of-concept demos with some of our leading Tier 1 operator customers shortly. These will be followed by few trials on live customer networks in the next few months.

Third, we have also signed a memorandum of understanding with DASAN Networks of Korea. DASAN is a leading [macro] broadband access products both within its home market of Korea and globally. Together, we will explore ways of collaborating on product development, manufacturing and marketing of telecommunication infrastructure for us in Korea, United States and other markets globally. In fact, UTStarcom and DASAN had already successfully collaborated in Japan, which sets a strong foundation for future joint product development efforts.

Alongside this product development, we are finding multiple segments of demand for our Wi-Fi offerings. First, wireless operators with an effort increasing appetite for mobile data are actively pursuing Wi-Fi Solutions to offload data demand from the cellular network. AT&T and China Mobile are fine examples of operators that are implementing this technology. Our WiFi Data Offloading Solution continued to be very well received by carriers around the world. We have already deployed our WiFi Data Offloading technology for a Tier 1 operator in Japan. Several other Tier 1 carriers we're targeting are also discussing plans for large scale roll out of WiFi data offloading.

Second, MSO international providers are also actively consuming Wifi as a solution to combat the competition from Multiplay telecom international providers. In parallel to this, we're engaging with wireless operators and ISVs in Japan, Asia and China on O2O management solutions that would enable them to deploy value-added services on their WiFi networks. We are well-positioned to participate in the ways of capital investments in this product segment as well as the value-added services that they enable.

And finally, we're developing next generation products that will tie our WiFi technology into our SDN offerings, it gives us a greater ability to tether our broadband solutions. These two technologies, WiFi and SDN will be the key drivers for our future broadband growth. It is very exciting to be participating in the markets for these technologies at such an early stage in their growth. This is update new media.

Now please turn to slide seven. In addition, to growing our broadband business we remain committed to our investments in iTV Media and aioTV, as the single largest investor in both companies we benefit through their growth and the development of their businesses while looking to raise to package their media services and technology with our broadband products.

As I have said before both companies have great technology and great growth prospects. To begin with iTV Media continues to make progress in deploying the TV over IP service that it has launched with Thailand's largest telecom operation, TOT. iTV Media has begun an effort to raise average revenue per user by upselling peer content packages and monthly packages of paid tier content with broadband subscriptions. We estimate that the company will hit its plan for EBITDA breakeven in this year. The company is also adding new capabilities to its platform such as 4K display support and network based DVR services.

As for aioTV we have invited the Chief Executive Officer, Mike Earle to join us today to say a few words about his company, his technology and market prospects. This is a bit unorthodox but we want to give you, our investors, a better understanding of aioTV as it is developing truly market leading technology and we are thrilled to be the single largest investor in the company.

UTStarcom strategy. Before we hear from Mike I will continue with the great discussion of the growth strategy that we are pursuing. Please turn to slide nine. As mentioned in the last call, we are now essentially beyond the restructuring phase and have several important initiatives in motion.

First we will maximize broadband growth globally. Our broadband strategies include; first, we have kicked off a global marketing and sales initiative to broaden our presence in markets where we have established customer relationships such as Japan and India while opening opportunities in new markets in Asia as well as the Americas and Europe.

In India, besides winning the NGN broadband access contract with BSNL, a major incumbent carrier, we are continuing to engage with customers to support Multiplay project expansions, as well as the National Optical Fiber Network NOFN project.

Second, expansion of our Silicon Valley office is a key part of our North American sales efforts as it allow us to engage more directly and more often with that country's carriers. We are actually launching this office expansion in May well ahead of schedule, which bodes well for our efforts in that market. We have already in talk on a U.S. marketing campaign we're active participation in consensus and trade shows as well as active engagement with industry analysts.

Third, we will harness our internal R&D capabilities to stay on the forefront of developments in technologies that are fundamental to our product portfolios, Packet Optical Transport, wireless broadband access technologies and software-defined networking. As we have said our competitive advantage will be our technology as we compete on a global stage.

Fourth, we will add new technologies and products to our portfolio through joint R&D efforts, like our partnership with DASAN Networks or our other partnerships that increase our value to our core telecom and broadband customers.

