



AsialInfo Linkage



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Washington, DC 20549

# 2010

Annual  
Report

# STRONG FINANCIAL PERFORMANCE

Financial highlights in (USD millions)\*

	2008	2009	2010
Revenue	146.9	213.8	343.3
New Revenue (non-GAAP)**	133.8	201.5	329.3
Gross Profit	72.2	113.3	169.6
Operating Income	17.6	34.8	60.1

\* On July 1, 2010, we combined our business with Linkage Technologies International Holdings Limited through our acquisition of 100% of the outstanding share capital of its wholly-owned subsidiary, Linkage Technologies Investment Limited ("Linkage"). This annual report contains financial information as of and for periods prior to July 1, 2010, which does not include the accounts of Linkage and its consolidated subsidiaries.

\*\* Net Revenue (non-GAAP) is a non-GAAP measure and is defined as total revenue net of third-party hardware costs. A reconciliation of net revenue (non-GAAP) to GAAP revenue is provided in this annual report.

## 2010 HIGHLIGHTS

*January* AsialInfo Signs Contracts to Build 3G Business Management Platform for Eight of China Unicom's Provincial Subsidiaries

*January* AsialInfo Signs Contract to Provide a Suite of Telecom Solutions and Services for China Mobile's Southern-based IT Center

*February* AsialInfo Signs Contracts to Rollout Phase-II NG-BOSS Systems in Three China Mobile Subsidiaries

*February* AsialInfo Signs Contracts to Upgrade China Mobile BI Systems to Phase-II NG-BASS in Three Provinces

*April* AsialInfo Acquires 80% Stake in Hangzhou Zhongbo to Enter China's Cable Market

*April* AsialInfo Signs Contracts to Upgrade Two China Mobile BI Systems to NG-BASS Phase-II

*July* AsialInfo Completes Merger with Linkage

*August* AsialInfo-Linkage Appoints New Chief Financial Officer

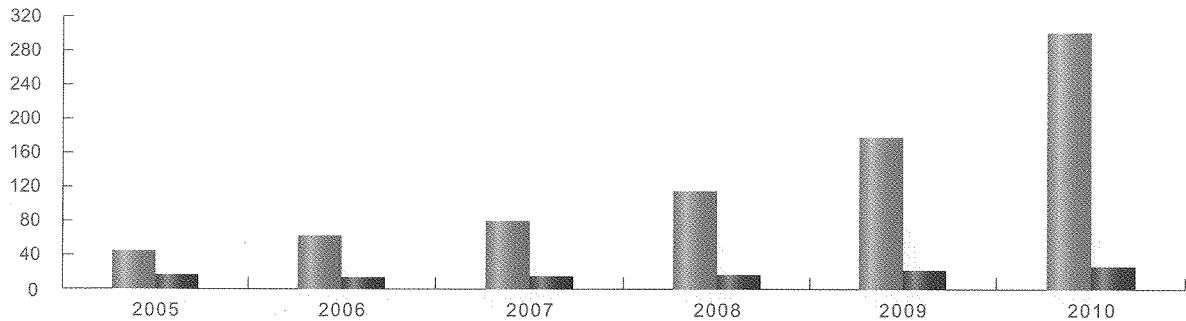
*August* AsialInfo-Linkage Signs Deal with Mfone in Cambodia

*October* AsialInfo-Linkage Wins New Market Share to Provide NG BOSS 3.0 System to Beijing Mobile

*December* AsialInfo-Linkage Sells Its Lenovo Security Business

# C ONTINUED REVENUE GROWTH IN CORE TELECOM BUSINESS

(in USD millions)

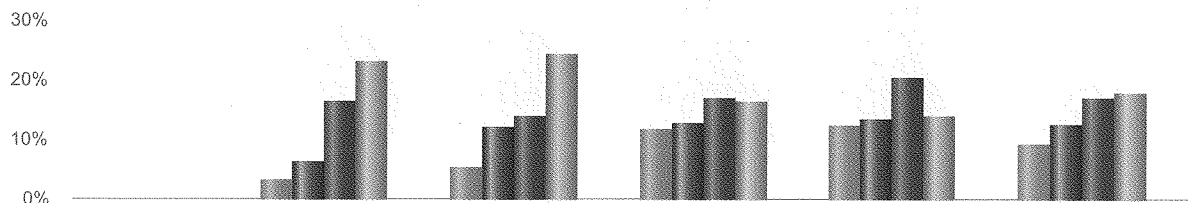


	2005	2006	2007	2008	2009	2010
Service and third-party hardware revenue, net	17.2	14.0	16.4	17.5	22.3	27.3
Software revenue	48.6	64.0	80.4	116.3	179.2	302.0

■ Software revenue ■ Service and third-party hardware revenue, net

# I MPROVED ECONOMIES OF SCALE AND OPERATIONAL EFFICIENCY

Operating Margin of Net Revenue (non-GAAP) \*



	1Q	2Q	3Q	4Q	FY
2007	7.1%	5.3%	11.9%	12.8%	9.5%
2008	12.2%	12.4%	13.1%	14.2%	13.1%
2009	16.8%	13.9%	17.2%	20.4%	17.3%
2010	21.3%	24.6%	16.8%	14.7%	18.3%

\* Operating margin of net revenue (non-GAAP) is calculated by dividing operating income by net revenue (non-GAAP).

# C EO LETTER

*A preeminent global player in the IT software and solutions industry*

To our stockholders,

In the past few years we have witnessed the telecommunications sector in China evolve into a more sophisticated industry rich with opportunities. The government-mandated industry restructuring resulted in three fully integrated national carriers all vying for the business of a mobile subscriber base that added over 100 million subscribers in 2010. Moreover, last year we saw the completion of 3G rollouts in many areas and the beginning of 4G and mobile number portability testing. Against the backdrop, our growth in 2010 continued as carriers demanded more sophisticated billing, business intelligence and customer relationship management solutions to support their advanced mobile networks and data centers.

For our Company, 2010 was a landmark year as we successfully completed our merger with Linkage Technologies International Holdings Limited in July. We announced the merger in late 2009 and were busy throughout 2010 administering a smooth integration process. We have fully integrated our back-end system and are in the process of integrating our product solutions. Our merger creates a leader in the IT and telecommunications software industry in China equipped with a broadened service offering, stronger R&D capacity and complementary customer bases for cross-selling opportunities.

Throughout the year, we continued to derive the majority of our revenues from China's telecom carriers. A significant win in 2010 was the contract to build a new billing system for Beijing Mobile. It was a noteworthy win as we replaced one of our international competitors in the country's capital, illustrating our competitive advantage in the domestic market and ability to gain clients' trust and provide them with world class IT solutions. Also in 2010, we worked on expanding China Unicom's broadband network capacity and developed solutions to upgrade China Unicom's e-channel Internet portals, which allow retailers to conduct marketing and sales functionality on-line. I believe it is worth

mentioning that after the completion of our merger, our customer base has evolved to become more diversified because of the increased number of China Unicom and China Telecom contracts brought in from Linkage.

As we look to the future and where our growth opportunities lie, our emphasis remains on providing best of class solutions and system maintenance and upgrades to China's telecom carriers. We are confident of our continued growth both organically as well as through new market share wins. Another growth opportunity we see in the near future is the potential expansion into similar industries. Our acquisition of the cable company Hangzhou Zhongbo Software Technology Co. Limited puts us in a favorable position to capitalize on opportunities arising from the government-supported convergence of China's fragmented cable industry. We are currently expanding our cable market presence through Hangzhou Zhongbo, providing billing and CRM services to cable operators, most recently signing new contracts with Chongqing Cable and China DB Star. Furthermore, as we move into 2011 we recognize the growth opportunity in targeting overseas markets. In 2010, working together with our joint venture in Singapore, we announced an agreement with Mfone Co. Ltd., a leading provider of fixed and mobile telecommunications services in Cambodia, to develop a business intelligence system for the operator. We will continue to pursue opportunities in emerging markets, like Cambodia, as we continue to build our brand and competence as an international provider of IT solutions and services.

I believe we are positioned favorably to monetize future growth opportunities and continue to deliver long-term stockholder value. On behalf of the management team, I'd like to thank our over 8,200 employees for their diligent work and who made our achievements in 2010 possible.





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*Steve Zhang*  
President  
and Chief Executive Officer

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# C HAIRMAN LETTER

*"A strong year focused on our core business, we see ample opportunities to grow in the future."*

*Libin Sun* Executive Co-Chairman of the Board

*James Ding* Co-Chairman of the Board



Dear fellow stockholders,

It was a milestone year for us as we successfully completed our merger with Linkage Technologies International Holdings Limited in July, effectively doubling our market share and creating a leader in the China telecommunications IT software solutions and services industry. For more than ten years, AsiaInfo and Linkage have provided innovative products to China's telecom carriers. As a combined company, we boast an expanded service offering, extensive base of highly skilled engineers, increased R&D capabilities and a complementary customer base that will enable us to better service our customers. With our back-end systems fully integrated, our task at hand now is to complete the integration of our product line. We are proud of the progress that has been made thus far and are confident that as a combined company, AsiaInfo-Linkage, will move to capitalize on future opportunities to increase stockholder value.

2010 was another solid year of financial results, achieving non-GAAP pro forma net revenue growth of 18%. As we enter into 2011, the landscape of the telecommunications industry continues to evolve and we believe we have positioned ourselves favorably to grow our business. Strong competition between the three carriers continues to drive demand for our unique IT solutions and services. Mobile subscriber growth in China continues at a rapid pace, adding over a 100 million new subscribers in 2010, which was on top of over 100 million new subscribers in 2009. This growth is expected to continue for the next few years, which will drive the demand for our telecom IT solutions and services. The product requirements of our customers also continue to evolve as new game changing technologies transform the industry. 3G rollouts have been completed by the carriers in many areas, and 4G trials are underway, which could bring additional demand from the carriers for our sophisticated IT solutions and services.

Moreover, we foresee potential to grow our business by entering into similar industries, like the cable market, as well as in overseas markets, especially emerging markets in Southeast Asia. Our strategic acquisition of the cable company Hangzhou Zhongbo Software Technology Co. Limited is being utilized to increase our market share as a provider of billing and CRM solutions to China's cable operators. In the years ahead, we believe our cable business has the potential to grow at an accelerated rate relative to our core business. In addition, the announcement of our strategic agreement with the Cambodian telecommunications carrier Mfone Co. Ltd. marks our entry into the Southeast Asian telecommunications market. We believe there will be additional opportunities to provide comprehensive solutions to customers in emerging markets like Mfone who require comprehensive solutions to enhance their IT systems. We believe our capacity to develop best of class solutions combined with our experience serving the three telecom carriers in China gives us an advantage as we pursue opportunities in new overseas markets.

To all of our employees and stockholders, we are thankful for your support in 2010 and look forward to delivering strong results in 2011.

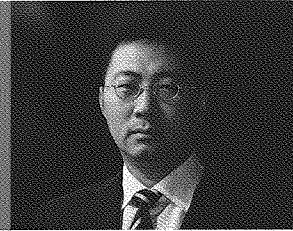
A handwritten signature in black ink, appearing to read "Libin Sun".

# EXECUTIVE OFFICERS



STEVE ZHANG

President and  
Chief Executive Officer



MICHAEL WU

Vice President and  
Chief Financial Officer

# COMMITTEES OF THE BOARD

Audit Committee YUNGANG LU, SEAN SHAO, DAVIN A. MACKENZIE

Nominating and Corporate Governance Committee TOM MANNING, EDWARD TIAN, SEAN SHAO

Compensation Committee DAVIN A. MACKENZIE, JAMES DING, EDWARD TIAN

# BOARD OF DIRECTORS

JAMES DING

Co-Chairman and Co-founder, AsialInfo-Linkage;  
General Partner, GSR Ventures; Chairman of Board,  
United ITV, Inc.; Independent Director, Baidu.com,  
Inc.

LIBIN SUN

Executive Co-Chairman, AsialInfo-Linkage

EDWARD TIAN

Co-founder, AsialInfo-Linkage; Chairman and  
Founder, China Broadband Capital Partners, L.P.;  
Independent Director, MasterCard Incorporated,  
Lenovo Group Limited, Taikang Life Insurance  
Company Limited; Senior Advisor, Kohlberg Kravis  
Roberts & Co.; Non-executive Director and  
Chairman, Media China Limited (formerly Asian  
Union New Media (Group) LTD)

STEVE ZHANG

President and CEO, AsialInfo-Linkage

YUNGANG LU

Managing Director, Seres Asset Management

Limited; Board Director, China Techfaith Wireless  
Communication Technology Ltd., Enerchina  
Holdings Ltd., China Cord Blood Corporation

TOM MANNING

CEO, Cerberus Asia Operations & Advisory Limited;  
Independent Non-executive Director, Gome  
Electrical Appliances Company; Independent  
Non-executive Director, iSoftStone Information  
Technology (Group) Co., Ltd.

DAVIN A. MACKENZIE

Founder and Managing Director, Brocade Capital  
Limited; Independent Director, The 9 Limited

SEAN SHAO

Director, China Medicine Corporation; Chairman of  
the Nominating Committee, Agria Corporation;  
Chairman of the Audit Committee, China Botanic  
Pharmaceutical Inc., China Recycling Energy  
Corporation, Yongye International Inc., China  
Nuokang Bio-Pharmaceutical Inc., Feihe Interna-  
tional Inc., Xueda Education Group, and China  
Biologic Products, Inc.

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Washington, DC 20549

FORM 10-K

(Mark one)

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

for the fiscal year ended December 31, 2010

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

(State or other jurisdiction of  
incorporation or organization)

752506390

(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)

Registrant's telephone number, including area code +8610 8216 6688

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

Common Stock, \$0.01 Par Value

(Title of Each Class)

The NASDAQ Stock Market LLC

(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

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 Act). Yes  No

Based on the closing sale price of the common stock on the NASDAQ Global Market on June 30, 2010, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$844,397,193.72.

The number of shares outstanding of the registrant's common stock, \$0.01 par value, was 75,053,943 at February 25, 2011.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information is incorporated by reference to the Proxy Statement for the registrant's 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K.



**ASIAINFO-LINKAGE, INC.**  
**FORM 10-K**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**  
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## Cautionary Statement

Except for historical information, the statements contained in this Annual Report on Form 10-K 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 safe harbors regarding forward-looking statements. Forward-looking statements include management's expectations, intentions and beliefs with respect to our growth, our future 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 our actual results to differ materially and adversely 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. Factors that could cause actual results to differ materially include, but are not limited to, those factors discussed below under Item 1A, "Risk Factors" and in other documents we file from time to time with the Securities and Exchange Commission, or the SEC.

In this report, the "Company," "we," "us" and "our" refer to AsiaInfo-Linkage, Inc. and its subsidiaries and consolidated variable interest entities, or VIEs, "Linkage" refers to Linkage Technologies International Holdings Limited and "AsiaInfo" refers to the Company prior to its combination with Linkage.

## PART I

### ITEM 1. Business

#### Overview

We are the leading provider of high-quality telecommunications software solutions and information technology products and services in China. 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.

Our operations are currently organized into one reportable segment, which we refer to as our telecom business, which encompasses our traditional telecommunications business and provides software solutions to China's telecommunications carriers. Products and services in our telecom business include:

- business operation support systems, including billing, customer relationship management and partnership relationship management applications;
- business intelligence systems, including data warehousing platforms, online analytical applications and data mining applications;
- OSS package, including protocol adaptor, service fulfilment, process management, inventory management and service activation;
- service and data applications, such as mail centers, mobile device management and mobile e-commerce platforms; and
- network infrastructure services, including network design and implementation, integrated network management and professional maintenance and support.

## **Recent Developments**

On May 1, 2010, we consummated the acquisition of an 80% equity interest of Hangzhou Zhongbo Software Technology Co., Ltd., or Hangzhou Zhongbo, for an aggregate purchase price of \$7.1 million in cash. Hangzhou Zhongbo is a provider of IT solutions to broadcasting operators in China. This transaction is an important step in our effort to expand into China's fragmented cable TV industry.

On July 1, 2010, we completed the combination with Linkage. Pursuant to the Business Combination Agreement dated December 4, 2009, as supplemented on June 5, 2010 by the Supplemental Agreement, by and among AsiaInfo, Linkage, certain shareholders of Linkage, and Mr. Libin Sun as agent for the shareholders of Linkage, which we collectively refer to as the Combination Agreement, we purchased from Linkage 100% of the outstanding share capital of its wholly-owned subsidiary, Linkage Technologies Investment Limited, or Linkage Technologies, for \$60 million in cash and 26,832,731 shares of our common stock, resulting in Linkage Technologies becoming our wholly-owned subsidiary. In connection with the closing, on July 1, 2010 we changed our corporate name to "AsiaInfo-Linkage, Inc." Starting the third quarter of 2010, we consolidated the operating results and financial position of Linkage and its consolidated subsidiaries. Our consolidated financial statements for periods before July 1, 2010 reflect the standalone operating results and financial position of AsiaInfo and its consolidated subsidiaries and VIEs. As a result of the combination with Linkage, we have the leading market position in our domestic telecommunications software and services industry with increased abilities to improve customer satisfaction.

On August 26, 2010, we entered into an agreement with Mfone Co., Ltd., or Mfone, a leading provider of fixed and mobile telecommunications services in Cambodia, to develop a Business Intelligence, or BI, system for the operator. This is the first international customer after the creation of our joint venture with Alpha Growth International Pte Ltd, or AGI, to expand our core business in Southeast Asia. AGI is a Singapore-based telecommunications services company with marketing and sales expertise in Southeast Asia.

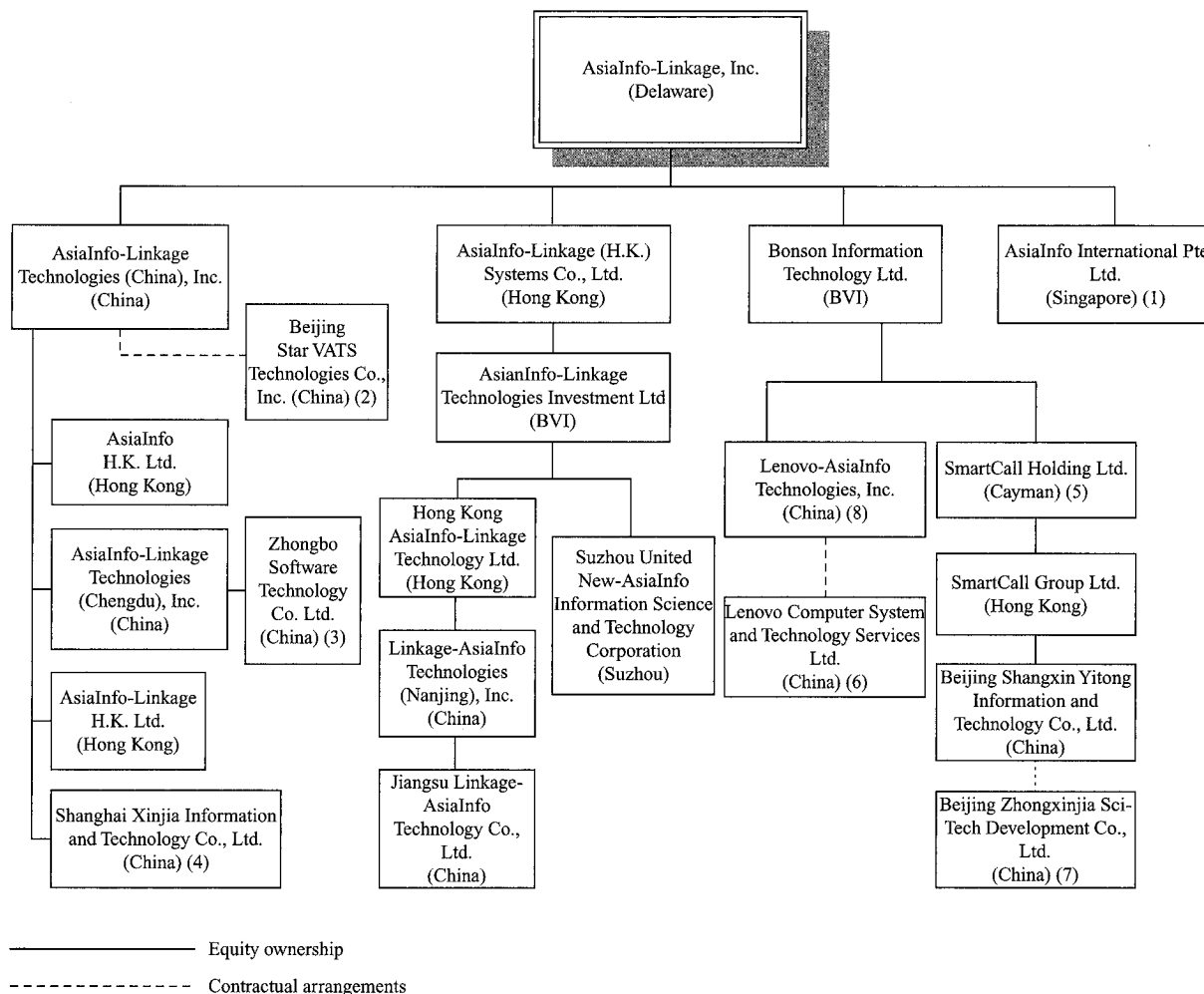
On December 1, 2010, we entered into a Framework Agreement for Termination of Lenovo Security Control Structure with Messrs. Jian Qi and Mr. Kequan Liu, the management of Lenovo Security Technologies (Beijing), Inc., or Lenovo Security, and Lenovo-AsiaInfo Technologies, Inc., one of our wholly owned subsidiaries, whereby we sold our IT security business through the disposition of Lenovo Security to the management team of the our IT security business, including our executive officer Mr. Jian Qi. Under the terms of the agreement, we received approximately \$15.0 million in cash in exchange for 100% of our economic interest in Lenovo Security and settlement of certain inter-company liabilities. As of December 2010, we began reflecting the historical results of our IT security business as discontinued operations in our consolidated financial statements.

