ASIAINFO-LINKAGE, INC
Form 10-Q
November 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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 001-15713

ASIAINFO-LINKAGE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**752506390**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4TH FLOOR, ZHONGDIAN INFORMATION TOWER

6 ZHONGGUANCUN SOUTH STREET, HAIDIAN DISTRICT

BEIJING 100086, CHINA

(Address of principal executive offices, including zip code)

+8610 8216 6688

(Registrant s telephone number, including area code)

N/A

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

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

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

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

The number of shares of the registrant s common stock outstanding as of October 29, 2013 was 73,027,512.

ASIAINFO-LINKAGE, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2013

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASIAINFO-LINKAGE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenues:				
Software products and solutions	$ 132,430	$ 120,870	$ 389,457	$ 351,704
Service	7,398	8,412	22,173	22,919
Third-party hardware	3,362	2,939	14,793	7,566
Total revenues	143,190	132,221	426,423	382,189
Cost of revenues:				
Software products and solutions	79,037	75,199	239,681	215,539
Service	2,633	4,898	12,309	13,060
Third-party hardware	3,193	2,792	14,052	7,187
Total cost of revenues	84,863	82,889	266,042	235,786
Gross profit	58,327	49,332	160,381	146,403
Operating expenses (income):				
Sales and marketing	21,072	20,055	59,984	58,843
General and administrative	5,617	6,258	20,550	21,562
Research and development	24,743	20,821	66,841	59,312
Government subsidies	(6)	0	(279)	0
Impairment of goodwill	0	0	286,782	0
Total operating expenses	51,426	47,134	433,878	139,717
Income (loss) from operations	6,901	2,198	(273,497)	6,686
Other income (expenses), net:				
Interest income	2,730	1,914	6,722	6,343
Dividend income	0	78	201	682
Gain from sales of short-term investments	0	61	1,153	3,333
Loss on disposal of variable interest entities	0	0	(186)	0
Other (expenses) income, net	(42)	39	(271)	10

Total other income, net		2,688		2,092		7,619		10,368
Income (loss) before income tax expense (benefit), loss on equity method investment and income (loss) from discontinued operations, net of income tax		9,589		4,290		(265,878)		17,054
Income tax expense (benefit)		2,393		289		(2,906)		2,302
Income (loss) after income tax expense (benefit) before loss on equity method investment and income (loss) from discontinued operations, net of income tax		7,196		4,001		(262,972)		14,752
Loss on equity method investment, net of income tax		0		(93)		(461)		(93)
Income (loss) from continuing operations		7,196		3,908		(263,433)		14,659
Discontinued operations:								
Gain on sales of discontinued operations		0		0		1,153		0
Income tax expense for discontinued operations		0		0		0		8
Income (loss) from discontinued operations, net of income tax		0		0		1,153		(8)
Net income (loss)		7,196		3,908		(262,280)		14,651
Less: Net loss attributable to noncontrolling interest		(573)		(711)		(2,651)		(2,555)
Net income (loss) attributable to AsiaInfo-Linkage, Inc.	$	7,769	$	4,619	$	(259,629)	$	17,206
Earnings per share:								
Net income (loss) from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:								
Basic	$	0.11	$	0.06	$	(3.58)	$	0.24
Diluted	$	0.11	$	0.06	$	(3.58)	$	0.24
Net income (loss) from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders:								
Basic	$	0.00	$	0.00	$	0.02	$	0.00
Diluted	$	0.00	$	0.00	$	0.02	$	0.00
Net income (loss) attributable to AsiaInfo-Linkage, Inc. common stockholders:								

Basic	$	0.11	$	0.06	$	(3.56)	$	0.24
Diluted	$	0.11	$	0.06	$	(3.56)	$	0.24
Weighted average shares used in computation:								
Basic		72,941,169		72,613,106		72,835,190		72,532,007
Diluted		73,038,254		72,804,388		72,835,190		72,764,908

See accompanying notes to condensed consolidated financial statements.

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ASIAINFO-LINKAGE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(U.S. dollars in thousands)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income (loss)	$ 7,196	$ 3,908	$ (262,280)	$ 14,651
Other comprehensive income (loss), net of tax:				
Change in cumulative foreign currency translation adjustment	2,479	(1,184)	10,188	(2,561)
Transfer to statements of operations of realized gain on available-for-sale securities, net of tax effects of $0 and $22, $173 and $637 for the three months and nine months ended September 30, 2013 and 2012, respectively	0	(39)	(980)	(2,696)
Net unrealized (loss) gain on available-for-sale securities, net of tax effects of $9 and $25, ($144) and ($208) for the three months and nine months ended September 30, 2013 and 2012, respectively	(26)	(137)	748	631
Other comprehensive income (loss)	2,453	(1,360)	9,956	(4,626)
Comprehensive income (loss)	9,649	2,548	(252,324)	10,025
Less: Comprehensive loss attributable to noncontrolling interest	(573)	(711)	(2,651)	(2,555)
Comprehensive income (loss) attributable to AsiaInfo-Linkage, Inc.	$ 10,222	$ 3,259	$ (249,673)	$ 12,580

See accompanying notes to condensed consolidated financial statements.

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ASIAINFO-LINKAGE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

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

	September 30, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 296,377	$ 273,520
Restricted cash	39,634	39,639
Short-term investments available-for-sale securities	11,793	27,928
Short-term investments held-to-maturity securities	13,012	12,728
Accounts receivable (net of allowances of $3,361 and $2,999 as of September 30, 2013 and December 31, 2012, respectively)	324,217	285,695
Inventories, net	24,272	24,107
Other receivables	7,857	6,504
Deferred income tax assets current	5,669	5,559
Income taxes recoverable	2,508	0
Prepaid expenses and other current assets	10,400	8,311
Total current assets	735,739	683,991
Long-term investments	7,372	5,936
Property and equipment, net	30,534	19,104
Other acquired intangible assets, net	95,375	121,529
Deferred income tax assets non-current	2,560	2,560
Goodwill	145,494	433,545
Land use right, net	14,378	14,326
Other non-current assets	1,253	1,332
Total assets	$ 1,032,705	$ 1,282,323
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities:		
Accounts payable	$ 101,731	$ 78,079
Accrued expenses	24,214	28,065
Deferred revenue	29,301	40,491
Accrued employee benefits	68,601	76,803
Other payables	4,783	5,270
Income taxes payable	2,357	6,875
Other taxes payable	7,351	10,305
Deferred income tax liabilities current	1,703	1,565

Total current liabilities	240,041	247,453
Unrecognized tax benefits	2,513	1,703
Deferred income tax liabilities non-current	17,928	17,928
Other long term liabilities	387	387
Total liabilities	260,869	267,471
Redeemable noncontrolling interest	(5,450)	(3,488)
Equity:		
AsiaInfo-Linkage, Inc. stockholders equity:		
Common stock (100,000,000 shares authorized; $0.01 par value; 79,185,177 shares and 78,865,818 shares issued as of September 30, 2013 and December 31, 2012, respectively; 73,018,677 shares and 72,699,318 shares outstanding as of September 30, 2013 and December 31, 2012, respectively)	792	789
Additional paid-in capital	867,520	858,711
Treasury stock, at cost (6,166,500 shares as of September 30, 2013 and December 31, 2012)	(87,746)	(87,746)
(Accumulated deficit) retained earnings	(80,571)	179,058
Statutory reserve	22,050	22,050
Accumulated other comprehensive income	55,106	45,150
Total AsiaInfo-Linkage, Inc. stockholders equity	777,151	1,018,012
Noncontrolling interest	135	328
Total equity	777,286	1,018,340
Total liabilities, redeemable noncontrolling interest and equity	$ 1,032,705	$ 1,282,323

See accompanying notes to condensed consolidated financial statements.

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ASIAINFO-LINKAGE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(U.S. dollars in thousands)

	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Net (loss) income	$ (262,280)	$ 14,651
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	1,697	2,517
Stock-based compensation expense	7,300	7,294
Amortization of other acquired intangible assets	26,080	31,126
Amortization of land use right	224	221
Gain on disposal of property and equipment	(228)	(274)
Gain from sales of available-for-sale securities	(1,153)	(3,333)
Loss on equity method investment	461	93
Provision for doubtful accounts	740	1,163
Gain on sale of discontinued operations	(1,153)	0
Loss on disposal of variable interest entities	186	0
Impairment of goodwill	286,782	0
Changes in operating assets and liabilities:		
Accounts receivable	(39,903)	(2,023)
Inventories	(165)	(7,952)
Other receivables	874	(463)
Deferred income taxes	44	(15)
Income tax recoverable	(2,508)	(703)
Prepaid expenses and other current assets	(2,165)	(7,706)
Accounts payable	23,652	(14,154)
Accrued expenses	(2,010)	1,886
Deferred revenue	(11,186)	(7,242)
Accrued employee benefits	(7,756)	(14,451)
Other payables	395	213
Other taxes payable	(2,874)	(2,424)
Income taxes payable	(3,708)	(10,331)
Net cash provided by (used in) operating activities	11,346	(11,907)
Cash flows from investing activities:		
Decrease (increase) in restricted cash	5	(18,052)
Purchases of available-for-sale securities	(2,400)	(16,247)
Proceeds from sales of available-for-sale securities	19,893	18,045
Purchases of held-to-maturity securities	(12,947)	(12,617)
Proceeds from sales of held-to-maturity securities	12,969	0

Purchases of property and equipment	(14,103)	(11,404)
Proceeds from disposal of property and equipment	18	42
Employee housing loans	94	(939)
Purchase of long-term investment	(3,051)	0
Disposal of discontinued operations	1,153	0
Disposal of variable interest entities	(857)	0
Net cash provided by (used in) investing activities	774	(41,172)
Net cash flows from financing activities:		
Proceeds from exercise of stock options	1,459	201
Proceeds from short-term bank loans	0	8,600
Repayment of short term bank loans	0	(8,600)
Purchase of redeemable non-controlling interest	0	(1,034)
Cash provided by (used in) financing activities	1,459	(833)
Effect of exchange rate changes on cash and cash equivalents	9,278	(1,954)
Net increase(decrease) in cash and cash equivalents	22,857	(55,866)
Cash and cash equivalents at beginning of period	273,520	272,438
Cash and cash equivalents at end of period	$ 296,377	$ 216,572

See accompanying notes to condensed consolidated financial statements.

