SEABOARD CORP /DE/
Form 10-Q
August 07, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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: 1-3390

Seaboard Corporation

(Exact name of registrant as specified in its charter)

Delaware	04-2260388
(State or other jurisdiction of incorporation) incorporation)	(I.R.S. Employer Identification No.) Identification No.)

9000 West 67th Street, Merriam, Kansas	66202
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code (913) 676-8800

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer		Accelerated Filer
Non-Accelerated Filer	(Do not check if a smaller reporting company)	Smaller Reporting Company
		Emerging Growth Company

If an emerging growth company, 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.

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

There were 1,170,550 shares of common stock, $1.00 par value per share, outstanding on July 27, 2018.

1

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	July 1,	June 30,	July 1,
(Millions of dollars except share and per share amounts)	2018	2017	2018	2017
Net sales:				
Products (includes affiliate sales of $343, $270, $649 and $529)	$ 1,382	$ 1,153	$ 2,673	$ 2,278
Services (includes affiliate sales of $3, $1, $5 and $3)	278	245	542	494
Other	31	24	55	49
Total net sales	1,691	1,422	3,270	2,821
Cost of sales and operating expenses:				
Products	1,309	1,056	2,454	2,078
Services	242	216	482	435
Other	24	21	46	41
Total cost of sales and operating expenses	1,575	1,293	2,982	2,554
Gross income	116	129	288	267
Selling, general and administrative expenses	84	74	159	144
Operating income	32	55	129	123
Other income (expense):				
Interest expense	(11)	(7)	(19)	(10)
Interest income	2	5	4	7
Interest income from affiliates	1	6	2	12
Loss from affiliates	(16)	(8)	(22)	(7)
Other investment income (loss), net	12	28	(25)	65
Foreign currency gains (losses), net	(6)	6	(2)	9
Miscellaneous, net	(3)	(1)	(2)	(3)
Total other income (expense), net	(21)	29	(64)	73
Earnings before income taxes	11	84	65	196
Income tax expense	(4)	(25)	(26)	(53)
Net earnings	$ 7	$ 59	$ 39	$ 143
Less: Net income attributable to noncontrolling interests	—	(1)	—	—
Net earnings attributable to Seaboard	$ 7	$ 58	$ 39	$ 143

Earnings per common share	$ 6.28	$ 50.51	$ 33.03	$ 122.35
Other comprehensive income (loss), net of income tax benefit (expense) of $1, $0, $1 and $(1):				
Foreign currency translation adjustment	(17)	1	(27)	(1)
Unrealized gain on investments	—	2	—	3
Unrecognized pension cost	(3)	1	(2)	2
Other comprehensive income (loss), net of tax	$ (20)	$ 4	$ (29)	$ 4
Comprehensive income (loss)	(13)	63	10	147
Less: Comprehensive income attributable to noncontrolling interests	—	(1)	—	—
Comprehensive income (loss) attributable to Seaboard	$ (13)	$ 62	$ 10	$ 147
Average number of shares outstanding	1,170,550	1,170,550	1,170,550	1,170,550
Dividends declared per common share	$ 1.50	$ 1.50	$ 3.00	$ 3.00

See accompanying notes to condensed consolidated financial statements.

SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(Millions of dollars except share and per share amounts)	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 79	$ 116
Short-term investments	1,264	1,576
Receivables, net	521	482
Inventories	874	780
Other current assets	128	174
Total current assets	2,866	3,128
Net property, plant and equipment	1,104	1,077
Investments in and advances to affiliates	849	851
Other non-current assets	357	105
Total assets	$ 5,176	$ 5,161
Liabilities and Stockholders’ Equity		
Current liabilities:		
Notes payable to banks	$ 141	$ 162
Current maturities of long-term debt	24	53
Accounts payable	238	272
Deferred revenue	56	81
Other current liabilities	283	250
Total current liabilities	742	818
Long-term debt, less current maturities	508	482
Deferred income taxes	146	112
Long-term income tax liability	102	111
Other liabilities	260	230
Total non-current liabilities	1,016	935
Commitments and contingent liabilities		
Stockholders’ equity:		
Common stock of $1 par value. Authorized 1,250,000 shares; issued and outstanding 1,170,550 shares	1	1
Accumulated other comprehensive loss	(390)	(354)
Retained earnings	3,792	3,750
Total Seaboard stockholders’ equity	3,403	3,397
Noncontrolling interests	15	11
Total equity	3,418	3,408
Total liabilities and stockholders’ equity	$ 5,176	$ 5,161

See accompanying notes to condensed consolidated financial statements.

3

SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
(Millions of dollars)	June 30, 2018	July 1, 2017
Cash flows from operating activities:		
Net earnings	$ 39	$ 143
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization	67	56
Deferred income taxes	3	17
Loss from affiliates	22	7
Dividends received from affiliates	3	19
Other investment loss (income), net	25	(65)
Other, net	2	(8)
Changes in assets and liabilities, net of acquisitions:		
Receivables, net of allowance	(10)	28
Inventories	(89)	41
Other current assets	48	(11)
Current liabilities, exclusive of debt	(57)	(57)
Other, net	11	7
Net cash from operating activities	64	177
Cash flows from investing activities:		
Purchase of short-term investments	(336)	(347)
Proceeds from the sale of short-term investments	615	270
Proceeds from the maturity of short-term investments	21	36
Capital expenditures	(58)	(78)
Cash paid for acquisition of businesses	(270)	(14)
Investments in and advances to affiliates, net	(17)	(64)
Principal payments received on notes receivable from affiliates	4	3
Purchase of long-term investments	(8)	(6)
Other, net	3	(1)
Net cash from investing activities	(46)	(201)
Cash flows from financing activities:		
Notes payable to banks, net	(8)	23
Proceeds from long-term debt	—	5
Principal payments of long-term debt	(43)	(9)
Dividends paid	(4)	(4)
Net cash from financing activities	(55)	15
Effect of exchange rate changes on cash and cash equivalents	—	2
Net change in cash and cash equivalents	(37)	(7)
Cash and cash equivalents at beginning of year	116	77
Cash and cash equivalents at end of period	$ 79	$ 70

See accompanying notes to condensed consolidated financial statements.

SEABOARD CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 – Accounting Policies and Basis of Presentation

The condensed consolidated financial statements include the accounts of Seaboard Corporation and its domestic and foreign subsidiaries (“Seaboard”). All significant intercompany balances and transactions have been eliminated in consolidation. Seaboard’s investments in non-consolidated affiliates are accounted for by the equity method. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of Seaboard for the year ended December 31, 2017 as filed in its annual report on Form 10-K. Seaboard’s first three quarterly periods include approximately 13 weekly periods ending on the Saturday closest to the end of March, June and September. Seaboard’s year-end is December 31.

The accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and cash flows. Except for new guidance adopted prospectively as discussed below, Seaboard has consistently applied all accounting policies as disclosed in the annual report on Form 10-K to all periods presented in these condensed consolidated financial statements. Results of operations for interim periods are not necessarily indicative of results to be expected for a full year. As Seaboard conducts its commodity trading business with third parties, consolidated subsidiaries and non-consolidated affiliates on an interrelated basis, gross margin on non-consolidated affiliates cannot be clearly distinguished without making numerous assumptions primarily with respect to mark-to-market accounting for commodity derivatives.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with United States (“U.S.”) generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to allowance for doubtful accounts, valuation of inventories, impairment of long-lived assets, potential write-down related to investments in and advances to affiliates and notes receivable from affiliates, income taxes and accrued pension liability. Actual results could differ from those estimates.

Supplemental Non-Cash Transaction

In conjunction with the January 2018 acquisition discussed further in Note 10, Seaboard incurred debt consisting of a $46 million note payable and contingent consideration with an estimated fair value of $14 million at the time of acquisition.

Adoption of Highly Inflationary Accounting in Argentina

Guidance requires the use of highly inflationary accounting for countries whose cumulative three-year inflation exceeds 100%. In the second quarter of 2018, the Argentine peso rapidly devalued relative to the U.S. dollar, which along with increased inflation, indicated that the three-year cumulative inflation in that country exceeded 100%. As a result, Seaboard adopted highly inflationary accounting as of July 1, 2018, for Seaboard’s Sugar segment. Under highly inflationary accounting, the Sugar segment’s functional currency became the U.S. dollar, and its income statement and balance sheet will be measured in U.S. dollars using both current and historical rates of exchange. The effect of changes in exchange rates on peso-denominated monetary assets and liabilities will be reflected in foreign currency gains (losses), net. At June 30, 2018, the Sugar segment had $79 million in net assets denominated in Argentine pesos, and $2 million in net liabilities denominated in U.S. dollars. Net sales of the Sugar segment were 3% of Seaboard’s consolidated net sales for the six months ended June 30, 2018 and July 1, 2017.

Recently Issued Accounting Standards Adopted

On January 1, 2018, Seaboard adopted guidance that developed a single, comprehensive revenue recognition model for all contracts with customers using the cumulative effect transition method. The adjustment to opening retained earnings, which only included the impact of contracts that were not completed at the date of adoption, was less than $1 million. All of Seaboard’s equity method investments must adopt the new standard by December 31, 2019. See Note 2 for additional details on the impact of adopting this new accounting standard.

On January 1, 2018, Seaboard adopted guidance that requires the service cost component of net periodic benefit cost to be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period. Only the service cost component is eligible for capitalization in inventory. The other components of net periodic benefit cost are presented outside of operating income and are not capitalizable. For the three and six month periods of 2017, $1 million and $3 million, respectively, of net periodic benefit cost was reclassified from selling, general and administrative expenses to miscellaneous, net below operating income. Seaboard elected to apply the practical expedient to estimate amounts for comparative periods.

On January 1, 2018, Seaboard adopted guidance that eliminated cost method accounting and requires measuring equity investments, other than those accounted for using the equity method of accounting, at fair value and recognizing fair value changes in net income if a readily determinable fair value exists. On January 1, 2018, $7 million of accumulated other comprehensive loss was reclassified to retained earnings by means of a cumulative effect adjustment, and all future gains/losses on these equity investments is reflected in other investment income (loss), net. As of January 1, 2018, Seaboard had minimal investments without readily determinable fair values, which will be recorded at cost, less impairment, and plus or minus subsequent adjustments for observable price changes.

Recently Issued Accounting Standard Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (“FASB”) issued guidance that a lessee should record a right-of-use (“ROU”) asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The recognition, measurement, and presentation of expenses and cash flows arising from a financing lease have not significantly changed from the previous guidance. For operating leases, a lessee is required to: (1) recognize a ROU asset and a lease liability, initially measured at the present value of the lease payments, in the balance sheet, (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis and (3) classify all cash payments within operating activities in the statement of cash flows. Seaboard will adopt this guidance on January 1, 2019, for all consolidated subsidiaries and plans to apply most practical expedients and the optional transition relief issued in July 2018 that permits the recognition and measurement of leases at the date of adoption. Therefore, Seaboard will not restate comparative period financial information for the effects of this accounting standard. While Seaboard continues its process of assessing its leases and evaluating the effect this guidance will have on its consolidated financial statements, Seaboard expects the adoption will have a material increase in assets and liabilities on the consolidated balance sheet due to the recording of ROU assets and corresponding lease liabilities. See Note 10 to the consolidated financial statements included in Seaboard’s annual report for the year ended December 31, 2017, for information about Seaboard’s lease obligations.

Note 2 – Revenue Recognition

Seaboard recognizes revenue when control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration it expects to receive in exchange for those goods or services. A performance obligation, the unit of account in Topic 606 Revenue from Contracts with Customers (“Topic 606”), is a promise in a contract to transfer a distinct good or service to the customer. The majority of Seaboard’s revenue arrangements consist of a single performance obligation as the promise to transfer the individual product or service is not separately identifiable from other promises in the contracts, including shipping and handling and customary storage, and, therefore, not distinct. Seaboard’s transaction prices are mostly fixed, but occasionally include minimal variable consideration for early payment, volume and other similar discounts, which are highly probable based on the history with the respective customers. Taxes assessed by a governmental authority that are collected by Seaboard from a customer are excluded from sales.

Seaboard has multiple segments with diverse revenue streams. For additional information on Seaboard's segments, see Note 10. The following tables present Seaboard's sales disaggregated by revenue source and segment for the three and six month periods ended June 30, 2018.

Three Months Ended June 30, 2018								
(Millions of dollars)	Pork	Commodity Trading & Milling	Marine	Sugar	Power	All	Other	Consolidated Totals
Major Products/Services Lines:								
Products	$ 365	$ 885	$ —	$ 60	$ —	$ 4		$ 1,314
Transportation	4	—	263	—	—	—		267
Energy	66	—	—	1	31	—		98
Other	7	5	—	—	—	—		12
Segment/Consolidated Totals	$ 442	$ 890	$ 263	$ 61	$ 31	$ 4		$ 1,691

Six Months Ended June 30, 2018								
(Millions of dollars)	Pork	Commodity Trading & Milling	Marine	Sugar	Power	All	Other	Consolidated Totals
Major Products/Services Lines:								
Products	$ 726	$ 1,666	$ —	$ 110	$ —	$ 8		$ 2,510
Transportation	8	—	512	—	—	—		520
Energy	159	—	—	2	54	—		215
Other	15	10	—	—	—	—		25
Segment/Consolidated Totals	$ 908	$ 1,676	$ 512	$ 112	$ 54	$ 8		$ 3,270

Revenue from goods and services transferred to customers at a single point in time accounted for approximately 85% of Seaboard's net sales for the six month period of 2018. Substantially all of the sales in Seaboard's Marine segment are recognized ratably over the transit time for each voyage as Seaboard believes this is a faithful depiction of the performance obligation to its customers.

Almost all of Seaboard's contracts with its customers are short-term, defined as less than one year. As of June 30, 2018, Seaboard had $16 million of remaining performance obligations that extend beyond one year, of which 17% is expected to be recognized as net sales in 2018, an additional 33% in 2019, and the remaining balance thereafter. Seaboard elected to use all practical expedients and therefore will not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which revenue is recognized at the amount to which it has the right to invoice for services performed. Also, Seaboard will recognize a financing component only on obligations that extend longer than one year.