## **Our Corporate Structure**

We commenced our operations in the United States in 1993 and moved our major operations from the United States to China in 1995. Although we are organized as a Delaware corporation, our business is conducted through a number of operating subsidiaries, most of which are organized under the laws of the People's Republic of China, or the PRC, and are directly or indirectly wholly-owned by us. In addition to our wholly-owned subsidiaries, we operate certain businesses through domestic Chinese companies in which we hold no equity interests, but which we control through a series of contractual arrangements with those companies and their respective equity holders. Under the laws and regulations of the PRC, foreign persons and foreign companies are restricted from investing directly in certain businesses within the PRC, including value-added telecommunications services businesses. Through our VIEs, principally Beijing Zhongxinjia Sci-Tech Development Co., Ltd., or ZXJ, we provide outbound call services on behalf of telecommunications operators in the PRC and may provide other value-added telecommunications services. US GAAP requires us to consolidate VIEs in our financial statements because our contractual arrangements related to those entities provide us with the risks and rewards associated with equity ownership.

For more information on regulations in the PRC restricting foreign ownership in certain businesses, please see the discussion below under the heading “Government Regulation—Regulation of Computer Information Security Products and Services—Foreign Ownership Restrictions and License Requirements.” For more information on certain regulatory and other risks associated with our contractual arrangements related to Star VATS and ZXJ, please see the discussion in Item 1A of this report, “Risk Factors.”

The following diagram illustrates the current organizational structure of our company and our operating subsidiaries and affiliates. This diagram excludes legal entities in which we hold a minority interest that are not consolidated in our financial statements.



- (1) AsiaInfo-Linkage Inc. holds 70% of the share capital of AsiaInfo International Pte Ltd., or AsiaInfo Singapore, a Singapore registered company, and the remaining 30% is held by Alpha Growth International Pte Ltd.
- (2) Beijing Star VATS Technologies, Inc. is a domestic Chinese company owned by certain of our employees but controlled by our subsidiary AsiaInfo-Linkage Technologies (China), Inc. through a series of contractual arrangements. While organized to conduct value-added technology services business, Star VATS Technologies, Inc. is not currently licensed to, and does not currently, conduct such business.
- (3) Zhongbo Software Technology Co. Ltd is a domestic Chinese company with 80% of its shares held by AsiaInfo-Linkage Technologies (Chengdu), Inc. and 20% held by certain of our employees.

- (4) AsiaInfo-Linkage Technologies (China), Inc. holds 90% of the share capital of Shanghai Xinjia Information and Technology Co., Ltd., a domestic Chinese company, and the remaining 10% is held by Mr. Yao Yuan.
- (5) Bonson Information Technology Ltd. Holds 60% of the share capital of SmartCall Holding Ltd., or SmartCall Cayman, a Cayman Islands registered company, and the remaining 40% is held by Call Center International Limited.
- (6) Lenovo Computer System and Technology Services Ltd., a domestic Chinese company, is owned by the subsidiaries of one of our indirect shareholders, Lenovo Group Limited, but controlled by our subsidiary Lenovo-AsiaInfo Technologies, Inc. through a series of contractual arrangements.
- (7) Beijing Zhongxinjia Sci-Tech Development Co., Ltd., a domestic Chinese company, is owned by two of our employees but controlled by our subsidiary SmartCall Cayman through a series of contractual arrangements.
- (8) We disposed our IT security business in December 2010 but still retain this legal entity.

### **Industry Background and Market Opportunities**

Our largest customers are the three major telecommunications operators in China and their provincial subsidiaries. The recent restructuring of China's telecommunications industry opened the fixed-line, mobile and broadband segments to all existing telecommunications operators in China, and the ensuing competition in these segments prompted each telecommunications operator to increase its IT spending on infrastructure upgrades and 3G and other next-generation technologies. We believe that increasing competition among the three operators will drive demand for telecommunications-related software and IT solutions in the long-run. We believe we are well positioned to continue capitalizing on the competition between carriers, increasing number of mobile subscribers, new technologies as well as other trends in the telecommunications industry through our market leadership, comprehensive solutions, long-standing relationships with the three PRC telecommunications operators, customer focus, and highly qualified personnel. We will also be able to expand our telecommunication software and service offerings to telecommunication providers in Southeast Asia, where 3G upgrades, software convergence and analytical tools such as Business Intelligence are in high demand as the operators in the region look to upgrade and expand their own systems going forward.

According to the Ministry of Industry and Information Technology of China, or MIIT, in 2010, the number of China's mobile phone subscribers increased by 15% to 859 million while the number of China's fixed-line phone subscribers decreased by 7% to 294 million. Additionally, the number of broadband access subscribers in China increased by 22% to 126 million in 2010, the number of Internet users in China increased 19% to 457 million in 2010. In China's twelfth Five-Year-Plan (2011—2015), the government stipulated its support and commitment towards the continued development of telecommunication software and the IT services industry.

The following table sets forth certain information relating to the telecommunications industry in China as of the dates indicated:

	As of December 31,				Compound Annual Growth Rate (2007-2010)
	2007	2008	2009	2010	
<b>Fixed-line Telephone</b>					
Subscribers (in millions) .....	356	341	314	294	-5%
Penetration rate .....	28%	26%	23%	20%	-7%
<b>Mobile Telephone</b>					
Subscribers (in millions) .....	547	641	747	859	12%
Penetration rate .....	41%	48%	56%	59%	9%
<b>Internet</b>					
Users (in millions) .....	210	298	384	457	21%
Penetration rate .....	16%	22%	29%	31%	19%
<b>Broadband</b>					
Users (in millions) .....	66	83	103	126	18%

Source: National Statistical Bureau of China, MIIT, CINIC

### Our Competitive Strengths

We believe the following strengths differentiate us from our competitors and enable us to maintain a leadership position in the telecommunications software products and services industry in China. Over the last decade, we have gained experience and knowledge in China's telecommunications industry, including experience meeting the demand driven by new technologies as well as changes in business models, impacted by both consumer demand and competition amongst the carriers. We believe we have the experience and the capabilities to anticipate the changes in the demands from the carriers and provide more sophisticated and personalized services and offerings to domestic and international customers.

**Leading provider of telecommunications BSS/OSS solutions.** We are a leading provider of business and operation support systems, or BSS/OSS, to telecommunications carriers in China, particularly to China Mobile and its provincial subsidiaries. We have deployed our industry-leading BSS/OSS solutions for 18 of China Mobile's 31 provincial subsidiaries, and our operating analysis and decision support system platform for China Mobile's headquarters and 18 of its provincial subsidiaries. We have constructed over 58% of China Mobile's billing and customer relationship management, or CRM, systems and approximately 56% of its BI systems and have developed one of the largest telecommunications billing and CRM systems in the world for China Mobile's Zhejiang Mobile provincial subsidiary, supporting over 45 million mobile subscribers. For China Unicom, we have deployed our BSS/OSS solution for 20 of its provincial subsidiaries and our operating analysis and decision support system platform for five of its provincial subsidiaries. For China Telecom, we have deployed our BSS/OSS solution for 15 of its provincial subsidiaries, and our operating analysis and decision support system solution for thirteen of its provincial subsidiaries.

**Comprehensive, scalable solutions.** We offer a comprehensive suite of solutions and services that cover all major telecommunications systems, including business operation support systems, service application solutions and network infrastructure solutions. Over the years, we have continued to invest in our research and development of products and services and have created a high entry to barrier for competitors. Our proprietary software allows telecommunications carriers to monitor user activity and analyze service usage data in real time, which enables service providers to increase billing accuracy, accelerate the time-to-market for new services and improve the effectiveness of marketing and targeting efforts. Most of our software products are scalable to accommodate millions of users, which allows telecommunications carriers to develop their networks incrementally as their level of business grows without the need for architecture re-engineering or large-scale system replacements. Our software products are also designed with fully documented, open architecture that allows our customers, third party systems integrators and software developers to integrate our software with existing applications and services with minimal effort and programming overhead.

***Customer-centric and cost-effective project management capability.*** Our project delivery time with key customers usually lasts between three to six months, and at times may last over a year. We believe customer satisfaction is essential to preserving customer loyalty. We emphasize the importance of remaining in close contact with our customers in order to meet their needs and demands during the course of our projects. We have developed a unique project management system to achieve maximum customer satisfaction in a cost-effective manner. We believe our effective project management system distinguishes us from our competitors in China. Moreover, our strong customer service and research and development teams based in China allow us to respond quickly and efficiently to the needs of our customers.

***Highly qualified personnel.*** In view of the specific needs of China's market, our recruitment efforts target Chinese citizens who have information technology and professional competence and international exposure. We believe that we have been able to attract and retain qualified personnel by offering attractive compensation packages, a challenging and rewarding work environment, and the opportunity to work for a leading information technology company in China. Our ability to recruit and train high quality employees will enable us to continue offering the high quality of services to our customers.

## **Our Strategy**

Our vision is to be the leading solution provider in the global telecommunications industry, to enable the connected digital life style, and to help our customers to build, maintain, operate, manage and improve their communications infrastructure. The key aspects of our strategy include:

***Capitalizing on growth opportunities in China and the global telecommunications market.*** We believe that increased competition among the telecommunications operators will continue to drive demand for nationwide BSS/OSS upgrades and new system deployments throughout China. We also expect the introduction of new technologies and change of consumer habits will intensify competition among mobile operators and drive up overall telecommunications software and IT service spending. With our market leadership in China and strong commitment to customer relationships, we believe we are well positioned to continue capitalizing on the competition and other trends in the telecommunications industry both domestically and abroad. We also intend to continue to leverage our industry knowledge and research and development capabilities to offer new solutions, including upgrades and add-ons, and provide more consulting and other value-added services in both China and the international market.

***Strengthening relationships with key customers.*** Our customers include all three major telecommunications carriers in China and their provincial subsidiaries. We expect our customers' software and IT service needs to evolve as they address an increasingly competitive market, continue their modernization process and offer their customers progressively more sophisticated and innovative solutions and services. We intend to address the software and IT needs of these large telecommunications carriers and increase the sales of our products and services by, among others things:

- ***Maintaining a high level of customer satisfaction.*** We aim to maintain a high level of customer satisfaction by continuing to exceed our customers' expectations in the projects we undertake and provide quality services on an ongoing basis.
- ***Foreseeing customer needs.*** We plan to leverage our industry know-how and long-term customer relationships to understand our customers' development and spending initiatives, allowing us to better coordinate our research and development and marketing efforts.
- ***Actively identifying cross-selling opportunities.*** Our solutions and services cover all major telecommunications systems and we believe there are substantial opportunities for us to cross-sell our wide range of products and services to our existing customer base. We will continue to leverage existing customer relationships and our ongoing projects to actively identify opportunities to market additional solutions and services to our customers.

***Pursuing strategic acquisitions and alliances that fit within our core competencies and growth strategy.***

We hold a leading position in the market for BSS/OSS solutions in China, which we believe is important for the future development of the country's telecommunications carriers. In recent years, we further strengthened our leading position in the telecommunications software solutions market through strategic transactions, most notably the business combination with Linkage on July 1, 2010. As the market for telecommunications software solutions in China continues to expand, we intend to selectively pursue additional acquisitions to access new sectors or new clients, expand our product and service offerings and strengthen our market leadership position. We also plan to continue forging strategic alliances with complementary businesses and technologies.

***Enhancing our brand.*** We plan to continue building awareness of AsiaInfo-Linkage as a leading provider of high quality telecommunications software products and services in China. Our goal is to make the AsiaInfo-Linkage brand synonymous with superior technology, high quality customer service, trusted advice and definitive business value in our industry.

***Leveraging our operational excellence.*** We have over the years been able to gain valuable knowledge and expertise in the telecommunication industry and will continue to leverage our operational excellence in order to provide the best-in-class service and offerings to provide customer satisfaction and improved productivity especially after the combination with Linkage.

## **Products and Services**

We leverage our core strengths in software to offer product and service solutions for leading telecommunications service providers, as well as other major enterprises, in China. We offer a specialized suite of products and services for the telecommunications industry. We have developed core competencies in various advanced technologies that are used in our products and solutions. By utilizing technologies such as multi-tier architecture, object-oriented techniques, data mining and open application program interfaces, we are able to provide our customers with the flexibility and scalability required in a highly competitive, dynamic environment. We also closely monitor world-wide technological developments in our service and product areas.

### ***Software and Solutions for the Telecommunications Market***

We provide high quality software and solutions to China's telecommunications carriers. Our suite of innovative solutions includes business and operation support systems, network infrastructure solutions, and service application solutions. The products and services we offer to the telecommunications industry include various software product suites, most of which are designed with open architecture to facilitate further development and customization for specific purposes. We typically integrate a combination of these products, together with our services, into customized solutions to address individual customer needs.

#### ***Business and Operation Support Systems (BSS/OSS)***

We are a leading provider of BSS/OSS to China's telecommunications operators. Our core BSS/OSS offerings primarily include convergent billing solutions, CRM and BI systems. We also provide software enhancement and maintenance services for the systems we develop, as well as system integration and other value-added IT consulting and planning services.

Our BSS/OSS product suites include the following:

- ***OpenBilling Product Suite.*** OpenBilling is a flexible, expandable, convergent billing solution for telecommunications operators. OpenBilling supports the business of mobile operators by providing a



full line of integrated solutions, including mediation, rating, billing, account balance management, as well as system monitoring and disaster recovery management. OpenBilling is designed with a multi-tier architecture, and is capable of being developed into full-service business operation support systems based on its core convergent billing function. OpenBilling is adaptable to various compatible commercial middleware, and consists of dynamic component modules that can be modified separately when a new product is introduced and updated without any system down time. It also has a unified rating engine that provides flexible pricing mechanisms, a memory database technology that supports complex rating and billing activities, and a real time accounting system that can support sophisticated business requirements.

- *OpenCRM Product Suite.* OpenCRM is a leading CRM solution suite for telecommunications operators. OpenCRM helps operators improve customer service quality, enhance customer satisfaction and build strong customer relationships. It uses a hierarchical structure that provides flexibility for transverse development, an open architecture to permit enterprise application integration capability, and security technologies such as back-up, monitoring, auditing and emergency reporting.
- *OpenBOSS Product Suite.* OpenBOSS is a carrier-class business operation support system solution that provides comprehensive revenue, customer, and product and service management capabilities. With a modularized design, OpenBOSS mainly consists of OpenBilling and OpenCRM solutions that can be deployed independently.
- *OpenBI Product Suite.* OpenBI is a carrier-class operating analysis and decision support system platform and the core of our BI solution. With embedded technology such as data warehousing, online analytical process and data mining, OpenBI enables service providers to make management decisions based on analysis of customer behavior, competitive environment, business profitability and other parameters. The system is able to proactively generate business operation reports, which serve as a basis for critical management decisions.
- *OpenPRM Product Suite.* OpenPRM is a system that calculates, manages and reconciles payment for intercarrier network access, including settlement of roaming charges between mobile operators, as well as management of agreements and settlements between operators and their business partners. The OpenPRM solution also provides support to telecommunications operators in their services to large enterprise and individual customers, as well as their relationship management with third-party sales channels. Our OpenPRM software comprises an access layer, a service layer, and a data layer. This multi-layer design provides flexibility to integrate with other systems, scalability, and high performance. OpenPRM includes a Workflow Management System, or WFMS, that monitors work activities according to defined tasks, roles, rules and processes. The WFMS is designed to improve efficiency by helping carriers reconfigure their business processes to improve service quality and flexibility. OpenPRM also includes a business-oriented architecture and communications crossing application system, which allows centralized and integrated connection among various modules.

### *OSS Package*

Our OSS Package is a highly comprehensive and intelligent service fulfillment framework based on OSS fulfillment domain definition in eTOM model and OSS specifications of telecom operators and taking into account the process analysis methodology (process reviewing and definition) and project implementation methodology (rapid and phased implementation). It enables rapid building of reliable and highly efficient service fulfillment system and ensures the actual needs and future requirements of telecom operators for system functionality and performance are met.

In OSS Package, process analysis methodology and project implementation methodology enables a rapid implementation of telecom service fulfillment system. It provides process analysis methodology, project implementation methodology, inventory data model, interface integration framework and built-in inventory management templates. The OSS package-based service fulfillment system is characterized by rapid process

deployment, intelligent self-learning, implementation monitoring, high extensibility and easy integration. It provides comprehensive support for customers' complicated service fulfillment process and accelerates implementation of new service fulfillment support process through accumulation function of module library.

The key features to our OSS Package include:

- Differentiating strategic values, high operational performance
- Timely to market for technology agnostic services
- Network technology adapters for rapid interface creation
- Sophisticated order decomposition and orchestration engine
- End-to-end order management to facilitate rapid launch on new products and services
- Extremely low latency for e-service provisioning and activation
- Real-time monitoring of the end-to-end provisioning process

#### *Network Management Solutions*

Our network management solutions include network access and backbone infrastructure planning, design and implementation for telecommunications and Internet service providers. These services include technical training for our customers, as well as professional maintenance and support services. Together with these professional services, we offer comprehensive Internet Protocol, or IP, and business operation network management solutions through our NetXpert and OpenXpert product suites.

- *AsiaInfo NetXpert Solution.* Our NetXpert is a carrier-class data and IP network management solution. NetXpert covers network elements, such as core, aggregation and access layers of the carriers' data and IP network, and provides comprehensive network management functions, including fault, performance, topology and resource management. NetXpert also provides traffic analysis, quality of service monitoring and routing monitoring. NetXpert is designed to help carriers reduce their costs and improve maintenance efficiency by supporting multi-vendor environments and real-time optimization.
- *AsiaInfo OpenXpert Product Suite.* Our OpenXpert is an integrated telecommunications network management system. OpenXpert generates a spectrum of network managerial data that enhances overall network management and business operation management. OpenXpert also monitors the application software systems implemented on a network, such as billing, business operation, account processing, settlement, operational CRM and analytical CRM applications. OpenXpert includes a high function internal formula engine that detects the root cause of network failures and predicts which business and applications are likely to be affected. It also incorporates an integrated classification and authentication technology to control different access and user authority for network management personnel at different levels.

#### *Service Application Solutions*

We design and provide a series of service applications that enable telecommunications operators and service providers to offer value-added services, such as Short Message Service, or SMS, mobile email, mobile entertainment and mobile e-commerce. These applications often involve licensed third-party software that we customize or integrate with our proprietary software to provide individualized solutions. Our service applications products include:

- *Mail Center Product.* Our Mail Center product is our flagship online messaging software. Mail Center is a carrier-class messaging software product that supports electronic mail systems for all types of email service providers, from small Internet service providers to large-scale mail hosting providers with millions of mailboxes and thousands of domains. Its flexible design allows service providers to

offer Web-based free email, basic email service and premium business secure email to end-users. The ability to scale both horizontally and vertically allows rapid expansion when more capacity is needed. The system is built to accommodate clustering technology and is highly fault tolerant. The wireless application protocol and SMS functions allow end-users to access emails at any time with a mobile connection.

- *Spam Patrol.* Our Spam Patrol is software that offers real time anti-spam control, with advanced technology for real time recovery, intelligent upgrade capability and content filtering.
- *Net Disk.* Net Disk is a network hard disk product that facilitates Internet-based file transfer, sharing and management. It provides access authentication that restricts access to authorized persons. Net Disk is an independent software that does not rely on other software but can be linked to standard database programs. In addition, Net Disk supports other value-added functions like data processing of short message folders and synchronization of mobile devices.
- *Internet Short Messaging Gateway.* Our Internet Short Messaging Gateway is a business support platform for value-added short messaging services. It is the only one-layer short messaging gateway used by China Mobile to achieve single-point access and provincial roaming within China. It supports multiple protocols to transport short messages between different carriers and different mobile networks, including digital mobile, otherwise known as global system for mobile communications, or GSM, code division multiple access, or CDMA, personal handy-phone system, and 3G networks. Our Internet Short Messaging Gateway uses mainstream development tools based on the UNIX platform. It features multi-task and multi-thread concurrent processing, full parameter tuning systems, expansion capability through a modularized and distributed architecture, and a high level of system stability facilitated by disk array and system redundancy.
- *Device Management Platform.* Our Device Management Platform enables mobile operators to manage many kinds of mobile devices using over-the-air technology and perform remote mobile device management, such as remote diagnosis and parameter setup. It can also help operators promote new services through firmware downloading and gather dynamic mobile usage information in support of marketing decision-making.

## **Research and Development**

We are committed to researching, designing and developing information technology solutions and software products that will meet the future needs of our customers. We upgrade our existing software products to enhance scalability and performance and to provide added features and functions. We had over one thousand employees in our research and development department as of December 31, 2010. Our core product development teams for telecommunications software are located in Beijing, Nanjing, Hangzhou and Xiamen.

During the fiscal years ended December 31, 2010, 2009 and 2008, we had research and product development expenses of \$36.2 million, \$30.4 million and \$19.9 million, respectively. Our research and development team made several achievements in the development of next generation BSS/OSS, or NGBOSS, BI systems, and cloud computing during 2010.

### *Achievements in NGBOSS development*

In 2010, our next generation business and operating support system was upgraded with improvements in billing and CRM functionality. Improvements were also made in prepaid tracking capabilities as well as in carriers' corporate accounts. Billing capabilities combined with eight flexible payment methods provide customers with convenient and simple payment methods. Our CRM functionality includes a uniform platform development with uniform functionality and design for improved management of systems requirements and e-commerce websites. There were also improvements in support of value-added services and prepaid service upgrades. We are currently evaluating the potential requirements for the next phase of NGBOSS upgrades.