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ASIAINFO-LINKAGE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)

(U.S. dollars in thousands, except share amounts)

	AsiaInfo-Linkage, Inc. Stockholders									
	Common Stock									
	Outstanding Shares	Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Statutory Reserve	Accumulated Other Comprehensive Income	Total AsiaInfo-Linkage, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at January 1, 2012	72,430,221	$ 786	$ 847,879	$ (87,746)	$ 146,527	$ 21,748	$ 47,124	$ 976,318	$ 595	$ 976,913
Purchase of redeemable noncontrolling interest	0	0	(327)	0	0	0	0	(327)	0	(327)
Net income	0	0	0	0	32,833	0	0	32,833	(2,880)	29,953
Net loss attributable to redeemable noncontrolling interest	0	0	0	0	0	0	0	0	2,613	2,613
Statutory reserve	0	0	0	0	(302)	302	0	0	0	0
Other comprehensive loss	0	0	0	0	0	0	(1,974)	(1,974)	0	(1,974)
Stock option exercises	132,988	1	260	0	0	0	0	261	0	261
Restricted stock units vesting	136,109	2	(1)	0	0	0	0	1	0	1
Stock-based compensation (stock options)	0	0	8,077	0	0	0	0	8,077	0	8,077
Stock-based compensation (restricted stock units)	0	0	1,754	0	0	0	0	1,754	0	1,754
Excess tax benefit from stock-based compensation	0	0	1,069	0	0	0	0	1,069	0	1,069

Balance at December 31, 2012	72,699,318	$ 789	$ 858,711	$ (87,746)	$ 179,058	$ 22,050	$ 45,150	$ 1,018,012	$ 328	$ 1,018,340

	AsiaInfo-Linkage, Inc. Stockholders									
	Common Stock									
	Outstanding Shares	**Amount**	**Additional Paid-in Capital**	**Treasury Stock**	**Retained Earnings (Accumulated deficit)**	**Statutory Reserve**	**Accumulated Other Comprehensive Income**	**Total AsiaInfo-Linkage, Inc. Stockholders Equity**	**Noncontrolling Interest**	**Total Equity**
Balance at January 1, 2013	72,699,318	$ 789	$ 858,711	$ (87,746)	$ 179,058	$ 22,050	$ 45,150	$ 1,018,012	$ 328	$ 1,018,340
Net loss	0	0	0	0	(259,629)	0	0	(259,629)	(2,651)	(262,280)
Net loss attributable to redeemable noncontrolling interest	0	0	0	0	0	0	0	0	1,962	1,962
Disposal of variable interest entities	0	0	0	0	0	0	0	0	496	496
Other comprehensive income	0	0	0	0	0	0	9,956	9,956	0	9,956
Stock option exercises	190,276	2	1,510	0	0	0	0	1,512	0	1,512
Restricted stock units vesting	129,083	1	(1)	0	0	0	0	0	0	0
Stock-based compensation (stock options)	0	0	6,010	0	0	0	0	6,010	0	6,010
Stock-based compensation (restricted stock units)	0	0	1,290	0	0	0	0	1,290	0	1,290
Balance at September 30, 2013	73,018,677	$ 792	$ 867,520	$ (87,746)	$ (80,571)	$ 22,050	$ 55,106	$ 777,151	$ 135	$ 777,286

See accompanying notes to condensed consolidated financial statements.

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ASIAINFO-LINKAGE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

1. BASIS OF PREPARATION

On July 1, 2010, AsiaInfo Holdings, Inc. (AsiaInfo) completed its combination with internet technology (IT) software and solutions provider Linkage Technologies International Holdings Limited through the acquisition of 100% of the outstanding share capital of its wholly-owned subsidiary, Linkage Technologies Investment Limited (Linkage Technologies), and was renamed AsiaInfo-Linkage, Inc. (AsiaInfo-Linkage). Starting in the third quarter of 2010, AsiaInfo-Linkage s financial statements consolidated the operating results and financial position of Linkage Technologies and its consolidated subsidiaries.

(a) The accompanying unaudited condensed consolidated financial statements include the accounts of AsiaInfo-Linkage, its subsidiaries, and its variable interest entities (the VIEs) (collectively, the Company). All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information and with the instructions to Form 10-Q and Regulation S-X, as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by US GAAP for completing annual financial statements. However, management believes that the disclosures are adequate to ensure the information presented is not misleading. US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingencies and results of operations. While management has based its assumptions and estimates on the facts and circumstances existing as of September 30, 2013, final amounts may differ from these estimates.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results for the interim periods presented. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s audited financial statements included in its Form 10-K for the fiscal year ended December 31, 2012. The results of operations for the interim periods presented are not indicative of the operating results to be expected for any subsequent interim period or for the Company s fiscal year ending December 31, 2013.

AsiaInfo-Linkage uses the United States (U.S.) dollar as its reporting currency and functional currency. The financial records of the Company s People s Republic of China (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. Their balance sheets are translated into U.S. dollars based on the exchange rate as of the balance sheet date. Their statements of operations are translated using a weighted average exchange rate for the period. Translation adjustments are reflected in accumulated other comprehensive income in equity.

The RMB is not freely convertible into U.S. 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 foreign exchange transactions involving RMB are the rates of exchange quoted by the People s Bank of China.

As of December 31, 2012, no assets of the Company s consolidated VIEs were collateral for such VIEs obligations and there were no restrictions on the use of the VIEs assets to settle the Company s obligations. The Company disposed of all the VIEs in the second quarter of 2013. Therefore, as of September 30, 2013 and December 31, 2012, respectively, there were $0 and $3,222 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.

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(b) The accompanying unaudited condensed consolidated financial statements have been prepared using the same accounting policies as used in the preparation of the Company s consolidated financial statements on Form 10-K for the fiscal year ended December 31, 2012.

Disposal of Variable Interest Entities

The Company and its two consolidated VIEs in China, Beijing Zhongxinjia Sci-Tech Development Co., Ltd. (ZXJ) and Beijing Star VATS Technologies Co., Inc. (Beijing Star VATS), entered into a series of agreements in May 2013. Pursuant to these agreements, the Company transferred its interests in the VIEs in the second quarter of 2013 in exchange for payments secured by a charge over and pledge of the interests in the VIEs in favor of the Company. As a result of these agreements, the Company no longer holds a controlling financial interest in the VIEs. The disposal loss recognized in the second quarter of 2013 was $186.

Formation of Subsidiary

In September 2013, the Company formed a subsidiary in the United Kingdom as part of its ongoing initiative to expand into European markets.

Accounting Pronouncements

Newly adopted accounting pronouncements

In December 2011, the Financial Accounting Standard Board (the FASB) 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. In January 2013, the FASB further clarifies that ordinary trade receivables and receivables are not in the scope of the authoritative pronouncement and the pronouncement applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. 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 adoption of this guidance did not have a significant effect on the Company s consolidated financial statements.

In February 2013, the FASB issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The guidance does not change the current requirements for reporting net income or other comprehensive income in financial statements.

The guidance will require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under US GAAP for other reclassification items (that are not required under US GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

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The guidance applies to all public and private companies that report items of other comprehensive income. Public companies are required to comply with the guidance for all reporting periods (interim and annual) effective for reporting periods beginning after December 15, 2012. The Company adopted this guidance on January 1, 2013 and has presented the relevant details in the notes to the financial statements.

Recent accounting pronouncements not yet adopted

In February 2013, the FASB issued an authoritative pronouncement related to obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance addresses the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this pronouncement is fixed at the reporting date, except for obligations addressed within existing guidance in US GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the scope that exist at the beginning of an entity s fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the guidance in this pronouncement) and should disclose that fact. Early adoption is permitted. The Company is in the process of evaluating the effect of adoption of this guidance on the Company s consolidated financial statements.

In March 2013, the FASB issued an authoritative pronouncement related to parent s accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, the guidance clarifies that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (i.e., irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The guidance is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The guidance should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the guidance, it should apply the guidance as of the beginning of the entity s fiscal year of adoption. The Company is in the process of evaluating the effect of adoption of this guidance on the Company s consolidated financial statements.

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In July 2013, the FASB issued a pronouncement which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The guidance should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company is in the process of evaluating the effect of adoption of this guidance on the Company s consolidated financial statements.

2. FINANCIAL INSTRUMENTS

Financial instruments consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, other receivables, accounts payable, accrued expenses, other payables, income taxes payable and recoverable, other taxes payable and long-term investments.

Short-term investments are classified as available-for-sale securities and held-to-maturity securities, as discussed in Note 4. Certain long-term investments have been written down to their fair value, as discussed in Note 7. 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.

3. 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:

	September 30, 2013	December 31, 2012
Cash	$ 92,166	$ 101,642
Cash equivalents:		
Money market funds	126,137	148,332
Seven-day notice deposits	13,012	0
Others	65,062	23,546
Total cash and cash equivalents	$ 296,377	$ 273,520

4. SHORT-TERM INVESTMENTS

Short-term investments consist of available-for-sale securities and held-to-maturity securities. As of September 30, 2013 and December 31, 2012, the Company did not hold trading securities.

As of September 30, 2013 and December 31, 2012, the Company s held-to-maturity securities were carried at cost of $13,012 and $12,728, 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 a one-year maturity period.

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The following table provides additional information concerning the Company s available-for-sale securities, which consist principally of bond funds and corporate convertible notes issued by major financial institutions or companies.

	September 30, 2013				December 31, 2012			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Bond funds	$ 8,715	$ 678	$ 0	$ 9,393	$ 26,090	$ 938	$ 0	$ 27,028
Corporate convertible notes	2,400	0	0	2,400	900	0	0	900
Total	$ 11,115	$ 678	$ 0	$ 11,793	$ 26,990	$ 938	$ 0	$ 27,928

The following table provides additional information on the realized gains of the sale of available-for-sale securities during the three-month and nine-month periods ended September 30, 2013 and 2012, respectively. For purposes of determining gross realized gains, the cost of securities sold is based on specific identification.

	Three Months Ended September 30,					
	2013			2012		
	Proceeds	Costs	Gains	Proceeds	Costs	Gains
Available-for-sale securities	$ 0	$ 0	$ 0	$ 109	$ 48	$ 61
Total	$ 0	$ 0	$ 0	$ 109	$ 48	$ 61

	Nine Months Ended September 30,					
	2013			2012		
	Proceeds	Costs	Gains	Proceeds	Costs	Gains
Available-for-sale securities	$ 19,893	$ 18,740	$ 1,153	$ 18,045	$ 14,712	$ 3,333
Total	$ 19,893	$ 18,740	$ 1,153	$ 18,045	$ 14,712	$ 3,333

The Company reported no impairment loss for its short-term investments for the three-month and nine-month periods ended September 30, 2013 or 2012.

5. 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 International Business Machines Corporation (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 September 30, 2013 and December 31, 2012, including amounts attributable to the IBM-Type Arrangements, were as follows:

	September 30, 2013			December 31, 2012		
	IBM-Type Arrangement	Non-IBM-Type Arrangement	Total	IBM-Type Arrangement	Non-IBM-Type Arrangement	Total
Billed accounts receivable	$ 42,349	$ 77,816	$ 120,165	$ 17,656	$ 87,830	$ 105,486
Unbilled accounts receivable	42,051	159,452	201,503	37,069	141,993	179,062
Bank acceptance drafts	0	1,483	1,483	0	1,684	1,684
Commercial acceptance drafts	0	4,427	4,427	0	2,462	2,462
Less: allowance for doubtful accounts	(133)	(3,228)	(3,361)	(291)	(2,708)	(2,999)
Total accounts receivable, net	$ 84,267	$ 239,950	$ 324,217	$ 54,434	$ 231,261	$ 285,695

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6. INVENTORIES, NET

The components of inventories, net as of September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013	December 31, 2012
Deferred costs	$ 15,611	$ 10,857
Finished goods	8,661	13,250
Total	$ 24,272	$ 24,107

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 year system implementation periods. The deferred costs are to 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.

7. 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 Corporation (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.

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 Corporation (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.

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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, Beijing Star VATS entered into an investment agreement with Beijing Naomi Technology Limited (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 $1,898 in Naomi in two tranches. The first tranche totaling $947 was paid to Naomi in July 2012. The second tranche totaling $951 was paid to Naomi in April 2013.

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 $0 and $461 for the three-month and nine-month period ended September 30, 2013, respectively.

In May 2013, the Company disposed of its long-term investment in Naomi following the disposal of Beijing Star VATS.