And lastly, we will build on our success with WiFi data offloading solutions to offer O2O management solutions for carriers and MSOs to provide value-added services such as e-commerce, big data analytics that can be of great value to wireless operators and merchants that want to connect to their customers digitally.

Second, please turn to slide 10. In addition to growing our broadband business, we will monetize our investments in iTV Media and aioTV. We will do this through a combination of the following: First, by nurturing their growth so that we might benefit as an investor in the appreciation and the value of the business. The investments are maturing and we see several signs that bode well for their evaluations. Second, our investments in iTV Media and aioTV provide opportunities for UTStarcom to market new media products to our broadband customers, thereby opening new revenue streams for us and increasing our value to our broadband customers.

And finally, these investments are yielding insight that we are using to ensure that our broadband technology is capable of supporting networks to deliver highly customized on demand mobile and fixed-line entertainment features that consumers want. This will further differentiate our SDN platform as well.

Third, we will continue to improve operating efficiency in order to create a cost effective platform that supports future growth. We have made truly amazing progress over the last almost two years in rightsizing the business and creating a stronger foundation for growth. We will continue to introduce initiatives to further push this along as we believe a strengthened business will enable us to drive overall improvement in financial results more quickly.

Now, let me turn the floor to Mike Earle of aioTV; Robert will follow him to review our first quarter financial performance; and then we provide our outlook for the current quarter and turn to your questions.

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**Mike Earle** - *UTStarcom Holdings Corp. - CEO of aioTV*

Thanks very much William. Everyone could please turn to page 12. It's a pleasure to join the call to introduce our business to UTStarcom's investors and discuss very significant and very positive trends in our business and in our industry. This is perhaps one of the most exciting times in the telecom industry since the early days of the internet. In many ways, we're just now seeing the advents of internet technology and internet based business models that will permanently reshape the way people access and consume entertainment and information. Our over-the-top middleware technology is a great example of this actual trend. It gives cable operators and carriers the ability to offer to their customers a wide range of on demand entertainment and information options in encompassing both premium content as well as freely available material in an individually customized format.

For cable service providers, this is an effective way of setting the trend of cost cutting as people cancel the cable subscriptions and rely more on things like Netflix and iTunes for entertainment as opposed to traditional broadcasting sources. The response from the industry has been very strong and we're seeing growing interest in our media service and growing revenue as well. And we have secured customers and are engaging in trials in Mexico, Colombia, Canada and United States.

In addition, we're in talks with the largest operator in Latin America with over 17 million video subscribers for a possible deployment later this year. Even if only half of the current opportunities that we're pursuing come to fruition, we have the potential to end the year with millions of new subscribers to our service across North and South America, very happy to be part of the UTStarcom family. William and his team have a very long-term view of the industry and understand better than most where it's going; what customers want and what technology can deliver to them.

Together we are pursuing some very exciting opportunities and we look forward to announcing new sales wins later this year that will greatly expand our subscriber base.

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Thank you, Mike and hello everyone. I will discuss our financial results in more detail now. Please turn to slide 14. Before I walk through the specific numbers, let me highlight a few key themes of the first quarter of 2014.

First, revenue decreased slightly from the prior year period. However, it exceeded our internal expectations. We are in the process of commercially launching new products this year and we expect that revenue from these products will ramp up in the second half of this year.

Second, gross profit and gross margin decreased from the prior year period. This was partially due to the Japanese yen depreciation against the U.S. dollar. On a year-over-year comparison basis $1 was worth approximately 90 yen in Q1 2013 and $1 was worth of 103 yen in Q1 of 2014, representing a 14% depreciation of the yen. Also in Q1 as compared with the prior year period, relatively lower gross margin product revenue contributed more proportionately. Moving forward, as we ramp up revenue from new products, we expect to improve our gross margin.

Third our OpEx, throughout 2013 we benefited from aggressive and focused cost reduction efforts. On last quarter call, I reported that 2013 OpEx was 45% lower compared to 2012. We're glad to report that in Q1 2014, we continued to reduce OpEx significantly. Furthermore, we are confident that we will build upon our successful cost reduction efforts in 2013 to realize significant OpEx savings again throughout 2014 on a year-over-year basis.