### *Achievements in BI development*

In 2010, our business intelligence products saw improvements in search technology capabilities and personal portal technology capabilities. The development of an individual customer tag database and multi-functional tagging functionality allows analysis of customer behavior. With the results from the analytical data, the carrier is able to provide specific targeting strategies. In 2010, we also further strengthened our development marketing administration platform, optimized our multi-marketing-channel system, and enhanced our rates management system, which includes rates analysis, rates pre-performance, rates mapping, and rates recommendation. We believe these developments will allow telecommunications operators in China to be more competitive and present us with additional opportunities to expand our market share.

### *Achievements in Cloud Computing*

In 2010, we continued to conduct targeted research designs and evaluated several key technologies regarding cloud computing, such as software and data access in virtualized infrastructure facilities and resources (host, network, storage) and cloud computing management platforms. Based on the concepts of platform-as-a-service and software-as-a-service, we are accelerating our R&D efforts in the development of platforms and services that provide multiple users the access to multiple applications.

### **Customers**

Our customers consist primarily of Chinese telecommunications service providers and their provincial subsidiaries, including China Mobile, China Unicom, and China Telecom. For the year ended December 31, 2010, revenue from China Mobile and its provincial subsidiaries accounted for \$210.4 million, revenues from China Unicom and its provincial subsidiaries were \$76.3 million and revenues from China Telecom and its provincial subsidiaries were \$51.1 million, or approximately 61%, 22% and 15% of our total revenues, respectively. In the international telecommunications market of Southeast Asia, our current customer consists of Mfone Co., Ltd. (“Mfone”). Outside of the telecommunications industry, we also have customers in China’s cable TV industry, such as, Jiangsu Cable, Chongqing Cable and the China DB Star.

### *Telecommunications Customers*

*China Mobile.* China Mobile was established in July 1999 to operate mobile telecommunications networks nationwide that had previously been operated by China Telecom. China Mobile is the largest telephone service provider in China, with over 584 million wireless voice service subscribers as of December 31, 2010, and provincial subsidiaries responsible for local networks throughout China. China Mobile’s GSM network covers all of China’s cities and most of its rural areas.

*China Unicom.* China Unicom was established in 1994 and is China’s second largest mobile operator. China Unicom also provides a wide array of services, including long distance telephone services, local telephone services, Internet and data communications services, paging services, communications value-added services and other communications services. China Unicom merged with China Netcom and became a full-service telecommunications provider in October 2008. As of December 31, 2010, China Unicom had 167 million mobile (GSM+WCDMA) subscribers and 96 million local access subscribers and 47 million broadband subscribers.

*China Telecom.* China Telecom is China’s largest wireline telecommunications and broadband services provider, providing telecommunications and information services covering voice, data, image and multimedia. In September 2008, China Telecom bought China Unicom’s CDMA business and became a full-service telecommunications provider. As of December 31, 2010, China Telecom had 91 million CDMA subscribers, 175 million local access subscribers and 63 million broadband subscribers.

### *International Telecommunications Customers*

We provide a BI system for Mfone, a leading provider of fixed and mobile telecommunications services in Cambodia.

## ***Cable TV Industry***

China's current cable TV industry is fragmented into over two thousand small cable television operators. The Chinese government has initiated the consolidation the cable industry into 31 provincial level entities and to be led by one national operator, China Cable. Our strategy is to provide billing and CRM services to the cable providers that are the consolidators in the cable TV industry.

## **Sales and Marketing**

### ***Sales***

As part of our sales strategy, we classify our market sectors and target opportunities on national and regional levels in China. This classification helps us determine our primary sales targets and prepare monthly and quarterly sales forecasts. Sales quotas are assigned to all sales personnel according to annual sales plans. We approve target projects, develop detailed sales promotion strategies and prepare reports on order forecast, technical evaluation, sales budgeting expense, schedules and competition analysis. After a report has been approved, a sales team is appointed consisting of sales personnel, system design engineers and a senior system architect.

We rely on our own sales force to market and sell our products and services in China and global. Our sales organizations are structured into five strategic customer accounts, namely China Mobile, China Unicom and China Telecom, Cable TV market and Overseas market. These accounts sell our solutions and services to the respective customers and manage our long-term relationships with them. We also have direct sales personnel in regional offices in Beijing, Shanghai, Chengdu, Fuzhou, Shenyang, Hangzhou, Nanjing, Guangzhou and Singapore.

### ***Marketing***

Our marketing and consulting departments focus on strategic planning, strategic alliance development, market analysis, software product development planning, solution consulting and business operation consulting. In addition, we have a market communications department, which engages in a number of activities aimed at increasing public awareness of our products and services. Our marketing activities include:

- managing and maintaining our website;
- producing corporate and product brochures and monthly customer newsletters;
- conducting seminars and media conferences;
- conducting ongoing public relations programs; and
- creating and placing advertisements.

## **Competition**

The telecommunications software market is a highly competitive environment. Our competitors include local companies such as Digital China, Huawei, Neusoft and ZTE. We believe that we have competitive advantages in our product and service sectors due to our leading BSS/OSS solutions, comprehensive and scalable product and service offerings, customer-centric and cost effective project management capability, and established customer relationships. However, our competitors, many of whom have greater financial, technical and human resources than we have, may be able to respond more quickly to new and emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of new products or services. It is possible that competition in the form of new competitors or alliances, joint ventures or consolidation among existing competitors may decrease our market share. Increased competition could result in lower personnel utilization rates, billing rate reductions, fewer customer engagements, reduced gross margins and loss of market share, any one of which could materially and adversely affect our profits and overall financial condition.

The global telecommunications software market is highly competitive. Our competitors include Amdocs, Convergys, Comverse, CSG and Huawei along with other international players. We believe our core competency will be able to lead us in our expansion in the international telecommunications software and services.

China's cable TV industry is currently fragmented with over two thousand cable TV operators and many more software and service providers. Our Hangzhou Zhongbo subsidiary is able to provide high quality software and services to China's cable TV operators. As the industry is being consolidated into a headquarter level and 31 provincial level entities, we will seek to gain customers as an industry consolidator.

## **Government Regulation**

This section sets forth a summary of the most significant PRC regulations and requirements that affect our business activities in China.

### ***Regulation of the Software Industry***

#### *Software Copyright*

The State Council of the PRC, or the State Council, promulgated the Regulations on the Protection of Computer Software, or the Software Protection Regulations, in December 2001, which became effective in January 2002. The Software Protection Regulations were promulgated, among other things, to protect the copyright of computer software in China. According to the Software Protection Regulations, computer software that is independently developed and exists in a physical form or is attached to physical goods will be protected. However, such protection does not apply to any ideas, mathematical concepts, processing and operation methods used in the development of software solutions.

Under the Software Protection Regulations, PRC citizens, legal persons and organizations enjoy copyright protection over computer software they have developed, regardless of whether the software has been published. Other developers may enjoy copyright protection over computer software they have developed, if such computer software was first distributed in China, or in accordance with a bilateral agreement between China and the developer's country citizenship or residence, or in accordance with an international treaty to which China is a party.

Under the Software Protection Regulations, owners of software copyright protection enjoy rights of publication, authorship, modification, duplication, issuance, lease, transmission on the information network, translation, licensing and transfer. Software copyright protection takes effect on the day of completion of the software's development.

For software developed by legal persons and other organizations, software protection extends until the thirty-first day of December of the fiftieth year from the date the software solution was first published. However, the Software Protection Regulations will not protect the software unless it is published within 50 years of the completion of its development. Licensing agreements may allow others to exploit the software copyright, but exclusive licenses must be in writing. A written contract is also required to transfer any software copyright.

Civil remedies available under the Software Protection Regulations against infringements of copyright include cessation of the infringement and elimination of its effects, an apology and compensation for losses. The administrative department of copyright may order the infringer of a software copyright to stop all infringing acts, confiscate illegal gains, confiscate and destroy infringing copies, and impose a fine on the infringer under certain circumstances. Disputes regarding infringements of software copyright may be settled through mediation, arbitration, or the PRC courts directly.

#### *Software Copyright Registration*

In February 2002, the State Copyright Administration of the PRC promulgated the Measures Concerning Registration of Computer Software Copyright Procedures, or the Registration Procedures, to implement the

Software Protection Regulations and to promote the development of China's software industry. The Registration Procedures apply to the registration of software copyrights, software copyright exclusive licensing contracts and assignment contracts. The registrant of a software copyright will either be the copyright owner or another person (whether a natural person, legal person or an organization) in whom the software copyright becomes vested through succession, assignment or inheritance.

Pursuant to the Registration Procedures, the software to be registered must (i) have been independently developed or (ii) significantly improve in its function or performance after modification from the original software with the permission of the original copyright owner. If the software being registered is developed by more than one person, the copyright owners may nominate one person to handle the copyright registration process on behalf of the other copyright owners. If the copyright owners fail to reach an agreement with respect to the registration, any of the copyright owners may apply for registration but the names of the other copyright owners must be recorded on the application.

The registrant of a software copyright and the parties to a software copyright assignment contract or exclusive licensing contract may apply to the Copyright Protection Center of the PRC for registration of such software copyright and contracts. The Copyright Protection Center of the PRC will complete its examination of an accepted application within 60 days of the date of acceptance. If an application complies with the requirements of the Software Protection Regulations and the Registration Procedures, a registration will be granted, a corresponding registration certificate will be issued and the registration will be publicly announced.

#### *Software Products Administration*

In October 2000, the MIIT issued the Measures Concerning Software Products Administration, or the Measures, to regulate software products and promote the development of the software industry in China. The Measures set forth requirements regarding who may produce software products in China, how software products may be sold, and local and imported software registration. The MIIT and other relevant departments may supervise and inspect the development, production, operation and import/export activities of software products in China.

In March 2009, the MIIT promulgated new Measures Concerning Software Products Administration, or the New Measures, which became effective in April 2009. Under the New Measures, software products operated or sold in China are not required to be registered or recorded with governmental authorities, and software products developed in China (including those developed in China on the basis of imported software) can enjoy certain favorable policies when they have been registered and recorded. The New Measures eliminated certain other requirements set forth in the original Measures.

#### *Policies to Encourage the Development of Software and Integrated Circuit Industries*

In the CCP's 12th five-year plan, the government reiterated the importance of developing and strengthening the IT and telecommunications industry in China. The government is pushing for a more sophisticated and integrated system with enhanced security, which could prove favorable to the growth of our business. Moreover, the government stated the desire for convergence of telecom, Internet and cable and the improvement in the application of the Internet of Things, two trends that we recognize as having possible positive impacts on our business operations.

In June 2000, the State Council issued Certain Policies to Encourage the Development of Software and Integrated Circuit Industries, or the Policies, to encourage the development of the software and integrated circuit industries in China and to enhance the competitiveness of the PRC information technology industry in the international market. The Policies encourage the development of the software and integrated circuit industries in China through various methods, including by:

- Encouraging venture capital investment in the software industry and assisting software enterprises in raising capital overseas;

- Providing tax incentives, including an immediate tax rebate for taxpayers who sell self-developed software products, before 2010, of the amount of the statutory value-added tax that exceeds 3% and a number of exemptions and reduced enterprise income tax rates;
- Providing government support, such as government funding in the development of software technology;
- Providing preferential treatment, such as credit facilities with low interest rates to enterprises that export software products;
- Taking steps to ensure that the software industry has sufficient expertise; and
- Implementing measures to enhance intellectual property protection in China.

To qualify for preferential treatment, an enterprise must be recognized as a software enterprise by governmental authorities. A software enterprise is subject to annual inspection, failure of which in a given year results in loss of the relevant benefits. Certain of our subsidiaries in China have obtained the software certifications that provide tax benefits, which are discussed below in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, under the heading "Taxes."

In January 2011, the State Council issued a new circular providing an exemption from business taxes for eligible software companies on software development and testing, system integration, consulting and maintenance services. The circular also retains various policies granted by its previous circular as outlined above, including the value-added tax rebate on sales of software. However, the implementation guidance of this new circular has not yet been issued as of the date of this annual report.

### ***Regulation of the Telecommunications Industry***

The Chinese telecommunications industry, in which our largest customers operate, is subject to extensive government regulation and control. Currently, all the major telecommunications and Internet service providers in China are primarily state owned or state controlled and their business decisions and strategies are affected by the government's budgeting and spending plans. In addition, they are required to comply with regulations and rules promulgated from time to time by the MIIT and other ministries and government departments.

In September 2000, China published the Regulations of the People's Republic of China on Telecommunications, or the Telecommunications Regulations. The Telecommunications Regulations were the first comprehensive set of regulations governing the conduct of telecommunications businesses in China. In particular, the Telecommunications Regulations set out in clear terms the framework for operational licensing, network interconnection, the setting of telecommunications charges and standards of telecommunications services in China. In the same month, China's State Council approved the Administrative Measures on Internet Information Services, which provide for control and censoring of information on the Internet.

In December 2001, the Ministry of Information Industry, or MII, which was reorganized as the MIIT in June 2008, promulgated the Administrative Measures for Telecommunications Business Operating Licenses, as amended. This regulation provides for two types of telecommunications operating licenses for carriers in the PRC, namely licenses for basic services and licenses for value-added services. In February 2003, the MII issued a new classification of basic and value-added telecommunications services. The revised classification maintains the general distinction between basic telecommunications services, or BTS, and value-added telecommunications services, or VATS, and attempts to define the scope of each service. In particular, the 2003 classification delineated the differences between "Type 1" and "Type 2" value-added services. Type 1 includes online data and transaction processing, domestic multi-party communications services, domestic Internet VPN services and Internet data center services. Type 2 covers storage and retransmission (email, voice mail, facsimile), call centers, Internet access and information services.

Under regulations introduced in December of 2001, qualified foreign investors are permitted to invest in certain sectors of China's telecommunications industry through Sino-foreign joint ventures, including Type 2 VATS providers, although there have been few reported investments of this nature to date. These regulations,



known as the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises, or the Provisions, were the result of China's accession to the World Trade Organization. Under these provisions, certain qualifying foreign investors are permitted to own up to 49% of basic telecommunications businesses in China, and up to 50% of value-added telecommunications services businesses (which include Internet service providers and Internet content providers) and wireless paging businesses.

Despite the introduction of the provisions in 2001, PRC regulations still restrict most direct foreign ownership of VATS businesses in the PRC. We and our PRC operating subsidiaries are considered foreign persons or foreign-invested enterprises under PRC laws, and are therefore subject to foreign ownership restrictions in connection with our limited VATS Type 2 business activities. In order to comply with these restrictions, we entered into a series of contractual arrangements with certain individuals to facilitate our domestic companies, principally ZXJ in conducting value-added telecommunications services business in the PRC. Historically, our VIE Star VATS obtained a License for Operating Value-Added Telecommunications Services (Type 2), which expired in August 2008. ZXJ obtained a License for Operating Value-Added Telecommunications Services (Type 2), issued by the MII initially with a validity period from September 2010 to September 2015. While our VATS services offerings are limited to date, we anticipate offering customers various Type 2 VATS in the future.

We offer VATS services through our VIEs, principally ZXJ. Our VIEs receive any revenue we generate in the VATS business, we do not have any equity interest in ZXJ, but instead have the right to enjoy economic benefits similar to equity ownership through our contractual arrangements with our VIEs and their respective shareholders. For more information on the regulatory and other risks associated with our contractual arrangements related to our VIEs, please see the discussion below in Item 1A, "Risk Factors."

In addition, in anticipation of China's developing 3G telecommunications systems, in May 2008, MIIT, the Ministry of Finance, and the National Development and Reform Commission, or NDRC, jointly issued a notice, known as "The Announcement on Deepening the Reform of the Structure of the Telecommunications Sector," which mandates further reforms to China's telecommunications system. The regulatory authorities indicated that additional policies and measures to encourage innovation and to strengthen supervision of the telecommunications industry would be promulgated.

#### ***Regulations affecting acquisitions of PRC companies by foreign entities***

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued a notice, known as "Circular 75," which requires PRC residents to register with the competent local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in Circular 75 as "offshore special purpose company". Such PRC residents must also amend the registration form if there is a material event affecting the offshore company, such as, among other things, a change in share capital, a transfer of shares, or if such company is involved in a merger, an acquisition or a spin-off transaction or uses its assets in China to guarantee offshore obligations. In the past, we have acquired a number of assets from, or equity interests in, PRC companies. However, there is substantial uncertainty as to whether we would be considered an "offshore special purpose company" for purposes of Circular 75 and, at present, it is unclear whether Circular 75 requires a company such as ours to register. We have in any event requested our stockholders who are PRC residents to make the necessary applications, filings and amendments as required under Circular 75 and other related regulations, including without limitation any and all implementation rules of Circular 75. We will attempt to comply, and attempt to ensure that all of our stockholders subject to these rules comply, with the relevant requirements. However, all of our PRC-resident stockholders may not comply with such requirements. Any failure to comply with the relevant requirements could subject us to fines or sanctions imposed by the PRC government, including restrictions on certain of our subsidiaries' ability to pay dividends to us and our ability to increase our investment in those subsidiaries.

We cannot predict how Circular 75 and other related regulations will affect our future acquisition strategies and business operations. For example, if we decide to acquire additional PRC companies, we or the owners of

such companies may not be able to complete the filings and registrations, if any, required by Circular 75, its implementation rules and related regulations. Under Circular 75, failure to comply with the registration procedures set forth thereunder may result in the imposition of restrictions on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. Any such restrictions or penalties may restrict our ability to implement an acquisition strategy and could adversely affect our business and prospects.

In August 2006, six PRC regulatory authorities, including the PRC Ministry of Commerce, or MOFCOM and the China Securities Regulatory Commission, or CSRC, jointly promulgated the M&A Rules, which became effective in September 2006 and were subsequently amended in June 2009 by MOFCOM. The M&A Rules established additional procedures and requirements that make merger and acquisition activities by foreign investors more time-consuming and complex, including, in some circumstances, advance notice to MOFCOM of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Compliance with the M&A Rules, and any related approval processes, including obtaining approval from MOFCOM, may delay or inhibit our ability to complete acquisitions of domestic PRC companies, which could affect our ability to expand our business or maintain our market share.

Furthermore, in August 2008, SAFE issued a notice, known as “Circular 142,” regulating the conversion by a foreign-invested company of foreign currency into RMB by restricting the uses for the converted RMB. Circular 142 requires that the registered capital of a foreign-invested company denominated in RMB but converted from a foreign currency may only be used pursuant to the purposes set forth in the foreign-invested company’s business scope as approved by the applicable governmental authority. Such registered capital may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company that was denominated in RMB but converted from foreign currency. Violations of Circular 142 may result in severe penalties, including significant fines. As a result, Circular 142 may significantly limit our ability to invest in or acquire other PRC companies using the RMB-denominated capital of our PRC subsidiaries.

### **Certifications and Qualifications**

Our products, facilities and activities must satisfy a range of criteria and conditions set by various industry bodies and governmental authorities in China in order for us to be eligible to supply our products and services. In addition, some certificates we hold are not mandatory for our business but may provide us with certain tax benefits or marketing advantages.

As of January 31, 2011, our subsidiaries or VIEs held the following certifications or qualifications, among others, that enable us to engage in certain industry or business activities:

- Computer Information System Integration Qualification Certificate (Level 2) issued by the Ministry of Information Industry (holders: AsiaInfo-Linkage Technologies (China), Inc.);
- The People’s Republic of China License for Operating Value-Added Telecommunications Services issued by the Ministry of Industry and Information Technology (holder: Beijing Zhongxinjia Sci-Tech Development Co., Ltd.).

As of January 31, 2011, our subsidiaries or VIEs held the following certifications or qualifications, among others, that provide us with tax benefits:

- Hi-tech Enterprise Approval Certificate issued by the Beijing Municipal Science & Technology Commission, the Beijing Municipal Finance Bureau, the Beijing Municipal National Taxation Bureau and the Beijing Municipal Local Taxation Bureau (holders: AsiaInfo-Linkage Technologies (China), Inc.);
- Hi-tech Enterprise Approval Certificate issued by the Sichuan Provincial Science & Technology Commission, the Sichuan Provincial Finance Bureau, the Sichuan Provincial National Taxation Bureau and the Sichuan Provincial Local Taxation Bureau (holder: AsiaInfo-Linkage Technologies (Chengdu), Inc.);

- Software Enterprise Certificate issued by the China Software Industry Association (holders: AsiaInfo-Linkage Technologies (China), Inc., AsiaInfo-Linkage Technologies (Chengdu), Inc.);
- Hi-tech Enterprise Approval Certificate issued by the Jiangsu Provincial Science & Technology Commission, the Jiangsu Provincial Finance Bureau, the Jiangsu Provincial National Taxation Bureau and the Jiangsu Provincial Local Taxation Bureau (holder: Linkage-AsiaInfo Technologies (Nanjing), Inc.); and
- Hi-tech Product Approval Certificate (Linkage Management Analysis System, Linkage Integrated Billing System, Linkage CDMA1X Billing and Business Support System Software) issued by the Jiangsu Provincial Science & Technology Commission (holder: Linkage-AsiaInfo Technologies (Nanjing), Inc.).

As of January 31, 2011, our subsidiaries or VIEs held the following certifications or qualifications, among others, that we believe provide us with marketing advantages:

- CMMI (Capability Maturity Model Integration) LEVEL 3 Certificate issued by Software Engineering Institute of Carnegie Mellon University (holders: AsiaInfo-Linkage Technologies (China), Inc. and AsiaInfo-Linkage Technologies (Chengdu), Inc.);
- Certificate of Quality Management System Certification (GB/T19001-2000 idt ISO9001:2000 Standard) issued by the Guangzhou Saibao Certification Co., Ltd. (holder: Linkage-AsiaInfo (Nanjing), Inc.); and
- Member of TM Forum Certification issued by the Chairman of TM Forum (holder: AsiaInfo-Linkage Technologies (China), Inc.).