(e) On January 28, 2013, the Company acquired 9,566,716 Series A-1 Preferred Shares of GEO Holdings Ltd. (GEO), for a total cash consideration of $2,100 representing 6.89% of GEO 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 GEO, the Company uses the cost method of accounting to record its investment in GEO. In September 2013, the Company paid $2,400 to acquire convertible promissory notes issued by GEO, which were recorded as short-term investments available-for-sale securities as of September 30, 2013.

8. GOODWILL

The changes in the carrying amount of goodwill during the nine months ended September 30, 2013 were as follows:

	Amount
Gross amount:	
Beginning balance at January 1, 2013:	$ 460,045
Disposal of variable interest entities	(1,448)
Exchange differences	190
Ending balance at September 30, 2013:	458,787
Accumulated impairment loss:	
Beginning balance at January 1, 2013:	(26,500)
Impairment of goodwill	(286,782)
Exchange differences	(11)
Ending balance at September 30, 2013:	(313,293)

Goodwill, net at September 30, 2013	$ 145,494

In the second quarter of 2013, the Company s operating environment began to deteriorate as evidenced by a decrease in current and projected growth rates for the China gross domestic product, compared to historical growth rates, and continued uncertainty of government policies for the telecommunications and internet industries which changed market participant valuation assumptions including discount rates. On May 12, 2013, upon the unanimous recommendation of the Special Committee of its Board of Directors and the approval of its Board of Directors, the Company entered into a definitive agreement under which the Company would be acquired by an investor consortium led by CITIC Capital Partners, a director of the Company and their respective affiliates. Under the terms of the definitive agreement, the Company was valued at approximately $896,700. In management s judgment, the valuation represented the fair value of the Company s reporting unit in assessing goodwill impairment considering the aforementioned factors. Because the fair value of the reporting unit was less than its carrying amount, the Company performed the second step of the interim test for goodwill impairment in the second quarter of 2013 in order to determine the implied fair value of goodwill for the reporting unit. This required management to allocate the fair value of the reporting unit to all of the assets and liabilities, including any unrecognized intangible assets of the reporting unit. Based on the results of the impairment test, the Company recognized a loss on impairment of goodwill of $286,782 in the three months ended June 30, 2013.

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In the third quarter of 2013, the Company did not identify any impairment indicators. The Company recognized no loss on impairment of goodwill in the three months ended September 30, 2013.

9. OTHER ACQUIRED INTANGIBLE ASSETS, NET

The carrying amounts of the components of other acquired intangible assets, net as of September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013					December 31, 2012			
	Gross carrying amount	Accumulated amortization	Disposal of VIE	Foreign exchange difference	Net carrying amount	Gross carrying amount	Accumulated amortization	Foreign exchange difference	Net carrying amount
Core technologies	$ 45,931	$ (25,948)	$ 0	$ 0	$ 19,983	$ 45,931	$ (20,498)	$ 0	$ 25,433
Trade names and trademarks	21,037	(3,876)	0	0	17,161	21,037	(3,059)	0	17,978
Contract backlogs	12,474	(12,486)	0	12	0	12,474	(12,480)	12	6
Customer lists	131	(143)	0	12	0	131	(143)	12	0
Customer relationships	117,755	(60,187)	0	311	57,879	117,755	(47,287)	311	70,779
Distribution networks	870	(870)	0	0	0	870	(870)	0	0
Software	1,721	(1,884)	0	163	0	1,721	(1,884)	163	0
Non-compete agreements	1,249	(965)	0	25	309	1,249	(810)	25	464
Corporate business agency agreements	2,037	(1,961)	(75)	6	7	2,037	(1,695)	5	347
Existing technology	38,500	(38,464)	0	0	36	38,500	(31,978)	0	6,522
	$ 241,705	$ (146,784)	$ (75)	$ 529	$ 95,375	$ 241,705	$ (120,704)	$ 528	$ 121,529

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The future amortization expenses for the net carrying amount of intangible assets with definite lives as of September 30, 2013 are expected to be as follows:

Three-month period ended December 31, 2013	$ 6,449
2014	23,469
2015	21,110
2016	14,950
2017 and thereafter	29,397
	$ 95,375

10. LAND USE RIGHT, NET

From 2009, the Company completed the process to obtain a 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 and $777 was paid in 2011.

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 the 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 September 30, 2013, the land use right amounted to $14,378, which was the cost less the accumulated amortization of $714 and plus an exchange rate gain of $353.

11. OTHER NON-CURRENT ASSETS

In 2012, the Company launched an employee housing loan program which provides non-interest bearing loans to qualified employees with a five-year term. As of September 30, 2013 and December 31, 2012, the total amount of loans granted under the program was $1,517 and $1,611, respectively, and the loans due in more than one year classified in other non-current assets were $1,253 and $1,332, respectively.

12. ACCOUNTS PAYABLE

Accounts payable included bank acceptance drafts payable of $1,680 and $3,427, and commercial acceptance drafts payable of $0 and $139 as of September 30, 2013 and December 31, 2012, respectively. These bank acceptance drafts and commercial acceptance drafts were non-interest bearing and were due within six months of issuance.

As of September 30, 2013 and December 31, 2012, the Company s accounts payable balance related to the IBM-Type Arrangements was $91,579 and $63,148, respectively, under which the Company is contractually obligated to pay its vendors only when its customers pay the Company.

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13. CREDIT FACILITIES

As of September 30, 2013, the Company had credit facilities for working capital purposes totaling $152,526 expiring on various dates up to August 2014, which were secured by bank deposits of $34,081. As of September 30, 2013, unused credit facilities were $126,755 and used credit facilities totaled $25,771. The credit facilities were used to cover issuance of standby letters of credit for customers, borrowing of short-term bank loans and issuance of bank acceptance drafts payable to hardware suppliers.

As of December 31, 2012, the Company had credit facilities for working capital purposes totaling $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 totaled $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.

In addition to the bank deposits pledged for the above credit facilities, the Company also collateralized bank deposits of $5,553 and $6,157 for the issuance of certain standby letters of credit and bank acceptance drafts, as of September 30, 2013 and December 31, 2012, respectively. Therefore, total bank deposits of $39,634 and $39,639 were presented as restricted cash in the consolidated balance sheets as of September 30, 2013 and December 31, 2012, respectively.

14. VALUE-ADDED TAXES REBATE

Revenue from software products and solutions included the benefit of the rebate of value-added taxes on sales of software and services as part of the PRC government s policy of encouraging software development in the PRC. The rebate totaled $5,063 and $6,317 for the nine months ended September 30, 2013 and 2012, respectively.

15. INCOME TAXES

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

Reconciliation between the provision for income tax expenses (benefit) from continuing operations, which is computed by applying the U.S. federal tax rate to income (loss) before income taxes, and the actual provision for income taxes was as follows:

	Nine Months Ended September 30,	
	2013	2012
U.S. federal rate	35%	35%
Difference between statutory rate and foreign effective tax rate	(25%)	(28%)
Subpart F income inclusion and other dividend income	4%	7%
Stock-based compensation	3%	5%
Tax effect due to reduced rate granted for 2011 and 2012	(40%)	0%
Impairment of goodwill	15%	0%
Change in valuation allowance	12%	(4%)

Effect of change in repatriation of foreign earnings of certain subsidiaries	3%	0%
Non-deductible meals and entertainment expenses	3%	0%
PRC super research and development deduction	(4%)	0%
True-up of China tax returns	(2%)	0%
Others	(3%)	(1%)
	1%	14%

The tax rate for the nine months ended September 30, 2013 was lower than that of the same period in 2012 mainly because two of the Company s subsidiaries, AsiaInfo-Linkage Technologies (China), Inc. (AIBJ) and Linkage-AsiaInfo Technologies (Nanjing), Inc., (Linkage Nanjing) recognized the tax benefit of 2011 and 2012 Key Software Enterprise (KSE) status in the first quarter of 2013. Pursuant to the relevant rules, a company with KSE status could apply a reduced income tax rate of 10%. These entities applied for this status for 2011 and 2012 and received approvals in the first quarter of 2013. Thus, the tax benefit was reflected in the three months ended March 31, 2013. Total income taxes recoverable related to being granted this reduced income tax rate was $2,508 as of September 30, 2013.

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Aggregate undistributed earnings of approximately $57,894 on September 30, 2013 of the Company s PRC subsidiaries and VIEs that were 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.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. There is no ongoing examination by any tax authority at this time. The Company did not change its position regarding recognition of uncertain tax benefit in the nine months ended September 30, 2013, and the movement in unrecognized tax benefits was mainly due to the true-up for AIBJ s reduced income tax rate for 2011 and 2012. The Company s various tax years from 2003 to 2012 remain open in these taxing jurisdictions.

16. STOCK-BASED COMPENSATION

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 Plan, are referred to hereinafter as the Option Plans).

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 year 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 Option Plans as of September 30, 2013 and activities during the nine months ended September 30, 2013 were as follows:

	Number of shares	Weighted average exercise price per share	Aggregate intrinsic value
Outstanding, January 1, 2013	200,248	$ 5.41	
Expired	(500)	3.42	
Exercised	(2,582)	5.21	
Outstanding, March 31, 2013	197,166	$ 5.42	$ 1,272

Exercised	(8,325)		6.55		
Outstanding, June 30, 2013	188,841	$	5.37	$	1,165
Expired	(60,370)		5.42		
Exercised	(48,190)		6.21		
Outstanding, September 30, 2013	80,281	$	4.84	$	539
Exercised and expected to exercise, September 30, 2013	80,281		4.84		539
Exercisable, September 30, 2013	80,281	$	4.84	$	539

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The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying awards and the closing stock price of $11.54 per share of the Company s common stock on the last trading day in the Company s third fiscal quarter of 2013 (September 30, 2013).

Total intrinsic value of options exercised for each of the three months ended September 30, 2013 and 2012 was $256 and $1,173, respectively.

As of September 30, 2013, 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 0.72 years.

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 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.

RSUs under the 2005 Plan as of September 30, 2013 and activities during the nine months ended September 30, 2013 were as follows:

	Number of shares	**Weighted average grant date fair value per share**
Restricted stock units unvested at January 1, 2013	41,850	$ 22.60
Vested	(10,700)	24.52
Restricted stock units unvested at March 31, 2013	31,150	$ 21.95
Vested	(3,000)	19.44
Restricted stock units unvested at June 30, 2013	28,150	$ 22.21
Vested	(7,500)	20.63
Restricted stock units unvested at September 30, 2013	20,650	$ 22.79

Total intrinsic values of RSUs vested for the three months ended September 30, 2013 and 2012 were $86 and $89, respectively.

As of September 30, 2013, there was $256 of 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 0.59 years. To the extent the actual forfeiture rate is different from the original estimate, the stock-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.

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As of September 30, 2013, an aggregate of 1,689,400 PSUs granted under the 2008 Plan had fully vested based on certain performance criteria.

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.

RSUs under 2011 Plan

As of September 30, 2013, 235,367 RSUs were granted under the 2011 Plan. Each RSU represents a contingent right to receive one share of common stock. Some awards vest in two equal installments on the 6-month and 12-month anniversaries of the grant date, and the other awards 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, 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.

RSUs under the 2011 Plan as of September 30, 2013 and activities during the nine months ended September 30, 2013 were as follows:

	Number of shares	Weighted average grant date fair value per share
Restricted stock units unvested at January 1, 2013	137,758	$ 12.86
Vested	(47,379)	10.92
Restricted stock units unvested at March 31, 2013	90,379	$ 13.88
Vested	(9,625)	18.80
Restricted stock units unvested at June 30, 2013	80,754	$ 13.30
Granted	88,564	11.54
Vested	(50,879)	11.15
Restricted stock units unvested at September 30, 2013	118,439	$ 12.91

The total intrinsic value of RSUs vested for the three months ended September 30, 2013 and 2012 was $586 and $520, respectively.