Fourth, we made incremental improvements in operating income and operating cash flow. This reflects our stable revenue, significantly reduced OpEx, while facing challenges in gross margin. Once we ramp up, our revenue from new products and maintain a stable OpEx level, we expect to achieve incremental improvement in overall financial performance compared to 2013.

Lastly, we ended Q1 in a strong financial position with no debt and approximately $100 million in cash on the balance sheet. As we have said before, we will continue to invest in our growth plan and other initiatives designed to enhance shareholders value.

Now let me turn to the specific results. Please turn to slide number 15 for revenue. In the first quarter, revenue was $32.3 million compared to a $37.2 million in the prior year period. Our revenue recognition is dependent upon carrier customers needs and their deployment schedule, Q1 revenue was flat and we'll continue to have stable demand for our products from our customers. It has met our internal expectations, although we will continue to experience volatility from quarter-to-quarter. Moving forward, we expect that revenue ramp up from new products will positively impact our top-line, starting from the second half of 2014.

Please turn to slide number 16 for gross profit and gross margin. In the first quarter, gross profit was $4.6 million compared to $11.7 million in the prior year period. Gross margin was 14.2% compared to 31.4% in the prior year period.

As I mentioned a moment ago, the year-over-year gross profit and gross margin decrease was partially due to depreciation of the Japanese yen. As a reminder, a major portion of our revenue is denominated in Japanese yen and our reporting currency is the U.S. dollar. So in U.S. dollar terms, the depreciation of the Japanese yen resulted in a year-over-year gross profit and gross margin decrease.

Also the product mix of Q1 2014 is different compared to the prior year period. The relatively higher gross margin PTN product revenue contributed proportionally less in the product mix. We are in the process of commercially launching an enhanced version of PTN product this year. We expect that that should ramp up starting in the second half; gross profit and gross margin will improve as a result.

Please turn to slide 17 for operating expenses. In the first quarter, operating expenses were $7.9 million compared to $16.3 million in the prior year period, representing a year-over-year decrease of 48%. Throughout 2013 we have worked very diligently to reduce OpEx. We've right sized business by divesting on core products, reducing redundancies in our workforce and promoting accountability and productivity among ourselves.

We also reduced people-related overhead expenses and outsourced service expenses. Throughout 2013, we have clearly benefited from our cost reduction efforts that we initiated in the second half of 2012. As a result, the 2013 OpEx was 45% lower than 2012. We're glad to report that we continued to reduce OpEx in Q1 2014, leveraging our work in the past.

Furthermore, we expect to maintain the current OpEx levels throughout 2014. And full year 2014 OpEx is expected to be significantly reduced as compared to 2013 OpEx of approximately $53 million.

Please turn to slide 18 for operating income and net income. In the first quarter, operating loss was $3.3 million compared to operating loss of $3.6 million in the prior year period. In the first quarter, net loss was $3.3 million compared to net loss of $5 million in the prior year period. In the first quarter, we paid up $1.2 million of net loss from iTV Media, our invested media operations entity really [upgrade] method of accounting. Adjusting for these items, net loss for our broadband business was $2.1 million in the first quarter.

Please turn to slide 19 for our cash balance and cash flow. We have approximately $123 million in cash and we have no debt at the end of the first quarter of 2014. During the quarter, cash used in operating activities of $3.1 million, cash used in investing activities was $0.1 million, cash used in financing activities was $4.5 million. This is mainly due to share buyback of shares of the company owned by Softbank. It's noteworthy that our largest shareholder, Shah Capital bought the company's shares subsequently which is a testimonial of the investor confidence in the long-term prospect of the company.

During our last quarterly call I mentioned that for the full year of 2013 we made significant improvements in operating cash flow compared to past years. We have worked very hard to achieve this, as we understand that to create value for shareholders and we could generate cash from operations. Looking ahead, we will keep our focus on vigilant cost control, cash generation and executing our strategic initiatives.