Deferred revenue represents cash payments received in advance of Seaboard's performance or revenue billed that is unearned. The Commodity Trading and Milling ("CT&M") segment, which operates internationally with sales in Africa and South America, requires certain customers to pay in advance or upon delivery to avoid collection risk. The Marine segment's deferred revenue balance primarily relates to the unearned portion of billed revenue when a ship is on the water and has not arrived at the designated port. The Pork segment has a marketing agreement with Triumph Foods, LLC, of which certain fees paid at commencement are recognized over the term of the agreement. Deferred revenue balances are reduced when revenue is recognized. Revenue recognized for the three and six month periods of 2018 that was included in the deferred revenue balance at the beginning of the year was $88 million and $156 million, respectively.

The primary impact of adopting the new guidance was the acceleration of revenue related to sales in Seaboard's CT&M segment that previously had not been recognized as a fixed and determinable price was not established at the time of sale. Under the new guidance, revenue is recognized when control is transferred, and adjustments are made to revenue for pending sale prices dependent upon market fluctuations, further processing, or other factors until sales prices are finalized. The following tables summarize the impacts of adoption on Seaboard's condensed consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Millions of dollars)	Three Months Ended June 30, 2018 Balances Without Adoption of Topic 606	Adjustments	As Reported	Six Months Ended June 30, 2018 Balances Without Adoption of Topic 606	Adjustments	As Reported
Total net sales	$ 1,666	$ 25	$ 1,691	$ 3,241	$ 29	$ 3,270
Total cost of sales	$ 1,550	$ 25	$ 1,575	$ 2,954	$ 28	$ 2,982
Net earnings	$ 7	$ —	$ 7	$ 38	$ 1	$ 39

Consolidated Balance Sheet (Millions of dollars)	June 30, 2018 Balances Without Adoption of Topic 606	Adjustments	As Reported
Receivables, net	$ 501	$ 20	$ 521
Inventories	$ 916	$ (42)	$ 874
Other current assets	$ 127	$ 1	$ 128
Deferred revenue	$ 79	$ (23)	$ 56
Other current liabilities	$ 282	$ 1	$ 283
Total Seaboard stockholders' equity	$ 3,402	$ 1	$ 3,403

Consolidated Statement of Cash Flows (Millions of dollars)	Six Months Ended June 30, 2018 Balances Without Adoption of Topic 606	Adjustments	As Reported
Net earnings	$ 38	$ 1	$ 39
Changes in assets and liabilities, net of acquisitions:			
Receivables, net of allowance	$ 10	$ (20)	$ (10)
Inventories	$ (131)	$ 42	$ (89)
Other current assets	$ 49	$ (1)	$ 48
Current liabilities, exclusive of debt	$ (35)	$ (22)	$ (57)

Note 3 – Investments

The following is a summary of the estimated fair value of short-term investments classified as trading securities held at June 30, 2018 and December 31, 2017.

(Millions of dollars)	June 30, 2018	December 31, 2017
Domestic equity securities	$ 772	$ 752
Foreign equity securities	302	319
Domestic debt securities held in mutual funds/ETFs/U.S. Treasuries	122	439
Collateralized loan obligations	30	29
High yield securities	21	21
Money market funds held in trading accounts	10	10
Other trading securities	7	6
Total trading short-term investments	$ 1,264	$ 1,576

Seaboard had $107 million of equity securities denominated in foreign currencies at June 30, 2018, with $43 million in euros, $23 million in Japanese yen, $20 million in British pounds, $6 million in Swiss francs and the remaining $15 million in various other currencies. At December 31, 2017, Seaboard had $114 million of equity securities denominated in foreign currencies, with $48 million in euros, $25 million in Japanese yen, $20 million in British pounds, $6 million in Swiss francs and the remaining $15 million in various other currencies. Also, money market funds included less than $1 million denominated in various foreign currencies at June 30, 2018 and December 31, 2017.

In January 2018, Seaboard sold $314 million of its domestic debt securities to fund an acquisition. See Note 10 for further information on this acquisition.

The change in unrealized gains (losses) related to trading securities still held at the end of the respective reporting period were $(2) million and $(24) million for the three and six months ended June 30, 2018, respectively, and $33 million and $65 million for the three and six months ended July 1, 2017, respectively.

In addition to its short-term investments, Seaboard also has trading securities related to Seaboard's deferred compensation plans classified in other current assets in the condensed consolidated balance sheets. See Note 6 to the condensed consolidated financial statements for information on the types of trading securities held related to the deferred compensation plans.

Note 4 – Inventories

The following is a summary of inventories at June 30, 2018 and December 31, 2017:

(Millions of dollars)	June 30, 2018	December 31, 2017
At lower of LIFO cost or market:		
Live hogs and materials	$ 340	$ 313
Fresh pork and materials	36	28
	376	341
LIFO adjustment	(37)	(31)
Total inventories at lower of LIFO cost or market	339	310
At lower of FIFO cost and net realizable value:		
Grains, oilseeds and other commodities	306	253
Sugar produced and in process	36	38
Other	58	90
Total inventories at lower of FIFO cost and net realizable value	400	381
Grain, flour and feed at lower of weighted average cost and net realizable value	135	89
Total inventories	$ 874	$ 780

Note 5 – Income Taxes

Pursuant to the measurement period permitted in the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin 118 for the Tax Cuts and Jobs Act ("2017 Tax Act"), Seaboard had no material updates to its provisional tax impacts related to mandatory deemed repatriated earnings and the revaluation of deferred tax assets and liabilities. The ultimate impact may differ, possibly materially, from Seaboard's provisional amounts due to, among other things, additional analysis, changes in interpretations and assumptions Seaboard has made, additional regulatory guidance that may be issued, and actions Seaboard may take as a result of the 2017 Tax Act. The accounting is expected to be complete during the fourth quarter of 2018 when the 2017 U.S. corporate income tax return is filed. Seaboard's projected annual income tax rate for the first half of 2018 includes less than $1 million of anticipated tax expense associated with the global intangible low-taxed income (“GILTI”) provision and no anticipated tax expense associated with the base-erosion and anti-abuse tax (“BEAT”) provision.

During the first quarter of 2018, Seaboard elected to change the tax status of a wholly-owned subsidiary from a partnership to a corporation. This change in tax status resulted in an estimated $22 million of additional tax expense and additional deferred tax liabilities that Seaboard recognized in the condensed consolidated financial statements for the three month period ended March 31, 2018.

In February 2018, Congress retroactively extended the Federal blender’s credits for 2017. In accordance with U.S. GAAP, the effects of changes in tax laws, including retroactive changes, are recognized in the financial statements in the period that the changes are enacted. Accordingly, in the first quarter of 2018, a one-time tax benefit of $4 million related to the 2017 Federal blender’s credits was recorded in income tax expense. In addition to this amount, Seaboard recognized $42 million of Federal blender’s credits as non-taxable revenue in the first quarter of 2018. See Note 10 for further discussion of the Federal blender’s credits.

Note 6 – Derivatives and Fair Value of Financial Instruments

Seaboard uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three broad levels:

Level 1: Observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities that Seaboard has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The following table shows assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and also the level within the fair value hierarchy used to measure each category of assets and liabilities. Seaboard determines if there are any transfers between levels at the end of a reporting period. There were no transfers between levels that occurred in the first six months of 2018. The trading securities classified as other current assets below are assets held for Seaboard's deferred compensation plans.

Millions of dollars)	Balance June 30, 2018	Level 1	Level 2	Level 3
ssets:				
rading securities – hort-term nvestments:				
omestic equity ecurities	$ 772	$ 772	$ —	$ —
oreign equity ecurities	302	302	—	—
omestic debt ecurities held in utual unds/ETFs/U.S. reasuries	122	112	10	—
ollateralized loan bligations	30	—	30	—
igh yield securities	21	21	—	—
oney market funds eld in trading ccounts	10	10	—	—
	7	5	2	—

)ther trading ecurities				
'rading securities – ther current assets:				
)omestic equity ecurities	35	35	—	—
Aoney market fund eld in trading ccounts	6	6	—	—
'oreign equity ecurities	3	3	—	—
'ixed income ecurities	2	2	—	—
)ther	1	—	1	—
)erivatives:				
'ommodities (1)	2	2	—	—
		—		
'oreign currencies	2			

			0	0	0	1,754	0	1,754		
xcess tax benefit from ock-based compensation	0	0	1,069	0	0	0	0	1,069	0	1,069
alance at December 31, 012	72,699,318	$ 789	$ 858,711	$ (87,746)	$ 179,058	$ 22,050	$ 45,150	$ 1,018,012	$ 328	$ 1,018,340

See the accompanying notes to consolidated financial statements.

Table of Contents

ASIAINFO-LINKAGE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

	Year Ended December 31,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net income	$ 29,953	$ 72,986	$ 54,801
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	3,179	2,818	2,304
Stock-based compensation expense	9,831	6,786	7,999
Amortization of other acquired intangible assets	41,497	46,618	22,822
Amortization of land use right	294	196	0
Gain on disposal of property and equipment	(326)	(220)	(66)
Impairment loss on available-for-sale securities	0	144	281
Gain from sale of available-for-sale securities	(3,333)	(479)	(472)
Impairment loss on long-term investments	0	950	0
Loss on equity method investment	282	0	0
Provision of allowance for doubtful accounts	354	468	709
Loss on sale of discontinued operations	0	0	84
Excess tax benefit from stock-based compensation	(1,069)	0	0
Changes in operating assets and liabilities:			
Accounts receivable	(4,485)	(23,694)	(51,217)
Inventories	(9,174)	(5,407)	909
Other receivables	(2,024)	1,463	1,824
Deferred income taxes	(5,481)	(18,175)	(13,618)
Prepaid expenses and other current assets	(2,131)	(321)	1,524
Payment for land use right	0	(4,228)	0
Accounts payable	(13,015)	1,218	4,183
Accrued expenses	5,160	(2,486)	(2,510)
Deferred revenue	8,113	4,415	(24,211)
Accrued employee benefits	(2,169)	6,663	22,146
Other payables	206	(1,231)	766
Other taxes payable	(1,559)	(1,172)	1,652
Income taxes payable	(5,973)	(10,798)	17,847
Net cash provided by operating activities	48,130	76,514	47,757
Cash flows from investing activities:			
Increase in restricted cash	(18,413)	(7,283)	(8,403)
Purchases of available-for-sale securities	(18,289)	(2,715)	(2,920)
Proceeds from sales of available-for-sale securities	18,045	6,776	1,937
Purchases of held-to-maturity securities	(12,728)	(9,886)	(25,079)
Proceeds from sales of held-to-maturity securities	0	20,686	28,667
Purchases of property and equipment	(13,595)	(5,164)	(2,438)
Proceeds from disposal of property and equipment	59	142	174
Purchase of businesses, net of cash acquired	0	0	(45,691)
Employee housing loans granted	(1,611)	0	0
Long-term investments	(946)	0	(950)
Proceeds from disposal of discontinued operations net of cash transferred out of $2,928 in 2010	0	0	(1,447)
Net cash (used in) provided by investing activities	(47,478)	2,556	(56,150)
Cash flows from financing activities:			
Proceeds from exercise of stock options	261	771	6,030
Repurchases of common stock	0	(59,997)	0
Short-term bank loans raised	8,600	0	0
Repayment of short-term bank loans	(8,600)	0	(5,890)

Purchase of redeemable non-controlling interest	(1,034)	0	0
Funds received from non-controlling interest	0	125	0
Net cash (used in) provided by financing activities	(773)	(59,101)	140
Effect of exchange rate changes on cash and cash equivalents	1,203	14,625	7,544
Net increase (decrease) in cash and cash equivalents	1,082	34,594	(709)
Cash and cash equivalents at beginning of year	272,438	237,844	238,553
Cash and cash equivalents at end of year	$ 273,520	$ 272,438	$ 237,844
Supplemental cash flow information:			
Income taxes paid during the year:	$ 17,194	$ 17,102	$ 7,255
Non-cash investing activity share consideration issued for acquisition of Linkage	$ 0	$ 0	$ 581,734

See the accompanying notes to consolidated financial statements.

F-8

Table of Contents

ASIAINFO-LINKAGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2012, 2011 and 2010

(U.S. dollar amounts in thousands, except share and per share amounts)

1. Organization and Principal Activities

AsiaInfo-Linkage, Inc. (AsiaInfo-Linkage) is incorporated in the State of Delaware, in the United States (the US). AsiaInfo-Linkage principally operates through its directly owned subsidiaries, or their respective subsidiaries and variable interest entities (VIEs). AsiaInfo-Linkage, Inc., its subsidiaries and VIEs are collectively referred to as the Company.

The Company is a leading provider of high-quality software solutions in China. The main customers of the Company are the major telecommunications carriers in China and their provincial subsidiaries. The software and customer solutions of the Company enable its customers to build, maintain, operate, manage and improve their communications infrastructure.

PRC regulations prohibit direct foreign ownership of entities engaged in certain restricted businesses, including the provision of value-added telecommunications services in the PRC where certain licenses are required for the provision of such services. To comply with PRC laws and regulations, AsiaInfo-Linkage engages in such businesses through its VIEs, principally Beijing Zhongxinjia Sci-Tech Development Co. Ltd. and to a lesser extent Beijing Star VATS Technologies, Inc. The Company historically provided certain information technology security services, which is also a restricted business area, through Lenovo Security Technologies (Beijing) Inc. (Lenovo Security). The Company discontinued its information technology security services operations in 2010.

A subsidiary of AsiaInfo-Linkage entered into exclusive business cooperation agreements with each of the PRC VIEs, where the subsidiary of AsiaInfo-Linkage provides complete business support services and consulting services to the VIEs in exchange for a fee that constitutes substantially all of the VIEs net income. The subsidiary of AsiaInfo-Linkage also entered into a series of agreements with equity owners, including equity pledge arrangements and equity interest transfer agreements, which assigned all of the equity owners rights and obligations to the subsidiary of AsiaInfo-Linkage, resulting in the equity owners lacking the ability to make decisions that have a significant effect on the VIEs operations and the subsidiary of AsiaInfo-Linkage s ability to extract the profits from the operation of the VIEs, and assume the VIEs residual benefits. For instance, AsiaInfo-Linkage Technologies (China), Inc (AIBJ) or Beijing Shangxin Yitong Information and Technology Co., Ltd. funded the capital requirements of each VIE through the extension of interest-free loans to the equity owners. The amount of borrowings under the VIE loan agreements for the establishment Beijing Star VATS Technologies, Inc. and Beijing Zhongxinjia Sci-Tech Development Co. Ltd. were $5,099 (RMB40,000) and $879 (RMB6,000), respectively. Because the subsidiary of AsiaInfo-Linkage absorbs the majority of the economic rewards of the VIEs through service fees and nominal equity holders do not absorb the expected losses because they provided no equity investment with funds borrowed from the subsidiary of AsiaInfo-Linkage, the Company is the primary beneficiary of these VIEs. AsiaInfo-Linkage consolidated its VIEs from their inception.