## **Intellectual Property**

Our success and ability to compete depend substantially upon our intellectual property, which we protect through a combination of confidentiality arrangements and copyright, trademark and patent registrations. We have filed sixteen trademark applications with the United States Patent and Trademark Office, five of which have been registered and eight of which are newly filed AsiaInfo-Linkage's new logo and design. Our trademark application covering AsiaInfo's logo and design has been granted by the Trademark Bureau of the State Administration of Industry and Commerce in China. We have also filed fifteen applications to protect AsiaInfo-Linkage's new logo and design soon after the combination to the Trademark Bureau of the State Administration of Industry and Commerce in China. In addition, we have filed nine trademark applications with the Hong Kong Trade Marks Registry, three of which have been passed to registration and six pending newly filed AsiaInfo-Linkage's new logo and design. We have been granted thirteen patents and currently have five pending patent applications with the China State Intellectual Property Office for hardware and software products used or developed in our business. In addition, we have granted one patents by the United States Patent and Trademark Office and have two pending patent applications. More than 300 versions of our software products have been registered with the State Copyright Bureau in China, although we have not applied for copyright protection elsewhere, including in the U.S.

We enter into confidentiality agreements with most of our employees and consultants, and control access to and distribution of our documentation and other licensed information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, or to develop similar technology independently. Since the Chinese legal system in general, and the intellectual property regime in particular, is relatively weak, it is often difficult to enforce intellectual property rights in China. In addition,

there are other countries where effective copyright, patent, trademark and trade secret protection may be unavailable or limited. Policing unauthorized use of our technology is difficult and the steps we take may not prevent misappropriation or infringement of our proprietary technology. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others, which could result in substantial costs and diversion of our resources and could have a material adverse effect on our business, results of operations and financial condition.

A portion of our business involves the development and customization of software applications for customers. We generally retain significant ownership or rights to use and market such software for other customer projects, where possible. However, our customers sometimes retain co-ownership and rights to use the applications, processes, and intellectual property so developed. In some cases, we may have no right or only limited rights to reuse or provide these developments to projects involving other customers. To the extent that we are unable to negotiate contracts which permit us to reuse source-codes and methodologies, or to the extent that we have conflicts with our customers regarding our ability to do so, we may be unable to provide similar solutions to our other customers.

## **Employees**

As of December 31, 2010, we had 8,221 employees. We devote significant resources to recruiting professionals with relevant industry experience. Most of our senior management and technical employees are western-educated Chinese professionals with substantial expertise in IT systems integration and application software development. We believe that our success in attracting and retaining highly skilled technical employees and sales and marketing personnel is largely a product of our commitment to providing a motivating and interactive work environment that features continuous and extensive professional development opportunities, as well as frequent and open communication at all levels of the organization.

## **SEC Reports Available on Website**

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Exchange Act, become available on our website at [www.AsiaInfo-Linkage.com](http://www.AsiaInfo-Linkage.com), as soon as such reports become available on the Securities and Exchange Commission, or SEC, website at [www.sec.gov](http://www.sec.gov). The contents of our website are not incorporated by reference into this report on Form 10-K or any of our other Exchange Act reports.

## **ITEM 1A. Risk Factors**

### **Certain Risks That May Affect Our Operating Results and Our Common Stock**

In addition to the other information in this report, the following factors should be considered in evaluating our business and our future prospects:

***We depend on a few customers for a significant portion of our revenues and this dependence is likely to continue. If we fail to obtain business from these key existing customers, our revenues will decline.***

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of large customers in the telecommunications industry in China, such as China Mobile, China Telecom and China Unicom (and their respective provincial subsidiaries). In the aggregate, China Mobile, China Telecom and China Unicom (including results from China Netcom, which merged with China Unicom on October 15, 2008) accounted for 99%, 99% and 98% of our total revenues in 2008, 2009 and 2010 respectively. The loss, cancellation or deferral of any large contract would have a material adverse effect on our revenues, and consequently our profits.

We market our software and services to, and sign contracts with, individual provincial subsidiaries of these three telecommunications carriers as well as their headquarters. We believe that our future success will depend to

a significant extent on our ability to develop and maintain long-term relationships with these telecommunications carriers at the headquarter and provincial levels. We have dedicated significant resources over the past few years to maintaining our relationships with these telecommunications carriers at both the provincial and the headquarter levels. However, IT spending authority may become more centralized. For instance, China Unicom recently adopted the practice of requiring contracts to be entered into with the headquarters for solutions provided to its provincial subsidiaries, although the provincial subsidiaries will remain as the main decision-makers regarding the purchases. If telecommunications carriers begin to centralize purchasing decisions or otherwise change the level within the telecom operator at which the purchase decision is made or replace a key decision-maker at any decision-making level, our customer relationship may be disrupted and we may be unable to effectively and timely restore these relationships. Any failure to maintain close relationships with customers, due to unsuccessful sales and marketing efforts, lack of suitable products and solutions, unsatisfactory customer support and services or any other reason, could result in our losing customers and their businesses. If we lose a key customer, if a key customer significantly reduces its purchasing levels or delays a major purchase or if we fail to attract additional major customers, our business, financial condition and results of operations could be materially and adversely affected.

***Political and economic policies of the Chinese government could affect our industry in general and our competitive position in particular.***

Since the establishment of the People's Republic of China in 1949, the Communist Party has been the governing political party in China. The highest bodies of leadership are the Politburo of the Communist Party, the Central Committee and the National People's Congress. The State Council, which is the highest institution of government administration, reports to the National People's Congress and has under its supervision various commissions, agencies and ministries, including the MIIT, the telecommunications regulatory body of the Chinese government. Since the late 1970s, the Chinese government has been reforming the Chinese economic system. Although we believe that economic reform and the macroeconomic measures adopted by the Chinese government has had and will continue to have a positive effect on economic development in China, the economic reform strategy may from time to time be modified or revised. Such modifications or revisions, if any, could have a material adverse effect on the overall economic growth of China. Such developments could reduce, perhaps significantly, the demand for our products and services. Furthermore, changes in political, economic and social conditions in China, adjustments in policies of the Chinese government or changes in laws and regulations could adversely affect our industry in general and our competitive position in particular.

***The growth of our business is dependent on government telecommunications infrastructure and budgetary policies, particularly the allocation of funds to sustain the growth of the telecommunications industry in China.***

Our telecommunications customers are directly or indirectly owned or controlled by the government of China. Accordingly, our business is also heavily dependent on these government policies. Insufficient future funding allocated to China's telecommunications industry by the government could directly reduce the demand for our software and services. Government initiatives directed at the market could also significantly affect the market conditions for our customers and influence the level of spending on IT solutions and services. While some of these initiatives, such as the convergence of mobile and fixed-line markets in the telecommunications industry, may increase market competition and generate more demand for our software and services, the anticipated increase in demand may not materialize. Some of our customers may not adapt well to the market conditions under the new regulatory environment and may reduce their demand for our software and services as a result. The telecommunications industry may also become less competitive over time, either as a result of market propelled consolidations or as a result of government efforts to curtail competition. A less competitive market may create fewer incentives for IT spending on innovations and upgrades, which may directly affect our revenues and business prospects.

***The restructuring of China's telecommunications sector may have an adverse impact on our business prospects and results of operations.***

Historically, China's telecommunications sector has been subject to a number of state-mandated restructurings. For example, in 2002 China Telecom was split geographically into a northern division (comprising 10 provinces) and a southern division (comprising 21 provinces). As a result of the restructuring, new orders for telecommunications infrastructure expansion and improvement projects decreased, which adversely affected our revenue. Any similar restructurings of this nature could cause our operating results to vary unexpectedly from quarter to quarter in the future.

In May 2008, China restructured its telecommunications carriers, creating three major carriers that have both mobile and fixed-line services. As China's telecommunications industry grows larger in size and smaller in the number of telecommunications carriers, more IT solutions providers will be competing for projects and telecommunications carriers may be able to exact lower prices for our solutions and services. If we cannot effectively compete with our competitors, we may lose business and our results of operations may be materially and adversely affected. Furthermore, telecommunications carriers may also find it more cost-effective to set up their own IT divisions to meet their IT needs, instead of outsourcing to third-party providers. If the current trend favoring the outsourcing of such services is reduced or reversed, our financial condition and results of operations may be materially and adversely affected.

***The long and variable sales cycles for our software and services can cause our revenues and operating results to vary significantly from period to period and may adversely affect the trading price of our common stock.***

Our revenues and operating results will vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control and any of which may cause our stock price to fluctuate. A customer's decision to purchase our software and services involves a significant commitment of its resources and extended evaluation. As a result, our sales cycles tend to be lengthy. We spend considerable time and expense educating and providing information to prospective customers about features and applications of our software and services. Because our major customers often operate large and complex networks, they usually expand their networks in large increments on a periodic basis. The combination of these factors can cause our revenues and results of operations to vary significantly and unexpectedly from quarter to quarter.

A large part of the contract amount of our projects sometimes relates to hardware procurement. Since we recognize most of the revenues relating to hardware at the time of hardware delivery, the timing of hardware delivery can cause our quarterly gross revenues to fluctuate significantly. Due to the foregoing factors, we believe that quarter to quarter comparisons of our results of operations may not be a good indication of our future performance and should not be overly relied upon. It is likely that our results of operations in some periods may be below the expectations of public market analysts and investors. In this event, the price of our common stock will probably decline, perhaps significantly more in percentage terms than any corresponding decline in our operating results.

***Our working capital requirements may increase significantly.***

We typically purchase hardware for our customers as part of our turn-key total solutions services. Other than the IBM-Type Arrangements as described in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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. This policy has historically minimized our working capital requirements. However, for certain large and strategically important projects, we have agreed to payment of less than 80% to 90% of the invoice value of the hardware upon delivery in order to maintain competitiveness. Wider adoption of less favorable payment terms or delays in hardware deliveries could cause our working capital needs to increase significantly.

If we are unable to effectively manage the negotiation of new sales contracts or renewal of existing contracts, we may be exposed to adoption of less favorable payment terms which result to lengthy cash collection cycle and increased needs of our working capital.

***We may be exposed to the credit risk of customers that have been adversely affected by weakened markets.***

We typically sell our software and services as part of long-term projects. During the life of a project, a customer's budgeting constraints can impact the scope of a project and the customer's ability to make required payments. In addition, adverse general business conditions may degrade the creditworthiness of our customers over time, and we may be adversely affected by discontinued operations or other business failures.

***Our high level of fixed costs, as well as increased competition in the software market, could result in reduced operating margins.***

We maintain a relatively stable work force of software and network engineers engaged in all phases of planning and executing projects on behalf of our customers. As a result, our operating costs are relatively fixed from quarter to quarter, regardless of fluctuations in our revenues. Future fluctuations in our revenues could result in decreases in our operating margins. In addition, enhanced competition in the software market and other markets in which we operate could result in reduced prices, which, together with our relatively fixed operating costs, could also result in reduced operating margins. Moreover, our operating margins may decline as a result of the strong bargaining power of our customers, general economic conditions or the restructuring of the telecommunications sector in China.

***Substantial uncertainties exist with respect to our contractual arrangements with our affiliates engaged in businesses that PRC laws currently prohibit foreign-invested companies from engaging in.***

Certain of our affiliates are engaged in businesses that PRC laws and regulations currently prohibit foreign-invested companies from engaging in, including those involving state secrets and value-added telecommunications services, which we refer to "restricted businesses." AsiaInfo-Linkage and its PRC operating subsidiaries in China are considered foreign persons or foreign-invested enterprises under the laws of China and cannot therefore engage in restricted businesses.

Many aspects of the telecommunications services industry, such as VATS, are also restricted from foreign ownership in most circumstances. In order to comply with these restrictions, we have entered into a series of contractual agreements with certain individuals to facilitate our domestic companies, principally ZXJ, in conducting value-added telecommunications services business in the PRC. Through our VIEs we provide outbound call services on behalf of telecommunications operators in the PRC and may provide other value-added telecommunications services. Our VIEs receive any revenue we generate in the VATS business. We do not have any equity interest in our VIEs, but instead have the right to enjoy economic benefits similar to equity ownership through our contractual arrangements with VIEs and their shareholders. Our VIEs make use of the licenses and approvals that are essential to conducting VATS business in the PRC. However, these licenses and approvals expire and we may be unable to renew them. For instance, Star VATS, our VIE, had obtained a License for Operating Value-Added Telecommunications Services (Type 2), which expired in August 2008, and which has not been renewed, and ZXJ's License for Operating Value-Added Telecommunications Services (Type 2) expires in September 2015. If these licenses and approvals expire and we are unable to renew them, our continuing VATS services may not be in compliance with PRC law and we may be forced to suspend VATS activities.

In addition, as part of the contractual arrangements, the shareholders of our VIEs agreed to pledge their respective shares in our VIEs to certain of our subsidiaries. Pursuant to a regulation in China known as the Provisions for Changes of Investors' Equity in Foreign Invested Enterprises, a pledge of the equity interests of a foreign-invested enterprise will only be effective after obtaining approval from and registering with the relevant governmental authorities. Furthermore, under the PRC Property Rights Law, effective in October 2007, a pledge is created only after registration with the local branch of the Administration for Industry and Commerce in China. The pledges of the equity interests in our VIEs have been registered with the relevant governmental authorities in China.

There are, however, substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations, including regulations governing the validity and enforcement of such contractual arrangements. Accordingly, China government authorities may ultimately conclude that our contractual arrangements do not comply with PRC laws.

If we or any of our contractual arrangements are found to be in violation of any existing or future PRC laws or regulations concerning the VATS businesses, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking the business licenses of our subsidiaries in China;
- discontinuing or restricting our PRC subsidiaries' operations;
- imposing conditions or requirements with which we or our PRC subsidiaries may not be able to comply; or
- requiring us or our PRC subsidiaries to restructure the relevant ownership structure or operations.

The imposition of any of these penalties could have a material adverse effect on our ability to conduct our business.

***The principal shareholders and directors of our VIEs may have potential conflicts of interest with us, which may adversely affect our business.***

We offer our value-added telecommunications services in China through our VIEs, primarily through ZXJ, which are partially owned by certain of our employees. Conflicts of interests between their duties to us and to the VIE may arise. When conflicts of interest arise, these persons may not act in the best interests of our company or resolve such conflicts in our favor. In addition, these persons or their heirs or other successors may breach or cause our VIEs to breach or refuse to renew the existing contractual arrangements that allow us to effectively control our VIEs and to receive economic benefits from them. Other than relying on the duties of loyalty owed to us by the shareholders of our VIEs who are also our officers, and the contractual arrangements with the shareholders of our VIEs, we currently do not have any measure or policy to address these potential conflicts of interest. In the event of any disputes regarding the contractual arrangements, we would have to rely on legal remedies under PRC law. These remedies may not always be effective, particularly in light of uncertainties in the PRC legal system. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our VIEs, we would have to rely on legal proceedings, the outcome of which may be uncertain and which could be disruptive to our business.

***Our contractual arrangements with our VIEs may not be as effective in providing operational control as direct ownership of these affiliated entities and may be difficult to enforce.***

We rely on contractual arrangements with our VIEs to operate our value-added telecommunications services businesses. These contractual arrangements, which require our VIEs to pay service and licensing fees to our subsidiaries in China, are currently the means by which we could receive economic benefits from these affiliated companies. In the future, we expect to continue to obtain economic benefits from our VIEs through these contractual arrangements. These contractual arrangements may not be as effective as direct ownership of these affiliated entities. For example, these affiliated entities and their respective shareholders could fail to perform or make payments as required under such contractual arrangements. In such event, we would have to rely on the PRC legal system to enforce these agreements. Any legal proceedings would be uncertain as to outcome and could result in the disruption of our business, damage to our reputation, diversion of our resources and the incurrence of substantial costs.

In addition, in the event we are unable to so extend our contractual arrangements, we may fail to obtain the requisite license to conduct certain our VATS businesses in China and may be required to temporarily suspend related business activities.



***Contractual arrangements we have entered into between our subsidiaries and VIEs may be subject to scrutiny by China tax authorities, and a finding that we or VIEs owe additional taxes or are ineligible for our preferential tax treatment, or both, could substantially increase our taxes owed, or could materially reduce our profits and the value of your investment.***

Under PRC law, arrangements and transactions among related parties may be audited or challenged by the tax authorities in PRC. If any of the transactions between our subsidiaries and VIEs are found to not have been entered into on an arm's-length basis, or to result in an unreasonable reduction in tax under PRC law, the tax authorities in China have the authority to disallow our tax savings, adjust the profits and losses of our respective Chinese entities and assess late payment interest and penalties. A finding by the tax authorities in China that we are ineligible for certain tax savings, or that any of our subsidiaries or VIEs is ineligible for their preferential tax treatment, could increase our taxes owed and reduce our profits and the value of your investment.

***Regulations relating to acquisitions of Chinese companies by foreign entities may limit our ability to acquire Chinese companies and adversely affect the implementation of our acquisition strategy and any failure by our stockholders who are Chinese residents to make or obtain any required registrations pursuant to such regulations may subject us to legal sanctions.***

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued a notice, known as "Circular 75," which sets forth a regulatory framework for acquisitions of PRC businesses involving offshore companies owned by PRC residents or passport holders, known as "round-trip" investments or acquisitions. Among other things, Circular 75 provides that if a round-trip investment in a PRC company by an offshore company controlled by PRC residents occurred prior to the issuance of Circular 75, certain PRC residents were required to submit a registration form to the local SAFE branch to register their ownership interests in the offshore company prior to March 31, 2006. Circular 75 also provides that, prior to establishing or assuming control of an offshore company for the purpose of obtaining financing for that offshore company using the assets or equity interests in an onshore enterprise in the PRC, each PRC resident or passport holder who is an ultimate controller of such offshore company, whether an individual or a legal entity, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. Such PRC residents must also amend the registration form if there is a material event affecting the offshore company, such as, among other things, a change in share capital, a transfer of shares, or if such company is involved in a merger, acquisition or spin-off transaction or uses its assets in China to guarantee offshore obligations. In May 2007, SAFE issued guidance to its local branches with respect to the operational process for SAFE registration, known as "Circular 106," which standardized registration under Circular 75. In the past, we have acquired a number of assets from, or equity interests in, PRC companies. However, there is substantial uncertainty as to whether we would be considered an "offshore company" for purposes of Circular 75, and, at present, it is unclear whether Circular 75 requires a company such as ours to register. We have in any event requested our stockholders who are PRC residents to make the necessary applications, filings and amendments as required under Circular 75 and other related regulations. We will attempt to comply, and attempt to ensure that all of our stockholders subject to these rules comply, with the relevant requirements. However, all of our PRC-resident stockholders may not comply with such requirements. Any failure to comply with the relevant requirements could subject us to fines or sanctions imposed by the PRC government, including restrictions on certain of our subsidiaries' ability to pay dividends to us and our ability to increase our investment in those subsidiaries.

Circular 75, Circular 106 and related regulations are relatively new and it is uncertain how these regulations will be interpreted, implemented or enforced. We cannot predict how these regulations will affect our future acquisition strategies and business operations. For example, if we decide to acquire additional PRC companies, we or the owners of such companies may not be able to complete the filings and registrations, if any, required by Circular 75, Circular 106 and related regulations. Under Circular 75, failure to comply with the registration procedures set forth thereunder may result in the imposition of restrictions on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to

penalties under PRC foreign exchange administration regulations. Any such restrictions or penalties may restrict our ability to implement an acquisition strategy and could adversely affect our business and prospects.

In August 2006, six PRC regulatory authorities, including the PRC Ministry of Commerce, or MOFCOM and the China Securities Regulatory Commission, or CSRC, jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which became effective in September 2006 and were subsequently amended in June 2009 by MOFCOM. The M&A Rules established additional procedures and requirements that make merger and acquisition activities by foreign investors more time-consuming and complex, including, in some circumstances, advance notice to MOFCOM of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Compliance with the M&A Rules, and any related approval processes, including obtaining approval from MOFCOM, may delay or inhibit our ability to complete acquisitions of domestic PRC companies, which could affect our ability to expand our business or maintain our market share.

Furthermore, in August 2008, SAFE issued a notice, known as “Circular 142,” regulating the conversion by a foreign-invested company of foreign currency into RMB by restricting the uses for the converted RMB. Circular 142 requires that the registered capital of a foreign-invested company denominated in RMB but converted from a foreign currency may only be used pursuant to the purposes set forth in the foreign-invested company’s business scope as approved by the applicable governmental authority. Such registered capital may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company that was denominated in RMB but converted from foreign currency. The use of such registered capital may not be changed without SAFE’s approval, and may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of Circular 142 may result in severe penalties, including significant fines. As a result, Circular 142 may significantly limit our ability to invest in or acquire other PRC companies using the RMB-denominated capital of our PRC subsidiaries.

***In 2008, we recorded a \$6.6 million non-cash impairment charge to net income, and may be required to record additional significant charges to earnings from the declines in fair value of our marketable securities if such declines become other than temporary.***

Our short-term investment policy and strategy attempt primarily to preserve capital and meet our liquidity requirements. Our marketable securities are classified as available-for-sale securities in short-term investments and are reported at fair value with net unrealized losses recognized as accumulated other comprehensive income in stockholders’ equity, unless there is a decline in fair value below cost that we consider to be other than temporary, in which case the amount of the decline would be recognized as a loss and reflected in our income statement. As of December 31, 2008, we recognized a \$4.6 million non-cash impairment charge to net income related to our short-term investments in certain stock funds. We review our short-term investments to determine whether any differences between cost and fair value are other-than-temporary impairment in accordance with authoritative accounting guidance.

As of December 31, 2008, we recognized a \$2.0 million impairment on long-term investments, representing the decline in fair value of our 5% equity stake in Hinge Software Company Limited, a Shanghai-based provider of business intelligence software solutions. We review long-term investments for impairment whenever events or changes in circumstances indicate that the carrying value of such investments may no longer be recoverable.