So in 2014, operating cash flow continued to be one of the most important financial metrics for us. We will work to the best of our ability to improve upon our 2013 performance and create shareholder value for the long-term.

This concludes my first quarter 2014 financial review section. Now I will turn the microphone back to William to discuss our outlook.

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**William Wong** - *UTStarcom Holdings Corp. - CEO*

Thank you, Robert. Please turn to slide 21; I will say a few final words about our outlook and then we can move on to your questions. While [we're seeing transition], we believe that we are moving beyond the restructuring phase that we have initiated nearly two years ago. We have stabilized operations, significantly strengthened the business and set a strong foundation for growth in what is a dynamic and growing global industry.

Basically, we have redecorated a highly competitive product portfolio, strong customer relations in markets where we want to expand and a global sales infrastructure that would take us into new markets.

Looking at the rest of 2014, we're committed to broadband as a driver of the business and timely revenue contributor now and going forward. While many of the latest initiatives for the broadband business have significant momentum, new products are in early stages of their product life cycle. Together with the new customer wins that are currently in project deployment phases, these new products are expected to become significant revenue contributors beginning in the later part of 2014.

One point I will make about the near-term is that we have been successfully meeting our internal sales target for some time now. And this gives us assurance that we have better visibility into the demand of our products and the anticipated growth for our top-line. As a result, we want to share our near-term revenue expectations.

We anticipate total revenue in the second quarter of 2014 to be in the range of $25 million to $30 million. As for our gross margin, we continue to expect pressure from the weakness in the yen and a product mix that favors lower margin, lower value products. We will maintain a tight focus on financial controls and look for additional ways to reduce costs. As we have consistently done over the last two years. Taking all of this together, we believe, we will deliver additional incremental improvements in overall financial performance compared to 2013.

With that, I'll open the call to questions. Operator, please open the line for Q&A.

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## QUESTIONS AND ANSWERS

**Operator**

We will now begin the question-and-answer session. (Operator Instructions). Your first question comes from Bill Gregozeski. Your line is open. Please go ahead.

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**Bill Gregozeski** - *Greenridge Global - Analyst*

Hi guys. Couple of questions for you. In regard to SoftBank and their Japan business. Do you think what the new 765 and SDN's coming out that they might make-up more as a percent of total sales than currently do now in the next year or two?

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Hi Bill, this is Robert. We're in a process of commercially launching our TN765 product starting in March of 2014. So we expect the revenue from TN765 starts to ramp up probably starting from the second half of this year. So we do expect the revenues from TN765 will contribute for (inaudible) more and more in the coming quarters.

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**William Wong** - *UTStarcom Holdings Corp. - CEO*

And beyond the packet optical transport products, as you mentioned we're in the process of deploying our SDN new offerings that should also come in line in a later part of the year. Furthermore as I've said in our discussion earlier in the presentation we've also successfully deployed our WiFi solution in Japan. So, I think this overall will add to revenue growth with our customer SoftBank.

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**Bill Gregozeski** - *Greenridge Global - Analyst*

Okay. So SoftBank as a percent of sales could increase in absolute dollar terms [what fall] as a percent of sales going forward you think?

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**William Wong** - *UTStarcom Holdings Corp. - CEO*

Yes. That's our expectation, because what we're doing right now is expanding on a lot of other geographical locations in the world. As we have said during last call we've now sales into the Tier 1 operators in Taiwan, Indonesia, Brazil, and this year main focus for us is to grow the United States. And at present we are on track to do that. So, overall the absolute dollar with SoftBank would increase, but then the relative percentage share on our overall revenue we're looking for that to decrease.

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**Bill Gregozeski** - *Greenridge Global - Analyst*

Okay. And as far as in the U.S. it seems like they'll probably do something to strengthen the network. Do you have any expectation of what that might mean to you guys in terms of sales, what if they are able to acquire T-Mobile or not how that would impact you?

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**William Wong** - *UTStarcom Holdings Corp. - CEO*

Well, while we are looking very closely and monitoring the development both Sprint and T-Mobile, we are not at a liberty to speculate the outcome at present. Having said that, we are continuing to work very closely with our largest customer and following their (inaudible) we would continue to support them as they grow and expand globally.