No assets of the VIEs are collateral for VIEs obligations. There are no restrictions on the use of the VIEs assets to settle the Company s obligations. As of December 31, 2012 and December 31, 2011, respectively, there were $3,222 and $2,640 of liabilities of the Company s consolidated VIEs for which creditors (or beneficial interest holders) did not have recourse to the general credit of AsiaInfo-Linkage or its subsidiaries.

The following financial statement amounts and balances of AsiaInfo-Linkage s VIEs were included in the accompanying consolidated financial statements as of and for the years ended December 31:

	As of December 31,	
	2012	2011
Total assets	$ 8,740	$ 8,805
Total liabilities	3,222	2,640

	Year Ended December 31,		
	2012	2011	2010
Net revenue	$ 8,867	$ 9,811	$ 7,149
Net (loss) income	(727)	578	9,501

2. Summary of Significant Accounting Policies

Basis of presentation The consolidated financial statements of the Company, are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Principles of consolidation The consolidated financial statements include the financial statements of AsiaInfo-Linkage, its subsidiaries and its VIEs. All inter-company transactions and balances are eliminated in consolidation.

Noncontrolling interest Effective January 1, 2009, the Company adopted an authoritative pronouncement issued by the Financial Accounting Standards Board (the FASB) regarding noncontrolling interests in consolidated financial statements. The pronouncement requires noncontrolling interests to be separately presented as a component of equity in the consolidated financial statements.

Cash and cash equivalents Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investments, which are unrestricted as to withdrawal or use, and which have remaining maturities of three months or less when purchased. The following table provides additional information concerning the breakdown of the Company s cash and cash equivalents:

	As of December 31	
	2012	2011
Cash	$ 101,642	$ 97,733
Cash equivalents:		
Money market funds	148,332	149,161
Others	23,546	25,544
Total cash and cash equivalents	$ 273,520	$ 272,438

Cash equivalents are measured at fair value on a recurring basis as of December 31, 2012 and 2011. Cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued based on the quoted market price in an active market.

Restricted cash The Company s restricted cash is related to deposits required by banks for short-term credit facilities, issuing standby letters of credit and bank acceptance drafts and borrowing short-term bank loans.

Business combination Business combinations are recorded using the purchase method of accounting. On January 1, 2009, the Company adopted a new accounting pronouncement with prospective application which made certain changes to the previous authoritative literature on business combinations.

Table of Contents

From January 1, 2009, the assets acquired, the liabilities assumed, and any noncontrolling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Previously, any non-controlling interest was reflected at historical cost.

Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as the date of acquisition. For shares issued in a business combination, the Company has estimated the fair value as of the date of acquisition.

Where the consideration in an acquisition includes contingent consideration the payment of which depends on the achievement of certain specified conditions post-acquisition, from January 1, 2009 the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability it is subsequently carried at fair value with changes in fair value reflected in earnings.

Fair value Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company measures certain assets, including the cost method investments, at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The fair values of these investments are determined based on valuation techniques using the best information available, and may include management judgments, future performance projections, etc. An impairment charge is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary.

Short-term investments Short-term investments comprise marketable debt and equity securities, which are classified as held-to-maturity or available-for-sale. Short-term investments are classified as held-to-maturity

Table of Contents

when the Company has the positive intent and ability to hold the securities to maturity. All of the Company s held-to-maturity securities are classified as short-term investments on the consolidated balance sheets based on their contractual maturity dates which are less than one year and are stated at their amortized costs. Short-term investments classified as available-for-sale are carried at their fair values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive income. Available-for-sale securities are classified as current assets on the accompanying consolidated balance sheets because they are available for immediate sale.

The Company reviews its short-term investments for other-than-temporary impairment based on the specific identification method. The Company considers available quantitative and qualitative evidence in evaluating potential impairment of its short-term investments. If the cost of an investment exceeds the investment s fair value, the Company considers, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the investment is less than the cost, and the Company s intent and ability to hold the investment, in determining if impairment is needed.

Accounts receivable and allowance for doubtful accounts Accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses. Management considers the following factors when determining the collectability of specific accounts: credit worthiness of the clients, aging of the receivables and other specific circumstances related to the accounts. Allowance for doubtful accounts is made based on aging of accounts receivable and on any specifically identified accounts receivable that may become uncollectible.

Product Warranty The Company s product warranty accrual reflected management s best estimate of probable liability under its product warranties. Management determines the warranty accrual based on historical experience and other currently available evidence. Product warranty accrual was recorded as a component of accrued expense in the accompanying consolidated balance sheets.

Inventories Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the specific identification method. The inventories are transferred to cost of sales upon revenue recognition criterias are met.

Property and equipment, net Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives as follows:

Furniture, fixtures and electronic equipment	5 years
Motor vehicles	5 years
Leasehold improvements	Shorter of the lease term or 5 years
Software	3 years
Building	20 to 47 years
Self-constructed building improvements	10 years

Construction in progress primarily represents the cost to build the property and equipment. In addition to cost under the construction contracts and external cost directly related to the construction of such property and equipment, including equipment installation and shipping costs, are capitalized. Depreciation is recorded when the property and equipment are ready for their intended use. As of December 31, 2012, the construction in progress was $11,177.

Impairment of long-lived assets The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. An impairment loss, measured based on the fair value of the asset, is recognized if expected future undiscounted cash flows are less than the carrying amount of the assets.

Table of Contents

Long-term investments The Company accounts for its investment in Shanghai Hinge Software Co., Ltd (Hinge), C-Platform Corporation (C-Platform) and Santen Corporation (Santen) using the cost method of accounting as the Company does not have significant influence over Hinge, C-Platform and Santen s business and operations. The Company carries the investment at cost and recognizes as income any dividends received from a distribution of investee s earnings. The Company accounts for its investment in Beijing Naomi Technology Ltd. (Naomi) using the equity method of accounting as the Company has no control but is able to exercise significant influence over Naomi s business and operations. The Company reviews the investments for impairment whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable.

Goodwill The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (October 1 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the stock prices, business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The estimation of fair value of each reporting unit using a discounted cash flow methodology also requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the Company s business, estimation of the useful life over which cash flows will occur, and determination of the Company s weighted average cost of capital. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results and market conditions. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for the reporting unit.

In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The guidance permits us to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company adopted this pronouncement since 2012. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, goodwill is then tested following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit s goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. The Company recognized no impairment loss on goodwill in 2012, 2011 and 2010.

Other acquired intangible assets, net The Company measured the fair value of the purchased intangible assets in above acquisitions using the cost, income approach-excess earnings and with & without valuation method. In performing the purchase price allocation, the Company considered, among other factors, forecasted financial performance of the acquired business, market performance, and the market potential of the acquired business in China. These purchased intangible assets and contingent consideration are considered Level 3 assets and liabilities because the Company used unobservable inputs, reflecting the Company s assessment of the assumptions market participants would use in valuing these assets and liabilities.

Table of Contents

Amortization of customer relationship is computed using the estimated attrition pattern of the acquired customers. The remaining other acquired intangible assets with definite lives are amortized on a straight-line basis over their expected useful economic lives.

The estimate useful lives of the acquired intangible assets are as follows:

Core technologies	5 to 6 years
Existing technology	3 years
Trade names and trademarks	2 to 19 years
Customer lists	5 years
Contract backlogs	0.5 to 3 years
Customer relationships	2 to 10 years
Distribution networks	4 to 5 years
Software	1 to 6 years
Non-compete agreements	2 to 10 years
Corporate business agency agreements	3 to 5 years

Land use right All land in the PRC is owned by the PRC government. The government in the PRC, according to the relevant PRC law, may grant the right to use the land for a specified period of time. Payment for acquiring land use right is stated at cost less accumulated amortization and any recognized impairment loss. Amortization is provided over the term of the land use right agreement on a straight-line basis.

Accrued employee benefits Accrued employee benefits are mainly comprised of payroll, year end bonus and staff welfare.

Revenue recognition The Company recognizes revenue pursuant to the requirements of the FASB Accounting Standard Codification (ASC) 605 when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable, and other applicable revenue recognition guidance and interpretations.

The Company s revenue is derived from three primary sources: (i) software licenses and related services, including implementation, customization and integration, post-contract customer support (PCS), training and consulting; (ii) professional services for systems design, planning, consulting, and system integration; and (iii) the procurement of hardware on behalf of customers.

The Company s multiple-element arrangements relate to the Company s software licenses and related services, including implementation, customization and integration, PCS, training, consulting and third party hardware procurement.

Revenues of software licenses and related services, including implementation, customization and integration, PCS, training and consulting are recognized using the percentage of completion method over the service period based on the relationship of costs already incurred to the total estimated costs to be incurred because such customer orders require significant production, modification or customization of the software. For China projects, the Company considers total project costs (labor costs and other related costs) in calculating the percentage of completion and recognizes cost of sales on an actual basis with no deferral of project costs, including pre-contract costs. Software arrangements with significant production, modifications, or customization are sold with bundled third-party hardware and PCS services. Because PCS services have never been sold separately in these arrangements, they do not have stand-alone fair value or vendor-specific objective evidence of fair value. The percentage of completion method of revenue recognition is therefore applied to the period from the start of the significant production, modifications, or customization through the last element delivered which is typically the end of the bundled PCS services period. Revisions in estimated contract costs are made in the period in which the circumstances requiring the revision become known. Provisions, if any, are made currently for anticipated losses on uncompleted contracts. For certain projects outside of China, the Company defers revenue and cost until the revenue recognition criteria have been met.

F-14

Table of Contents

Revenues of professional services for systems design, planning, consulting, and system integration are recognized when the services are performed.

In addition, we generated service revenues by acting as a sales agent pursuant to the IBM-Type Arrangements. The service fee under our IBM-Type Arrangements is determined as a percentage of the gross contract amount. We have evaluated the criteria outlined in guidance issued by FASB regarding reporting revenue gross as principal versus net as agent, when determining whether we would record as revenues the gross amount billed to our customers and related costs or the net amount earned after deducting hardware costs paid to the vendor, even though we bear inventory risks after the vendor ships the products to us and we bill gross amounts to our customers. We record the net amount earned after deducting hardware costs as agency service revenue because (1) the vendor is the primary obligor in these transactions, (2) we have no latitude in establishing the prices, (3) we are not involved in the determination of the product specifications, (4) we do not bear credit risk because we are contractually obligated to pay the vendor only when the customers pay us, and (5) we do not have the right to select suppliers.

Revenues of the procurement of hardware on behalf of customers, if not bundled with other arrangements, are recognized when shipped and customer acceptance obtained, if all other revenue recognition criteria are met. Costs associated with revenues are recognized when incurred. If bundled with other arrangements, the Company generally bifurcates the third-party hardware from the development services and recognizes the hardware revenue upon customer acceptance using estimated prices based on cost plus a margin which the Company believes to be the fair value of the selling price.

Revenue recognized in excess of billings is recorded as unbilled receivables and is included in accounts receivable. Amounts billed but not yet collected are recorded as billed receivables and are included in accounts receivable. All billed and unbilled amounts are expected to be collected within one year. Billings for installation and customization services are rendered based on agreed upon milestones specified in customer contracts. Billings in excess of revenues recognized are recorded as deferred revenue.

Presentation of revenues in consolidated statements of operations The Company classifies the revenues and cost of revenues into three categories: software products and solutions, services and third party hardware. The Company allocates revenues of bundled arrangements in the three categories based on the relative selling prices of each component as set out in sales contracts.

Value-added tax (VAT) The Company s PRC subsidiaries are subject to value-added tax at a rate of 17% on revenues from procurement of hardware on behalf of its customers, and revenues from software licenses and from software-related services (collectively referred to as software sales).

Value-added tax payable on revenues is computed net of value-added tax paid on purchases. In respect of revenues on software sales, however, if the net amount of value-added tax payable exceeds 3% of software sales, the excess portion of value-added tax can be refunded immediately. The Company therefore is subject to an effective net value-added tax rate of 3% from software sales. The net amount of value-added tax due or receivable is recorded either in the line item of other tax payable or prepaid expenses and other current assets on the face of consolidated balance sheet.

In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC. Such VAT pilot program is to be phased in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Starting from September 1, 2012, certain subsidiaries and VIEs became subject to VAT at the rates of 6% or 3%, on certain service revenues which were previously subject to business tax.

Software development costs Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred.

Research and development Research and development costs are expensed as incurred.

Other income (expenses), net Other income (expenses) are mainly comprised of interest income (expenses), dividend income, exchange gain (loss) and other miscellaneous income.

Foreign currency translation AsiaInfo-Linkage uses the United States dollar as its reporting currency and functional currency. The financial records of AsiaInfo-Linkage s PRC subsidiaries and VIEs are maintained in Renminbi (RMB), their functional currency and the currency of the PRC. The financial records of the Company s subsidiaries and VIEs established in Southeast Asian countries are maintained in their local currencies.

Assets and liabilities are translated from each subsidiary s and VIE s functional currency to the reporting currency at the exchange rate on the balance sheet date. Equity amounts are translated at historical exchange rates, and revenues, expenses, gains, and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income in the consolidated statements of comprehensive income.

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized in the consolidated statements of operations.

The RMB is not freely convertible into US dollars or other currencies. All foreign exchange transactions involving RMB must take place through the People s Bank of China or other institutions authorized to buy and sell foreign currencies. The exchange rates adopted for the foreign exchange transactions involving RMB are the rates of exchange quoted by the People s Bank of China.