The losses incurred on these short-term and long-term investments primarily related to changes in general global market conditions. If factors arise that would require us to account for additional declines as other than temporary or if we are unable to hold investments until the carrying value of such investments is recovered, we may need to recognize such declines as additional realized losses with a charge to income, which could have a material adverse effect on our financial condition and operating results.

***We may be subject to fines and legal sanctions if we or our employees who are PRC citizens fail to comply with recent PRC regulations relating to employee stock options granted by overseas listed companies to PRC citizens.***

In March 2007, SAFE issued the Application Procedure for Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plans or Stock Option Plans of Overseas Listed Companies, also known as “Circular 78.” Under Circular 78, PRC individuals who participate in an employee stock option holding plan or a stock option plan of an overseas listed company are required, through a PRC domestic agent or PRC subsidiary of the overseas listed company, to register with SAFE and complete certain other procedures. We and our Chinese employees who have been granted restricted stock or stock options pursuant to our stock incentive plans are subject to Circular 78 because we are an overseas listed company. However, in practice, significant uncertainties exist with respect to the interpretation and implementation of Circular 78. We intend to submit the application for registration of our employee stock incentive plan as soon as possible. We or our Chinese employees may not be able to comply with, qualify under, or obtain any registration required by Circular 78. If we or our Chinese employees fail to comply with the provisions of Circular 78, we or they may be subject to fines and legal sanctions imposed by SAFE or other PRC governmental authorities, which could result in a material and adverse effect to our business operations and employee stock incentive plans.

***We are highly dependent on our executive officers.***

Each of our executive officers is responsible for an important sector of our operations. Although we believe that we have significant depth at all levels of management, the loss of any of our executive officers’ services could be detrimental to our operations. We do not have, and do not plan to obtain, “key man” life insurance on any of our officers.

***Our business could suffer if our executives and directors compete against us and our non-competition agreements with them cannot be enforced.***

If any of our management or key personnel joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key professionals and staff members. Each of our directors and executive officers has entered into employment agreements and confidentiality and non-competition agreements with us. However, if any dispute arises between our directors and officers and us, the non-competition provisions contained in their confidentiality and non-competition agreements may not be enforceable, especially in China, where most of these executive officers and key employees reside, on the ground that we have not provided adequate compensation to these executive officers for their non-competition obligations, which is required under the relevant PRC regulations.

***We may be unable to effectively execute projects, maintain, expand or renew existing customer engagements and acquire new customers if we fail to attract, train, motivate and retain quality employees who can effectively perform the services offered by us.***

We depend on highly skilled employees, such as engineers, to effectively develop and deliver our solutions and services. The growth of our business could be limited by our ability to attract, train, motivate and retain these individuals. The market for qualified and experienced engineers throughout China is highly competitive, particularly in the areas of software programming and system engineering. We may be unable to retain our current workforce or hire additional personnel as planned. The quality of research and development and our services requires that our engineers not only be conversant in software but also that they possess extensive industry knowledge and expertise. If we cannot hire a sufficient number of quality employees, or fail to provide appropriate training, career opportunities and otherwise motivate and retain our employees, or if our employees fail to acquire the appropriate industry knowledge and expertise or adapt quickly to changing industry and technological trends, we may not be able to execute our strategies and our business and prospects could suffer.

***Increases in wages for software design, engineering, sales and marketing and management personnel will increase our net cash outflow and our gross margin and profit margin may decline.***

Historically, wages for comparably skilled technical and management personnel in the telecommunications software solutions industry in China have been lower than in developed countries, such as in the U.S. or Europe. In recent years, wages in China's software industry have increased and may continue to increase at faster rates. Wage increases will increase our cost of our products and services of the same quality and increase our cost of operations. As a result, our gross margin and profit margin may decline. In the long term, unless offset by increases in efficiency and productivity of our work force, wage increases may also result in increased prices for our solutions and services, making us potentially less competitive. Increases in wages, including an increase in the cash component of our compensation expenses, will increase our net cash outflow and our gross margin and profit margin may decline.

***We extend warranties to our customers that expose us to potential liabilities.***

We customarily provide our customers with one to three year warranties, which cover third-party hardware and software products. Although we seek to arrange back-to-back warranties with hardware and software vendors, we have the primary responsibility with respect to their warranties. Our contracts often lack disclaimers or limitations on liability for special, consequential and incidental damages, nor do we typically cap the amounts our customers can recover for damages. In addition, we do not currently purchase any insurance policy with respect to our exposure to warranty claims. The failure of our installed projects to operate properly could give rise to substantial liability for special, consequential or incidental damages, which in turn could materially and adversely affect us.

***We sell our services on a fixed-price, fixed-time basis, which exposes us to risks associated with cost overruns and delays.***

We sell most of our services on a fixed-price, fixed-time basis. In contracts with our customers, we typically agree to pay late completion fines of up to 5% of the total contract value. In large scale telecommunications infrastructure projects, there are many factors beyond our control which could cause delays or cost overruns. In this event, we would be exposed to cost overruns and liability for late completion fines.

***We may become less competitive if we are unable to develop or acquire new products, or enhancements to our existing products, that are marketable on a timely and cost-effective basis.***

Our future operating results will depend, to a significant extent, upon our ability to enhance our existing products and services and to introduce new products and services to meet the requirements of our customers in a rapidly developing and evolving market. If we do not enhance our existing products and services or introduce new successful products and services in a timely manner, our products and services may become obsolete, and our revenues and operating results may suffer. Moreover, unexpected technical, operational, distribution or other problems could delay or prevent the introduction of any products or services that we may plan to introduce in the future. We cannot be sure that any of these products or services will achieve widespread market acceptance or generate incremental revenues.

***Our proprietary rights may be inadequately protected and there is a risk of poor enforcement of intellectual property rights in China.***

Our success and ability to compete depend substantially upon our intellectual property, which we protect through a combination of confidentiality arrangements and copyright, trademark, and patent registrations. We have registered several marks and filed many other trademark applications in the U.S., China, and Hong Kong. We have also registered copyrights in China with respect to certain of our software products, although we have not applied for copyright protection elsewhere, including in the U.S. We have been granted numerous patents and have filed many other patent applications in China for hardware and software products used or developed in our

business, although we have not applied for patent protection elsewhere, including in the U.S. We enter into confidentiality agreements with most of our employees and consultants, and control access to, and distribution of, our documentation and other licensed information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, or to develop similar technology independently. Since the Chinese legal system in general and the intellectual property regime in particular, are relatively weak, it is often difficult to enforce intellectual property rights in China. In addition, there are other countries where effective copyright, trademark and trade secret protection may be unavailable or limited.

Policing unauthorized use of our licensed technology is difficult and the steps we take may not prevent misappropriation or infringement of our proprietary technology. In addition, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others, which could result in substantial costs and diversion of our resources.

A portion of our business involves the development and customization of software applications for customers. We generally retain significant ownership or rights to use and market such software for other customer projects, where possible. However, our customers sometimes retain co-ownership and rights to use the applications, processes, and intellectual property so developed. In some cases, we may have no right or only limited rights to reuse or provide these developments to projects involving other customers. To the extent that we are unable to negotiate contracts which permit us to reuse source-codes and methodologies, or to the extent that we have conflicts with our customers regarding our ability to do so, we may be unable to provide similar solutions to our other customers.

***We are exposed to certain business and litigation risks with respect to technology rights held by third parties.***

We currently license technology from third parties and intend to do so increasingly in the future as we introduce services that require new technology. These technology licenses may not be available to us on commercially reasonable terms, if at all. Our inability to obtain any of these licenses could delay or compromise our ability to introduce new services. In addition, we may or may allegedly breach the technology rights of others and incur legal expenses and damages, which could be substantial.

***Our computer networks may be vulnerable to security risks that could disrupt our services and adversely affect our results of operations.***

Our computer networks may be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems caused by unauthorized access to, or improper use of, systems by third parties or employees. A hacker who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in operations. Computer attacks or disruptions may jeopardize the security of information stored in and transmitted through computer systems of our customers. Actual or perceived concerns that our systems may be vulnerable to such attacks or disruptions may deter telecommunications carriers and consumers from using our solutions or services. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches, which could adversely affect our results of operations.

***Investors may not be able to enforce judgments entered by United States courts against certain of our officers and directors.***

We are incorporated in the State of Delaware. However, a majority of our directors and executive officers, and certain of our principal stockholders, live outside of the U.S., principally in China and Hong Kong. As a result, you may not be able to:

- effect service of process upon those persons within the U.S.; or
- enforce against those persons judgments obtained in United States courts, including judgments relating to the federal securities laws of the U.S.

***The fact that our business is conducted in both U.S. dollars and RMB may subject us to currency exchange rate risk due to fluctuations in the exchange rate between those two currencies.***

In July 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies, including the U.S. dollar. This change in policy has resulted in approximately 17% appreciation of the RMB against the U.S. dollar. The PRC government may decide to adopt an even more flexible currency policy in the future, which could result in further and more significant appreciation of the RMB against the U.S. dollar.

A majority of our revenues and expenses relating to hardware, 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. Furthermore, an increase in the value of the RMB may require us to exchange more U.S. dollars into RMB in order to meet the working capital requirements of our subsidiaries in China. 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 use U.S. dollars as our reporting and functional currency. The financial records of our Chinese subsidiaries are maintained in RMB, their functional currency. Their assets and liabilities are translated into U.S. dollars based on the rates of exchange existing on the balance sheet date. Their statements of operations are translated using a weighted average rate for the period. Foreign currency translation adjustments are reflected as accumulated other comprehensive income (loss) in stockholders' equity. Fluctuation in exchange rates might result in significant foreign currency translation adjustments. We reported foreign currency translation adjustments of \$9.2 million, \$0.1 million and \$6.5 million in other comprehensive income (loss) in 2010, 2009 and 2008, respectively.

***The markets in which we sell our services and products are competitive and we may not be able to compete effectively.***

The telecommunications software market is a highly competitive environment. Our competitors include multinational and local companies such as Amdocs, Digital China, Huawei, Neusoft and ZTE. Our competitors, many of whom have greater financial, technical and human resources than we have, may be able to respond more quickly to new and emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of new products or services. It is possible that competition in the form of new competitors or alliances, joint ventures or consolidation among existing competitors may decrease our market share. Increased competition could result in lower personnel utilization rates, billing rate reductions, fewer customer engagements, reduced gross margins and loss of market share, any one of which could materially and adversely affect our profits and overall financial condition. In addition, if we are unable to effectively manage the negotiation of new sales contracts or renewal of existing contracts, we may be exposed to adoption of less favorable payment terms which result to lengthy cash collection cycle and increased needs of our working capital.

***High technology and emerging market shares have historically experienced extreme volatility and may subject you to losses.***

The trading price of our shares may be subject to significant market volatility due to investor perceptions of investments relating to China and Asia, as well as developments in the telecommunications industry. In addition, the high technology sector of the stock market frequently experiences extreme price and volume fluctuations, which have particularly affected the market prices of many software companies and which have often been unrelated to the operating performance of those companies.

***We may become subject to securities litigation, which is expensive and could result in a diversion of resources.***

In the past, periods of volatility in the market price of a particular company's securities have often been followed by the institution of securities class action litigation against that company. Many companies in our

industry have been subject to this type of litigation in the past. Moreover, we are currently involved in a securities class action litigation as a result of allegedly improper allocation procedures relating to the sale of our common stock in connection with our initial public offering in March 2000, as well as litigation alleging short-selling trading by the underwriters of our initial public offering. Although we cannot guarantee the outcome of these proceedings, we believe the final result of these actions will have no material effect on our consolidated financial condition, results of operations or cash flows. However, litigation is often expensive and diverts management's attention and resources, and could materially and adversely affect our business.

***A significant number of shares of our common stock are or will be eligible for sale in the open market, which could drive down the market price for our common stock and make it difficult for us to raise capital.***

As of December 31, 2010, 74,933,404 shares of our common stock were outstanding, and there were approximately 1,186,362 shares of our common stock issuable upon exercise of outstanding stock options and vesting of outstanding performance stock units and restricted stock units. Sales of a large number of shares by our stockholders could materially decrease the market price of our common stock and make it more difficult for us to raise additional capital through the sale of equity or equity-related securities in the future at a time and price that we deem appropriate.

Our stockholders may experience substantial dilution if we raise additional funds through the sale of equity securities. The issuance of a large number of additional shares of our common stock upon the exercise of outstanding options or in an equity financing transaction could cause a decline in the market price of our common stock due to the sale of a large number of shares of our common stock in the market, or the perception that these sales could occur.

The risk of dilution and the resulting downward pressure on our stock price could also encourage investors to engage in short sales of our common stock. By increasing the number of shares offered for sale, material amounts of short selling could further contribute to progressive price declines in our common stock.

***We are subject to anti-takeover provisions that could prevent a change of control and prevent our stockholders from realizing a premium on their common stock.***

Our board of directors has the authority to issue up to 10,000,000 shares of our preferred stock. Without any further vote or action on the part of our stockholders, our board of directors has the authority to determine the price, rights, preferences, privileges and restrictions of the preferred stock. This preferred stock, if it is ever issued, may have preference over and harm the rights of the holders of our common stock. Although the issuance of this preferred stock will provide us with flexibility in connection with possible acquisitions and other corporate purposes, such an issuance may make it more difficult for a third party to acquire a majority of our outstanding voting stock.

We currently have authorized the size of our board of directors to be not less than three or more than ten directors. The terms of the office of our current board of directors have been divided into three classes: Class I, whose term will expire at the annual meeting of the stockholders to be held in 2012; Class II will expire at the annual meeting of the stockholders to be held in 2013 and Class III, whose term will expire at the annual meeting of stockholders to be held in 2011. This classification of the board of directors may have the effect of delaying or preventing changes in our control or management.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, the statute prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date when the person became an interested stockholder unless, subject to certain exceptions, the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the stockholder; and an "interested stockholder" includes any person that owns 15% or more of our outstanding voting stock or that is our affiliate or associate.

***Our change of control severance agreements with executive officers may discourage a change of control.***

We have entered into change of control severance agreements with most of our executive officers. These agreements provide, among other things, that the executive officers would be entitled to various benefits upon the occurrence of a covered termination which occurs within one year after a change of control, including payment of one year of base salary and bonus, immediate vesting of 50% of any outstanding unvested stock options held by the executive officer and the provision of medical benefits and housing allowance. If a change of control occurs, and regardless of whether a covered termination takes place, the executive officers may be entitled to accelerated vesting of 50% of any outstanding unvested stock options held by the executive officer. The potential obligations to pay executive officers such severance amounts may discourage a potential acquirer from effecting a change of control.

***Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.***

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices may occur in China. Our employees or other agents may engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences, including adverse publicity and damage to our reputation that may have a material adverse effect on our business, financial condition and results of operations.

***We are subject to potential liabilities and anticipate recurring costs in complying with the Sarbanes-Oxley Act.***

We are subject to the Sarbanes-Oxley Act of 2002, or the Act. Among other things, the Act imposes corporate governance, reporting, and disclosure requirements; introduces stricter independence and financial expertise standards for audit committees; and sets stiff penalties for securities fraud. The Act and the related rules and regulations have increased the scope, complexity and costs of our corporate governance, reporting, and disclosure practices, and may increase the risk of personal liability for our directors, chief executive officer, and chief financial officer. Any such liabilities may adversely affect our reputation, our business, or our ability to meet listing criteria.

Section 404 of the Act requires our management and our independent registered public accounting firm to assess our internal controls over financial reporting on an annual basis. During the course of this evaluation, documentation and attestation, we may identify deficiencies that we may not be able to remedy. If we fail to maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls, on an ongoing basis, over financial reporting in accordance with the Act. Moreover, effective internal controls over financial reporting, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent or detect fraud. Any failure to maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock.

***We are exposed to certain tax risks in China under the new Enterprise Income Tax Law of the PRC, or the EIT Law.***

The EIT Law, which took effect on January 1, 2008, has applied a uniform 25% enterprise income tax rate to all “resident enterprises” in China, including foreign invested enterprises, or FIEs. Moreover, the EIT Law



applies to enterprises established outside of China with “de facto management bodies” located in China. Under the implementation regulations to the EIT Law issued by the PRC State Council, “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. While we do not believe we are a “resident enterprise,” because ambiguities exist with the interpretation and application of the EIT Law and the implementation regulations, we may be considered a PRC resident enterprise and therefore may be subject to the China enterprise income tax at the rate of 25% on certain of our income.

Certain of our subsidiaries in China are likely to continue to enjoy preferential tax rate as they have been qualified as a Key Software Enterprise or a High and New Technology Enterprise, or HNTE, under the EIT Law. The qualification of our subsidiaries as a Key Software Enterprise or HNTE and the preferential tax rate enjoyed or to be enjoyed by them in relation with such qualification may be challenged, revoked or rejected by tax authority in the future, which would have a material adverse effect on our future financial condition and results of operations.

***Dividends payable by us to our non-PRC stockholders, and gains on the sales of our common stock, may be subject to withholding taxes under PRC tax laws, which may negatively impact the value of your investment.***

The prevailing PRC tax law and regulations provide that a 10% withholding tax will normally be applicable on dividends payable to non-PRC stockholders which are derived from sources within the PRC, unless otherwise exempted or reduced by tax treaties or similar arrangements. Any gains realized on the transfer of shares by such stockholders may also be subject to a 10% withholding tax if such gains are regarded as income derived from sources within the PRC. The dividends we pay with respect to our common stock, or the gain our non-PRC stockholders may realize from the transfer of our common stock, may be treated as PRC-sourced income and may therefore be subject to a 10% PRC withholding tax. However, ambiguities exist in the prevailing PRC tax legislations with respect to the interpretation and identification of PRC-sourced income, as well as how to tax the gain realized from the transfer of common stock on a foreign stock exchange. If we are required under the prevailing PRC tax law and regulations to withhold PRC income tax on dividends payable to our non-PRC stockholders, or if non-PRC stockholders are required to pay PRC income tax on gains on the transfer of their shares of common stock, the value of your investment may be negatively affected.

***We may undertake acquisitions, investments, joint ventures or other strategic alliances, which could have a material adverse effect on our ability to manage our business. In addition, such undertakings may not be successful.***

Our strategy includes plans to grow both organically and through acquisitions, participation in joint ventures or other strategic alliances. Joint ventures and strategic alliances may expose us to new operational, regulatory and market risks, as well as risks associated with additional capital requirements. We may not be able, however, to identify suitable future acquisition candidates or alliance partners. Even if we identify suitable candidates or partners, we may be unable to complete an acquisition or alliance on terms commercially acceptable to us. If we fail to identify appropriate candidates or partners, or complete desired acquisitions, we may not be able to implement our strategies effectively or efficiently.

In addition, our ability to successfully integrate acquired companies and their operations may be adversely affected by a number of factors. These factors include:

- diversion of management’s attention;
- difficulties in retaining customers of the acquired companies;
- difficulties in retaining personnel of the acquired companies;
- entry into unfamiliar markets;

- unanticipated problems or legal liabilities; and
- tax and accounting issues.

If we fail to integrate acquired companies efficiently, our earnings, revenues growth and business could be negatively affected. Furthermore, the acquired companies may not perform to our expectations for various reasons, including legislative or regulatory changes that affect the products or services in which the acquired companies specialize, and the loss of key customers and personnel. If we are not able to realize the benefits envisioned for such acquisitions, joint ventures or other strategic alliances, our overall profitability and growth plans may be adversely affected.

***Asset impairment reviews may result in future write-downs.***

Our accounting policies require us, among other things, to conduct annual reviews of goodwill, and to test intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. In connection with our business acquisitions, we make assumptions regarding estimated future cash flows and other factors to determine the fair value of goodwill and intangible assets. In assessing the related useful lives of those assets, we have to make assumptions regarding their fair value, our recoverability of those assets and our ability to successfully develop and ultimately commercialize acquired technology. If those assumptions change in the future when we conduct our periodic reviews in accordance with applicable accounting standards, we may be required to record impairment charges. It is possible that future reviews will result in further write-downs of goodwill and other intangible assets.

***Integrating the business of Linkage into our business will divert management's attention and resources, and the anticipated benefits of the Combination with Linkage Technologies, including anticipated cost savings, may not be realized fully or at all or may take longer to realize than expected.***

Our business combination with Linkage involves the integration of two companies that have previously operated independently, with principal offices in two distinct locations, and with unique corporate policies and practices. In addition, Linkage Technologies has historically been a private company with limited numbers of accounting personnel and other resources with which to address internal controls and procedures, and its independent registered public accounting firm identified a number of material weaknesses and significant deficiencies in its internal control over financial reporting. We are devoting significant management attention and human, technical and financial resources to integrating the two companies. For example, the process of integrating the accounting systems, records and procedures of Linkage Technologies and designing and implementing an effective financial reporting system for the combined company entails significant time and expense and may not be effective in preventing material weaknesses or significant deficiencies in internal control over financial reporting. In the process of integration, the combined company faces difficulties in retaining customers and personnel, as well as in combining financial reporting systems, training personnel, and forecasting combined company financial results.

If we are unable to integrate operational, financial and other business matters effectively, we may face a variety of adverse consequences. We may not achieve the revenue growth we expect to accomplish from the combination, may not realize the full benefits of synergies, cost savings, innovation and operational efficiencies that may be possible, or may identify a material weakness in our internal controls in the future. Moreover, any benefits from the combination may not be achieved within a reasonable period of time, if at all. Any of these events could have a material adverse impact on our financial condition and results of operations.

**ITEM 1B. Unresolved Staff Comments**

We did not receive any material comments from the SEC staff more than 180 days before the end of 2010 regarding our periodic or current reports that remained unresolved at the date hereof.