As of September 30, 2013, there was $1,302 of 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 0.96 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.

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

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Stock Options under 2011 Plan

Stock options under 2011 Plan as of September 30, 2013 and activities during the nine months ended September 30, 2013 were as follows:

	Number of shares	Weighted average exercise price per share	Aggregate intrinsic value
Outstanding, January 1, 2013	6,467,950	$ 8.84	
Granted	28,000	11.02	
Exercised	(20,475)	8.73	
Forfeited	(43,650)	8.73	
Outstanding, March 31, 2013	6,431,825	$ 8.85	$ 19,550
Granted	32,000	11.81	
Exercised	(84,175)	8.73	
Forfeited	(67,650)	8.73	
Outstanding, June 30, 2013	6,312,000	$ 8.86	$ 17,037
Exercised	(50,100)	8.73	
Forfeited	(45,900)	8.73	
Outstanding, September 30, 2013	6,216,000	$ 8.87	$ 16,767
Exercised and expected to exercise, September 30, 2013	6,216,000	8.87	16,767
Exercisable, September 30, 2013	1,314,510	$ 8.82	$ 3,603

The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying awards and the closing stock price of $11.54 per share of the Company s common stock on the last trading day in the Company s third fiscal quarter of 2013 (September 30, 2013).

Total intrinsic value of options exercised for the three months ended September 30, 2013 and 2012 was $140 and nil, respectively.

As of September 30, 2013, there was $21,635 of unrecognized stock-based compensation cost relating to the 2011 Plan, which is expected to be exercised over a weighted-average vesting period of 8.22 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.

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. For the three months and nine months ended September 30, 2013 and 2012, stock-based compensation expense related to the stock options and stock units were as follows:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cost of revenues	$ 791	$ 814	$ 2,429	$ 2,481
Sales and marketing	609	614	1,829	1,816
General and administrative	755	692	2,245	2,103
Research and development	261	295	797	894
Total stock-based compensation expenses	$ 2,416	$ 2,415	$ 7,300	$ 7,294

17. FAIR VALUE MEASUREMENTS

Measured on recurring basis

The Company measured the cash and cash equivalents, restricted cash and the short-term investments available-for-sale securities at fair value on a recurring basis as of September 30, 2013 and December 31, 2012.

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Cash and cash equivalents and restricted cash 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 (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 September 30, 2013 and December 31, 2012.

The Company had Level 3 investments as of September 30, 2013 and December 31, 2012 in the form of convertible promissory notes issued by GEO. As of September 30, 2013, the notes provided that they would bear an annual interest rate of 8% after January 28, 2014 and would be due and payable to the purchaser, or convertible into shares of GEO s Series A Preferred Shares or other similar equity securities, upon execution of securities purchase and sales agreements. As of December 31, 2012, the notes bore an annual interest rate of 8% after 90 days from the date of issuance, and were to be redeemed in February 2013.

As the convertible notes were issued by a private company and not traded on any 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 January 28, 2014. The Company also considered the credit risk related to the issuer. The Company believes this method provided a reasonable fair value of the investments.

The available-for-sale securities measured and recorded at fair value as of September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013 Fair Value Measurements at the Reporting Date Using				December 31, 2012 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	$ 9,393	$ 0	$ 0	$ 9,393	$ 27,028	$ 0	$ 0	$ 27,028
Corporate convertible notes	0	0	2,400	2,400	0	0	900	900
Total	$ 9,393	$ 0	$ 2,400	$ 11,793	$ 27,028	$ 0	$ 900	$ 27,928

The following table presents changes in Level 3 investments measured on a recurring basis for the nine-month periods ended September 30, 2013 and 2012:

	Nine Months Ended September 30, 2013	2012
Beginning balance	$ 900	$ 10,985
Purchases	2,400	450
Redemption	(900)	(8,956)
Realized gain	0	(2,027)
Included in other income	0	(40)
Included in other comprehensive income	0	(1,987)
Exchange difference	0	(2)
Ending balance	$ 2,400	$ 450

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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 forecasted financial performance of the acquired business and discount rates, to determine the fair value of these purchased assets.

18. EARNINGS PER SHARE

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Amounts attributable to AsiaInfo-Linkage, Inc. common stockholders (numerator)				
Income (loss) from continuing operations, net of taxes	$ 7,769	$ 4,619	$ (260,782)	$ 17,214
Income (loss) from discontinued operations, net of taxes	0	0	1,153	(8)
Net income (loss)	$ 7,769	$ 4,619	$ (259,629)	$ 17,206
Shares (denominator):				
Weighted average common stock outstanding				
Basic	72,941,169	72,613,106	72,835,190	72,532,007
Dilutive effect of employee stock options and restricted stock units	97,085	191,282	0	232,901
Diluted	73,038,254	72,804,388	72,835,190	72,764,908
Earnings per share				
Net income (loss) from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders				
Basic	$ 0.11	$ 0.06	$ (3.58)	$ 0.24
Diluted	$ 0.11	$ 0.06	$ (3.58)	$ 0.24
Net income (loss) from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders				

Basic	$	0.00	$	0.00	$	0.02	$	0.00
Diluted	$	0.00	$	0.00	$	0.02	$	0.00
Net income (loss) attributable to AsiaInfo-Linkage, Inc. common stockholders								
Basic	$	0.11	$	0.06	$	(3.56)	$	0.24
Diluted	$	0.11	$	0.06	$	(3.56)	$	0.24

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The dilutive effects of the stock options and restricted stock units are calculated using the treasury stock method. Under the treasury stock method, the proceeds from the assumed conversion of stock options and restricted stock units which include the benefit of the compensation costs attributable to future services and not yet recognized, are used to repurchase outstanding shares of common stock using a quarterly average market price.

The Company had 6,426,145 and 6,419,410 stock options outstanding for the three months and nine months ended September 30, 2012, respectively, which could potentially dilute earnings per share (EPS) in the future, but were excluded in the computation of diluted EPS as their exercise prices were above the average market values in such periods. The Company also excluded 74,100 and 84,986 restricted stock units from the computation of diluted EPS for the three months and nine months ended September 30, 2012, respectively.

The Company had 6,216,000 stock options outstanding for the three months ended September 30, 2013, which could potentially dilute EPS in the future, but were excluded from the computation of diluted EPS as their exercise prices were above the average market values during that period. The Company also excluded 39,400 restricted stock units from the computation of diluted EPS for the three months ended September 30, 2013.

19. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax, for the three months and nine months ended September 30, 2013 and 2012, respectively:

	Three Months Ended September 30, 2013		
	Unrealized gain (loss) on available-for-sale securities	Foreign currency items	Total
Beginning balance	$ (611)	$ 53,264	$ 52,653
Other comprehensive income before reclassifications	(26)	2,479	2,453
Amounts reclassified out of accumulated other comprehensive income	0	0	0
Net current-period other comprehensive (loss) income	(26)	2,479	2,453
Ending balance	$ (637)	$ 55,743	$ 55,106

	Three Months Ended September 30, 2012		
	Unrealized gain (loss) on available-for-sale securities	Foreign currency items	Total
Beginning balance	$ 322	$ 43,536	$ 43,858

Other comprehensive income before reclassifications	(137)	(1,184)	(1,321)
Amounts reclassified out of accumulated other comprehensive income	(39)	0	(39)
Net current-period other comprehensive loss	(176)	(1,184)	(1,360)
Ending balance	$ 146	$ 42,352	$ 42,498

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	Nine Months Ended September 30, 2013		
	Unrealized gain (loss) on available-for-sale securities	Foreign currency items	Total
Beginning balance	$ (405)	$ 45,555	$ 45,150
Other comprehensive income before reclassifications	748	10,188	10,936
Amounts reclassified out of accumulated other comprehensive income	(980)	0	(980)
Net current-period other comprehensive (loss) income	(232)	10,188	9,956
Ending balance	$ (637)	$ 55,743	$ 55,106

	Nine Months Ended September 30, 2012		
	Unrealized gain (loss) on available-for-sale securities	Foreign currency items	Total
Beginning balance	$ 2,211	$ 44,913	$ 47,124
Other comprehensive income before reclassifications	631	(2,561)	(1,930)
Amounts reclassified out of accumulated other comprehensive income	(2,696)	0	(2,696)
Net current-period other comprehensive loss	(2,065)	(2,561)	(4,626)
Ending balance	$ 146	$ 42,352	$ 42,498

The following table presents the reclassification out of accumulated other comprehensive income (loss) for the three months and nine months ended September 30, 2013 and 2012, respectively:

	Three Months Ended September 30					
	Before Tax		Tax Effect		Net of Tax	
	2013	2012	2013	2012	2013	2012
Net unrealized loss on investment securities:						
Net unrealized gain arising during the period	(35)	(162)	(9)	(25)	(26)	(137)
Less: reclassification adjustment for gain realized and recorded as gain from sales of short-term investments	0	61	0	22	0	39

Net unrealized loss on investment securities	$ (35)	$ (223)	$ (9)	$ (47)	$ (26)	$ (176)

	Nine Months Ended September 30					
	Before Tax		Tax Effect		Net of Tax	
	2013	2012	2013	2012	2013	2012
Net unrealized loss on investment securities:						
Net unrealized gain arising during the period	892	839	144	208	748	631
Less: reclassification adjustment for gain realized and recorded as gain from sales of short-term investments	1,153	3,333	173	637	980	2,696
Net unrealized loss on investment securities	$ (261)	$ (2,494)	$ (29)	$ (429)	$ (232)	$ (2,065)

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20. GOVERNMENT SUBSIDIES

Government subsidies include amounts granted by government authorities to encourage research and development for high-technology companies. Subsidies are recognized in the Company s financial statements once the approvals are obtained from the relevant government authorities and the Company has the right to receive the subsidies.

If the subsidy is granted in connection with a specific project, it is recorded as a reduction to cost of revenues. Otherwise, the subsidy is recorded as other operating income. For the three-month periods ended September 30, 2013 and 2012, the Company recognized government subsidies as a reduction to costs of revenues of $0 and $0, respectively, and government subsidies in other operating income of $6 and $0, respectively. For the nine-month periods ended September 30, 2013 and 2012, the Company recognized government subsidies as a reduction of costs of revenues of $1,241 and $1,891, respectively, and government subsidies in other operating income of $279 and $0, respectively.

21. 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 internationally. 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.

The Company s chief operating decision maker is the Company s Business Committee, comprising the Company s Chief Executive Officer, Chief Financial Officer, Chief Technology 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.

22. COMMITMENTS AND CONTINGENCIES

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 $12,135 as of September 30, 2013 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, pursuant to which the Company is committed to the purchase of software from IBM with corresponding payment obligations from 2012 to 2014. As of September 30, 2013, the Company is committed to the purchase of software from IBM amounting to $3,254. The committed purchase amounts are $1,627 and $1,627 for the next two years, respectively.

Contingencies   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 in the United States District Court for the District of Delaware under the caption *Halpert v. Zhang, et al*. The Company was also named as a nominal defendant. The plaintiff asserted claims for breach of fiduciary duty against all defendants, corporate waste against the director defendants, and unjust enrichment against the officer defendants 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 and disbursements, including legal fees. In August 2013, the court denied the Company s motion to dismiss the action. In October 2013, the plaintiff filed a motion for judgment on the pleadings, which the Company expects to be heard in November 2013, and the Company filed a motion to stay the action, which remains pending.