Income taxes Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized for tax credits and net operating losses available for carry-forwards and significant temporary differences. Deferred tax assets and liabilities are classified as current or non-current based upon the classification of the related asset or liability in the financial statements or the expected timing of their reversal if they do not relate to a specific asset or liability. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws and regulations applicable to the Company as enacted by the relevant tax authorities.

The impact of an uncertain income tax position on the income tax return must be recognised at the largest amount that is more-likely-than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

Use of estimates The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company s consolidated financial statements include: revenue recognition; valuation allowance for deferred tax assets and adequacy of unrecognized tax benefits; collectability of accounts receivable and other receivables; estimated useful lives and impairment of property and equipment and intangible assets; impairment of goodwill; valuation and impairment of short-term investments; impairment of long-term investments.

Table of Contents

Concentration of credit risk The Company holds its cash and cash equivalents, restricted cash, and short-term investments in financial instruments with financial institutions. In addition, the Company s investment policy limits its exposure to concentrations of credit risk. The Company sells its products and services to various customers in the telecommunication industry in China. The Company generally requires no collateral against accounts receivable. To reduce credit risk, the Company performs credit evaluations of its customers. The Company maintains allowances for doubtful accounts for estimated losses resulting from its customers inability to make required payments. Information relating to the Company s significant customers is summarized in Note 23.

Stock-based compensation Stock-based compensation with employees is measured based on the grant date fair value of the equity instrument awarded. The Company recognizes the compensation costs net of estimated forfeiture related cost and recognizes the compensation costs for those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting period of the award. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

Earnings per share (EPS) Basic EPS excludes dilution and is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock (convertible preferred stock, forward contracts, warrants to purchase common stock, contingently issuable shares, common stock options and warrants and their equivalents using the treasury stock method) were exercised or converted into common stock. Potential common shares in the diluted EPS computation are excluded in periods of losses from continuing operations, as their effect would be antidilutive.

Comprehensive income Comprehensive income includes net income, transfer to statements of operations of realized gain (loss), other-than-temporary impairment on short-term investments, unrealized gain (loss) on short-term investments, and foreign currency translation adjustments. The consolidated financial statements have been adjusted for the retrospective application of the authoritative guidance regarding presentation of comprehensive income, which was adopted by the Company on January 1, 2012.

Financial instruments Financial instruments consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, other receivables, other payables, income taxes payable, other taxes payable and long-term investments, other non-current assets, etc.

Short-term investments consist of available-for-sale and held-to-maturity, as discussed in Note 5. Certain long-term investments have been written down to their fair value, as discussed in Note 8. Fair value of other long-term investments, is not disclosed because the fair value of the investments is not readily determinable.

The carrying values of other financial instruments approximate their fair values due to the short-term nature of these instruments. The Company does not use derivative instruments to manage risks.

Newly adopted accounting pronouncements

In May 2011, the FASB issued an authoritative pronouncement on fair value measurement. The guidance is the result of joint efforts by the FASB and International Accounting Standards Board to develop a single, converged fair value framework. The guidance is largely consistent with existing fair value measurement principles in US GAAP. The guidance expands the existing disclosure requirements for fair value measurements and makes other amendments, mainly including:

Highest-and-best-use and valuation-premise concepts for nonfinancial assets the guidance indicates that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of nonfinancial assets.

Table of Contents

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk the guidance permits an exception to fair value measurement principles for financial assets and financial liabilities (and derivatives) with offsetting positions in market risks or counterparty credit risk when several criteria are met. When the criteria are met, an entity can measure the fair value of the net risk position.

Premiums or discounts in fair value measure the guidance provides that premiums or discounts that reflect size as a characteristic of the reporting entity s holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market s normal daily trading volume is not sufficient to absorb the quantity held by the entity) rather than as a characteristic of the asset or liability (for example, a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.

Fair value of an instrument classified in a reporting entity s stockholders equity the guidance prescribes a model for measuring the fair value of an instrument classified in stockholders equity; this model is consistent with the guidance on measuring the fair value of liabilities.

Disclosures about fair value measurements the guidance expands disclosure requirements, particularly for Level 3 inputs. Required disclosures include:

(i) For fair value measurements categorized in Level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation process in place (e.g., how the entity decides its valuation policies and procedures, as well as changes in its analyses of fair value measurements, from period to period), and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs.

(ii) The level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed.

The guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011, for public entities. Early application by public entities is not permitted. The adoption of this guidance did not have a significant effect on the Company s consolidated financial statements.

In June 2011, the FASB issued an authoritative pronouncement to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively. For public entities, the guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. In December 2011, the FASB issued an authoritative pronouncement related to deferral of the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income. This guidance allows the FASB to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before update the pronouncement issued in June 2011. The Company has adopted this guidance on January 1, 2012 and has separately presented the consolidated statements of comprehensive income since that date.

In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The guidance is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if a public entity s financial statements for the most recent annual or interim period have not yet been issued. The adoption of this pronouncement did not have a significant effect on the Company s consolidated financial statements, as the Company chose to directly perform the two-step goodwill impairment test for 2012.

In July 2012, the FASB issued an authoritative pronouncement related to testing indefinite-lived intangible assets, other than goodwill, for impairment. Under the guidance, an entity testing an indefinite-lived intangible asset for impairment has the option of performing a qualitative assessment before calculating the fair value of the asset. If the entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not (i.e., a likelihood of more than 50 percent) impaired, the entity would not need to calculate the fair value of the asset. The guidance does not revise the requirement to test indefinite-lived intangible assets annually for impairment. In addition, the guidance does not amend the requirement to test these assets for impairment between annual tests if there is a change in events or circumstances; however, it does revise the examples of events and circumstances that an entity should consider in interim periods. The guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this guidance did not have a significant effect on the Company s consolidated financial statements.

Recent accounting pronouncements not yet adopted

In December 2011, the FASB has issued an authoritative pronouncement related to disclosures about offsetting assets and liabilities. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect the adoption of this guidance to have a significant effect on its consolidated financial statements.

3. Acquisitions

(a) In April 2009, the Company, through its majority-owned subsidiary Shanghai Xinjia Information and Technology Co., Ltd., acquired value-added telecommunications services business from Shanghai Huanyou Information Consultation Co. Ltd., a PRC based enterprise, for a cash consideration of $658. Goodwill acquired through this acquisition was $410.

(b) On October 1, 2009, the Company, through its wholly-owned subsidiary Bonson Information Technology Ltd. (Bonson), acquired 60% of the share capital of SmartCall Holding Limited (SmartCall), a Cayman Islands registered company that, through its subsidiaries in China, provides outbound call services on behalf of telecommunications operators in China, for a cash consideration of up to $2,213, including a $1,774 initial payment and contingent consideration up to $439, subject to the achievement of certain performance goals. The contingent consideration is not paid as of December 31, 2012.

The transaction was accounted for using the purchase method of accounting, and, accordingly, the acquired assets were recorded at their estimated fair values on the acquisition date. The Company allocated the purchase price of $2,140, including a $1,774 initial payment and the fair value of the contingent consideration of $366 as of the date of acquisition, to the assets acquired based on their estimated fair values.

Table of Contents

(c) On May 1, 2010, the Company, through a subsidiary of the Company, consummated the acquisition of 80% equity interest of Hangzhou Zhongbo Software Technology Co., Ltd. (Hangzhou Zhongbo) for an aggregate purchase price of $7,068 in cash. Goodwill acquired through this acquisition was $6,834. Hangzhou Zhongbo provides IT solutions to broadcasting operators in China.

The Company believes these above acquisitions did not have a significant impact on the financial position and operating results of the Company. Therefore, no pro forma financial information is presented.

(d) On July 1, 2010, the Company completed its business combination with Linkage Technologies International Holdings Limited (Linkage), a leading IT software and solutions provider in China. Pursuant to the Business Combination Agreement dated December 4, 2009, as supplemented on June 5, 2010 by the Supplemental Agreement (collectively, the Combination Agreement), the Company purchased from Linkage 100% of the outstanding share capital of Linkage s wholly-owned subsidiary, Linkage Technologies, which carried out all of the operations of Linkage, for $60,000 in cash and 26,832,731 shares of the Company s common stock. The aggregate market value of the common stock and the total consideration were $581,734 and $641,734 as of the date of acquisition. The transaction was accounted for as a business combination and purchase accounting was applied accordingly.

Concurrently and in connection with the closing under the Combination Agreement, the Company entered into an escrow agreement with Linkage, Mr. Libin Sun as agent for the shareholders of Linkage, and The Bank of New York Mellon. Pursuant to the agreement, 10% of the consideration (consisting of $6,000 in cash and 2,683,273 shares of the Company s common stock) was deposited into an escrow account for a period of 18 months as security for the indemnification obligations of Linkage and certain key Linkage shareholders under the Combination Agreement. The escrow agreement expired on January 1, 2012, on which $6,000 in cash was paid to the bank account designated by shareholders agent by wire transfer and 2,683,273 shares were transferred to Linkage shareholders in accordance with escrow agreement.

In connection with the closing under the Combination Agreement, on July 1, 2010, the Company changed its corporate name to AsiaInfo-Linkage, Inc.

The acquired assets in connection with the combination were recorded at their estimated fair values on the acquisition date. The Company allocated the purchase price of $641,734 to the assets acquired based on their estimated fair values, as follows:

	Purchase Price Allocations	Weighted average useful live
Intangible Assets:		
Contract backlogs	$ 9,500	1
Existing technologies	37,500	3
Non-compete agreements	500	5
Core technologies	43,600	6
Customer relationship	114,200	10
Trademark	20,700	19
IP R&D	1,000	Indefinite
Other assets, net		
Cash and cash equivalents	18,643	
Accounts receivable	81,815	
Other current and non-current assets	21,827	
Accounts payable	(12,377)	
Other current liabilities	(39,768)	
Deferred income tax liabilities, current and non current	(61,761)	
Goodwill	406,355	
Total:	**$ 641,734**	

Table of Contents

The fair values of the intangible assets were determined using the cost, income approach-excess earnings, with and without and relief from royalty valuation methods. In performing the purchase price allocation, the Company considered, among other factors, forecasted financial performance of the acquired business and market performance of the acquired business in China.

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under US GAAP, and comprise (a) the assembled work force and (b) the expected but unidentifiable business growth as a result of the synergy resulting from the acquisition.

The following unaudited pro forma information summarizes the results of operations of the Company for the years ended December 31, 2010, besides the audited financial information of 2012 and 2011, assuming that the Company s acquisition of Linkage occurred as of January 1, 2010. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisitions been completed at the beginning of the periods indicated, nor is it indicative of future operating results.

	Year Ended December 31, 2010	
Pro forma revenue	$	424,576
Pro forma net income attributable to ordinary shareholders of AsiaInfo-Linkage, Inc.		55,345
Pro forma net income per ordinary share basic	$	0.74
Pro forma net income per ordinary share diluted	$	0.74

The Company measured the fair value of the purchased intangible assets using the cost, income approach-excess earnings and with & without valuation method. The Company measured the fair value of the contingent consideration considering, among other factors, forecasted financial performance of the acquired business, market performance, and the market potential of the acquired business in China. These purchased intangible assets and contingent consideration are considered Level 3 assets and liabilities because the Company used unobservable inputs, reflecting the Company s assessment of the assumptions market participants would use in valuing these assets and liabilities.

The nonfinancial assets and liabilities, such as goodwill, intangible assets and long-lived assets, are measured at fair value on a nonrecurring basis and they are recorded at fair value only when impairment is recognized.

4. Discontinued Operations

On December 1, 2010, the Company sold its former IT security business through the disposition of Lenovo Security to the management team of its former IT security business, including the executive officer Mr. Jian Qi. Under the terms of the agreement, the Company received approximately $15,000 in cash in exchange for 100% of the Company s economic interest in Lenovo Security and settlement of certain inter-company liabilities.

On December 28, 2012, the Company agreed to sell Lenovo Computer System and Technology Service Ltd. (Lenovo Computer) back to the former shareholders of Lenovo Computer, for a total consideration of US dollars equivalent to RMB25,000 and presented Lenovo Computer as discontinued operations as of December 31, 2012. The closing of the sale was subject to the fulfillment of all the conditions, including the receipt of consideration on January 18, 2013. The consolidated statements of operations and the accompanying notes for 2011 and 2010 have been retrospectively adjusted to reflect the effect of the discontinued operations.

The major balance sheet item of Lenovo Computer as of December 31, 2012 was cash and cash equivalents in the amount of $3,036.

The above divestitures were made based on the Company s strategy to focus on core telecommunications software solutions. The accompanying consolidated statements of operations reflect the above business component as discontinued operations. Results of the discontinued operations are summarized as follows:

	Lenovo Computer Year Ended December 31,			Lenovo Security Year Ended December 31,		
	2012	2011	2010	2012	2011	2010
Revenue of discontinued operations	$ 0	$ 59	$ 0	$ 0	$ 0	$ 27,979
Income from operations of discontinued operations	280	190	15	0	0	1,663
Loss on sales of discontinued operations	0	0	0	0	0	(84)
Income tax expense for discontinued operations	51	100	0	0	0	521
Income from discontinued operations, net of income tax	$ 229	$ 90	$ 15	$ 0	$ 0	$ 1,058

5. Short-term Investments

Short-term investments consist of held-to-maturity securities and available-for-sale securities. As of December 31, 2012 and 2011, the Company did not hold trading securities.

As of December 31, 2012 and 2011, the Company s held-to-maturity securities carried at cost of $12,728 and $0, respectively. The held-to-maturity securities are either not allowed to be redeemed early or are subject to penalty for early redemption before their maturity. The carrying amounts of the held-to-maturity securities approximate their fair values due to their short-term nature, which are within one-year maturity period.

The following table provides additional information, concerning the Company s available-for-sale securities, which consist principally of bond funds, balanced funds, stock funds, corporate stocks and corporate convertible notes issued by major financial institutions or companies. The available-for-sales-securities have no contractual maturity dates and the Company can sell the investments at any time at the Company s decision.