## **ITEM 2. Properties**

Our principal development facilities and administrative offices currently located in Beijing and Nanjing, totally occupy approximately 24,928 square meters in buildings in the Beijing Zhongguancun Science Park and in Nanjing Window of the World Software Park & Archer Square. Each of our subsidiaries and VIEs generally entered into separate leases. The current leases for our Beijing facilities mostly expire in December 2012, and for our Nanjing facilities the central two leases expire in November 2012 and February 2013. We also have regional branches in various cities in China, namely Shanghai, Guangzhou, Chengdu, Hangzhou, Nanjing, Shenyang, Haikou, Changsha, Jinan, Haerbin, Changsha, Tianjin, Wuhan, Fuzhou, Beijing and Macao as well as a regional office in Singapore and Santa Clara, California.

In China, all land is owned by the government of China, its agencies and its collectives, which grant land use rights for periods ranging from 50 to 70 years that are typically renewable. To obtain land use rights, various steps may be involved to develop the land or obtain related government approvals. We have commenced the process to obtain land use rights for 11,332 square meters of land in Beijing, on which we plan to construct a building of approximately 20,965 square meters for use as our new corporate headquarters. In October 2009, we entered into an agreement with Zhongguancun Software Park Development Co., Ltd., or ZSPD, pursuant to which ZSPD agreed to develop the land in preparation for construction of the building, for an aggregate consideration of approximately \$11.1 million. In connection with the agreement, we will be eligible to enter into a land transfer agreement with relevant PRC government authorities in order to obtain land use rights with respect to such land. As of December 31, 2010, our design description has been approved by Haidian District Development and Reform Commission and we had paid approximately \$10.0 million to Zhongguancun Software Park Development Co., Ltd., or ZSPD, pursuant to the agreement with ZSPD, dated on October 2009. According to the agreement, we will be eligible to enter into a land transfer agreement with relevant PRC government authorities in order to obtain land use rights with respect to such land.

## **ITEM 3. Legal Proceedings**

In December 2001, a securities class action case was filed in New York City against us, certain of our officers and directors and the underwriters of our initial public offering, or our IPO. The lawsuit alleged violations of the U.S. federal securities laws and was docketed in the U.S. District Court for the Southern District of New York as *Hassan v. AsiaInfo Holdings, Inc., et al.* The lawsuit alleged, among other things, that the underwriters of our IPO improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of our common stock in the aftermarket as conditions of their purchasing shares in our IPO. The lawsuit further claimed that the alleged practices of the underwriters should have been disclosed in our IPO prospectus and registration statement. The suit seeks rescission of the plaintiffs' alleged purchases of our common stock as well as unspecified damages. In addition to the case against us, various other plaintiffs have filed approximately 1,000 other, substantially similar class action cases, or the IPO Allocation Cases, against approximately 300 other publicly traded companies and their IPO underwriters in New York City, which along with the case against us have all been transferred to a single federal district judge for purposes of case management.

In April 2009, we and most of the other issuer defendants in the IPO Allocation Cases reached a definitive agreement with the plaintiffs and the underwriter defendants to settle the IPO Allocation Cases. The agreement was filed with the court in April 2009 and a final approval was granted by the court in October 2009. The final approval was subject to appeal until November 2009. Several objectors filed timely appeals and those appeals remain pending. If the settlement is approved, we expect any damages payable to the plaintiffs to be fully funded by our directors' and officers' liability insurance policies. If the litigation proceeds, we intend to continue to defend the litigation vigorously. Moreover, if the litigation proceeds, we believe that the underwriters may have an obligation to indemnify us for the legal fees and other costs of defending this suit and that our directors' and officers' liability insurance policies would also cover the defense and potential exposure in the suit.

In addition, in June 2007 we received a letter from a putative stockholder demanding that we investigate and prosecute a claim for alleged short-swing trading in violation of Section 16(b) of the Exchange Act by the underwriters of our IPO and certain of our unidentified directors, officers and stockholders. In October 2007, the putative stockholder commenced a civil lawsuit in the U.S. District Court for the Western District of Washington against Morgan Stanley and Deutsche Bank, two of the lead underwriters of our IPO, alleging violations of Section 16(b) of the Exchange Act. The complaint alleges that the combined number of shares of our common stock beneficially owned by the lead underwriters and certain unnamed officers, directors and principal stockholders exceeded ten percent of our outstanding common stock from the date of our IPO in March 2000, for at least one year. It further alleges that those entities and individuals were thus subject to the reporting requirements of Section 16(a) and the short-swing trading prohibition of Section 16(b), and failed to comply with those provisions. The complaint seeks to recover from the lead underwriters any “short-swing profits” obtained by them in violation of Section 16(b). None of our directors, officers or stockholders is named as defendants in this action, although we are named as a nominal defendant. In July 2008, we, together with several other issuers who are also named as nominal defendants in the action, filed a joint motion to dismiss the action. In March 2009, the court granted our motion, dismissing the complaint without prejudice on the ground that the plaintiff failed to make an adequate demand to us prior to filing the complaint. The plaintiff subsequently appealed the judgment to the Court of Appeals for the Ninth Circuit, and the underwriter defendants have filed certain cross-appeals. Oral arguments with respect to these appeals occurred in early October 2010.

In December 2010, the Ninth Circuit Court of Appeals affirmed the District Court’s decision to dismiss our case on the grounds that plaintiff’s demand letters were insufficient to put the issuers on notice of the claims asserted against them and further ordered that the dismissals be made with prejudice. The Ninth Circuit, however, reversed and remanded the District Court’s decision on the underwriter’s motion to dismiss as to the claims arising from the non-moving issuers’ IPOs, finding plaintiff’s claims were not time-barred under the applicable statute of limitations. In remanding, the Ninth Circuit advised the non-moving issuers and underwriters to file in the District Court the same challenges to plaintiff’s demand letters that moving issuers had filed. In January 2011, the Ninth Circuit denied certain petitions for rehearing and ordered that no further petitions for rehearing may be filed. In January 2011, the underwriters and another appellant filed motions to stay the issuance of the Ninth Circuit’s mandate, which the Ninth Circuit granted, staying the mandate for ninety days pending the filing of a petition for writ of certiorari in the United States Supreme Court.

We intend to continue to defend vigorously the two litigation matters described above. While we cannot guarantee the outcome of these proceedings, we believe that the final results of these lawsuits will have no material effect on our consolidated financial condition, results of operations, or cash flows.

During the fiscal quarter ended December 31, 2010, we did not have any other material legal proceedings brought against us. No further material developments occurred in connection with any previously reported legal proceedings against us during the last fiscal quarter.

#### **ITEM 4. Removed and Reserved**

## PART II

### ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information and Dividends

Our common stock has been quoted on The Nasdaq Global Market under the symbol “ASIA” since our initial public offering in March 2000. The following table sets forth, for the periods indicated, the high and low sales price per share of our common stock as reported on The Nasdaq Global Market.

	High (\$)	Low (\$)
2010:		
Fourth Quarter .....	24.50	15.80
Third Quarter .....	27.05	15.76
Second Quarter .....	32.60	19.01
First Quarter .....	32.45	22.44
2009:		
Fourth Quarter .....	32.40	18.00
Third Quarter .....	21.20	15.30
Second Quarter .....	22.09	14.67
First Quarter .....	17.52	8.61

As of February 25, 2011, we had approximately 713 holders of record of our common stock.

We have never declared or paid any cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We anticipate that we will retain all of our available funds for use in the operation and expansion of our business. Any future determination as to the payment of cash dividends will be at the discretion of our board of directors and will depend on our financial condition, operating results, current and anticipated cash needs, plans for expansion and other factors that our board of directors considers to be relevant.

#### Equity Compensation Plan Information

The following table provides information as of December 31, 2010 with respect to the common stock that may be issued under our existing equity compensation plans. Further information concerning our existing equity compensation plans is available in the section entitled “Executive Compensation—Compensation Discussion and Analysis” contained in our definitive proxy statement with respect to our 2010 annual meeting of stockholders to be filed with the SEC.

Plan category	Number of securities to be issued upon exercise of outstanding options or vesting of outstanding units	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
<b>Equity compensation plans approved by security holders</b> .....	1,186,362(1)	\$5.74(2)	2,705,105(3)
<b>Equity compensation plans not approved by security holders</b> .....	—	—	—
<b>Total</b> .....	1,186,362(1)	\$5.74(2)	2,705,105(3)

(1) Includes 520,924 shares issuable upon exercise of outstanding stock options; 178,350 shares issuable upon vesting of outstanding restricted stock units; and 487,088 shares issuable under outstanding performance stock units.

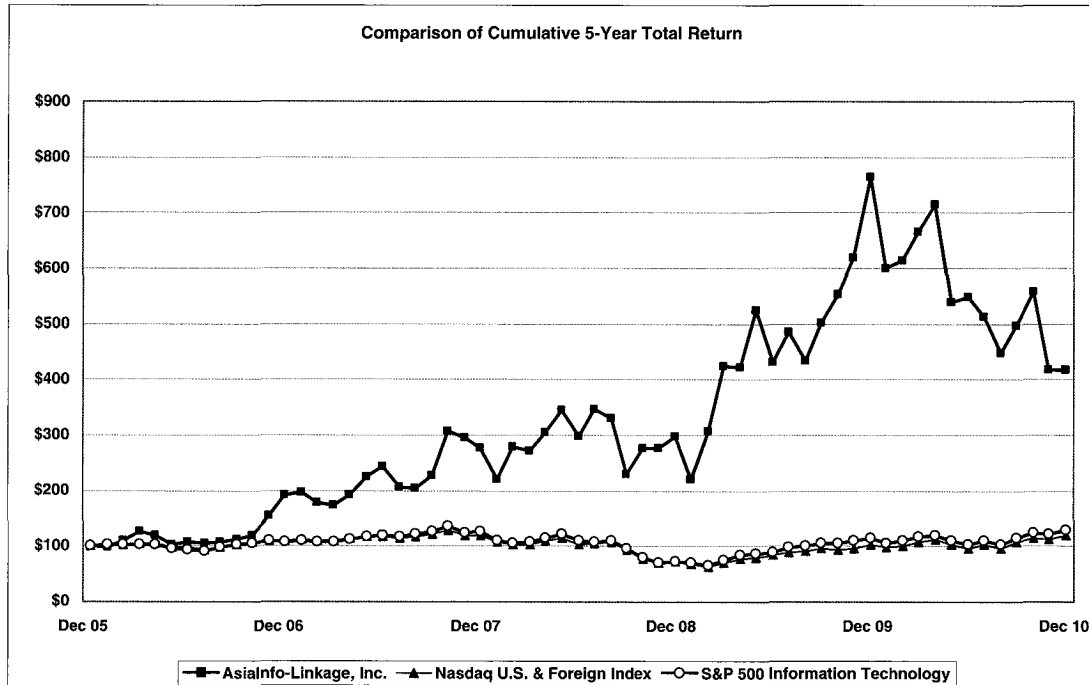
- (2) The weighted-average exercise price does not take into account the shares issuable upon vesting of outstanding restricted stock units or the shares issuable under outstanding performance stock units, both of which have no exercise price.
- (3) Options and other awards that are outstanding under our existing stock option plans will become available for re-grant under our 2008 Stock Incentive Plan if those awards are forfeited or cancelled prior to vesting, exercise or expiration.

### Performance Graph

The following graph shows a comparison of cumulative 5-year total stockholder returns for our common stock, the Standard & Poor’s 500 Information Technology Sector Index, or the S&P 500 Information Technology, and the Nasdaq Stock Market Index for U.S. and foreign companies, or the Nasdaq U.S. & Foreign Index. The graph assumes the investment of \$100 on December 31, 2005 in our common stock, the S&P 500 Information Technology and the Nasdaq U.S. & Foreign Index, and assumes reinvestment of dividends, if any. The graph assumes the initial value of our common stock on December 31, 2005 was the closing sales price of \$5.96 per share.

The comparisons shown in the graph below are based on historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to liability under that Section and shall not be deemed to be incorporated by reference into any filing we make under the Securities Act or the Exchange Act.



	<u>December 2005 (\$)</u>	<u>December 2006 (\$)</u>	<u>December 2007 (\$)</u>	<u>December 2008 (\$)</u>	<u>December 2009 (\$)</u>	<u>December 2010 (\$)</u>
AsiaInfo-Linkage, Inc. . . . .	100.00	192.96	276.38	297.49	765.08	416.33
Nasdaq U.S. & Foreign Index . . . . .	100.00	111.74	124.67	73.77	107.12	125.93
S&P 500 Information Technology . . . . .	100.00	108.42	126.10	71.70	115.95	127.77

### Issuer Purchases of Equity Securities

We did not repurchase any shares during our 2010 fiscal year.

### ITEM 6. Selected Financial Data

The following table sets forth our selected consolidated financial data. You should read this information together with our consolidated financial statements and the related notes to those statements included in this report, and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation” of this report. The selected consolidated balance sheet data and statements of operations data in the table below have been derived from our audited consolidated financial statements. Historical results are not necessarily indicative of results to be expected in the future. Please refer to Notes 4 and 28 of the notes to consolidated financial statements for detailed information regarding discontinued operations and noncontrolling interest, respectively.

	<u>Years Ended December 31,</u>				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007(1)</u>	<u>2006</u>
	<i>(Amounts in thousands of U.S. dollars, except per share data)</i>				
<b>Selected Consolidated Statements of Operations Data:</b>					
Total revenues . . . . .	\$343,383	\$213,756	\$146,881	\$113,940	\$100,442
Total cost of revenues . . . . .	173,801	100,450	74,659	61,968	59,792
Gross profit . . . . .	169,582	113,306	72,222	51,972	40,650
Total operating expenses . . . . .	109,475	78,523	54,667	42,741	35,195
Income from continuing operations . . . . .	53,743	33,457	16,505	17,114	8,781
Income on discontinued operations, net of taxes . . . . .	1,058	1,973	2,270	6,513	(2,950)
Net income . . . . .	54,801	35,430	18,775	23,627	5,831
Less: net loss attributable to noncontrolling interest . . . . .	(1,410)	(429)	(15)	—	—
Net income attributable to AsiaInfo-Linkage, Inc. . . . .	56,211	35,859	18,790	23,627	5,831
Earnings per share:					
Net income (loss) from continuing operations attributable to					
AsiaInfo-Linkage, Inc. common stockholders:					
Basic . . . . .	\$ 0.90	\$ 0.75	\$ 0.37	\$ 0.39	\$ 0.20
Diluted . . . . .	\$ 0.89	\$ 0.73	\$ 0.35	\$ 0.38	\$ 0.20
Net income (loss) from discontinued operations attributable to					
AsiaInfo-Linkage, Inc. common stockholders:					
Basic . . . . .	\$ 0.02	\$ 0.04	\$ 0.05	\$ 0.15	\$ (0.07)
Diluted . . . . .	\$ 0.02	\$ 0.04	\$ 0.05	\$ 0.14	\$ (0.07)
Net income (loss) attributable to AsiaInfo-Linkage, Inc.					
common stockholders:					
Basic . . . . .	\$ 0.92	\$ 0.79	\$ 0.42	\$ 0.54	\$ 0.13
Diluted . . . . .	\$ 0.91	\$ 0.77	\$ 0.40	\$ 0.52	\$ 0.13

	As of December 31,				
	2010	2009	2008	2007	2006
	(Amounts in thousands of U.S. dollars)				
<b>Selected Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents . . . . .	\$ 237,844	\$238,553	\$172,119	\$148,834	\$104,575
Total assets . . . . .	1,253,206	481,777	323,154	308,469	244,162
Total equity . . . . .	938,378	276,669	208,460	207,788	162,461

(1) We adopted authoritative guidance regarding accounting for uncertainty in income taxes on January 1, 2007, prospectively.

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We are the leading provider of high-quality telecommunications software solutions and information technology products and services in China. 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. In addition to providing customized software solutions to China's telecommunications carriers. We plan to expand into international telecommunications software and services market by leveraging the valuable experience gained from our Chinese telecommunications carriers. We also believe we are well positioned to gain market share in China's cable TV industry through our Hangzhou Zhongbo subsidiary, a provider of IT solutions to broadcasting operators in China.

We commenced our operations in 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.

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 and their provincial subsidiaries, such as China Mobile, China Unicom and China Telecom. The following table shows our revenues and percentage of total revenues derived from such customers in recent periods.

	Year Ended December 31,					
	2010		2009		2008	
	Revenues (in thousands)	Percentage of Total Revenues	Revenues (in thousands)	Percentage of Total Revenues	Revenues (in thousands)	Percentage of Total Revenues
China Mobile . . . . .	\$210,396	61.3%	\$149,032	69.7%	\$104,977	71.5%
China Telecom . . . . .	51,088	14.9	19,565	9.2	11,871	8.1
China Unicom . . . . .	76,334	22.2	44,543	20.8	15,906	10.8
China Netcom* . . . . .	—	—	—	—	13,854	9.4
Total . . . . .	\$337,818	98.4%	\$213,140	99.7%	\$146,608	99.8%

\* On October 15, 2008, China Netcom merged with China Unicom.

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, a number of state-mandated restructurings in China's telecommunications sector have led to cancellation or delays in telecommunications-related capital expenditures, and have negatively impacted our operating results in certain periods. Any future restructurings affecting our major telecommunications customers may result in delays or cancellation of telecommunications-related spending, which would likely 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.

In December 2010 we disposed of our IT security business, which we now account as discontinued operations.

## **Revenues**

We report our revenues on the basis of the three principal types of revenues derived from our business: software products and solutions revenue, service revenue and third party hardware revenue. Please refer to Note 24 of the notes to consolidated financial statements included in this report for detailed information regarding our segment reporting.

***Software products and solutions revenue.*** We typically sell our software as part of a total solution package for our customers, which includes proprietary software licenses, professional services related to the design and implementation of the solution (such as consulting, training, technical support and maintenance) and, in cases where the customer requests a turn-key solution, related hardware. Software products and solutions revenue consists of fees received from customers for using our software products or third party software products, including software license and customizations. In most cases where a customer has additional requirements, we enter into an extension agreement with the customer to expand and upgrade the customer's system. These extension contracts will usually include a license for the additional users, updated versions of our software and, if required, additional services and hardware for the customer's network. Our software products and solutions revenue also includes the benefit of value-added tax rebates on software license sales, which reflect the Chinese government's policy of encouraging China's software industry. We also record reductions from revenue for our estimates of expected software sales returns from distributors based on current sales and historical sales returns.

***Service revenue.*** Service revenue consists of revenue from professional services, including IT services, management consulting, and revenues for network planning, design, systems integration and training services.

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, and (4) we do not have the right to select suppliers.

***Third party hardware revenue.*** Other than the IBM-Type Arrangement, we sometimes procure for, and sell hardware to, our customers as part of certain turn-key solutions. We typically minimize our exposure to hardware inventory risks by sourcing equipment from hardware vendors against letters of credit from our customers. For these hardware transactions, we have also evaluated the criteria outlined in FASB guidance. As a result of the

evaluation, we record the gross amounts billed to our customers as revenues because (1) we are the primary obligor in these transactions, (2) we bear the inventory risk, (3) we have latitude in establishing prices, (4) we are involved in the determination of the product specifications, (5) we bear credit risk, and (6) we have the right to select suppliers. As the telecommunications-related IT services market in China develops, our customers are increasingly purchasing hardware directly from hardware vendors and retaining us for our software and professional services.

**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. This strategy may result in lower growth rates for total revenue as against prior periods, but will not adversely impact revenue net of hardware costs. The following table shows our revenue breakdown on this basis and reconciles our net revenues to total revenues:

	<b>Years Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Revenues net of hardware costs:			
Software products and solutions revenue .....	\$ 301,970	\$ 179,177	\$ 116,258
Service revenue .....	26,596	21,704	16,834
Third party hardware revenue net of hardware costs .....	743	644	690
Total revenues net of hardware costs .....	329,309	201,525	133,782
Total hardware costs .....	14,074	12,231	13,099
Total revenues .....	<u>\$ 343,383</u>	<u>\$ 213,756</u>	<u>\$ 146,881</u>

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 each of the segments. 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 expenses as incurred.

**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 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 equipments, and rental expenses are also included in cost of revenue.

### **Operating Expenses**

Operating expenses are comprised of sales and marketing expenses, research and development expenses, general and administrative expenses, and impairment of goodwill and intangible assets. Compensation 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, sales commissions and sales agency fees, as well as the depreciation and amortization expenses allocated to our sales and marketing departments.

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

### **Taxes**

Except for certain hardware procurement and resale transactions, we conduct substantially all of our business through our Chinese subsidiaries and VIEs. Prior to the enactment of the Enterprise Income Tax Law (the "EIT Law"), which became effective from 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 the implementation rules to the EIT Law issued in December 2007, and the several subsequent transition rules, certain of our subsidiaries in China can continue to enjoy preferential tax rates, as long as they are qualified as High-and-New Tech Enterprise ("HNTE"). Some of our subsidiaries and VIEs in China became subject to a normal 25% income tax rate, while certain of our subsidiaries and VIEs in China remain eligible for the lower rates under the transition rules. The HNTE status allows qualifying entities to be eligible for a 15% tax rate 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 have to go through a new application process in order to renew its HNTE status. As of December 2010, we had received certification of HNTE status for AsiaInfo-Linkage Technologies, AsiaInfo-Linkage Technologies (Chengdu), or AICD, and Linkage Nanjing, a subsidiary of Linkage Technologies, which allows for a reduced 15% tax rate for year 2010. Accordingly, we have used the reduced rate of 15% in the calculations of current and deferred tax balances for related companies. AsiaInfo-Linkage Technologies and Linkage Nanjing were approved as a Key Software Enterprise, and were eligible for a further reduction tax rate to 10% for 2008 and 2009. Both companies raised application for Key Software Enterprise status for 2010 which were under related governments' review by the end of year 2010. In February 2011, the relevant PRC governmental authorities announced that AsiaInfo-Linkage Technologies and Linkage Nanjing were granted the Key Software Enterprise status for the year 2010. Consequently, we expect to recognize a tax benefit of approximately \$5 million in 2011.