Upon the unanimous recommendation of the Special Committee of its Board of Directors and the approval of its Board of Directors, on May 12, 2013, the Company entered into an Agreement and Plan of Merger (the Merger Agreement), with Skipper Limited (Parent) and Skipper Acquisition Corporation (Merger Sub), which are owned indirectly by CITIC Capital Partners, the private equity arm of CITIC Capital Holdings Ltd. Pursuant to the terms and subject to the conditions of the Merger Agreement, Merger Sub would merge (the Merger) with and into the Company, with the Company continuing as the surviving corporation and a wholly owned subsidiary of Parent, and each share of outstanding Company common stock would convert automatically into the right to receive $12.00 in cash without interest, except for dissenting shares, shares of treasury stock, and shares held by members of the buyer group that will own all of Parent following the Merger.

Following the Company s announcement that it entered into the Merger Agreement, three alleged Company stockholders filed putative class action complaints against the Company, each member of its Board of Directors and Merger Sub in the Delaware Court of Chancery. These actions have been consolidated under the caption *In re AsiaInfo-Linkage, Inc. Stockholder Litigation*. Plaintiffs have alleged that each member of the Company s Board of Directors breached his fiduciary duties to the Company s stockholders by favoring Parent over other potential purchasers, favoring his own interests over the interests of the Company s stockholders, failing to take appropriate steps to maximize the value of the Company to its stockholders, agreeing to preclusive deal protection devices and otherwise agreeing to sell the Company for an unfairly low price. Plaintiffs have further alleged that the Company and Merger Sub aided and abetted those alleged breaches of fiduciary duty. In addition, plaintiffs have alleged that the preliminary version of the Company s proxy statement filed on July 23, 2013, omitted certain material information essential to the Company s stockholders in order to allow them to cast a fully-informed vote at the upcoming stockholders meeting concerning the Merger. Plaintiffs have requested an injunction, rescission of the Merger to the extent consummated, money damages if the Merger is consummated, certain other equitable relief, a declaration that the Merger is unfair, unjust and inequitable, and an award of plaintiffs costs, including legal fees. In October 2013, the parties executed a memorandum of understanding setting forth an agreement-in-principle which, when finalized as a stipulation of settlement, is intended to fully and finally resolve and settle the action and all related claims.

While the Company cannot guarantee the outcome of these proceedings, the Company believes that the final results will not have a material effect on its consolidated financial condition, results or operations, or cash flows.

Contingencies   Letters of Credit

As of September 30, 2013, the Company had outstanding standby letters of credit in the amount of $25,577. They were used for performance guarantees amounting to $23,403 with respect to the Company s performance on certain customer projects, and guarantees amounting to $2,174 with respect to future payments for building construction.

23. 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.

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(b) In October 2009, the Company acquired 60% of the share capital of SmartCall Holding Limited (Smartcall) and the remaining 40% of the share capital was recorded as noncontrolling interest. In May 2013, the Company disposed of its interest in Smartcall together with Smartcall s interest in a VIE named ZXJ.

(c) In September 2011, the Company s VIE Beijing Star VATS acquired 60% of the share capital of Chengdu Yalian Zhixing Technology Ltd (Yalian Zhixing). The remaining 40% of the share capital was recorded as noncontrolling interest. In May 2013, the Company disposed of its interest in Beijing Star VATS, together with its 60% share capital of Yalian Zhixing.

24. 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 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.

(b) In May 2010, the Company, through a subsidiary of the Company, acquired an 80% equity interest in 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 the other shareholder of Hangzhou Zhongbo, the Company granted a put option to such shareholder of Hangzhou Zhongbo to sell, while the Company received a call option from such shareholder of Hangzhou Zhongbo to purchase, the 20% equity interest held by such shareholder in Hangzhou Zhongbo. The options were exercisable after December 31, 2011. The exercise prices for the call and the put options of the 20% equity interest held in Hangzhou Zhongbo were the same and were 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 holds 100% equity interest in Hangzhou Zhongbo.

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 loss attributable to noncontrolling interest in the consolidated statements of operations. For the nine months ended September 30, 2013, the amount charged to net loss attributable to noncontrolling interests was $1,962, which represents the noncontrolling interests share of net loss of these subsidiaries.

		Redeemable Noncontrolling Interest
Balance at January 1, 2013	$	(3,488)
Net loss		(854)
Adjustment to redemption value		0
Balance at March 31, 2013	$	(4,342)
Net loss		(543)
Adjustment to redemption value		0
Balance at June 30, 2013	$	(4,885)
Net loss		(565)
Adjustment to redemption value		0
Balance at September 30, 2013	$	(5,450)

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

Except for historical information, the statements contained in this quarterly report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The Private Securities Litigation Reform Act of 1995, or the Reform Act, contains certain safe harbors regarding forward-looking statements. Certain of the forward-looking statements include management s expectations, intentions and beliefs with respect to our growth, our operating results, the nature of the industry in which we are engaged, our business strategies and plans for future operations, our needs for capital expenditures, capital resources and liquidity, and similar expressions concerning matters that are not historical facts. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. All forward-looking statements included in this report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. These cautionary statements are being made pursuant to the provisions of the Reform Act with the intention of obtaining the benefits of the safe harbor provisions of the Reform Act. The factors that could cause actual results to differ materially include, but are not limited to, the factors discussed under the heading Risk Factors in our Form 10-K for the year ended December 31, 2012 and in the reports we file with the U.S. Securities and Exchange Commission, or the SEC, from time to time.

In this report, the Company, we, us and our refer to AsiaInfo-Linkage, Inc. and its subsidiaries, Linkage refers to Linkage Technologies International Holdings Limited, and AsiaInfo refers to the Company prior to its combination with Linkage.

Overview

We are the leading provider of high-quality telecommunications software solutions and information technology, or IT, products and services in China. Our solutions, products and services include business support systems, or BSS, containing billing and customer relationship management, or CRM, and other software and services. Our software and services enable our customers to build, maintain, operate, manage and improve their communications infrastructure. Our largest customers are the major telecommunications carriers in China and their provincial subsidiaries, including China Mobile Communications Corporation, or China Mobile, China United Telecommunications Corporation, or China Unicom, and China Telecommunications Corporation, or China Telecom.

We are also the leading provider in China s cable television BSS market, providing billing and CRM software and services. We won several important contracts to provide modernized BSS for consolidated provincial-level cable operators in most of the key provinces in China, such as Jiangsu Cable TV and Zhejiang Cable TV. We believe the successful implementation of these projects has brought additional value to our customers and positions us well for future cable industry consolidation among multiple regional operators, which we expect to accelerate in the coming years.

We are also expanding our footprint in the international telecommunications software and services market by leveraging the valuable experience gained from our Chinese telecommunications carriers. In 2011, we won new contracts from customers in Southeast Asia, including Malaysia, Nepal and others, after an detailed selection process against other industry leading vendors, which is a significant achievement given the long selling cycle of business support software. In June 2012, we opened our first European based sales office in Cambridge, followed by an office in London, United Kingdom as part of our ongoing initiative to expand operations across Europe, Middle East and Africa (EMEA) markets. In 2013, we plan to continue to expand our international business through both our Southeast Asia offices and our European office by signing new telecommunication carrier customers and by providing additional software and services to current customers.

We commenced our operations in the United States, or the U.S., in 1993 and moved our major operations from the U.S. to China in 1995. We began generating significant network solutions revenues in 1996 and significant software revenues in 1998. We conduct the bulk of our business through our operating subsidiaries, most of which are Chinese companies. On July 1, 2010, we completed the combination with Linkage and, in connection with the closing, changed our corporate name to AsiaInfo-Linkage, Inc.

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We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of large telecommunications customers, such as China Mobile, China Unicom and China Telecom and their respective provincial subsidiaries. The following table shows our revenues and percentage of total revenues derived from those three customers (and their respective provincial subsidiaries) for the three months ended September 30, 2013 and 2012.

	Three Months Ended September 30,			
	2013		2012	
	Revenues (in thousands)	Percentage of Total Revenues	Revenues (in thousands)	Percentage of Total Revenues
China Mobile	$ 69,271	48%	$ 68,759	52%
China Telecom	33,128	23%	24,591	19%
China Unicom	33,804	24%	33,502	25%
Total	$ 136,203	95%	$ 126,852	96%

As a result of our reliance on our key customers in the telecommunications industry, our operating results are influenced by governmental spending policies in that sector. Historically, there have been a number of state-mandated restructurings in China s telecommunications sector. Some of these restructurings have led to cancellation or delays in telecommunications-related capital expenditures that have negatively impacted our operating results in certain periods. Other restructurings have caused our revenues to increase as carriers have increased spending on software and IT infrastructure designed to increase their competitiveness. Any future restructurings affecting our major telecommunications customers could have an adverse impact on our business.

For financial reporting purposes, we present our revenues as follows:

Software products and solutions;

Services; and

Third-party hardware.

Recent Developments

On January 20, 2012, we announced the receipt of a non-binding proposal letter from Power Joy (Cayman) Limited, or Power Joy, a wholly owned subsidiary of CITIC Capital China Partners II, L.P., or CITIC, pursuant to which Power Joy proposed to acquire all of our outstanding shares of common stock in cash at a price that represents a premium over the stock price. A special committee of our board of directors, or the Special Committee, was formed to consider the proposal and any potential alternative transactions. The Special Committee retained Shearman & Sterling LLP as its legal counsel and Goldman Sachs (Asia) L.L.C. as its financial advisor to assist it in consideration of such matters. On March 26, 2012, we announced that the Special Committee would solicit interest from, and engage in discussions with, other potential qualified interested parties regarding a potential transaction involving us, and to evaluate any proposals it receives. Upon the unanimous recommendation of the Special Committee and the approval of our board of directors, on May 12, 2013, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with Skipper Limited, or Parent, and Skipper Acquisition Corporation, or Merger Sub, which are owned indirectly by CITIC. Pursuant to the terms and subject to the conditions of the Merger Agreement, Merger Sub would merge with and into us, we would continue as the surviving corporation and a wholly owned subsidiary of Parent, and each share of our outstanding common stock would convert automatically into the right to receive $12.00 in cash without interest, except for dissenting shares, shares of treasury stock, and shares held members of the buyer group that will own all of Parent following the transaction. We refer to this transaction as the Merger. If the Merger closes pursuant to the Merger Agreement, we would cease to be listed on the NASDAQ Stock Market or a public reporting company in the U.S. The Merger Agreement is subject to closing conditions, including stockholder approval, and there can be no assurance that the Merger or any other transaction will be approved or consummated.

Revenues

We recognize revenue pursuant to the requirements of the Financial Accounting Standards Board, or the FASB, Accounting Standards Codification, or the ASC, 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.

Our revenue is derived from three primary sources: (i) software licenses and related services, including implementation, customization and integration, post-contract customer support, or 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.

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

Software products and solutions revenue. 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, modifications, or customization of the software. For China projects, we consider total project costs (labor costs and other related costs) in calculating the percentage of completion and recognize 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, or VSOE, 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, we defer revenue and cost until the revenue recognition criteria have been met.

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

In addition, we generate service revenues by acting as a sales agent for International Business Machines Corporation, or IBM, or its distributors, and a few other hardware vendors, for certain products sold to our customers, which we refer to as our IBM-Type Arrangements. The service fee under the IBM-Type Arrangements is determined as a percentage of the gross contract amount. We have evaluated the criteria outlined in guidance issued by the Financial Accounting Standards Board, or the FASB, regarding reporting revenue gross as principal versus net as an agent, in determining whether to 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.