So, we don't have any specific figures per se but there is lot of opportunities and potentials that we are addressing.

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**Bill Gregozeski** - *Greenridge Global - Analyst*

Okay. And last question is in the news letter you guys sent out about a week and half ago, you mentioned monetizing your investments in aioTV and iTV. Can you just add some color as to what that might mean as far as each company individually and how that will impact to you?

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Sure. And UTStarcom today is the largest single shareholder of aioTV and iTV. And we believe that both of the two these companies represent significant amount of value to UTStarcom investors and ultimately return to UTStarcom shareholders. And as always, we tend to work together with management teams of aioTV and iTV on operational issues and also strategic options. And I don't have anything solid to report to the investors and financial community at this point but we are looking at all kinds of options with the goal to create shareholder value for UTStarcom. Bill Gregozeski^ Okay, alright. That's all I have. Thanks guys.

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Thank you.

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**Operator**

The next question comes from Jun Zhang from Rosenblatt Securities. Your line open please go ahead.

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**Jun Zhang** - *Rosenblatt Securities - Analyst*

Thanks for taking my question Robert and William. So my first question is after couple of years of restructuring, what occurs the core business today for you to stock and any upside for this business?

**William Wong** - *UTStarcom Holdings Corp. - CEO*

The core business for us today is broadband. We have spent the last year divesting a lot of our non-core business. And I'm very happy that we have finally emerged from there and we are turning into a growth phase. As you see, we launched many numbers of the new products [selected] for last year, the latest introductions of new families of TN765, with 100 gig service offering.

So, we are expecting this continue forward to drive the growth for the company. Now beyond the packet optical transport, you have heard me say earlier that our Wi-Fi solution is leading in demand okay across many wireless operators as far as MSO around the world. We have deployed that in Japan already and that experience and the large scale of access control support that our solution can provide is a perfect solution for the hardened demand wireless data offloading right now.

So, we continue to see a lot of potential in there. And the last thing I want to add is the SDN platform, it serves as a very important upgrade path for our packet optical transport product today.

As you see the industry is migrating towards the software-defined networking area. This is an evolution that's bound to happen. And we are at the early on phase of it. And also we are very lucky to be able to start that product development effort working very closely with our key customers driving us along the way.

**Jun Zhang** - *Rosenblatt Securities - Analyst*

Okay, thanks. So from my understanding, you're currently addressing markets Japan and India. So how do you comment on the potential expansion into the other market, example the U.S. market or the UK market? Thanks.

**William Wong** - *UTStarcom Holdings Corp. - CEO*

Well, I talked a lot about Japan, I should also add some more about India. Even though, as you all see that we had win another $24 million contract with BSNL earlier in the quarter, we continue to work with BSNL and other customers in India to address multi-play expansion projects and also the, one of the very key projects that is going around in India is the national optical fiber project. So as we see the operating environment in India has been improving over the last six to nine months, so we want to continue to leverage our very strong market share and remind you we already have a 35% market share in the broadband area in Japan -- excuse me, in India. So we want to continue and expand on that.

Now beyond Japan and India, as you see us the United States a very key area for growth for us for this year in particular. We believe, it is prime opportunity now for our packet optical transport, in particular TN765 where all the operators are demanding for the 100 gig service and support. We are early catching on the SDN movement with operators.

And that I believe gave us a very good fit into the early part of the market window in states. And last but not least, actually talking about Wi-Fi data offloading, we see the most opportunities actually coming from the United States as we speak, both on wireless operators, so they want to offload their 4G data traffic on to Wi-Fi but also important is where we see the MSOs as evident that we see from the recent effort led by a number of MSOs, like Comcast and the bunch of other people forming this cable Wi-Fi alliance. They really wanted to have a Wi-Fi solution. And our Wi-Fi offering is one of the very few, I would say maybe the only one in the world that is very scalable. And it can support up to a lot of access point and hence will be a perfect vehicle for operators all over the world.

So, we remain very optimistic and we think we are getting the right sweet spot in the market at present with our number of different products.