Sales of hardware procured in China are subject to a 17% value-added tax. 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 value-added tax. We effectively pass value-added tax on hardware sales through to our customers and do not include them in

revenues reported in our financial statements. Companies that develop their own software and register the software with the relevant authorities in China are generally entitled to a value-added tax refund. If the net amount of the value-added tax payable exceeds 3% of software sales and software-related services, the excess portion of the value-added tax is refundable immediately. The benefit of the rebate of value-added tax is included in software revenue. Historically, the value-added tax refund is not taxable for income tax purpose as long as the refund is used for research and development activities. However, according to a new tax circular which was issued by the PRC State Administration of Taxation in January 2009, although the value-added tax refund would remain non-taxable when the refund is used for expenses or purchase of or expenses associated with fixed assets, the expenses and depreciation associated with such fixed assets are not tax deductible for income tax purposes. It is unclear how this new rule will be implemented and in the absence of specific guidance we are treating the value-added tax refund as a taxable item for income tax purposes going forward.

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

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

In January 2011, the State Council issued a new circular providing an exemption from business taxes for eligible software companies on software development and testing, system integration, consulting and maintenance services. The circular also retains various policies stipulated by previous circulars, including the value-added tax rebate on sales of software. However, the implementation guidance of this new circular has not yet been issued as of the date of this annual report.

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 US 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. 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. For example, in February 2004 we exchanged approximately \$28.0 million cash from U.S. dollars to RMB in anticipation of increases in value of the RMB. We did not engage in any significant foreign exchange transactions in 2010.

Pursuant to the rate of exchange quoted by People's Bank of China, as of December 31, 2010 the exchange rate between the RMB and the U.S. dollar decreased 3.0% to U.S.\$1.00 = RMB6.6227, compared to the rate of U.S.\$1.00 = RMB6.8282 as of December 31, 2009.

## **Critical Accounting Policies**

### ***Critical Accounting Policies***

We prepare our consolidated financial statements in accordance with 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, warranty obligations, bad debts, inventories, short-term investments, long-term investments, long-lived assets, 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 reflect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

**Revenue recognition.** Our revenue is derived from three primary sources: (i) software license and related services, including assistance in 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 our customers.

Revenues from customer orders requiring significant production, modifications, or customization of the software are recognized over the service period based on the percentage of completion method measured based on the relationship of costs already incurred to the total estimated costs to be incurred. 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. We generally bifurcate the third-party hardware from our development services and recognize the hardware revenue upon customer acceptance. Because PCS services have never been sold separately in these arrangements, they do not have stand-alone fair value or vendor specific objective evidence of fair value. The percentage of completion method of revenue recognition is therefore applied to the period from the start of the significant production, modifications, or customization through the last element delivered, which is typically the end of the bundled PCS services period. Revisions in estimated contract costs are made in the period in which the circumstances requiring the revision become known. Provisions, if any, are made currently for anticipated losses on uncompleted contracts.

Consulting and other professional services revenues are recognized when the services are performed. Sales of third-party hardware, if not bundled with other arrangements, are recognized when delivered if all other revenue recognition criteria are met. Costs associated with revenues are recognized when incurred.

We generated service revenues by acting as a sales agent for International Business Machines Corporation, or IBM, or its distributors, and for a few other hardware companies for certain products sold to our customers. We refer to each such arrangement as an “IBM-Type Arrangement.” 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 customer pays us, and (5) we do not have the right to select suppliers.

Revenue recognized in excess of billings is recorded as unbilled receivables and is included in trade accounts receivable. Amounts billed but not yet collected are recorded as billed receivables and are included in trade 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.

**Revenue recognition policies for discontinued IT security business.** The information security products sold by our former Lenovo-AsiaInfo division have been accounted for under US GAAP accounting guidance regarding software revenue recognition for products with multiple deliverables. The related software contained in our information security products is considered to be more than incidental and is essential to the functionality of the related equipment. These information security products are sold bundled with PCS services over a term of one, two or three years.

For contracts entered into before December 31, 2008, we recognized the total arrangement fees for the information security products as revenue upon delivery assuming all other revenue recognition criteria were met regardless of whether the PCS services terms were one, two or three years because (a) PCS services primarily included telephone and online support, (b) PCS services were substantially provided within the first year of the arrangement term, (c) the costs of providing PCS services had historically been insignificant and were expected to be insignificant in the future, and (d) PCS services did not include upgrades or enhancements. PCS services provided beyond the first year of the service term had historically been negligible. We accrued the estimated costs of providing PCS services upon delivery of the Lenovo-AsiaInfo information security software products.

For contracts entered into after January 1, 2009, we extended PCS services to include unspecified upgrades or enhancements. In addition, we have established vendor-specific objective evidence of fair value of the PCS services. Therefore, the security products revenue is now recognized upon delivery and the PCS services revenue is deferred and recognized ratably over the PCS services period.

**Income taxes.** Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits. Amounts recognized reflect statutory tax rates applicable to future years.

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 registered outside the PRC are not resident enterprises under the EIT law.

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.

Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

**Goodwill.** 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. We perform our annual goodwill impairment test on October 1 of each fiscal year for all reporting units. Goodwill is tested following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit’s goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. We recognized no impairment loss on goodwill in 2010.

**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. We recognized a \$0.3 million impairment on short-term investments in 2010.

## Consolidated Results of Operations

### Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

We completed the combination with Linkage in July 2010, which significantly increased our size. Therefore, the consolidated results of operations in 2010 are not comparable to those of 2009. Because Linkage has been integrated into our operations, we are not able to identify the portion of our results of operations that is attributable to Linkage. Consequently, the following analysis does not quantify the effect of the Linkage acquisition. However, the following unaudited pro forma information summarizes our results of operations for the years ended December 31, 2010 and 2009 assuming that our combination with Linkage occurred as of January 1, 2010 and 2009, respectively. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisitions been completed at the beginning of the periods indicated, nor is it indicative of future operating results.

	Year Ended	
	December 31,	
	2010	2009
Pro forma revenue . . . . .	\$424,576	\$367,365
Pro forma net income attributable to ordinary shareholders of AsiaInfo-Linkage, Inc. . . . .	55,345	23,264

**Revenues.** Total revenues increased 60.6% to \$343.4 million in 2010, from \$213.8 million in 2009, primarily driven by continued demand for our best-of-class IT solutions and services. The increase was also due to the effects of the acquisition of Linkage. Revenue from software products and solutions was \$302.0 million, representing a 68.5% increase from \$179.2 million in 2009. Service revenue was \$26.6 million, representing a 22.5% increase from \$21.7 million in 2009. Revenue from third party hardware was \$14.8 million, representing an increase of 15.1% from \$12.9 million in 2009.

**Cost of revenues.** Our total cost of revenues was \$173.8 million in 2010, representing a 73.0% increase from \$100.5 million in 2009, primarily due to acquisition of Linkage, as we integrated additional R&D employees into client service increasing our cost of revenue. In addition, amortization of acquired intangible assets related to Linkage acquisition was \$10.0 million in the second half of 2010, since the acquisition day.

**Gross profit.** Our gross profit increased 49.7% in 2010 to \$169.6 million, from \$113.3 million in 2009.

**Operating expenses.** Total operating expenses increased 39.4% to \$109.5 million in 2010, from \$78.5 million in 2009. Other than the effect of the acquisition of Linkage, the increase was primarily driven by our efforts to expand our customer base and open new market opportunities in domestic and overseas markets. In addition, amortization of acquired intangible assets related to the Linkage acquisition was \$11.0 million in the second half of 2010, since the acquisition day.

Sales and marketing expenses increased 52.2% to \$50.0 million in 2010, from \$32.9 million in 2009. Other than the sales and marketing associated with the acquisition of Linkage, the increase was mainly due to amortization of acquired intangible assets related to Linkage acquisition of \$11.0 million and higher sales commission expenses incurred upon signing new contracts with our three major telecom customers.

General and administrative expenses increased 40.4%, to \$23.3 million in 2010, from \$16.6 million in 2009. Besides the effect of the acquisition of Linkage, the increase was largely attributable to non-recurring expenses of \$4.2 million related to the Linkage acquisition. Linkage acquisition related expenses were \$2.1 million in 2009.

Research and development expenses increased 18.9% to \$36.2 million in 2010, as compared to \$30.4 million in 2009, mainly reflecting an investment in product development for upcoming opportunities, consistent with our target to develop best-of-class products and solutions for our customers.

**Income from operations.** Income from operations increased to \$60.1 million in 2010 from \$34.8 million in 2009, reflecting our increased sales and our continued efforts to improve operating efficiency. The increase was also due to the acquisition of Linkage. Operating margin was 17.5% in 2010, as compared to 16.3% in 2009.

**Income tax expense.** Income tax expense in 2010 was \$9.6 million as compared to \$4.9 million in 2009. Our effective tax rate was 15% for 2010 as compared to 13% for 2009. The increase in effective tax rate was primarily because one of our major operating subsidiaries enjoyed a 10% preferred tax rate in 2009 as a Key Software Enterprise, which reduced rate we did not use for our 2010 financial reporting as the Chinese authorities had not issued the list of qualified Key Software Enterprises for 2010 as of December 31, 2010.

**Income from continuing operations.** Net income from continuing operations was \$53.7 million or \$0.90 per basic share in 2010, as compared to \$33.5 million or \$0.75 per basic share in 2009.

**Income from discontinued operations.** In line with our strategy of focusing on our core telecommunications, we discontinued certain non-core businesses during the past several years. In December 2010, we sold our IT security business through the disposition of Lenovo Security for approximately US\$15.0 million in cash. The IT security business has been reclassified to discontinued operations for the year ended December 31, 2010, and the comparative figures for the years ended December 31, 2008 and 2009 have been retrospectively reclassified to discontinued operations. Income from discontinued operations decreased 46.4% to \$1.1 million in 2010, from \$2.0 million in 2009. The decrease was mainly due to only 11-months of operating results of our IT security business in 2010 and the seasonality of such business.

**Net income attributable to AsiaInfo-Linkage, Inc.** In 2010, we recorded net income attributable to AsiaInfo-Linkage, Inc. of \$56.2 million, compared to \$35.9 million in 2009.

#### **Year Ended December 31, 2009 Compared to Year Ended December 31, 2008**

**Revenues.** Total revenues increased 45.5% to \$213.8 million in 2009, from \$146.9 million in 2008. Revenue from software products and solutions was \$179.2 million, representing a 54.1% increase from \$116.3 million in 2008. The increases were primarily driven by our ability to capitalize on the Chinese telecom sector's 3G rollout and subsequent demand for best-of-class IT solutions and services. Service revenue was \$21.7 million, representing a 28.9% increase from \$16.8 million in 2008. Revenue from third party hardware was \$12.9 million, representing a decrease of 6.6% from \$13.8 million in 2008. Third party hardware revenue has been generally decreasing as we focus on our core business of telecommunications software solutions, which generates higher gross profit margins compared to hardware sales. However, from time to time we offer third-party hardware as a part of total solutions in response to customer requests.

**Cost of revenues.** Our total cost of revenues was \$100.5 million in 2009, representing a 34.5% increase from \$74.7 million in 2008, primarily due to the increased sales of software and services provided to meet increased demand.

**Gross profit.** Our gross profit increased 56.9% in 2009 to \$113.3 million, from \$72.2 million in 2008. The increase primarily as a result of revenue growth of \$62.9 million, or 54.1%, in relatively high-margin software solutions and a decrease of \$0.9 million, or 6.6%, in relatively low-margin third party hardware sales in 2009 compared to 2008.

**Operating expenses.** Total operating expenses increased 43.6% to \$78.5 million in 2009, from \$54.7 million in 2008. The increase in operating expenses was primarily driven by our efforts to expand our customer base and open new market opportunities through continual investment in research and development and sales and marketing initiatives.

Sales and marketing expenses increased 33.0% to \$32.9 million in 2009, from \$24.7 million in 2008, mainly due to higher sales commission expenses incurred upon signing new contracts with our three major telecom customers.

General and administrative expenses increased 64.4%, to \$16.6 million in 2009, from \$10.1 million in 2008. The increase was largely the result of increases in share-based compensation related to the performance stock



unit awards granted to key employees on March 16, 2009 and non-recurring expenses of \$2.1 million related to the acquisition of Linkage Technologies.

Research and development expenses increased 53.0% to \$30.4 million in 2009, as compared to \$19.9 million in 2008, mainly reflecting the emphasis we place on the research and development of products and solutions in order to strengthen our competitiveness, including several achievements in the development of NGBOSS, BI systems, and cloud computing during 2009.

***Income from operations.*** Income from operations increased to \$34.8 million in 2009 from \$17.6 million in 2008, reflecting our increased sales and our continued efforts to improve operational efficiency. Operating margin was 16.3% in 2009, as compared to 12.0% in 2008.

***Income tax expense.*** Income tax expense in 2009 was \$4.9 million as compared to \$3.8 million in 2008. Our effective tax rate was 13% for 2009 as compared to 19% for 2008. In the fourth quarter of 2008, two of our subsidiaries, i.e., AsiaInfo-Linkage Technologies and AsiaInfo-Linkage Technologies (Chengdu) received the HNTE qualification and their tax rates are reduced from 25% to 15%. Therefore, these entities' deferred taxes are tax effected at 15% rather than 25%, which is the rate the Company adopted to compute deferred tax assets as of December 31, 2007. This rate change caused a higher tax expense, which is the main reason our effective tax rate is higher for 2008.

***Income from continuing operations.*** Net income from continuing operations was \$33.5 million or \$0.75 per basic share in 2009, as compared to \$16.5 million or \$0.37 per basic share in 2008. In the fourth quarter 2008, we recognized a non-cash impairment charge to earnings of \$6.6 million, or \$0.15 per basic share, which included a \$4.6 million impairment on our short-term investments in stock funds and a \$2.0 million impairment on a long-term investment, representing the decline in fair value of our five percent equity stake in Hinge Software Company Limited.

***Income from discontinued operations.*** In line with our strategy of focusing on our core telecommunications, we discontinued certain non-core businesses during the past several years. In March 2008, we received part of a contingent payment from Fidelity and recognized the amount of \$1.0 million as gain on sale of discontinued operations. In December 2010, we sold our IT security business through the disposition of Lenovo Security for approximately US\$15.0 million in cash. The IT security business has been reclassified to discontinued operations for the year ended December 31, 2010, and the comparative figures for the years ended December 31, 2008 and 2009 have been retrospectively reclassified to discontinued operations. Income of discontinued operations was decreased 13% to \$2.0 million in 2009, from \$2.3 million in 2008.

***Net income attributable to AsiaInfo-Linkage, Inc.*** In 2009, we recorded net income attributable to AsiaInfo-Linkage, Inc. of \$35.9 million, compared to \$18.8 million in 2008.

## Selected Unaudited Quarterly Combined Results of Operations

The following table sets forth unaudited quarterly statements of operations data for the years ended December 31, 2010 and 2009. We believe this unaudited information has been prepared substantially on the same basis as the annual audited combined financial statements appearing elsewhere in this report and includes all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. You should read the quarterly data together with the consolidated financial statements and the notes to those statements appearing elsewhere in this report. The consolidated results of operations for any quarter are not necessarily indicative of the operating results for any future period. We expect that our quarterly revenues may fluctuate significantly.

	Three Months Ended							
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
	(Amounts in thousands of U.S. dollars, except per share data)							
<b>Selected quarterly operations data</b>								
Total revenues . . . . .	\$114,380	\$110,462	\$59,298	\$59,243	\$61,349	\$52,556	\$52,698	\$47,153
Total cost of revenues . . . . .	62,596	63,220	24,858	23,127	27,533	24,424	26,953	21,540
Gross profit . . . . .	51,784	47,242	34,440	36,116	33,816	28,132	25,745	25,613
Total operating expenses . . . . .	35,700	29,784	20,142	23,849	22,015	19,267	19,086	18,155
Income from continuing operations . . . . .	14,722	14,862	13,282	10,877	11,241	7,955	7,414	6,847
Income/(loss) on discontinued operations, net of taxes . . . . .	557	1,267	189	(955)	2,123	1,123	(211)	(1,062)
Net income . . . . .	15,279	16,129	13,471	9,922	13,364	9,078	7,203	5,785
Less: net loss (income) attributable to noncontrolling interest . . . . .	(226)	(326)	(435)	(423)	(435)	13	(2)	(5)
Net income attributable to AsiaInfo-Linkage, Inc. . . . .	15,505	16,455	13,906	10,345	13,799	9,065	7,205	5,790
Earnings per share:								
Net income from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:								
Basic . . . . .	\$ 0.20	\$ 0.20	\$ 0.29	\$ 0.24	\$ 0.25	\$ 0.18	\$ 0.16	\$ 0.15
Diluted . . . . .	\$ 0.20	\$ 0.20	\$ 0.29	\$ 0.23	\$ 0.25	\$ 0.17	\$ 0.16	\$ 0.15
Net income from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders:								
Basic . . . . .	\$ 0.01	\$ 0.02	\$ —	\$ (0.02)	\$ 0.04	\$ 0.02	\$ —	\$ (0.02)
Diluted . . . . .	\$ 0.01	\$ 0.02	\$ —	\$ (0.02)	\$ 0.04	\$ 0.02	\$ —	\$ (0.02)
Net income attributable to AsiaInfo-Linkage, Inc. common stockholders:								
Basic . . . . .	\$ 0.21	\$ 0.22	\$ 0.29	\$ 0.22	\$ 0.29	\$ 0.20	\$ 0.16	\$ 0.13
Diluted . . . . .	\$ 0.21	\$ 0.22	\$ 0.29	\$ 0.21	\$ 0.29	\$ 0.19	\$ 0.16	\$ 0.13

## Liquidity and Capital Resources

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 financing 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 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.

Our full year net cash provided by operating activities in 2010 was \$47.8 million, primarily driven by operating profit from our telecommunications business. We had cash and cash equivalents, restricted cash and short-term investment totalling \$294.0 million as of December 31, 2010 as compared to \$285.5 million as of December 31, 2009. The increase was mainly a result of our positive operating cash flow. Part of the increase from positive operating cash flow was offset by the increase of accounts receivable, which amounted to \$51.2 million.

Our accounts receivable balance as of December 31, 2010 was \$258.3 million, consisting of \$94.2 million in billed receivables and \$164.1 million in unbilled receivables. Our billed receivables are recorded based on agreed-upon milestones included in our customer contracts. Our unbilled receivables are based on the revenues that we have booked through the percentage completion method, but for which we have not yet billed the customer. The IBM-Type Arrangement related accounts receivable balance as of December 31, 2010 was approximately \$73.0 million.

Our days sales outstanding as of December 31, 2010 was 137 days, as compared to 90 days at the end of the year 2009. The increase in days of sales outstanding from December 31, 2009 to December 31, 2010 was primarily attributable to our aggressive efforts to expand and win new customers and business in China. When calculating our days of sales outstanding, we include both billed and unbilled accounts receivable and we use the net accounts receivable balance for the IBM-Type Arrangement where we act as a sales agent and record revenue on a net basis.

Our inventory position at the end of the year of 2010 was \$9.9 million, as compared to \$9.5 million as of December 31, 2009.

Our accounts payable balance as of December 31, 2010 was \$89.9 million, compared to \$76.0 million as of December 31, 2009. As of December 31, 2010, our accounts payable balance related to the IBM Type Arrangements was approximately \$75.3 million.

Our full year net cash used in investing activities was \$56.2 million in 2010. This was primarily due to our payments of \$41.3 million for our purchase of Linkage and \$4.1 million for our purchase of Hangzhou Zhongbo, net of cash acquired. Also, net of cash transferred out of \$2.9 million, there was a \$1.4 million cash outflow related to our sales of our Lenovo security business. Restricted cash increased \$8.4 million.

Our full year net cash provided by financing activities was \$0.1 million. This was primarily due to proceeds on exercise of stock of options of \$6.0 million and repayment of bank loans of \$5.9 million.

As of December 31, 2010, we had total short-term credit facilities for working capital purposes totalling \$96.0 million, expiring in December 2011. The credit facilities were secured by bank deposits of \$10.3 million as of December 31, 2010. Credit facilities of \$13.4 million were pledged as security for issuing letters of credit and

accounts payable to hardware suppliers and customers. As of December 31, 2010, unused short-term credit facilities were \$82.6 million. In addition, we had standby letters of credit and bank acceptance drafts as of December 31, 2010, which were collateralized by bank deposits of \$3.7 million. Total bank deposits pledged as security for these credit facilities, standby letters of credit, and bank acceptance drafts totalled \$14.0 million as of December 31, 2010 and were presented as restricted cash in our consolidated balance sheets. During the year ended December 31, 2010, the largest aggregate amount that we had used of our short-term credit facilities was \$13.4 million.

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 and business expansion through 2011. 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.

In the event that we decide to pay dividends to our stockholders, our ability to pay dividends will depend in part on our ability to receive dividends from our operating subsidiaries in China. Foreign exchange and other regulations in China may restrict our ability to distribute retained earnings from our operating subsidiaries in China or convert those payments from RMB into foreign currencies.

#### 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 stockholders' 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 December 31, 2010, we had short-term credit facilities for working capital purposes totalling \$96.0 million, expiring in December 2011, of which \$13.4 million had been used for issuing standby letters of credit and bank acceptance drafts to hardware suppliers and customers. Unused short-term credit facilities were \$82.6 million.

#### Tabular Disclosure of Contractual Obligations

The following table presents a breakdown of our outstanding contractual obligations by maturity as of December 31, 2010:

	Total	Payment due by period (amounts in thousands of US\$)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Contractual Obligations</b>					
Operating lease obligations	7,773	4,340	3,375	58	—
Capital commitment for obtaining land use right	1,111	1,111	—	—	—

Other long-term liabilities, such as unrecognized tax benefits, have been excluded from the table due to the uncertainty of the timing of payments combined with the absence of historic trends to be used as a predictor for such payments.