Third-party hardware revenue. 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, we generally bifurcate the third-party hardware from the development services and recognize the hardware revenue upon customer acceptance using estimated prices based on cost plus a margin, which we believe to be the fair value of the selling price.

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Net revenue. Although we report our revenue on a gross basis, inclusive of hardware acquisition costs, we manage our business internally based on revenues net of hardware costs, or net revenues, a non-GAAP measure. We believe this approach is consistent with our strategy of providing our customers with high value IT professional services and, where efficient, outsourcing lower-end services such as hardware acquisition and installation. The following table shows our revenue breakdown on this basis and reconciles our net revenues to total revenues:

	Three Months Ended September 30, 2013	2012
Revenues net of hardware costs:		
Software products and solutions revenue	$ 132,430	$ 120,870
Service revenue	7,398	8,412
Third-party hardware revenue net of hardware costs	169	147
Total revenues net of hardware costs	139,997	129,429
Total hardware costs	3,193	2,792
Total revenues	$ 143,190	$ 132,221

	Nine Months Ended September 30, 2013	2012
Revenues net of hardware costs:		
Software products and solutions revenue	$ 389,457	$ 351,704
Service revenue	22,173	22,919
Third-party hardware revenue net of hardware costs	741	379
Total revenues net of hardware costs	412,371	375,002
Total hardware costs	14,052	7,187
Total revenues	$ 426,423	$ 382,189

We believe total revenues net of hardware costs more accurately reflects our core business, which is the provision of software solutions and services, and provides transparency to our investors. We believe this measure provides transparency to our investors because it is the measure used by our management to evaluate the competitiveness and performance of our business. In addition, third-party hardware revenue tends to fluctuate from period to period depending on the requirements of our customers. As a result, a presentation that excludes hardware costs allows investors to better evaluate the performance of our core business.

Cost of Revenues

Software products and solutions costs. Software products and solutions costs consist primarily of three components:

- packaging and written manual expenses for our proprietary software products and solutions;

- compensation and travel expenses for the professionals involved in modifying, customizing or installing our software products and solutions and in providing consultation, training and support services; and

- software license fees paid to third-party software providers for the right to sublicense their products to our customers as part of our solutions offerings.

The costs associated with designing and modifying our proprietary software are classified as research and development, or R&D, expenses as incurred.

The costs incurred for the implementation phases of projects outside of China, which provide multiple services and products (software, hardware, implementation, maintenance and managed services), are deferred and capitalized as inventories during the system implementation phase, and transferred to cost of sales upon revenue recognition.

Service costs. Service costs consist primarily of compensation and travel expenses for the professionals involved in designing and implementing IT services, management consulting and network solutions projects.

Third-party hardware costs. We generally recognize hardware costs in full upon delivery of the hardware to our customers. In order to minimize our working capital requirements, we generally obtain from our hardware vendors payment terms that are timed to permit us to receive payment from our customers for the hardware before our payments to hardware vendors are due. However, in large projects we sometimes obtain less favorable payment terms from our customers, thereby increasing our working capital requirements.

Amortization of intangible assets, depreciation of properties and equipment, and rental expenses are also included in cost of revenue.

Operating Expenses

Operating expenses consist of sales and marketing expenses, general and administrative expenses, R&D expenses, government subsidies and impairment of goodwill. Amortization of acquired intangible asset expenses consistently comprise a significant portion of our total operating expenses.

Sales and marketing expenses include compensation expenses for employees in our sales and marketing departments, third-party advertising expenses, marketing events, sales commissions and sales consulting fees, as well as the depreciation and amortization expenses allocated to our sales and marketing departments.

R&D expenses relate to the development of new software and the modification of existing software. We expense such costs as they are incurred.

General and administrative expenses include compensation expenses for employees in our general and administrative departments, third-party professional services fees, and the depreciation expenses allocated to our general and administrative departments.

Government subsidies represent awards from government for high-tech software innovation.

Impairment of goodwill represents losses associated with the decreased fair value of goodwill. We test goodwill for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Taxes

Except for certain hardware procurement and resale transactions, we conduct substantially all of our business through our Chinese subsidiaries and VIEs. To a smaller degree, our operations in Southeast Asia are conducted through our joint venture in Singapore and its subsidiaries. Prior to the enactment of China s current Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008, foreign-invested enterprises, or FIEs, were generally subject to a 30% state enterprise income tax plus a 3% local income tax. However, most of our operating subsidiaries in China, as FIEs, were entitled to tax holidays or certain preferential tax treatments, which thus reduced their effective rate of income tax to 15% or lower in some cases. Since the EIT Law became effective, all resident enterprises are subject to a flat 25% income tax rate, unless they are otherwise eligible for certain preferential tax treatments under the new rules.

Pursuant to implementation and transition rules related to the EIT Law, certain of our subsidiaries in China may enjoy a 15% preferential tax rate if they are qualified as High-and-New Technology Enterprises, or HNTE, while other of our subsidiaries and VIEs became subject to the 25% income tax rate. HNTE status is valid for three years. At the conclusion of the three-year period, the qualifying enterprise has the option to renew its HNTE status for an additional three years through a simplified application process if such enterprise s business operations continue to qualify for HNTE status. After the first six years, the enterprise would be subject to a new application process in order to renew its HNTE status. We received HNTE certification for AIBJ, AsiaInfo-Linkage Technologies (Chengdu), Inc., or AICD, and Linkage Nanjing at the end of 2011 and the beginning of 2012, respectively, which allows those companies to compute tax at a reduced 15% tax rate from January 1, 2011 until December 31, 2013. As such, we computed tax at a reduced 15% tax rate for AIBJ, AICD and Linkage Nanjing for the estimated annual effective tax rate of 2013.

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AIBJ and Linkage Nanjing were approved as Key Software Enterprises, or KSEs, and were eligible for a further reduction in their tax rate to 10% for 2011 and 2012. AIBJ and Linkage Nanjing will apply for 2013 KSE status once the government authorities in charge release the application requirements. As such, we have computed our current quarterly taxes based on the tax rate of 15% for both AIBJ and Linkage Nanjing.

Sales of hardware procured in China are subject to a 17% value added tax, or VAT. Most of our sales of hardware procured outside of China are made through our U.S. parent company, AsiaInfo-Linkage, Inc., or one of its subsidiaries, Hong Kong AsiaInfo-Linkage Technologies Ltd., and thus are not subject to the VAT. We effectively pass VAT on hardware sales through to our customers and do not include VAT in revenue reported in our financial statements. Companies that develop their own software and register the software with relevant authorities in China are generally entitled to a VAT refund. If the net amount of the VAT payable exceeds 3% of software sales and software-related services, the excess portion of the VAT is refundable immediately. The policy was extended by a new tax circular issued in January 2011. The benefit of the VAT rebate is included in software revenue. Historically, the VAT refund received has not been taxable for income tax purposes as long as the refund is used for R&D activities. However, according to a tax circular issued by the PRC State Administration of Taxation in 2009, although the VAT refund would remain non-taxable, all the expenses associated with the refund are not tax deductible for income tax purposes. This circular also stipulates that any VAT refund not spent within the five-year period following its receipt must be added back to taxable income in the sixth year. In accordance with instructions from certain local tax jurisdictions, we report VAT refund as taxable income in calculating our income tax provision for certain years.

Our PRC subsidiaries and VIEs are subject to business tax at the rate of 3% or 5%, respectively, on certain types of service revenues, which are presented in our statements of operations net of business tax incurred.

Effective from December 1, 2010, our PRC subsidiaries and VIEs are also subject to Urban Maintenance and Construction Tax as well as Education Fee Surcharge at the rate of 7% and 3% of VAT and business taxes paid, respectively.

In January 2011, the State Council issued a circular providing an exemption from business tax for eligible software companies on software development and testing, system integration, consulting and maintenance services. The circular also retains various policies granted by previous circulars, including the VAT rebate on sales of software. The implementation guidance of this new circular has not been issued as of the date of this report, although implementation guidance for VAT rebates on sales of software was issued in October 2011.

In May 2013, the Ministry of Finance and the State Administration of Taxation jointly issued a circular that established a VAT reform pilot program for transportation and modern services sectors in the PRC. The program commenced nationwide beginning August 1, 2013, at which time certain of our 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.

We are also subject to U.S. income taxes on revenues generated in the U.S., including revenues from our limited hardware procurement activities through our U.S. parent company, AsiaInfo-Linkage, Inc., and interest income earned in the U.S.

Foreign Exchange

A majority of our revenues and expenses relating to hardware sales and the software and service components of our business are denominated in RMB. The value of our shares will be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while our shares are traded in U.S. dollars. In addition, as we pursue our global strategy, we need to settle transactions in various currencies of

Southeast Asian countries, expect to continue to do so in future, and expect that such activities may create similar foreign exchange risk associated with the currencies of these jurisdictions. Depreciation of the value of the U.S. dollar will also reduce the value of the cash we hold in U.S. dollars, which we may use for purposes of future acquisitions or other business expansion. We actively monitor our exposure to these risks and adjust our cash position in the RMB and the U.S. dollar when we believe such adjustments will reduce our foreign exchange risks and otherwise appropriate. We did not engage in any significant foreign exchange transactions during the nine-month period ended September 30, 2013.

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As of September 30, 2013, approximately 90.9%, or $305.5 million, of our cash, cash equivalents and restricted cash were RMB-denominated and approximately 8.7%, or $29.2 million, were U.S. dollar-denominated. Pursuant to the rate of exchange quoted by People s Bank of China as of September 30, 2013, the exchange rate between the U.S. dollar and the RMB was US$1.00 = RMB6.1480 compared to the rate of $1.00 = RMB6.3410 as of September 30, 2012.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, or US GAAP. The preparation of these financial statements requires us 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 amount of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenues and cost of revenues under customer contracts, bad debts, inventories, short-term investments, long-term investments, income taxes, goodwill and other intangible assets, stock options, and litigation. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies involve the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition. We recognize revenue 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.

Our revenue is derived from three primary sources: (i) software licenses and related services, including implementation, customization and integration, post-contract customer support, or 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.

Our multiple-element arrangements relate to our 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, modifications, or customization of the software. For China projects, we consider total project costs (labor costs and other related costs) in calculating the percentage of completion and recognize 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 VSOE 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, we defer revenue and cost until the revenue recognition criteria have been met.

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, we generally bifurcate the third-party hardware from the development services and recognize the hardware revenue upon customer acceptance using estimated prices based on cost plus a margin, which we believe 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.

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.

We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of their recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the valuation allowance would be charged to income in the period such change occurred.

The impact of an uncertain income tax position on the income tax return must be recognized 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.

The HNTE certificates of AIBJ, AICD and Linkage Nanjing were renewed at the end of 2011 and the beginning of 2012, respectively, which allows those companies to continue to enjoy a 15% preferential tax rate from January 1, 2011 until December 31, 2013.

AIBJ and Linkage Nanjing were KSEs eligible for a 10% tax rate for 2011 and 2012. AIBJ and Linkage Nanjing will apply for 2013 KSE status once the government authorities in charge release the application requirements. As such, we have computed our current quarterly taxes based on the tax rate of 15% for both AIBJ and Linkage Nanjing.

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 PRC income tax. We believe we and our subsidiaries established outside the PRC are not resident enterprises under the EIT law.