	As of December 31, 2012				As of December 31, 2011			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Bond funds	$ 26,090	$ 938	$ 0	$ 27,028	$ 14,712	$ 2,165	$ 0	$ 16,877
Balanced funds(1)	0	0	0	0	648	0	(47)	601
Stock funds	0	0	0	0	7,888	2,087	0	9,975
Corporate stocks	0	0	0	0	457	0	(1)	456
Corporate convertible notes	900	0	0	900	0	0	0	0
Total	$ 26,990	$ 938	$ 0	$ 27,928	$ 23,705	$ 4,252	$ (48)	$ 27,909

(1) Cost is net of $0 and $144 impairment loss as of December 31, 2012 and 2011, respectively, which was attributable to the decline in fair value of the available-for-sale securities. The Company determined that such decline was other-than-temporary based on various factors such as poor performance of that investment.

Table of Contents

The following table provides additional information on the realized gains of the sale of available-for-sale securities as of December 31, 2012 and 2011. For purposes of determining gross realized gains, the cost of securities sold is based on specific identification.

	Year Ended December 31,					
	2012			2011		
	Proceeds	Costs	Gains	Proceeds	Costs	Gains
Available-for-sale securities	$ 18,045	$ 14,712	$ 3,333	$ 6,776	$ 6,297	$ 479
Total	$ 18,045	$ 14,712	$ 3,333	$ 6,776	$ 6,297	$ 479

6. Accounts Receivable

Accounts receivable balances included both billed and unbilled amounts. Revenue recognized in excess of billings is recorded as unbilled receivables. All billed and unbilled amounts are expected to be collected within one year. Accounts receivable balances included bank acceptance drafts receivable and commercial acceptance drafts receivable. These bank acceptance drafts and commercial acceptance drafts were non-interest bearing and were due within six months of issuance.

The Company generated service revenues by acting as a sales agent for IBM or its distributors, and for a few other hardware companies for certain products sold to the customers of the Company (each, an IBM-Type Arrangement). The components of the Company s accounts receivable as of December 31, 2012 and 2011, including amounts attributable to the IBM-Type Arrangements, were as follows:

	As of December 31,					
	2012			2011		
	IBM-Type Arrangement	Non-IBM-Type Arrangement	Total	IBM-Type Arrangement	Non-IBM-Type Arrangement	Total
Billed accounts receivable	$ 17,656	$ 87,830	$ 105,486	$ 30,727	$ 68,561	$ 99,288
Unbilled accounts receivable	37,069	141,993	179,062	49,230	127,006	176,236
Bank acceptance drafts	0	1,684	1,684	0	2,239	2,239
Commercial acceptance drafts	0	2,462	2,462	13	6,693	6,706
Less: allowance for doubtful accounts	(291)	(2,708)	(2,999)	(221)	(2,684)	(2,905)
Total accounts receivable, net	$ 54,434	$ 231,261	$ 285,695	$ 79,749	$ 201,815	$ 281,564

7. Inventories

The components of inventories, net as of December 31, 2012 and 2011 were as follows:

	As of December 31,	
	2012	2011
Deferred costs	$ 10,857	$ 5,526
Finished goods	13,250	9,783
Total	$ 24,107	$ 15,309

Deferred costs represent the costs incurred for the implementation phases of the projects outside of China, which provide multiple services and products (software, hardware, implementation, maintenance and managed services) to customers and include around 1-2 years system implementation periods. The deferred costs will be reimbursed after the successful launch of the system, and were capitalized as inventories and expected to be transferred to cost of revenues upon revenue recognition.

Table of Contents

8. Long-term investments

(a) In October 2005, the Company acquired five percent of the outstanding equity interests of Hinge. The investment is accounted for using the cost method as the Company does not have a significant influence over the business and operations of Hinge. Due to the effects of the global financial crisis in 2008, Hinge s business dropped significantly during 2008 causing a significant decline in fair value of Hinge. The Company determined that its investment in Hinge became worthless as of December 31, 2008 and that the decline in the fair value was other-than-temporary. Consequently, the Company recognized an impairment loss of $2,042, which is equal to the carrying amount of the investment after foreign exchange adjustment from the initial investment cost.

(b) On September 12, 2008, the Company acquired 2,170,000 redeemable convertible Series B Preferred Shares of C-Platform, for a total cash consideration of $4,696, including $52 in transaction costs. The total consideration had been paid as of September 30, 2008. Following the transaction, the Company owned approximately 19.9% of C-Platform s issued and outstanding share capital, or 17% of C-Platform s share capital on a fully-diluted basis. In August 2009 and March 2011, the Company paid for and acquired $167 and $409 of convertible promissory notes from C-Platform, respectively. Such convertible promissory notes were accounted for as a short-term investment, available-for-sale securities. In March 2011, the Company converted $167 of the convertible promissory notes into 78,023 of C-Platform s Series B Preferred Shares, which were accounted for as a long-term investment, and obtained the share certificate in July 2011, while $409 of convertible promissory notes remained unconverted. Following the transaction, the Company owned approximately 19.61% of C-Platform s issued and outstanding share capital. In February 2012, the Company converted the remaining $409 of convertible promissory notes into 191,008 of C-Platform s Series B Preferred Shares, which were accounted for as a long-term investment, and obtained the share certificate in April 2012. Following the transaction, the Company owned approximately 18.63% of C-platform s issued and outstanding shares. Because the Company does not have the ability to exercise significant influence over the operating and financial policies of C-Platform, the Company uses the cost method of accounting to record its investment in C-Platform. The Company performed impairment analyses on its investment on C-Platform and did not note any other-than-temporary impairment as of December 31, 2012 and 2011.The aggregate carrying values of investment on C-platform are $5,272 and $4,863 as of December 31, 2012 and 2011 respectively.

C-Platform is a Cayman Islands company, which, through its subsidiaries in China, provides data operating services, a form of value-added telecommunication services, to telecommunications carriers in China. The Company believes that the transaction furthers its ongoing strategy of expanding its market leading telecommunications software solutions business in China.

(c) On November 30, 2010, the Company acquired 3,562,500 Series A-1 Preferred Shares of Santen, for a total cash consideration of $950 for 9.5% of Santen s issued and outstanding voting share capital. Since the Company does not have the ability to exercise significant influence over the operating and financial policies of Santen, the Company uses the cost method of accounting to record its investment in Santen.

Santen is a Cayman Islands company, which, through its subsidiaries in China, provides a form of value-added telecommunication services, to telecommunications carriers in China. In 2011, the Company performed an assessment of the financial condition of Santen and determined there was an other-than-temporary decline of fair value. Based on the assessment, the Company provided for an impairment loss of $950, which is equal to the carrying amount of the investment.

(d) On June 20, 2012, the Company s VIE Beijing Star VATS Technologies, Inc. (Beijing Star VATS) entered into an investment agreement with Naomi, which provides personalized internet-based product recommendations based on customers on-line purchasing patterns. Pursuant to the investment agreement, Beijing Star VATS agreed to invest $1,880 (RMB11,900) in Naomi in two tranches. The first tranche totaling $946 (RMB5,950) was paid to Naomi in July 2012. The second tranche may be paid to Naomi upon its achievement of certain operational targets, if Beijing Star VATS then elects to invest, in its sole discretion.

Table of Contents

The Company has adopted the equity method to recognize the investment as the Company, which holds a 40% voting interest in Naomi, is able to exercise significant influence over the operating and financial policies of Naomi. The Company has recognized a loss on equity method investment in the amount of $282 for the year ended December 31, 2012.

9. Property and Equipment, Net

	As of December 31, 2012	2011
Furniture, fixtures and electronic equipment	$ 14,635	$ 13,102
Motor vehicles	1,723	1,718
Leasehold improvements	3,807	3,348
Software	3,066	2,547
Building	489	488
Construction in progress	11,177	1,411
Property and equipment, gross	34,897	22,614
Less: Accumulated depreciation and amortization	(15,793)	(13,836)
Property and equipment, net	19,104	$ 8,778

10. Goodwill

The changes in the carrying amount of goodwill during the years ended December 31, 2012 and 2011 were as follows:

	Year ended December 31, 2012	2011
Gross amount:		
Beginning balance	$ 460,024	$ 459,614
Exchange differences	21	410
Ending balance	460,045	460,024
Accumulated impairment loss:		
Beginning balance	(26,499)	(26,475)
Exchange differences	(1)	(24)
Ending balance	(26,500)	(26,499)
Goodwill, net	$ 433,545	$ 433,525

The Company performs its annual goodwill impairment tests on October 1 of each year. In the goodwill impairment test, the Company used the income approach, which it believed to be more reliable than the market approach in determining the fair value of the Company s reporting unit. Accordingly, it adopted a discounted cashflow (DCF) method under the income approach, which considers a number of factors that include expected future cash flows, growth rates and discount rates and requires the Company to make certain assumptions and estimates regarding industry economic factors and future profitability of its business unit. The assumptions are inherently uncertain and subjective.

When applying the DCF method for the reporting unit, the Company incorporated the use of projected financial information and a discount rate that is developed using market participant based assumptions. The cash flow projections were based on five-year financial forecasts developed by management that included revenue projections, capital spending trends, and investments in working capital to support anticipated revenue growth. The discount rate selected was 15.5% with the consideration of the risk and nature of the reporting unit s cash flows and the rates of return market participants would require to invest their capital in the reporting unit.

Table of Contents

The Company evaluated the situation as of October 1, 2012 based on the performance results and future operation projections and concluded that there was no goodwill impairment as of October 1, 2012.

During the fourth quarter of 2012, as the Company identified that there was an impairment indicator as the market value was lower than the carrying value. Accordingly, the Company considered such factor to be a goodwill impairment indicator and performed a two-step goodwill impairment test as of December 31, 2012.

Based on the impairment tests performed, no impairment charges were recognized for the years ended December 31, 2012, 2011 and 2010, respectively.

11. Other Acquired Intangible Assets, Net

	Year Ended December 31,							
	2012				2011			
	Gross carrying amount	Accumulated amortization	Foreign exchange difference	Net carrying amount	Gross carrying amount	Accumulated amortization	Foreign exchange difference	Net carrying amount
Core technologies	$ 45,931	$ (20,498)	$ 0	$ 25,433	$ 45,931	$ (13,231)	$ 0	$ 32,700
Trade name and trademarks	21,037	(3,059)	0	17,978	21,037	(1,970)	0	19,067
Contract backlogs	12,474	(12,480)	12	6	12,474	(12,286)	12	200
Customer lists	131	(143)	12	0	131	(143)	12	0
Customer relationships	117,755	(47,287)	311	70,779	117,755	(27,910)	313	90,158
Distribution networks	870	(870)	0	0	870	(870)	0	0
Software	1,721	(1,884)	163	0	1,721	(1,884)	163	0
Non-compete agreements	1,249	(810)	25	464	1,249	(593)	25	681
Corporate business agency agreements	2,037	(1,695)	5	347	2,037	(1,176)	5	866
Existing technologies	38,500	(31,978)	0	6,522	38,500	(19,144)	0	19,356
	$ 241,705	$ (120,704)	$ 528	$ 121,529	$ 241,705	$ (79,207)	$ 530	$ 163,028

The future amortization expenses for the net carrying amount of intangible assets with definite lives as of December 31, 2012 are expected to be as follows:

2013	$ 32,628
2014	23,445
2015	21,109
2016	14,950
2017 and thereafter	29,397
	$ 121,529

The Company recognized no impairment loss on intangible assets with definite lives in 2012, 2011 and 2010.

12. Land Use Right, Net

From 2009, the Company completed the process to obtain land use right for a piece of land in Beijing, on which the Company plans to construct a building for use as its new corporate headquarters. In October 2009, the Company entered into an agreement with Zhongguancun Software Park Development Co., Ltd. (ZSPD), pursuant to which ZSPD agreed to develop the land in preparation for construction of the building, for an aggregate consideration of approximately $10,777, of which $10,000 was paid in years 2009 and 2010, $777 was paid in 2011.

Table of Contents

In connection with the agreement with ZSPD, the Company became eligible to enter into a land transfer agreement with relevant PRC government authorities in order to obtain the land use right with respect to such land. In May 2011, the Company entered into a land use right transfer agreement with the Beijing Municipal Bureau of Land and Resources pursuant to which the Company would acquire land use right with a 50-year term, for a consideration of approximately $2,870, plus related local levy of $111, paid in June and August 2011, respectively.

In respect of these agreements, the Company has recorded the aggregate amount of the consideration paid, amounting to $14,739 after an exchange rate effect of $981, as a payment for land use right. In November 2011, the Company obtained the National Land Use Right Certificate, issued by the Beijing Municipal Bureau of Land and Resources, and accordingly the Company records the payment for land use right at cost less accumulated amortization and amortizes the cost of the land use right on a straight-line basis over the 50-year term of the land use right certificate. As of December 31, 2012, the land use rights amounted to $14,326, which was the cost less the accumulated amortization of $490 and an exchange rate gain of $77.

13. Other Non-current Assets

The Company has launched an employee housing loan program which provides non-interest bearing loans to qualified employees with a five-year term in 2012. As of December 31, 2012, the total amount of loans granted under the program was $1,611, and the loans due in more than one year classified in other non-current assets were $1,332.

14. Credit Facilities

As of December 31, 2012, the Company had credit facilities for working capital purposes totalling $150,480 expiring on various dates up to March 2014, which were secured by bank deposits of $33,482. As of December 31, 2012, unused credit facilities were $122,802 and used credit facilities totalled $27,678. The credit facilities were used to cover issuance of standby letters of credit to customers, borrowing of short-term bank loans and issuance of bank acceptance drafts payable to hardware suppliers.

As of December 31, 2011, the Company had total credit facilities totalling $99,803, which will expire on various dates up to September 2013 and were secured by bank deposits of $13,065.

In May 2012, the Company obtained a total line of credit of $20,000 through a series of financing agreements, which was included in the above credit facilities. The line of credit is secured by a pledge of an equivalent amount of RMB deposits and the bank loans under the credit line bear interest annually at a variable rate equivalent to the 3-month LIBOR plus 2.25 percent. The Company had borrowed $5,500, $1,600 and $1,500 in June, July and September 2012, respectively, and repaid all principal and interest totalling $8,624 before September 30, 2012. As such, an amount of $20,000 remained unused under the line of credit as of December 31, 2012.

In addition to the bank deposits pledged for the above credit facilities, the Company also collateralized bank deposits of $6,157 and $8,161 for the issuance of certain standby letters of credit and bank acceptance drafts, as of December 31, 2012 and December 31, 2011, respectively. Therefore, total bank deposits of $39,639 and $21,226 were presented as restricted cash on the consolidated balance sheets as of December 31, 2012 and 2011, respectively.