**Jun Zhang** - *Rosenblatt Securities - Analyst*

Okay. And also could you talk maybe about the first steps the company took before in the last couple of years to reduce the OpEx and the [cash burn] and what's the process of measuring this year on the [cash flow side]? Thanks.

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Sure. Well in Q1 of this year we reduced OpEx by about 48% on a year-over-year basis. And we're not only cutting, but we are also investing in R&D efforts to develop new products in our pipeline and also we're investing in the presence in the United States for the market entry in the U.S. So we believe we have a very [lean organization] now, but at the same time we have sufficient resources to execute our business plans for this year and for the next couple of years.

So we expect to maintain our OpEx level near the current quarterly run rate in the 2014. So if we do that, I reported during our last quarterly call that our 2013 OpEx was about $53 million. So if we maintain our current quarterly OpEx run rate, we will end 2014 with another year of significantly reduced OpEx. But it's very important to note that at the same time, we have enough sufficient resources to carry out our business plan for this year.

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**Jun Zhang** - *Rosenblatt Securities - Analyst*

Thanks. My last question is that what the current shareholder structure?

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Sure. Well, in Q1 couple of transactions happened. So let me talk about them one by one. First, we bought back the company's shares owned by Softbank, our long time shareholder. From the Softbank's angle, it was a realignment of their investment portfolio.

And I also would like to comment from the business perspective, we will continue to support Softbank to build and enhance their networks in Japan and in other global markets. And I think we have demonstrated this in our Q1 revenue numbers.

In the meantime in Q1, our largest shareholder Shah Capital and our business partner Korea's Dasan Network purchased the company shares in Q1. And especially Dasan Network it is to our knowledge that it purchased shares in the open market and now they become one of very important shareholder of UTStarcom. So, we view these two transactions a testimony of shareholder confidence in the long-term prospect of UTStarcom.

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**Operator**

The next question comes from Tony Tian, Oriental Capital. Your line is open. Please go ahead.

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**Tony Tian** - *Oriental Capital - Analyst*

Hi, thanks for taking my call. I noticed that Dasan Networks has acquired about 5% of stake of UTStar. So, can you give us some update on the partnership talks you have raised the company over the -- since you released the press release announcing the partnership?

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Sure, hi Tony. Well, we also noticed the Dasan share ownership actually from their Form 13 filing. So that's why I said earlier during the call that it is to my knowledge that they purchased share in the open market. So I think that has self demonstrated the confidence in our business model plan and in the long-term future of UTStarcom.





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And in our view the partnership is very synergistic from both the product and marketing and sales perspective. For example, we will cross sell our complementary products in markets where we have been successful respectively. To be a little bit more specific, we plan to collaborate with Dasan Networks for example to sell our PTN products in Korea, which is the whole market of Dasan Networks. And we will license in and cross sell their products in markets where we sale. So in our view, this partnership is really complementary from both the product and also from the customer angle.

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**Tony Tian** - *Oriental Capital - Analyst*

And my next question is a follow-up question on the Wi-Fi data offloading; William just mentioned a moment ago that the management obviously sees the U.S. market is biggest on the [tuning] for this product solution. And through your press release this morning it appears that you mentioned, I believe you mentioned that the company is in discussion with some Tier 1 carriers in the U.S. market now. Is this relates to -- this is with any carriers you would like to disclose at this moment?

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**William Wong** - *UTStarcom Holdings Corp. - CEO*

Personally we are not able to disclose specific names because we're in customer engagement right now. Actually we have been engaging with Tier 1 customers in the U.S., in Taiwan, in Indonesia in a number of places. So that's why we felt the Wi-Fi offerings that we have are really in the top demand and we're heading towards the sweet spot of the market right now.

And we'd be very happy to do that simply because we have a very, very scalable product that can accommodate over hundreds and thousands of APs with one of our accessing flow. This gave a lot of capabilities to the operator in a very simple management tool. And we will follow on that with our tie-in to the SDN offering. So that would further expand the service offering that any of the wireless operators would be able to do with the SDN and a couple with the Wi-Fi solution that we're offering.