Intangible assets and goodwill. Intangible assets consist of certain identifiable intangible assets resulting from business acquisitions and primarily comprise customer relationships, trade name, core technologies and existing technology. We amortize these intangible assets over their respective estimated useful lives, which range from 0.5 to 19 years. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable based upon the estimated undiscounted cash flows.

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheets 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 us) 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 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 fair value of each reporting unit is estimated using a discounted cash flow methodology of income approach. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. The estimates used to calculate the fair value of a reporting unit change from period to period 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 addition, market approach is also adopted for fair value estimation.

In periods prior to the second quarter of 2013, including the period of our annual impairment test date, October 1, we believed the decline in our market capitalization triggered an impairment test. The determination of the fair value of a reporting unit is based on a market participant s perspective and therefore we utilized the income approach methodology of valuation to determine the fair value of our sole reporting unit using market participant assumptions. In the fourth quarter of 2012, the results of our impairment testing using the income approach did not result in the carrying amount of our reporting unit exceeding its fair value. We considered the market approach methodology of valuation but did not regard it as being a more reliable indicator of our fair value at the time, in part because of the process we were engaged in relating to a strategic transaction such as the Merger and the market dislocation for China-based U.S. public companies. For example, in the fourth quarter of 2012, we received preliminary offers to acquire us at different prices and with different material terms and outstanding contingencies, which included financing.

In the first quarter of 2013, management updated its financial projections which were lower than previously forecasted. Given the decline in projections and the carrying amount of our sole reporting unit exceeding our market capitalization, we performed an interim goodwill impairment test using the income approach which did not result in the carrying amount of our reporting unit exceeding its fair value for the three month period ended March 31, 2013.

In the second quarter of 2013, the Special Committee continued to evaluate strategic alternatives for us, such as continuing as an independent company with or without a leveraged recapitalization, a share buyback or declaration of a special dividend. During this period our operating environment began to deteriorate as evidenced by a decrease in current and projected growth rates for the China gross domestic product, compared to historical growth rates, and continued uncertainty of government policies for the telecommunications and internet industries which changed market participant valuation assumptions including discount rates. On May 12, 2013, upon the unanimous recommendation of the Special Committee of our board of directors and the approval of our board of directors, we entered into the Merger Agreement. The $12.00 per share Merger consideration set forth in the Merger Agreement would value us at approximately $897 million. In management s judgment, the valuation represented the fair value of our reporting unit in assessing goodwill impairment considering the aforementioned factors. Because the fair value of the reporting unit was less than its carrying amount, we performed the second step of the interim test for goodwill impairment to determine the implied fair value of goodwill for the reporting unit, which requires us to allocate the fair value of the reporting unit to all of the assets and liabilities including any unrecognized intangible assets of the reporting unit. Based on the results of the impairment tests, we recognized a loss on impairment of goodwill of $287 million in the three months ended June 30, 2013.

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In the third quarter of 2013, we did not identify any impairment indicators. We recognized no loss on impairment of goodwill in the three months ended September 30, 2013.

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 September 30, 2013, the construction in progress was $24 million.

Impairment of long-term and short-term investments. We review our long-term and short-term investments for other-than-temporary impairment in accordance with relevant accounting literature, based on the specific identification method. We consider available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds the investment s fair value, we consider, 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 our intent and ability to hold the investment. In view of the declines of fair value below the carrying cost of certain short-term and long-term investments, we performed an evaluation to determine whether any of the declines were other-than-temporary. We determined that there were no fair value declines in long-term and short-term investments, and thus made no provision for impairment losses, in the third quarter of 2013 and 2012, respectively.

Consolidated Results of Operations

Revenues. Total revenues were $143.2 million for the three-month period ended September 30, 2013, representing an increase of 8.3% over the comparable period in 2012 and 2.1% sequentially. The year-over-year and sequential increases were mainly due to growth in the Company s business with China s telecommunication carriers.

Software products and solutions revenue was $132.4 million for the three-month period ended September 30, 2013, representing an increase of 9.6% over the comparable period in 2012 and 3.8% sequentially. The year-over-year increase was primarily attributable to a 35.8% increase in revenue from China Telecom (and its provincial subsidiaries). The sequential increase was primarily attributable to a 24.6% increase in revenue from China Telecom (and its provincial subsidiaries) and a 9.8% increase in revenue from China Mobile (and its provincial subsidiaries).

Service revenue was $7.4 million for the three-month period ended September 30, 2013, representing a decrease of 12.1% over the comparable period in 2012 and 17.0% sequentially. The year-over-year decrease was primarily attributable to a 41.0% decrease in revenue from China Unicom (and its provincial subsidiaries). The sequential decrease was primarily attributable to a 38.5% decrease in revenue from China Mobile (and its provincial subsidiaries).

Third-party hardware revenue was $3.4 million for the three-month period ended September 30, 2013, representing an increase of 14.4% over the comparable period in 2012 and a decrease of 10.2% sequentially. Third-party hardware revenue is not our business focus and represented 2.3% of our total revenues for the three-month period ended September 30, 2013.

During the third quarter of 2013, sales to our top three customers, China Mobile, China Unicom and China Telecom (and their respective provincial subsidiaries), accounted for approximately 95.1% of our total revenue.

Cost of revenues. Our cost of revenues was $84.9 million for the three-month period ended September 30, 2013, representing an increase of 2.4% over the comparable period in 2012 and a decrease of 3.3% sequentially. The year-over-year increase was primarily attributable to an increase of $3.8 million in cost of revenue for software products and solutions to fund corresponding revenue growth, offset by a decrease of $2.3 million in cost of revenue for services as corresponding revenue decreased. The sequential decrease was primarily attributable to a decrease in cost of revenue for services and also reflects a decrease in amortization of intangible assets of $3.0 million.

Gross profit margin. Our gross profit margin for the three-month period ended September 30, 2013 was 40.7%, compared to 37.3% in the comparable period in 2012 and 37.4% in the preceding quarter.

Operating expenses. Our operating expenses were $51.4 million for the three-month period ended September 30, 2013, representing an increase of 9.1% over the comparable period in 2012 and a decrease of 84.7% sequentially. The year-over-year increase was mainly due to the increases in sales and marketing expenses and R&D expenses, offset by decreased general and administrative expenses. The sequential decrease in total operating expenses mainly reflected the impairment of goodwill we recorded in the second quarter of 2013.

Sales and marketing expenses were $21.1 million for three-month period ended September 30, 2013, representing an increase of 5.1% over the comparable period in 2012 and 3.8% sequentially. The year-over-year increase was primarily attributable to an increase in consulting-related expenses of approximately $1.5 million and an increase in employee welfare and benefits approximately $1.0 million, partially offset by a decrease in amortization of intangible assets of $0.7 million and conference-and-training related expenses of $0.7 million. The sequential increase in sales and marketing was primarily due to an increase in consulting-related expenses of approximately $0.8 million.

General and administrative expenses were $5.6 million for the three-month period ended September 30, 2013, representing a decrease of 10.2% over the comparable period in 2012 and 16.0% sequentially. The year-over-year and sequential decreases reflect our focus on managing general and administrative expenses.

R&D expenses were $24.7 million for the three-month period ended September 30, 2013, representing an increase of 18.8% over the comparable period in 2012 and 11.1% sequentially. The year-over-year and sequential increases were primarily attributable to an increase in employee welfare and benefits as a result of the reclassification of a number of delivery engineers as R&D engineers.

We did not recognize any loss on impairment of goodwill for the three-month periods ended September 30, 2013 or 2012, or for the nine-month period ended September 30, 2012. We recognized a loss on impairment of goodwill of $286.8 million in the three-month period ended June 30, 2013.

Other income, net. Other income, including interest income, dividend income, gain from sales of short-term investments, loss on disposal of variable interest entities, net of other expenses, was $2.7 million for the three-month period ended September 30, 2013, representing an increase of 28.5% over the comparable period in 2012 and an increase of 0.1% sequentially. The year-over-year increase was primarily attributable to an increase in interest income.

Net income (loss). Primarily as a result of the factors described above, net income was $7.2 million for the three-month period ended September 30, 2013, compared to net income of $3.9 million for the comparable period in 2012 and net loss of $282.2 million from the second quarter of 2013.

Net income (loss) attributable to AsiaInfo-Linkage, Inc. Net income attributable to AsiaInfo-Linkage, Inc. for the three-month period ended September 30, 2013 was $7.8 million, or $0.11 per basic share, compared to net income of $4.6 million, or $0.06 per basic share, for the comparable period in 2012, and net loss of $281.5 million, or negative

$3.87 per basic share, for the previous quarter.

Liquidity and Capital Resources

Our liquidity and capital resources are provided mainly from cash collection from customers resulting from our core operating activities. Our capital requirements are primarily working capital requirements related to hardware sales and costs associated with the expansion of our business, such as research and development and sales and marketing expenses. We recognize hardware costs in full upon delivery of the hardware to our customers. In order to minimize our working capital requirements, we generally obtain from our hardware vendors payment terms that are timed to permit us to receive payment from our customers for the hardware before our payments to hardware vendors are due. With respect to our billing cycle, we generally require our customers to pay 80% to 90% of the invoice value of the hardware upon delivery. We typically place orders for hardware against back-to-back orders from customers and seek favorable payment terms from hardware vendors. However, we sometimes obtain less favorable payment terms from our customers, thereby increasing our working capital requirements. In addition to this careful management of our billing cycle, we have also historically financed working capital and other capital requirements through private placements of equity securities, our initial public offering in 2000 and, to a limited extent, bank loans.

On December 4, 2009, we executed the Business Combination Agreement to combine our business with the business of Linkage through our acquisition of 100% of the outstanding share capital of Linkage Technologies, and we completed the combination with Linkage on July 1, 2010.

We had cash and cash equivalents, restricted cash and short-term investment totaling $360.8 million as of September 30, 2013 as compared to $353.8 million as of December 31, 2012. The increase was mainly a result of our positive operating cash flow during the period.

Our net cash provided by operating activities for the nine-month period ended September 30, 2013 was $11.3 million, which reflected our net loss of $262.3 million adjusted by amortization, depreciation, impairment of goodwill, stock-based compensation expenses and other net non-cash expenses, totaling of $320.9 million and a net increase in the components of our working capital of $47.3 million. Accounts receivable as of September 30, 2013 was $324.2 million, consisting of $123.1 million in billed receivables and $201.1 million in unbilled receivables. Our billed receivables are recorded based on agreed-upon milestones included in our customer contracts.

Our days of sales outstanding, or DSO, was 151 days as of September 30, 2013, 151 days as of September 30, 2012 and 144 days as of December 31, 2012. When calculating our DSO, we have adjusted for the net effect of the IBM-Type Arrangements. The increase in DSO from December 31, 2012 to September 30, 2013 was primarily attributable to a $38.5 million increase in accounts receivable compared to December 31, 2012, which mainly reflects the business trend of our customers paying amounts due at the end of the year. Our DSO is impacted by a variety of factors that impact customer payment cycles, including the outcome of customer negotiations regarding payment terms, the relative maturity of the Customer Relations Management, Billing, Business Intelligence or other technology involved in a particular project, the systems used by the customer, geographic region, the scale of the project, and other factors. In addition, in a year we typically perform thousands of contracts for dozens of customers (comprising the major telecom carriers in the PRC and their provincial subsidiaries), and the payment terms of each contract can vary based on these factors.

Our accounts payable balance as of September 30, 2013 was $101.7 million, which increased by $23.7 million compared to December 31, 2012. This increase was primarily attributable to an increase in our accounts payable balance related to the IBM-Type Arrangements of $28.4 million.