15. Accounts Payable

Accounts payable included bank acceptance drafts payable of $3,427 and $4,300, and commercial acceptance drafts payable of $139 and $0 as of December 31, 2012 and 2011, respectively. These bank acceptance drafts and commercial acceptance drafts were non-interest bearing and were due within six months of issuance.

Table of Contents

As of December 31, 2012 and December 31, 2011, the Company s accounts payable balance related to the IBM-Type Arrangements was $63,148 and $78,930, respectively, under which the Company is contractually obligated to pay its vendors only when its customers pay the Company.

16. Other Taxes Payable

	As of December 31, 2012	As of December 31, 2011
Business taxes payable	$ 5,990	$ 8,145
Individual income taxes withheld	3,981	3,478
Others	334	241
	$ 10,305	$ 11,864

17. Income Tax Expense (Benefit)

The components of income before income tax expense (benefit), loss on equity method investment and income from discontinued operations are as follows:

	Year Ended December 31, 2012	2011	2010
United States	$ (12,724)	$ (6,631)	$ (13,892)
Foreign	47,817	67,431	77,180
	$ 35,093	$ 60,800	$ 63,288

The Company is subject to US federal and state income taxes. The Company s subsidiaries incorporated in the PRC are subject to PRC income taxes.

The income tax expense (benefit) from continuing operations consisted of the following:

	Year Ended December 31, 2012	2011	2010
Current			
United States:			
Federal	$ 1,069	$ 0	$ (84)
State	(2)	4	1
Foreign	9,390	9,895	23,109
Total current income tax expense	10,457	9,899	23,026
Deferred			
United States:			
Federal	0	0	0
State	0	0	0
Foreign	(5,370)	(21,995)	(13,466)
Total deferred income tax benefit	(5,370)	(21,995)	(13,466)

Income tax expense (benefit)	$ 5,087	$ (12,096)	$ 9,560

F-28

Table of Contents

The components of deferred income tax assets and liabilities were as follows:

	As of December 31, 2012	As of December 31, 2011
Deferred tax assets:		
Allowances and reserves	$ 4,938	$ 7,198
Depreciation and amortization	892	889
Net operating loss and credits carry forwards	4,919	3,164
Acquired intangibles	1,250	1,122
Total gross deferred tax assets	11,999	12,373
Valuation allowance	(4,989)	(4,692)
Total deferred tax assets	7,010	7,681
Deferred tax liabilities:		
Amortization of acquired intangibles	(18,186)	(24,244)
Unrealized gain on short-term investments	(198)	(941)
Total net deferred tax assets	$ (11,374)	$ (17,504)

	As of December 31, 2012	As of December 31, 2011
Current deferred tax assets	$ 5,559	$ 14,294
Non-current deferred tax assets	2,560	1,751
Current deferred tax liabilities	(1,565)	(9,091)
Non-current deferred tax liabilities	(17,928)	(24,458)
Total net deferred tax assets	$ (11,374)	$ (17,504)

Deferred income taxes result principally from differences in the recognition of certain assets and liabilities for tax and financial reporting purposes and the tax effect of tax loss carry forwards. As of December 31, 2012, operating loss carry forwards amounted to $0 and $1,247 for U.S. federal and California state income tax purposes. The loss carrying forwards in California will begin to expire in 2017. A valuation allowance of $4,989 for various deferred tax assets including operating loss carry forwards from various tax jurisdictions has been established as it is determined that it is more likely than not that the relevant deferred tax assets will not be realized. The Company has elected to track the portion of its federal and state net operating loss and foreign tax credit carry forwards attributable to stock option benefits, in a separate memo account pursuant to FASB ASC 718. Therefore, these amounts are no longer included in the Company s gross or net deferred tax assets. Pursuant to ASC 718, the benefit of these net operating loss carry forwards will only be recorded to equity when they reduce cash taxes payable. The cumulative amounts recorded in the memo account as of December 31, 2012 were $4,648 and $262 for both federal and state tax purposes.

Except for certain hardware procurement and resale transactions, the Company conducts substantially all of its business through its PRC operating subsidiaries. The PRC subsidiaries are generally subject to a 25% corporate income tax except for certain entities that enjoy tax holidays or preferred tax treatment, as discussed below.

On March 16, 2007, the National People s Congress adopted the Enterprise Income Tax Law (the EIT Law), which became effective on January 1, 2008. Prior to December 31, 2008, certain of the Company s PRC entities applied for High-and-New-Tech Enterprise (HNTE) status that would allow them to be subject to income tax at a reduced rate of 15% based on the EIT Law. The official HNTE certificates have been issued in December 2008 and are valid for AIBJ, AsiaInfo-Linkage Technologies (Chengdu), Inc. (AICD) and Linkage Nanjing till the end of 2010. Under the EIT Law, a resident enterprise which may include an enterprise established outside of the PRC with management located in the PRC, will be subject to the PRC income tax. If

Table of Contents

the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed a resident enterprise, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

Entities approved as Key Software Enterprises (KSE) were entitled to a reduced tax rate from 15% to 10%. AIBJ was approved as a KSE for 2010, and such a reduced tax rate was applied in the Company s 2010 consolidated statement of operations. The approvals of the KSE status for 2011 and 2012 for AIBJ and Linkage Nanjing were not granted as of December 31, 2012 and therefore, the tax rates applied were still 15%.

Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting basis over tax basis in a domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Company has not recorded any such deferred tax liability attributable to the undistributed earnings of its financial interest in the VIE affiliates because the Company believes such excess earnings can be distributed in a manner that would not be subject to tax.

The Company is also subject to U.S. income taxes on revenues generated in the United States, including revenues from its limited hardware procurement activities and interest income earned in the United States.

The aggregate undistributed earnings is approximately $298,508 on December 31, 2012. Those earnings that are available for distribution to the Company are considered to be indefinitely reinvested under US GAAP and, accordingly, no provision has been made for the Chinese withholding taxes on dividends that would be payable upon the distribution of those amounts to AsiaInfo-Linkage. Additionally, the Chinese tax authorities have clarified that distributions to be made out of retained earnings from prior to January 1, 2008 would not be subject to the Chinese withholding tax. Determination of the amount of any unrecognized deferred income tax liabilities on those earnings is not practicable.

Reconciliation between the income tax (expense) benefit computed by applying the US federal tax rate to income before income taxes and the actual provision for income taxes is as follows:

	2012	2011	2010
US Federal Rate	35%	35%	35%
Difference between statutory rate and foreign effective tax rate	(36)%	(25)%	(28)%
Subpart F income inclusion	10%	3%	3%
Non-deductible meals and entertainment expenses and others	5%	4%	4%
Stock based compensation	7%	1%	2%
PRC super research and development deduction	(7)%	(2)%	(2)%
Change in valuation allowance	1%	(1)%	1%
Change in tax rates	0%	(35)%	0%
	15%	(20)%	15%

During the years ended December 31, 2012, 2011 and 2010, if the Company s subsidiaries and VIEs in the PRC were neither in the tax holiday period nor had they been specifically allowed special tax concessions, the income tax expense and earnings per share amounts would be as follows:

	Year Ended December 31		
	2012	2011	2010
Increase in income tax expense	$ 2,552	$ 1,157	$ 1,089
Reduction in net income per ordinary share-basic	0.04	0.02	0.02
Reduction in net income per ordinary share-diluted	0.04	0.02	0.02

F-30

Table of Contents

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Year Ended December 31,		
	2012	2011	2010
Beginning balance	$ 3,344	$ 4,870	$ 3,052
(Reduction) additions based on tax position related to the prior year	(1,690)	(1,925)	139
Additions based on tax positions related to the current year	49	399	1,679
Ending balance	$ 1,703	$ 3,344	$ 4,870

Included in the balance of unrecognized tax benefits as of December 31, 2012, are tax benefits of $1,703 that, if recognized, would affect the effective tax rate and none would affect deferred tax assets. The Company has adopted the accounting policy that interest and penalties will be classified as a component of the provisions for income taxes.

The Company s operations are subject to income and transaction taxes in the United States and in certain foreign jurisdictions. Significant estimates and judgments are required in determining the Company s worldwide provision for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. The ultimate amount of tax liability may be uncertain as a result.

The Company is subject to taxation in the US and various states and foreign jurisdictions. The Company s tax years starting from 2003 to 2012 remain open in various tax jurisdictions. The Company does not anticipate any significant changes of its uncertain tax positions within the next 12 months.

18. Fair Value Measurements

Measured on recurring basis

The Company measured cash equivalents and short-term investments available-for-sale securities at fair value on a recurring basis as of December 31, 2012 and December 31, 2011.

Cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued based on the quoted market price in an active market.

The Company uses quoted prices in active markets for identical assets or liabilities (Level 1 investments) to determine the fair value of available-for-sale securities. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly, which are included in Level 2 investments.

The Company did not have Level 2 investments as of December 31, 2012 and December 31, 2011.

The Level 3 investments as of December 31, 2011 are principally stock funds and balanced funds, the fair value of the investments are the quoted price of the most recent pricing day prior to the balance sheet date because the Company believes that the fair value of the investments would not have materially changed between the pricing date and the balance sheet date.

The Level 3 investments as of December 31, 2012 are convertible promissory notes issued by GEO Holding Ltd., a private Cayman Islands exempt company. The notes bare an annual interest rate of 8% after 90 days of the issuing date, and shall be due and paid to the purchaser or may be converted into shares of the Company s Series A Preferred Shares or other similar equity securities, upon execution of such securities purchase and sales agreements.

Table of Contents

As the convertible notes were issued by a private company and not traded on the market, in determining the fair value of the Level 3 investments, the Company used the principal amount of the investments, and the interest accrued on a quarterly basis after 90 days of the issuing date. The Company also considered the credit risk related to the issuer and believes such method provide a reasonable fair value of the investments.

The available-for-sale securities measured and recorded at fair value on a recurring basis as of December 31, 2012 and 2011 were as follows:

	As of December 31, 2012 Fair Value Measurements at the Reporting Date Using				As of December 31, 2011 Fair Value Measurements at the Reporting Date Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Bond funds	$ 27,028	$ 0	$ 0	$ 27,028	$ 16,877	$ 0	$ 0	$ 16,877
Balanced funds	0	0	0	0	0	0	601	601
Stock funds	0	0	0	0	0	0	9,975	9,975
Corporate stocks	0	0	0	0	47	0	409	456
Corporate convertible notes	0	0	900	900	0	0	0	0
Total	$ 27,028	$ 0	$ 900	$ 27,928	$ 16,924	$ 0	$ 10,985	$ 27,909

The following table presents changes in Level 3 balanced funds, stock funds and corporate stocks measured on a recurring basis for the year ended December 31, 2012 and 2011:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Beginning balance	$ 10,985	$ 11,265
Purchases	900	2,694
Redemption	(8,956)	(2,803)
Realized (gain) loss	(2,027)	26
Included in other income	(40)	89
Included in other comprehensive income	(1,987)	(63)
Unrealized loss	0	(9)
Impairment loss recognized	0	(144)
Exchange difference	(2)	(44)
Ending balance	$ 900	$ 10,985

Measured on non-recurring basis

The Company s financial assets and liabilities measured at fair value on a non-recurring basis include acquired assets and liabilities at initial recognition based on Level 3 inputs in connection with business acquisitions.

The Company measured the fair value of the purchased intangible using the cost, income approach-excess earnings or with & without valuation methods. These purchased intangible assets are considered Level 3 assets because the Company used unobservable inputs, such as forecast financial performance of the acquired business and discount rates, to determine the fair value of these purchased assets.

F-32

Table of Contents

19. Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted net income per share computations:

	Year Ended December 31, 2012	2011	2010
Amounts attributable to AsiaInfo-Linkage, Inc. common stockholders (numerator)			
Income from continuing operations, net of taxes	$ 32,604	$ 74,469	$ 55,138
Income from discontinued operations, net of taxes	229	90	1,073
Net income	$ 32,833	$ 74,559	$ 56,211
Shares (denominator):			
Weighted average common stock outstanding			
Basic	72,572,074	73,106,037	61,036,299
Dilutive effect of employee stock options and restricted stock units	206,707	564,944	746,411
Diluted	72,778,781	73,670,981	61,782,710
Earnings per share			
Net income from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders			
Basic	$ 0.45	$ 1.02	$ 0.90
Diluted	$ 0.45	$ 1.01	$ 0.89
Net income from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders			
Basic	$ 0.00	$ 0.00	$ 0.02
Diluted	$ 0.00	$ 0.00	$ 0.02
Net income attributable to AsiaInfo-Linkage, Inc. common stockholders			
Basic	$ 0.45	$ 1.02	$ 0.92
Diluted	$ 0.45	$ 1.01	$ 0.91

The Company had 6,515,574, 562,536 and nil common stock options outstanding in 2012, 2011 and 2010, respectively, which could potentially dilute EPS in the future, but were excluded in the computation of diluted EPS in those periods, as their exercise prices were above the average market values in such periods.

20. Commitments and Contingencies

Contingencies

Operating Leases As of December 31, 2012, the Company had commitments under certain non-cancellable operating leases through 2013 to 2017 that require annual minimum rentals as follows:

2013	$ 8,426

2014	1,586
2015	23
2016	5
2017	0
	$ 10,040

The leased properties are principally located in the PRC and are used for administration and research and development purposes. The leases are renewable subject to negotiation. Rental expenses were $6,839, $6,362 and $6,021 for the years ended December 31, 2012, 2011 and 2010, respectively.

Table of Contents

Letters of Credit As of December 31, 2012, the Company had outstanding standby letters of credit to customers of $15,642.

Product Warranty The Company s product warranty accrual reflected management s best estimate of probable liability under its product warranties. Management determines the warranty accrual based on historical experience and other currently available evidence. Product warranty accrual was recorded as a component of accrued expense in the accompanying consolidated balance sheets.

Changes in the product warranty accrual for the years ended December 31, 2012 and 2011 were as follows:

	Year Ended December 31, 2012	2011
Balance at beginning of year	$ 0	$ 44
Current year provision	0	0
Payments	0	0
Expired warranty	0	(46)
Foreign exchange difference	0	2
Balance at end of year	$ 0	$ 0

There were no activities incurred related to product warranty in 2012 and the ending balance as of December 31, 2012 was zero.