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**Tony Tian** - *Oriental Capital - Analyst*

And my next question regarding your outlook, you provided revenue guidance of $25 million to $30 million for 2Q. And regarding 2Q gross margin, are you suggesting basically given the current Japanese yen versus U.S. dollar situation and current product mix expectation that 2Q gross margin will be at level of sub 20%, am I understanding right?

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Well the Q1 gross margin decrease compared to a year ago was driven by two factors. I think you are right, one is Japanese yen depreciating against the U.S. dollar and the other one is change in the product mix in Q1 of 2014. By that I mean the higher gross margin PTN product revenue accounted less proportionately as a percentage of total revenue. And we have launched our upgraded bigger GSM fixed-line side product in March and we are taking purchasing orders from our clients.

And also in our pipeline, we plan to launch a TN product in the second half. So I think to expand your -- my response to your question a little bit, we expect the gross margin will improve in Q2 and especially in the second half of this year. But I think at this point, it's kind of difficult for us to speculate a specific number for Q2 gross margin. But once we -- I think we will report and discuss it extensively in our next quarterly call.

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**Tony Tian** - *Oriental Capital - Analyst*

Alright. That's all I have thank you.

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Thank you Tony.

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**William Wong** - *UTStarcom Holdings Corp. - CEO*

Thank you, Tony.

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**Operator**

The next question comes from [Min Zhu from Roth Capital]. Line is open please go ahead.

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**Min Zhu** - *Roth Capital - Analyst*

Yes. Hey William, Robert and Mike, thank you very much for taking my question. My first question, can you give us some more color on your broadband win at BSNL; what's timeframe for the contract; and also does that contract include any resale product?

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**William Wong** - *UTStarcom Holdings Corp. - CEO*

The contract timeframe to talk about in general terms but not of specifics; we will spend in 2014 into 2015. And as we have a long history with BSNL, it's been a long-term customer for us, so this is one of the many contracts that we are doing with them. And we actually at certain time, we are also discussing with this customers on many other product discussion including Multiplay project expansion that I alluded to earlier. I'd just say that while we are in India, actually we are collaborating with a portfolio company aioTV and offering some of those solutions to some of our existing broadband customers in India as well.

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**Min Zhu** - *Roth Capital - Analyst*

Okay, that's great to know. And what's the mix for that contract; is that all your product or you do have some resale product there?

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**William Wong** - *UTStarcom Holdings Corp. - CEO*

There is a combination.

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**Min Zhu** - *Roth Capital - Analyst*

Okay, got it. Thanks for the color. And my second question is that given the new product launch, can you just sort of give us some guidance on your -- the revenue growth you expect for the second half Ô14?

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Well, I think earlier in the call William just gave the revenue guidance for Q2 of 2014. I think in the future, we will give our guidance, let's say a guidance of revenue of Q3 in the next quarterly call.

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**Min Zhu** - *Roth Capital - Analyst*

Okay. So, in general, it's still uncertain that for the second half whether it's kind of compared to first half, it's going to be flat or up or slightly down. So it's hard to tell at this point.

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**William Wong** - *UTStarcom Holdings Corp. - CEO*

In general trends, our expectation is it will improve gradually also top-line and also for gross margin in the second half. But again, in the next quarterly conference call, we will have more visibility of Q2 revenue. And we will guide as we have guided and accordingly at that time.

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**Min Zhu** - *Roth Capital - Analyst*

Okay, great. Thank you for the color.

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**William Wong** - *UTStarcom Holdings Corp. - CEO*

Okay. Thank you.

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**Robert Pu** - *UTStarcom Holdings Corp. - CFO*

Thank you.

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**Operator**

At this time, I'd like to hand the call back over to Ms. Jane Zuo for closing remarks.

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**Jane Zuo** - *UTStarcom Holdings Corp. - IR Senior Manager*

Thanks for joining us on our first quarter earnings conference call. We look forward to updating you on our second quarter 2014 conference call in a few months. Feel free to get in touch with us anytime if you have further questions, concerns or comments. Thank you everyone.

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**Operator**

That does conclude our conference for today. Thank you for your participation. You may all disconnect.

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