Income taxes recoverable as of September 30, 2013 was $2.5 million, which reflected the 10% preferential tax rate granted to AIBJ for its 2011 KSE status, which was not refunded by the applicable tax authorities as of September 30, 2013.

Our net cash provided by investing activities for the nine-month period ended September 30, 2013 was $0.8 million. This was primarily due to the purchase of short-term investment for $15.3 million, disposal of variable interest entities for $0.9 million, the purchase of property, plant and equipment for $14.1 million and a $3.1 million purchase of long-term investments, which was partially offset by $32.9 million in proceeds from our sales of short-term investments, $1.2 million in proceeds from our sales of discontinued operations and a $0.1 million granted from employee housing loans.

Our net cash provided by financing activities for the nine-month period ended September 30, 2013 was $1.5 million, primarily due to proceeds from the exercise of stock options.

As of September 30, 2013, we had total credit facilities of $152.5 million for working capital purposes, expiring on various dates up to August 2014, which were secured by bank deposits of $34.0 million. As of September 30, 2013, unused credit facilities were $126.8 million and used facilities totaled $25.7 million. The used facilities were pledged as security for issuing standby letters of credit, borrowing of short-term bank loans and accounts payable to hardware suppliers and customers. Additional bank deposits of $5.6 million were used for issuing standby letters of credit and bank acceptance drafts as of September 30, 2013. Total bank deposits pledged as security for credit facilities, standby letters of credit, short-term bank loans and bank acceptance drafts totaled $39.6 million as of September 30, 2013 and were presented as restricted cash in our consolidated balance sheets. During the three-month period ended September 30, 2013, the largest aggregate amount that we had used of our credit facilities was $25.7 million.

In May 2011, we entered into a land use right transfer agreement with the Beijing Municipal Bureau of Land and Resources pursuant to which we would acquire a land use right with a 50-year term, for a consideration of approximately $3.0 million, which was paid in June and August 2011. Pursuant to the agreement, we have committed a minimum of $12.1 million for capital expenditures to the building construction project, to commence construction by April 30, 2012, and to complete construction by April 30, 2014.

We anticipate that our available funds and cash flows provided by operations will be sufficient to meet our anticipated needs for working capital, capital expenditures for building construction and business expansion considering overseas projects purchase through 2013. We may need to raise additional funds in the future, however, in order to fund acquisitions, develop new or enhanced services or products, respond to competitive pressures to compete successfully for larger projects involving higher levels of hardware purchases, or if our business otherwise grows more rapidly than we currently predict. We anticipate that we would raise additional funds, if necessary, through new issuances of equity or debt securities, or through credit facilities extended by lending institutions.

Under PRC laws and regulations, our PRC subsidiaries are, and our former PRC VIEs were, subject to certain restrictions with respect to paying dividends or otherwise transferring a portion of their net assets to us. The amounts restricted include the paid-in capital and the statutory reserve. The aggregate amounts of capital and statutory reserves restricted and not available for distribution was $66.8 million and $88.9 million (8.6% and 8.7% of net assets) as of September 30, 2013 and December 31, 2012, respectively.

Furthermore, cash transfers from our PRC subsidiaries to our subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and VIEs to remit sufficient foreign currency to pay dividends or make other payments to us, or otherwise satisfy their foreign currency denominated obligations.

Off-Balance Sheet Arrangements

We have not entered into any transactions, agreements or other contractual arrangements to which an entity unconsolidated with us is a party and under which we have (i) any obligation under a guarantee, (ii) any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity, (iii) any obligation under derivative instruments that are indexed to our shares and classified as equity in our consolidated balance sheets, or (iv) any obligation arising out of a variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

As of September 30, 2013, we had credit facilities for working capital purposes totaling $152.5 million, expiring on various dates up to August 2014, of which $34.0 million had been used as security for issuing standby letters of credit, borrowing of short-term bank loans, and accounts payable to hardware suppliers and customers. Unused credit facilities were $126.8 million. Total bank deposits pledged as security for credit facilities, standby letters of credit, short-term bank loans and bank acceptance drafts totaled $39.6 million as of September 30, 2013 and were presented as restricted cash in the consolidated balance sheets.

As of September 30, 2013, we had outstanding standby letters of credit in the amount of $25.6 million. They were used for performance guarantees amounting to $23.4 million with respect to our performance on certain customer projects, and guarantees amounting to $2.2 million with respect to future payments for building construction.

Accounting Pronouncements

Newly adopted accounting pronouncements

In December 2011, the Financial Accounting Standard Board, or FASB, 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. In January 2013, the FASB further clarifies that ordinary trade receivables and receivables are not in the scope of the authoritative pronouncement and the pronouncement applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. 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 adoption of this guidance did not have a significant effect on our consolidated financial statements.

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In February 2013, the FASB issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The guidance does not change the current requirements for reporting net income or other comprehensive income in financial statements. The new guidance will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period.

- Cross-reference to other disclosures currently required under US GAAP for other reclassification items (that are not required under US GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The guidance applies to all public and private companies that report items of other comprehensive income. Public companies are required to comply with the guidance for all reporting periods (interim and annual) effective for reporting periods beginning after December 15, 2012. We adopted this guidance on January 1, 2013 and have presented the relevant details in the notes to the financial statements.

Recent accounting pronouncements not yet adopted

In February 2013, the FASB issued an authoritative pronouncement related to obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance addresses for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this pronouncement is fixed at the reporting date, except for obligations addressed within existing guidance in US GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the scope that exist at the beginning of an entity s fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the guidance in this pronouncement) and should disclose that fact. Early adoption is permitted. We are in the process of evaluating the effect of adoption of this guidance on our consolidated financial statements.

In March 2013, the FASB issued an authoritative pronouncement related to parent s accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, the guidance clarifies that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (i.e., irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The guidance is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The guidance should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the guidance, it should apply the guidance as of the beginning of the entity s fiscal year of adoption. We are in the process of evaluating the effect of adoption of this guidance on our consolidated financial statements.

In July 2013, the FASB issued a pronouncement which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The guidance should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. We are in the process of evaluating the effect of adoption of this guidance on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risk primarily associated with our cash and short-term investments. To date, we have not entered into any types of derivatives to hedge against interest rate changes. There have been no significant changes in our exposure to changes in interest rates for the quarter ended September 30, 2013. Our exposure to interest rate changes is limited as we do not have any material borrowings.

We are exposed to exchange rate risk in connection with the relative value of the U.S. dollar and the RMB. A majority of our revenues and expenses relating to hardware sales and the service and software components of our business are denominated in RMB. As of September 30, 2013, approximately 90.9%, or $305.5 million, of our cash, cash equivalents and restricted cash were RMB-denominated and approximately 8.7%, or $29.2 million, were U.S. dollar-denominated, and approximately 0.2%, or $0.8 million, were Hong Kong dollar-denominated. As of that date, the rate of exchange quoted by the People s Bank of China was US$1.00 = RMB6.1480. If the exchange rate were to increase by 10% to US$1.00 = RMB6.7928, our net assets would potentially decrease by $58.4 million. If the exchange rate were to decrease by 10% to US$1.00 = RMB5.5332, our net assets would potentially increase by $71.3 million.

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The value of our shares may be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while our shares are traded in U.S. dollars. Furthermore, an increase in the value of the RMB may require us to exchange more U.S. dollars into RMB to meet the working capital requirements of our subsidiaries and VIEs in China. In addition, as we pursue our global strategy, we settle transactions denominated in various currencies of Southeast Asian countries, expect to continue to do so in future, and expect that such activities may create similar foreign exchange risk associated with the currencies of these jurisdictions. Depreciation of the value of the U.S. dollar will also reduce the value of the cash we hold in U.S. dollars, which we may use for purposes of future acquisitions or other business expansion. We actively monitor our exposure to these risks and adjust our cash position in the RMB and the U.S. dollar when we believe such adjustments will reduce our foreign exchange risk and are otherwise appropriate. We did not engage in any significant foreign exchange transactions during the three-month period ended September 30, 2013.

As in any other business, we are subject to the risk of macroeconomic changes such as recessions and inflation.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In October 2012, a putative stockholder of ours filed a civil action, derivatively on behalf of us, against the members of our board of directors and certain officers in the United States District Court for the District of Delaware under the caption *Halpert v. Zhang*, *et al*. The Company was also named as a nominal defendant. The plaintiff asserted claims for breach of fiduciary duty against all defendants, corporate waste against the director defendants, and unjust enrichment against the officer defendants in connection with grants of stock options allegedly made in an amount that violated purported limitations set forth in our 2011 Stock Incentive Plan. The plaintiff requested rescission of the option grants in question, an award of unspecified damages to us, certain other equitable and injunctive relief, and an award of plaintiff s costs and disbursements, including legal fees. In August 2013, the court denied our motion to dismiss the action. In October 2013, the plaintiff filed a motion for judgment on the pleadings, which the Company expects to be heard in November 2013, and we filed a motion to stay the action, which remains pending.

Following our announcement that we entered into the Merger Agreement, three of our alleged stockholders filed putative class action complaints against us, each member of our board of directors and Merger Sub in the Delaware Court of Chancery. These actions have been consolidated under the caption *In re AsiaInfo-Linkage, Inc. Stockholder Litigation*. Plaintiffs have alleged that each member of our board of directors breached his fiduciary duties to our stockholders by favoring Parent over other potential purchasers, favoring his own interests over the interests of our stockholders, failing to take appropriate steps to maximize the value of the Company to our stockholders, agreeing to preclusive deal protection devices, and otherwise agreeing to sell the Company for an unfairly low price. Plaintiffs have further alleged that we and Merger Sub aided and abetted those alleged breaches of fiduciary duty. In addition, plaintiffs have alleged that the preliminary version of our proxy statement filed on July 23, 2013, omitted certain material information essential to our stockholders in order to allow them to cast a fully-informed vote at the upcoming stockholders meeting concerning the Merger. Plaintiffs have requested an injunction, rescission of the Merger to the extent consummated, money damages if the Merger is consummated, certain other equitable relief, a declaration that the Merger is unfair, unjust and inequitable, and an award of plaintiffs costs, including legal fees. In October 2013, the parties executed a memorandum of understanding setting forth an agreement-in-principle which, when finalized as a stipulation of settlement, is intended to fully and finally resolve and settle the action and all related claims.

While we cannot guarantee the outcome of these proceedings, we believe that the final results will not have a material effect on our consolidated financial condition, results or operations, or cash flows.

ITEM 6. EXHIBITS

Please see Exhibit Index.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, AsiaInfo-Linkage, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	AsiaInfo-Linkage, Inc.	
Date: November 8, 2013	By:	/s/ *Jun Wu*
	Name:	Jun Wu
	Title:	Executive Vice President and Chief Financial Officer (signing on behalf of the registrant and as principal financial officer)

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EXHIBIT INDEX

The following exhibits are filed as a part of this Report.

			Incorporated by Reference			
Exhibit No.	Exhibit Title	Filed Herewith	Form	Exhibit No.	File No.	Filing Date
31.1	Certification of Principal Executive Officer required by Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 8, 2013	X				
31.2	Certification of Principal Financial Officer required by Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 8, 2013	X				
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 8, 2013	X				
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 8, 2013	X				
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2013 and 2012; (ii) Condensed Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2013 and 2012; (iii) Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012; (v) Condensed Consolidated Statements of Equity for the three months and nine months ended September 30, 2013 and 2012; and (vi) Notes to Condensed Consolidated Financial Statements	X				