Litigation In October 2012, a putative stockholder of the Company filed a civil action, derivatively on behalf of the Company, against the members of the board of directors and certain officers. The action was filed in the United States District Court for District of Delaware. The plaintiff asserted claims for breach of fiduciary duty, corporate waste, and unjust enrichment in connection with grants of stock options allegedly made in an amount that violates purported limitations set forth in the 2011 Plan. The plaintiff requested rescission of the option grants in question, an award of unspecified damages to the Company, certain other equitable and injunctive relief, and an award of plaintiff s costs disbursements, including legal fees. The Company and the individual defendants have filed various motions to dismiss the action. While the Company cannot guarantee the outcome of these proceedings, the Company believes that the final results will not have material effect on its consolidated financial condition, results or operations, or cash flows.

Commitments

In May 2011, the Company entered into a land use right transfer agreement with the Beijing Municipal Bureau of Land and Resources, under which the Company acquired land use right for a 50-year term. Pursuant to the agreement, the Company has committed a minimum of $24,051 for capital expenditures to the building construction project, to commence construction by April 30, 2012, and to complete construction by April 30, 2014.

In November 2011, the Company entered into a software purchase agreement with IBM, through which the Company is committed to purchase software from IBM and is expected to be paid from 2012 to 2014. As of December 31, 2012, the Company committed to purchase software from IBM amounting to $3,182. The committed purchase amounts are $1,591 and $1,591 for the next two years respectively.

21. Employee Retirement Benefits

The Company s employees in the PRC are entitled to retirement benefits calculated with reference to their base salaries upon retirement and their length of service in accordance with a government managed benefits plan. The PRC government is responsible for administering the benefits for these retired employees. The Company is required to make contributions to the state retirement plan at a rate of 14% to 22% of the monthly base salaries of the current employees. Employees who are citizens or permanent residents of the United States and who have been employed for more than six months are entitled to retirement benefits under a Simplified Employee Pension Plan (the Plan). The Company contributes 8% of the employees monthly salaries to the Plan. Total retirement benefit expenses for such benefit contributions for the years ended December 31, 2012, 2011 and 2010 were $20,002, $14,323 and $10,036, respectively.

In addition, the Company is required by law to contribute approximately 17.7% to 26.8% of base salaries of its PRC employees for staff welfare, housing, medical and education benefits, representing an expense of $28,398, $20,751 and $14,079 in 2012, 2011 and 2010, respectively.

22. Distribution of Profits

As stipulated by the relevant laws and regulations applicable to PRC foreign investment enterprises, the Company s PRC subsidiaries are required to make appropriations from net income as determined under accounting principles generally accepted in the PRC (PRC GAAP) to non-distributable reserves which include a general reserve, an enterprise expansion reserve and an employee welfare and bonus reserve. Wholly-foreign-owned PRC subsidiaries are not required to make appropriations to the enterprise expansion reserve but appropriations to the general reserve are required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The employee welfare and bonus reserve is determined by the Company s Board of Directors.

The general reserve is used to offset future extraordinary losses. The subsidiaries may, upon a resolution passed by the stockholders, convert the general reserve into capital. The employee welfare and bonus reserve is used for the collective welfare of the employees of the subsidiaries. The enterprise expansion reserve is used for the expansion of the subsidiaries operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of retained earnings determined according to PRC law. Appropriations to general reserves by the Company s PRC subsidiaries were $302, $108 and nil in 2012, 2011 and 2010, respectively.

As a result of these PRC laws and regulations and the requirement that distributions by PRC entities can only be paid out of distributable profits computed in accordance with PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Company. The most significant difference between accounting principles, rules and regulations generally accepted in the PRC and US GAAP for the calculation of profit and loss relates to the timing of recognition of revenue. Amounts restricted include paid-in capital and the statutory reserves of the Company s PRC subsidiaries and VIEs. As of December 31, 2012, the aggregate amounts of capital and statutory reserves restricted which represented the amount of net assets of the relevant subsidiaries and VIEs in the Company not available for distribution was $88,896. As a result, the restricted net assets held by the Company s consolidated subsidiaries and VIEs was lower than 25% of the consolidated net assets as of December 31, 2012.

23. Certain Significant Risks and Uncertainties

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents, restricted cash, short-term investments in financial instruments, and trade accounts receivable. The Company places its cash and cash equivalents, restricted cash, short-term investments with various financial institutions in the PRC and the US. As of December 31, 2012 and 2011, nil and 0.2% of short-term investments were placed with financial institutions in the US, respectively.

Table of Contents

The Company s business activities and accounts receivable are principally in the PRC with a limited number of large customers, including China Mobile Communications Corporation (China Mobile), China United Telecommunications Corporation (China Unicom), and China Telecom Corporation Limited (China Telecom). The following table shows the revenues and percentage of total revenues derived from those customers in recent periods:

	Year Ended December 31,					
	2012		2011		2010	
	Revenues	Percentage of Total Revenues	Revenues	Percentage of Total Revenues	Revenues	Percentage of Total Revenues
China Mobile	$ 287,355	52.5%	$ 252,693	52.5%	$ 210,396	61.3%
China Unicom	142,266	26.0%	130,131	27.1%	76,334	22.2%
China Telecom	94,478	17.2%	89,916	18.7%	51,088	14.9%
Total	$ 524,099	95.7%	$ 472,740	98.3%	$ 337,818	98.4%

Individual customer amounts receivable consisted of 10% or more of total accounts receivable as of December 31, 2012 and 2011 were as follows:

	Percentage of accounts receivable as of December 31,	
	2012	2011
China Mobile	53%	59%
China Unicom	25%	22%
China Telecom	16%	17%

The Company maintains allowances for bad debt and revises its estimates of collectibles on a periodic basis. Activities in the allowance for doubtful accounts were as follows:

	Year Ended December 31,		
	2012	2011	2010
Balance at beginning of year	$ 2,905	$ 2,514	$ 2,619
Provision for bad debts	354	468	709
Write-offs and other	(260)	(77)	(814)
Balance at end of the year	$ 2,999	$ 2,905	$ 2,514

The Company s business growth is indirectly dependent on government budgetary policy for the telecommunications and internet industries in China. The laws and regulations applicable to the telecommunications and internet industry in China remain unsettled and could have a material adverse effect on the Company s business. The Company s customer base is concentrated and the loss of one or more customers would have a significant effect on the Company s results of operations.

24. Stock-Based Compensation Plan

2002 Stock Option Plan and Prior Plans

Under the Company s 2002 Stock Option Plan (the 2002 Plan), the Company was authorized to grant options for the purchase of up to 4,500,000 shares of common stock to employees, directors and consultants at prices not less than the fair market value on the date of grant for incentive stock options and nonqualified options. Shares as to which an option is granted under the 2002 Plan but remains unexercised at the expiration, forfeiture or other termination of such option may be the subject of the grant of further options. Prior to adopting the 2002 Plan, the Company adopted annual stock option plans for each of 1995, 1996, 1997, 1998, 1999 and 2000 (such plans, together with the 2002 Stock Option Plan, are referred to hereinafter as the Option Plans).

Table of Contents

The vesting periods of the options under the Option Plans are determined based on individual stock option agreements. Options granted prior to 1998 generally vested and became exercisable over three years at an equal annual rate. Exercise terms of options granted in 1998, 1999, 2000 and 2002 are substantially similar to those of options granted prior to 1998 except that the vesting and exercise periods were generally over four years at an annual rate of 20%, 20%, 30% and 30% for the 1999 plan and were generally over four years cliffs at an annual rate of 25% for the 2000 plan, and are generally no more than four years at an annual rate of 25% from the date of grant for the 2002 Plan.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Company s employee stock options have characteristics significantly different from those of traded options. In addition, option valuation models require the input of highly subjective assumptions, including the option s expected life and the price volatility of the underlying stock, and changes in the subjective input assumptions can materially affect the fair value estimate of employee stock options. The value of options granted was estimated on the date of the respective grant using the following weighted average assumptions:

Option Grants	
Weighted average risk-free rate of return	4.20%
Weighted average expected option life	5 years
Weighted average volatility rate	81%
Weighted average dividend yield	0

The activities for the Option Plans are summarized as follows:

	Outstanding Options		
	Number of shares	**Weighted average exercise price per share**	**Aggregate intrinsic value**
Outstanding, January 1, 2010	1,064,605	$ 11.51	
Forfeited	(45,540)	28.00	
Exercised	(498,141)	16.04	
Outstanding, December 31, 2010	520,924	5.74	
Forfeited	(1,730)	7.59	
Exercised	(147,671)	7.95	
Outstanding, December 31, 2011	371,523	4.84	
Forfeited	(1,213)	13.67	
Exercised	(170,062)	4.11	
Outstanding, December 31, 2012	200,248	$ 5.41	$ 1,089
Exercised and expected to exercise, December 31, 2012	200,248	5.41	1,089
Exercisable, December 31, 2012	200,248	$ 5.41	$ 1,089

The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying awards and the closing stock price of $10.85, $7.75 and $16.57 of the Company s common stock on December 31, 2012, 2011 and 2010.

Total intrinsic value of options exercised for each of the three years ended December 31, 2012, 2011 and 2010 was $1,236, $1,747 and $3,434, respectively.

Table of Contents

As of December 31, 2012, although there was no unrecognized stock-based compensation cost relating to the Option Plans, the Option Plans still had unexercised options, which are expected to be exercised over a weighted-average vesting period of 1.49 years.

Additional information on options outstanding as of December 31, 2012 is as follows:

Range of average grant date fair value and exercise price	Options Outstanding as of December 31, 2012 Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Options Exercisable as of December 31, 2012 Number exercisable	Weighted average exercise price
$3.42-$5.41	164,101	1.65	$ 5.01	164,101	$ 5.01
$6.51-$8.75	36,147	0.77	$ 7.21	36,147	$ 7.21
Total	200,248	1.49	$ 5.41	200,248	$ 5.41

2005 Stock Incentive Plan Restricted Stock Units (RSUs)

Under the 2005 Stock Incentive Plan (the 2005 Plan), the Company was authorized to grant participants restricted stock units, stock options, or other types of equity incentives. The number of shares authorized for issuance was (a) 600,000 shares plus (b) any authorized shares of common stock that, as of April 21, 2005, were available for issuance under the Company s 2002 Stock Option Plan, or that thereafter became available for issuance under the 2002 Stock Option Plan in accordance with its terms.

An RSU is an agreement to issue stock at the time the award vests. These units vest on an annual basis equally over four years, 25% on each anniversary of the grant date. The fair value of each RSU is measured on the grant date based on the market price of the stock on the grant date. The Company also has the right at its sole discretion to pay cash in lieu of the issuance of vested shares of common stock. No such cash payment right was exercised by the Company.

The activities of RSUs under the 2005 Plan are summarized as follows:

	Number of shares	Weighted average grant date fair value per share
Restricted stock units unvested at January 1, 2010	101,800	$ 11.26
Granted	139,285	24.38
Vested	(27,859)	10.83
Forfeited	(34,876)	13.04
Restricted stock units unvested at December 31, 2010	178,350	21.22
Granted	4,800	21.31
Vested	(56,510)	20.76
Forfeited	(41,690)	19.29
Restricted stock units unvested at December 31, 2011	84,950	22.48
Vested	(41,000)	22.02
Forfeited	(2,100)	29.22
Restricted stock units unvested at December 31, 2012	41,850	$ 22.60

Total intrinsic values of RSUs vested for the three years ended December 31, 2012, 2011 and 2010 were $474, $914 and $708, respectively.

Table of Contents

As of December 31, 2012, there was $611 unrecognized stock-based compensation cost related to RSUs, which is expected to be recognized into the consolidated statements of operations over a weighted-average vesting period of 0.82 years. To the extent the actual forfeiture rate is different from the original estimate, actual share-based compensation cost related to these awards may be different from the expectation.

2008 Stock Incentive Plan Performance-based Restricted Stock Units (PSUs)

On February 25, 2008, the Board of Directors of the Company authorized the 2008 Stock Incentive Plan, as amended (the 2008 Plan). The 2008 Plan was subsequently approved by the Company s stockholders at the 2008 annual meeting of stockholders. Under the 2008 Plan, the Company may grant participants restricted stock awards, stock options, or other types of equity incentives. The number of shares authorized for issuance is (a) 2,000,000 shares plus (b) any authorized shares of the Company s common stock that, as of February 25, 2008, were available for issuance under the Company s 2005 Plan, or that thereafter become available for issuance under the 2005 Plan in accordance with its terms.

As of December 31, 2012, 1,689,400 PSUs were granted under the 2008 Plan. These awards will vest based on certain performance-based criteria, such as the Company s operating margin annual growth rate, provided the award holder continues to be an employee of the Company at the time the performance goals are met. Each PSU represents a contingent right of the participant to receive a payment in respect of a share of the Company s common stock, whether in shares, cash, or a combination thereof, subject to the terms and conditions of individual performance stock unit agreement. The Company also has the right, in its sole discretion, to pay cash in lieu of the issuance of vested shares of common stock. No such cash payment right was exercised by the Company.

The activities of PSUs under the 2008 Plan are summarized as follows:

	Number of shares	Weighted average grant date fair value per share
Performance-based restricted stock units unvested at January 1, 2010	1,081,413	$ 13.17
Granted	20,000	20.63
Vested	(538,344)	13.31
Forfeited	(75,981)	13.10
Performance-based restricted stock units unvested at December 31, 2010	487,088	13.33
Vested	(478,126)	13.34
Forfeited	(8,962)	13.10
Performance-based restricted stock units unvested at December 31, 2011 and 2012	0	$ 0.00

Total intrinsic value of PSUs vested for the years ended December 31, 2012, 2011 and 2010 was $0, $3,729 and $10,621, respectively.

2011 Stock Incentive Plan

In February 2011, the Board of Directors of the Company authorized the 2011 Stock Incentive Plan (the 2011 Plan). The 2011 Plan was subsequently approved by the Company s stockholders on April 21, 2011 at the 2011 annual meeting of stockholders. Under the 2011 Plan, the Company is authorized to grant participants restricted stock awards, stock options, or other types of equity incentives. The number of shares authorized for issuance was (a) 7,501,752 shares plus (b) any authorized shares of the Company s common stock that, as of April 21, 2011, were available for issuance under the 2008 Plan, or that thereafter become available for issuance under the 2008 Plan in accordance with its terms.

Table of Contents

RSUs under 2011 Plan

As of December 31, 2012, 235,367 RSUs were granted under the 2011 Plan. Each RSU represents a contingent right to receive one share of common stock. Some awards will vest in two equal installments on the 6-month and 12-month anniversaries of the grant date, and the other awards will vest on annual basis equally over four years, 25% on each anniversary of the grant date. The fair value of each RSU is measured on the grant date based on the market price of the stock on the grant date. The Company also has the right at its sole discretion to pay cash in lieu of the issuance of vested shares of common stock. No such cash payment right was exercised by the Company.

The activities of RSUs under the 2011 Plan are summarized as follows:

	Number of shares	Weighted average grant date fair value per share
Restricted stock units unvested at January 1, 2011	0	$ 0.00
Granted	135,109	13.79
Vested	(2,500)	20.21
Restricted stock units unvested at December 31, 2011	132,609	13.67
Granted	100,258	10.95
Vested	(95,109)	11.97
Restricted stock units unvested at December 31, 2012	137,758	$ 12.86

The total intrinsic value of RSUs vested for the years ended on December 31, 2012 and 2011 was $1,112 and nil, respectively.

As of December 31, 2012, there was $1,215 unrecognized stock-based compensation cost related to RSUs, which is expected to be recognized into the consolidated statements of operations over a weighted-average vesting period of 0.71 years. To the extent the actual forfeiture rate is different from original estimate, actual stock-based compensation related to these awards may be different from these expectations.

Stock Options under 2011 Plan

In December 2011, the Compensation Committee of the Board of Directors of the Company, pursuant to the Company s 2011 Plan, approved to grant stock options to the Company s executive officers and employees.

The fair value of each option grant was estimated on the date of grant using the Binomial Tree option pricing model. Option valuation models require the input of highly subjective assumptions, including the option s expected life and the price volatility of the underlying stock, and changes in the subjective input assumptions can materially affect the fair value estimate of employee stock options. The value of options granted was estimated on the date of the respective grant using the following weighted average assumptions:

Weighted average risk-free rate of return	2.08%
Weighted average expected option life	10 years
Weighted average expected volatility rate	74.7%
Weighted average dividend yield	0

Table of Contents

The activities of stock options under 2011 Plan are summarized as follows:

	Number of shares	Outstanding Options Weighted average exercise price per share	Aggregate intrinsic value
Outstanding, January 1, 2011	0	$ 0.00	
Granted	6,429,100	8.73	
Outstanding, December 31, 2011	6,429,100	8.73	
Granted	215,000	11.90	
Exercised	(5,000)	8.73	
Forfeited	(171,150)	8.73	
Outstanding, December 31, 2012	6,467,950	$ 8.84	$ 13,270
Exercised and expected to exercise, December 31, 2012	6,467,950	8.84	13,270
Exercisable, December 31, 2012	1,423,235	$ 8.73	$ 3,017

The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying awards and the closing stock price of $10.85 and $7.75 of the Company s common stock on December 31, 2012 and 2011.

Total intrinsic value of options exercised for the years ended December 31, 2012 and 2011 was $10 and nil, respectively.

As of December 31, 2012, there was $27,557 unrecognized stock-based compensation cost relating to the 2011 Plan, which is expected to be exercised over a weighted-average vesting period of 8.95 years. To the extent the actual forfeiture rate is different from original estimate, actual stock-based compensation related to these awards may be different from these expectations.

Additional information on options outstanding as of December 31, 2012 is as follows:

	Options Outstanding as of December 31, 2012			Options Exercisable as of December 31, 2012	
Range of average grant date fair value and exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$8.73-$10.65	6,312,950	8.94	$ 8.75	1,432,235	$ 8.73
$11.22-$13.35	155,000	9.28	$ 12.39	0	0.00
Total	6,467,950	8.95	$ 8.84	1,432,235	$ 8.73

The amount of stock-based compensation attributable to cost of revenues, sales and marketing, general and administrative expenses, and research and development is included in those line items in the accompanying consolidated statements of operations. Stock-based compensation expense related to the stock options and stock units are as follows:

Year Ended December 31,		
2012	2011	2010

Cost of revenues	$ 3,306	$ 1,657	$ 1,984
Sales and marketing	2,423	1,466	2,107
General and administrative	2,913	2,701	2,774
Research and development	1,189	962	1,134
Total stock-based compensation expense	$ 9,831	$ 6,786	$ 7,999

The total income tax benefit recognized in the statements of operations for stock-based compensation arrangements was $1,069, nil and nil for 2012, 2011, and 2010.

25. Stock Repurchase Program

On January 30, 2011, the Company announced the authorization of a stock repurchase program, under which the Company may, from time to time for a period of twelve months, depending on market conditions, share price and other factors, make one or more purchases, on the open market or in privately negotiated transactions, of up to $60,000 in aggregate value of the Company s outstanding common stock. As of June 30, 2011, the Company repurchased 3,166,500 shares of its common stock at a total cost of $59,997 pursuant to this repurchase program. The Company has determined that it has completed the repurchases pursuant to the program.

No stock was repurchased by the Company during 2012 and 2010.

All common stock repurchased by the Company has become part of its treasury stock.

26. Related Party Transactions

The Company entered into a one-year car lease agreement and house lease agreements with Linkage Technology Group Co., Ltd (Linkage Group) and Nanjing Linkage Technology Group Co., Ltd. Labor Union (Linkage Labor Union) in 2011 and entered into two lease agreements for office buildings with Linkage Group in 2012. Linkage Group is controlled by a director, executive officer and principal stockholder of the Company. Pursuant to the agreements, the Company paid approximately $289 and $310 to Linkage Group in 2012 and 2011, respectively.

In addition, the Company entered into a fixed asset transfer agreement with Linkage Group in March 2012, pursuant to which the Company has purchased various fixed assets for an aggregate consideration of $676.

There were no significant balances arising from the above transactions as of December 31, 2012 and 2011.

27. Noncontrolling Interest

(a) On September 25, 2008, the Company established a new subsidiary, Shanghai Xinjia Science & Technology Co., Ltd (AISH) in Shanghai, with a total capital contribution of $732. The Company and Ms. Yao Yuan, the other shareholder of AISH, hold 90% and 10% of AISH s share capital, respectively. AISH mainly provides software and services to telecommunication carriers in Shanghai. The 10% of AISH s share capital held by Ms. Yao Yuan was recorded as noncontrolling interest.

(b) In October 2009, the Company acquired 60% of the share capital of SmartCall Holding Limited and the remaining 40% of the share capital was recorded as noncontrolling interest.

(c) In September 2011, the Company s VIE Star VATS invested 60% of the share capital of Chengdu Yalian Zhixing Technology Ltd. The remaining 40% of the share capital was recorded as noncontrolling interest.

28. Redeemable Noncontrolling Interest

(a) In October 2009, the Company formed AsiaInfo International Pte Ltd (AIP) with Alpha Growth International Pte Ltd, a company incorporated under the laws of Singapore (AGI), in Singapore. AIP has total issued and paid-up share capital of $4,000. The Company contributed $2,800 to AIP in cash, which represents 70% of AIP s share capital. AGI contributed $1,200 to the AIP in cash, which represents 30% of AIP s share capital. AIP serves as an exclusive agent to market and distribute the Company s telecommunications software and service solutions in certain regions in Southeast Asia until December 2014 or such other date as the Company and AGI may mutually agree. The Company has consolidated AIP since its incorporation.

Pursuant to the agreement with AGI, the Company granted a put option to AGI to sell, while the Company received a call option from AGI to purchase, the 30% equity interest held by AGI. The options are exercisable within a 30 day-period from the date of issuing the audit report of AIP s 2013 financial statements. The exercise prices for the call and the put options of the 30% equity interest held by AGI are the same and are determined by a formula based on the performance of AIP for years 2012 and 2013.

Table of Contents

(b) In May 2010, the Company, through a subsidiary of the Company, consummated the acquisition of 80% equity interest of Hangzhou Zhongbo for an aggregate purchase price of $7,068 in cash. Hangzhou Zhongbo provides IT solutions to broadcasting operators in China.

Pursuant to the agreement with Hangzhou Zhongbo, the Company granted a put option to Hangzhou Zhongbo to sell, while the Company received a call option from Hangzhou Zhongbo to purchase, the 20% equity interest held by Hangzhou Zhongbo. The options are exercisable after December 31, 2011. The exercise prices for the call and the put options of the 20% equity interest held by Hangzhou Zhongbo are the same and are determined by a formula based on the performance of Hangzhou Zhongbo for years 2010 and 2011.

In June 2012, the Company exercised the call option and purchased the remaining 20% equity interest in Hangzhou Zhongbo for a consideration of $1,034. As a result, the Company held 100% equity interest in Hangzhou Zhongbo thereafter.

These noncontrolling interests were recorded outside of the permanent equity on the consolidated balance sheets initially at the fair value of the noncontrolling interests as of the date of incorporation or the date of acquisition of these subsidiaries. Subsequently, each noncontrolling interest was carried at the higher of (1) the initial carrying amount, increased or decreased for the noncontrolling interest s share of net income or loss or (2) the accreted amount to the expected redemption value. The change of the carrying amounts of the redeemable noncontrolling interest is recognized as net income attributable to noncontrolling interest in the consolidated statements of operations. For the year 2012, the amounts charged to the net income attributable to noncontrolling interests were $2,613, which represents the noncontrolling interests share of net loss of these subsidiaries.

	Redeemable Noncontrolling Interest	
Balance at December 31, 2011	$	385
Net loss		(2,613)
Noncontrolling interest redeemed by parent company		(1,260)
Adjustment to redemption value		0
Balance at December 31, 2012	$	(3,488)

29. Segment Information

The Company s operations are currently organized into five business units by three telecommunication carriers in China, multiple Cable television providers in China, and telecommunication carriers in other countries. In accordance with FASB guidance, each of these five business units represents an operating segment, of which discrete financial information is available and is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The five operating segments are aggregated into one reportable segment because they meet the aggregation criteria of FASB that have same economic characteristics.

The Company s chief operating decision maker is the Company s Business Committee, comprising the Company s Chief Executive Officer, Chief Financial Officer and senior management team.

The Company primarily operates in the PRC and substantially all of the Company s long-lived assets are located in the PRC.

See Note 4 for additional information regarding the Company s former security business segment.

Table of Contents

30. Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for the years ended December 31, 2012, 2011 and 2010 are presented in the following table.

	Three Months Ended			
	December 31	September 30	June 30	March 31
Year Ended December 31, 2012				
Total revenues	$ 165,683	$ 132,221	$ 126,271	$ 123,697
Total cost of revenues	97,978	82,889	77,634	75,263
Gross profit	67,705	49,332	48,637	48,434
Total operating expenses	52,658	47,134	46,660	45,923
Income from continuing operations	15,065	3,908	5,325	5,426
Income (loss) from discontinued operations, net of taxes	237	0	(1)	(7)
Net loss attributable to noncontrolling interest	(325)	(711)	(901)	(943)
Net income attributable to AsiaInfo-Linkage, Inc.	15,627	4,619	6,225	6,362
Net income per share from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	$ 0.21	$ 0.06	$ 0.09	$ 0.09
Diluted	$ 0.21	$ 0.06	$ 0.09	$ 0.09
Net income (loss) per share from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Diluted	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net income per share attributable to AsiaInfo-Linkage, Inc common stockholders				
Basic	$ 0.21	$ 0.06	$ 0.09	$ 0.09
Diluted	$ 0.21	$ 0.06	$ 0.09	$ 0.09
Year Ended December 31, 2011				
Total revenues	$ 131,091	$ 119,226	$ 116,186	$ 114,481
Total cost of revenues	76,830	66,929	67,101	62,235
Gross profit	54,261	52,297	49,085	52,246
Total operating expenses	43,377	37,138	34,556	37,238
Income from continuing operations	10,495	12,585	32,253	17,563
Income (loss) from discontinued operations, net of taxes	42	104	(2)	(54)
Net income (loss) attributable to noncontrolling interest	56	(600)	(698)	(331)
Net income attributable to AsiaInfo-Linkage, Inc.	10,481	13,289	32,949	17,840
Net income per share from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	$ 0.15	$ 0.18	$ 0.45	$ 0.24
Diluted	$ 0.14	$ 0.18	$ 0.45	$ 0.24
Net income (loss) per share from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Diluted	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net income per share attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	$ 0.15	$ 0.18	$ 0.45	$ 0.24
Diluted	$ 0.14	$ 0.18	$ 0.45	$ 0.24
Year Ended December 31, 2010				
Total revenues	$ 114,380	$ 110,462	$ 59,298	$ 59,243
Total cost of revenues	62,596	63,220	24,858	23,127
Gross profit	51,784	47,242	34,440	36,116
Total operating expenses	35,699	29,783	20,141	23,849
Income from continuing operations	14,705	14,863	13,283	10,877
Income (loss) from discontinued operations, net of taxes	574	1,266	188	(955)
Net loss attributable to noncontrolling interest	(226)	(326)	(435)	(423)
Net income attributable to AsiaInfo-Linkage, Inc.	15,505	16,455	13,906	10,345
Net income per share from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	$ 0.20	$ 0.20	$ 0.29	$ 0.24
Diluted	$ 0.20	$ 0.20	$ 0.29	$ 0.23
Net income (loss) per share from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	$ 0.01	$ 0.02	$ 0.00	$ (0.02)

Diluted	$	0.01	$	0.02	$	0.00	$	(0.02)
Net income per share attributable to AsiaInfo-Linkage, Inc common stockholders								
Basic	$	0.21	$	0.22	$	0.29	$	0.22
Diluted	$	0.21	$	0.22	$	0.29	$	0.21

Table of Contents

31. Subsequent Event

On December 28, 2012, the Company entered into a contract to sell Lenovo Computer back to the former shareholders of Lenovo Computer, for a total consideration of US dollars equivalent to RMB 25,000 and presented Lenovo Computer as discontinued operations as of December 31, 2012. On January 18, 2013, the Company received the total consideration related to the disposal.