## **Accounting Pronouncements**

**(1) Newly adopted accounting pronouncements**—In June 2009, the FASB issued an authoritative pronouncement that changes how a company determines whether an entity should be consolidated when such entity is insufficiently capitalized or is not controlled by the company through voting (or similar rights). The determination of whether a company is required to consolidate an entity is based on, among other things, the entity's purpose and design and the company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The pronouncement retains the scope of previously issued pronouncements but added entities previously considered qualifying special purpose entities, since the concept of these entities was eliminated by FASB. The pronouncement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The adoption of this pronouncement did not have any significant impact on our financial condition or results of operations.

In January 2010, the FASB issued authoritative guidance to improve disclosures about fair value measurements. This guidance amends previous guidance on fair value measurements to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurement on a gross basis rather than on a net basis as currently required. This guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for annual and interim periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activities of purchases, sales, issuances, and settlements on a gross basis, which will be effective for annual and interim periods beginning after December 15, 2010. Early application is permitted and, in the period of initial adoption, entities are not required to provide the amended disclosures for any previous periods presented for comparative purposes. The adoption of this pronouncement did not have any significant impact on our financial condition or results of operations.

**(2) Recent accounting pronouncements not yet adopted**—In June 2009, the FASB issued an authoritative pronouncement that changes how a company determines whether an entity should be consolidated when such entity is insufficiently capitalized or is not controlled by the company through voting (or similar rights). The determination of whether a company is required to consolidate an entity is based on, among other things, the entity's purpose and design and the company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The pronouncement retains the scope of previously issued pronouncements but added entities previously considered qualifying special purpose entities, since the concept of these entities was eliminated by FASB. The pronouncement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. We do not expect the adoption of this pronouncement to have a significant impact on our financial condition or results of operations.

In September 2009, the FASB issued an authoritative pronouncement regarding revenue arrangements with multiple deliverables. This pronouncement was issued in response to practice concerns related to accounting for revenue arrangements with multiple deliverables under the existing pronouncement. Although the new pronouncement retains the criteria from the existing pronouncement for when delivered items in a multiple-deliverable arrangement should be considered separate units of accounting, it removes the separation criterion under the existing pronouncement that objective and reliable evidence of the fair value of any undelivered items must exist for the delivered items to be considered a separate unit or separate units of accounting. The new pronouncement is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply this pronouncement prospectively to new or materially modified arrangements after the pronouncement's effective date or retrospectively for all periods presented. Early application is permitted; however, if the entity elects prospective application and early adopts this pronouncement after its first interim reporting period, it must also retrospectively apply this pronouncement as of the beginning of that fiscal year and disclose the effect of the retrospective adjustments on the prior interim periods' revenue, income before taxes, net income, and earnings per share. We are in the process of evaluating the effect of adoption of this pronouncement.

In September 2009, the FASB issued an authoritative pronouncement regarding software revenue recognition for arrangements with multiple deliverables. The pronouncement addresses how consideration should be allocated to different units of accounting and removes the previous criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables. The pronouncement provides that products containing both software and non-software components that function together to deliver the product's essential functionality are excluded from the scope of current revenue recognition guidance for software products. The pronouncement includes factors that entities should consider when determining whether the software and non-software components function together to deliver the product's essential functionality. The pronouncement is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply this pronouncement prospectively to new or materially modified arrangements after the pronouncement's effective date, or retrospectively for all periods presented. Early application is permitted. However, if the entity elects prospective application and early adopts this pronouncement after its first interim reporting period, it must also retrospectively apply this pronouncement as of the beginning of that fiscal year and disclose the effect of the retrospective adjustments on the prior interim periods' revenue, income before taxes, net income, and earnings per share. We do not expect the adoption of this pronouncement to have a significant impact on our financial condition or result of operations.

In April 2010, the FASB issued an authoritative pronouncement regarding the milestone method of revenue recognition. The scope of this pronouncement is limited to arrangements that include milestones relating to research or development deliverables. The pronouncement specifies criteria that must be met for a vendor to recognize consideration that is contingent upon achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The criteria apply to milestones in arrangements within the scope of this pronouncement regardless of whether the arrangement is determined to have single or multiple deliverables or units of accounting. The pronouncement will be effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early application is permitted. Affected entities can apply this guidance prospectively to milestones achieved after adoption. However, retrospective application to all prior periods is also permitted. We are in the process of evaluating the effect of adoption of this pronouncement.

In October 2010, the FASB issued an authoritative pronouncement regarding accounting for costs associated with acquiring or renewing insurance contracts. The pronouncement addresses diversity in practice regarding the interpretation of which costs relating to the acquisition or renewal of insurance contracts qualify for deferral and which costs should be capitalized. The pronouncement will be effective for fiscal years beginning after December 15, 2011. While the guidance is required to be applied prospectively upon adoption, retrospective application is also permitted (to all prior periods presented). Early adoption is also permitted, but only at the beginning of an entity's annual reporting period. We do not expect the adoption of this pronouncement to have a significant impact on our financial condition or results of operations.

In December 2010, the FASB issued an authoritative pronouncement on when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. The amendments in this update modify Step 1 so that for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing guidance, which requires that goodwill of a reporting unit be tested for impairment 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 amount. For public entities, the guidance is effective for impairment tests performed during entities' fiscal years (and interim periods within those years) that begin after December 15, 2010. Early adoption will not be permitted. For nonpublic entities, the guidance is effective for impairment tests performed during entities' fiscal years (and interim periods within those years) that begin after December 15, 2011. Early application for nonpublic entities is permitted; nonpublic entities that elect early application will use the same effective date as that for public entities. We do not expect the adoption of this pronouncement to have a significant impact on our financial condition or results of operations.

In December 2010, the FASB issued an authoritative pronouncement on disclosure of supplementary pro forma information for business combinations. The objective of this guidance is to address diversity in practice regarding the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments affect any public entity that enters into business combinations that are material on an individual or aggregate basis. The amendments will be effective for business combinations consummated in periods beginning after December 15, 2010, and should be applied prospectively as of the date of adoption. Early adoption is permitted. We do not expect the adoption of this pronouncement to have a significant impact on our financial condition or results of operations.

#### **ITEM 7A. 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 year ended December 31, 2010. 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 December 31, 2010, approximately 85.4%, or \$215.1 million, of our cash, cash equivalents and restricted cash were RMB-denominated, approximately 14.1%, or \$35.4 million, were U.S. dollar-denominated and approximately 0.5%, or \$1.3 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 = RMB6.6227. If the exchange rate were to increase by 10% to US\$1.00 = RMB7.2850, our net assets would potentially decrease by \$33.3 million. If the exchange rate were to decrease by 10% to US\$1.00 = RMB5.9604, our net assets would potentially increase by \$40.7 million.

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. 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. For example, in February 2004 we exchanged approximately \$28 million cash in U.S. dollars into RMB in anticipation of increases in the value of the RMB. We did not engage in any significant foreign exchange transactions during the fiscal year 2010.

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

#### **ITEM 8. Financial Statements and Supplementary Data**

Our independent registered public accounting firm's report and our consolidated financial statements begin on page F-1.

#### **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **ITEM 9A. Controls and Procedures**

### **Disclosure Controls and Procedures**

Our disclosure controls and procedures include our controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Prior to the filing date of this annual report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2010.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. Our internal control over financial reporting includes those policies and procedures that:

- pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

A material weakness is a deficiency (within the meaning of the Public Company Accounting Oversight Board Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements*, or PCAOB Auditing Standard No. 5), or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on our assessment, management believes that, as of December 31, 2010, our internal control over financial reporting was effective based on those criteria.



Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting. That attestation report appears below.

### **Changes in Internal Control Over Financial Reporting**

As a result of our combination with Linkage on July 1, 2010, our internal control over financial reporting, subsequent to the date of the combination, includes certain additional internal controls relating to Linkage. Except as described above, 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 most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of AsiaInfo-Linkage, Inc.

We have audited the internal control over financial reporting of AsiaInfo-Linkage, Inc., its subsidiaries and its variable interest entities (collectively, the “Company”) as of December 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and our report dated February 28, 2011 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Beijing, the People's Republic of China  
February 28, 2011

**ITEM 9B. Other Information**

None.

## PART III

### **ITEM 10. Directors, Executive Officers and Corporate Governance**

Information concerning our directors and executive officers is incorporated by reference to the sections entitled “Proposal No. 1: Election of Directors—Nominees for Class III Directors,” “Corporate Governance—Committees and Meetings Attendance,” “Management—Board of Directors and Executive Officers” and “Section 16(a) Beneficial Ownership Reporting Compliance” contained in our definitive proxy statement with respect to our 2011 annual meeting of stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Form 10-K (the “Proxy Statement”). Information concerning compliance with Section 16(a) of the Exchange Act is incorporated by reference to the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” contained in our Proxy Statement.

In 1999 we adopted a code of ethics, or the Code, which applies to all of our employees. In 2003, we conducted a thorough review and update of the Code in connection with the implementation of rules relating to codes of ethics under the Sarbanes-Oxley Act of 2002. A copy of the Code and a brief description of any amendments to or waivers from the Code relating to any of our principal executive officers or senior financial officers is posted in the Investor Relations section of our website, which can be accessed at [www.asiaInfo-linkage.com](http://www.asiaInfo-linkage.com). The contents of our website are not incorporated by reference into this report on Form 10-K.

### **ITEM 11. Executive Compensation**

Information concerning executive compensation is incorporated by reference to the sections entitled “Executive Compensation,” “Corporate Governance—Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” contained in our Proxy Statement.

### **ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information concerning the security ownership of certain beneficial owners and management is incorporated by reference to the section entitled “Security Ownership of Certain Beneficial Owners and Management” contained in our Proxy Statement. In addition, for information concerning our equity compensation plans, see the section entitled “Equity Compensation Plan Information” under Item 5 of this report on Form 10-K.

### **ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

Information concerning certain relationships and related transactions is incorporated by reference to the section entitled “Certain Relationships and Related Transactions” and “Corporate Governance—Director Independence” contained in our Proxy Statement.

### **ITEM 14. Principal Accounting Fees and Services**

Information concerning principal accounting fees and services is incorporated by reference to the sections entitled “Proposal No. 2: Ratification of Appointment of Independent Registered Public Accounting Firm” and “Audit Committee Report” contained in our Proxy Statement.

## **PART IV**

### **ITEM 15. Exhibits and Financial Statement Schedules**

#### **Financial Statements and Financial Statement Schedules**

The financial statements as set forth under Item 8 of this report on Form 10-K are incorporated herein by reference.

## Exhibits

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

Exhibit No	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
2.1	Business Combination Agreement, by and among AsiaInfo Holdings, Inc., Linkage Technologies International Holdings Limited, certain shareholders of Linkage Technologies International Holdings Limited and Libin Sun as Shareholders' Agent, dated December 4, 2009		8-K	2.1	001-15713	12/9/2009
3.1	Certificate of Incorporation of AsiaInfo Holdings, Inc., dated June 8, 1998		S-1	3.1	333-93199	12/21/1999
3.2	Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated August 27, 1999		S-1	3.3	333-93199	12/21/1999
3.3	Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated November 15, 2000		10-K	3.3	001-15713	3/16/2001
3.4	Certificate of Correction to Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated January 18, 2001		10-K	3.4	001-15713	3/16/2001
3.5	Amended and Restated By-Laws of AsiaInfo Holdings, Inc., dated April 24, 2007		8-K	3.1	001-15713	4/25/2007
3.6	Certificate of Amendment to Certificate of Incorporation, dated July 1, 2010		8-K	3.1	001-15713	7/6/2010
3.7	Amended and Restated By-Laws of the AsiaInfo-Linkage, Inc.(formerly known as AsiaInfo Holdings, Inc.), dated July 1, 2010		8-K	3.1	001-15713	7/1/2010
4.1	Specimen Share Certificate representing AsiaInfo Holdings, Inc. shares of common stock		S-1/A	4.1	333-93199	2/3/2000
10.1	Lease of AsiaInfo's headquarters at 6 Zhongguancun South Street, Beijing, China, dated December 1, 2008 (English Translation)		10-K	10.1	001-15713	3/5/2009
10.2*	AsiaInfo Holdings, Inc. 2005 Stock Incentive Plan, as amended through April 8, 2005		8-K	10.1	001-15713	4/8/2005

Exhibit No	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
10.3*	Master Executive Employment Agreement by and between AsiaInfo Holdings, Inc. and Steve Zhang dated April 1, 2004		10-K	10.7	001-15713	3/16/2005
10.4*	Change-of-Control Severance Agreement by and between AsiaInfo Holdings, Inc. and Steve Zhang dated April 1, 2004		10-K	10.8	001-15713	3/16/2005
10.5*	Employment Contract between AsiaInfo Technologies (China), Inc. and Steve Zhang, dated December 9, 2009 (English Translation)		10-K	10.31	001-15713	3/16/2010
10.6*	Confidentiality and Non-Competition Agreement by and between AsiaInfo Technologies (China), Inc. and Steve Zhang, dated December 9, 2009 (English Translation)		10-K	10.32	001-15713	3/16/2010
10.7*	Executive Employment Agreement by and between AsiaInfo-Linkage, Inc. (formerly known as AsiaInfo Holdings, Inc.) and Steve Zhang, dated July 1, 2010		8-K	10.29	001-15713	7/6/2010
10.8*	Employment Contract by and between AsiaInfo Technologies (China), Inc. and Steve Zhang, dated July 1, 2010		8-K	10.30	001-15713	7/6/2010
10.9*	Confidentiality and Non-Competition Agreement by and between AsiaInfo Technologies (China), Inc. and Steve Zhang, dated July 1, 2010		8-K	10.31	001-15713	7/6/2010
10.10*	Offer Letter with Wei Li dated January 19, 2009 (English Translation)		10-K	10.37	001-15713	3/5/2009
10.11*	Master Executive Employment Agreement by and between AsiaInfo Holdings, Inc. and Wei Li dated January 19, 2009		10-K	10.38	001-15713	3/5/2009
10.12*	Change-of-Control Severance Agreement by and between AsiaInfo Holdings, Inc. and Wei Li dated January 19, 2009		10-K	10.39	001-15713	3/5/2009
10.13*	Employment Contract by and between AsiaInfo Technologies (China), Inc. and Wei Li, dated January 19, 2009 (English Translation)		10-K	10.40	001-15713	3/5/2009
10.14*	Confidentiality and Non-Competition Agreement by and between AsiaInfo Technologies (China), Inc. and Wei Li, dated January 19, 2009 (English Translation)		10-K	10.41	001-15713	3/5/2009
10.15*	Employment Contract by and between AsiaInfo Technologies (China), Inc. and Feng Liu, dated January 1, 2008 (English Translation)		10-K/A	10.41	001-15713	1/30/2009

<u>Exhibit No</u>	<u>Exhibit Title</u>	<u>Filed Herewith</u>	<u>Incorporated by Reference</u>			
			<u>Form</u>	<u>Exhibit No.</u>	<u>File No.</u>	<u>Filing Date</u>
10.16*	Confidentiality and Non-Competition Agreement by and between AsiaInfo Technologies (China), Inc. and Feng Liu, dated January 1, 2008 (English Translation)		10-K/A	10.42	001-15713	1/30/2009
10.17*	Master Executive Employment Agreement by and between AsiaInfo Holdings, Inc. and Jian Qi dated April 1, 2004		10-Q	10.14	001-15713	5/10/2004
10.18*	Change-of-Control Severance Agreement by and between AsiaInfo Holdings, Inc. and Jian Qi dated April 1, 2004		10-Q	10.15	001-15713	5/10/2004
10.19*	Employment Contract by and between Lenovo Security Technologies (Beijing), Inc and Jian Qi, dated February 1, 2008 (English Translation)		10-Q	10.39	001-15713	5/8/2008
10.20*	Confidentiality and Non-Competition Agreement by and between Lenovo Security Technologies (Beijing), Inc. and Jian Qi, dated February 1, 2008 (English Translation)		10-Q	10.40	001-15713	5/8/2008
10.21*	Master Executive Employment Agreement by and between AsiaInfo Holdings, Inc. and Jie Li dated June 10, 2009		10-Q	10.1	001-15713	08/07/2009
10.22*	Change-of-Control Severance Agreement by and between AsiaInfo Holdings, Inc. and Jie Li dated June 10, 2009		10-Q	10.2	001-15713	08/07/2009
10.23*	Employment Contract by and between AsiaInfo Technologies (China), Inc. and Jie Li, dated June 10, 2009 (English Translation)		10-Q	10.3	001-15713	08/07/2009
10.24*	Confidentiality and Non-Competition Agreement between AsiaInfo Technologies (China), Inc. and Jie Li, dated January 1, 2008 (English Translation)		10-Q	10.4	001-15713	08/07/2009
10.25*	Offer Letter with Jun Wu dated August 1, 2010 (English Translation)		10-Q	10.9	001-15713	11/09/2010
10.26*	Employment Contract by and between AsiaInfo-Linkage Technologies (China), Inc. and Jun Wu, dated August 16, 2010 (English Translation)		10-Q	10.10	001-15713	11/09/2010
10.27*	Confidentiality and Non-Competition Agreement by and between AsiaInfo-Linkage Technologies (China), Inc. and Jun Wu, dated August 16, 2010 (English Translation)		10-Q	10.11	001-15713	11/09/2010

Exhibit No	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
10.28*	Master Executive Employment Agreement by and between AsiaInfo-Linkage, Inc. and Jun Wu dated August 16, 2010		10-Q	10.12	001-15713	11/09/2010
10.29*	Change-of-Control Severance Agreement by and between AsiaInfo-Linkage, Inc. and Jun Wu, dated as of August 16, 2010		10-Q	10.13	001-15713	11/09/2010
10.30*	Consulting Agreement between AsiaInfo Holdings, Inc. and Thomas J. Manning, dated January 1, 2009		10-Q	10.1	001-15713	11/09/2009
10.31*	Consulting Agreement between AsiaInfo Holdings, Inc. and Thomas J. Manning, dated February 1, 2009		10-Q	10.2	001-15713	11/09/2009
10.32*	AsiaInfo Holdings, Inc. 2008 Stock Incentive Plan, as amended through April 10, 2008		8-K	10.1	001-15713	4/10/2008
10.33*	Form of AsiaInfo Holdings, Inc. Performance Stock Unit Award Agreement		8-K	10	001-15713	11/28/2006
10.34*	Form of AsiaInfo Holdings, Inc. Performance Stock Unit Award Agreement		8-K	10.1	001-15713	3/16/2009
10.35	Form of Lock-Up Agreement		8-K	10.1	001-15713	12/9/2009
10.36	Voting Agreement by and among Linkage Technologies International Holdings Limited and Messrs. Edward Tian and James Ding dated December 4, 2009		8-K	10.2	001-15713	12/9/2009
10.37	Stockholders' Agreement, by and among AsiaInfo Holdings, Inc., Mr. Edward Tian, Mr. Libin Sun and Linkage Technologies International Holdings Limited dated December 4, 2009		8-K	10.3	001-15713	12/9/2009
10.38*	Master Executive Employment Agreement (And Supplementary Agreements) by and between AsiaInfo-Linkage, Inc. and Libin Sun, effective July 1, 2010		8-K	10.3	001-15713	6/7/2010
10.39*	Master Executive Employment Agreement (And Supplementary Agreements) by and between AsiaInfo-Linkage, Inc. and Xiwei Huang, effective July 1, 2010		8-K	10.4	001-15713	6/7/2010
10.40*	Master Executive Employment Agreement (And Supplementary Agreements) by and between AsiaInfo-Linkage, Inc. and Guoxiang Liu, effective July 1, 2010		8-K	10.5	001-15713	6/7/2010
10.41	Registration Rights Agreement, by and between the Company and LT International Limited, dated July 1, 2010		8-K	10.1	001-15713	7/1/2010



Exhibit No	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
10.42	Escrow Agreement by and between the Company and Linkage Technologies International Holdings Limited, dated July 1, 2010		8-K	10.2	001-15713	7/1/2010
10.43	First Amendment to Stockholders' Agreement, dated January 27, 2011		8-K	10.1	001-15713	2/2/2011
10.44	Framework Agreement for Termination of Lenovo Security Control Structure with Messr. Jian Qi and Mr. Kequan Liu	X				
10.45	Engagement letter with Davin A. Mackenzie dated on December 29, 2009	X				
11.1	Statement regarding computation of per share earnings (included in Note 16 to the consolidated financial statements in this report)	X				
21.1	Subsidiaries of AsiaInfo-Linkage, Inc.	X				
23.1	Consent of Independent Registered Public Accounting Firm of Deloitte Touche Tohmatsu, dated February 28, 2011	X				
24.1	Power of Attorney (included on signature page to this report)	X				
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 February 28, 2011	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 February 28, 2011	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 February 28, 2011	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 February 28, 2011	X				

\* Management contract, or compensatory plan or arrangement.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on February 28, 2011.

ASIAINFO-LINKAGE, INC.

By: \_\_\_\_\_ /s/ JUN WU  
Name: **Jun Wu**  
Title: **Chief Financial Officer (duly authorized officer and principal financial officer)**

## POWER OF ATTORNEY

KNOW BY ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James Ding his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all Amendments hereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JAMES DING</u> <b>James Ding</b>	Board Member and Co-Chairman of the Board	February 28, 2011
<u>/s/ LIBIN SUN</u> <b>Libin Sun</b>	Board Member and Executive Co-Chairman of the Board	February 28, 2011
<u>/s/ STEVE ZHANG</u> <b>Steve Zhang</b>	Board Member, President and Chief Executive Officer (principal executive officer)	February 28, 2011
<u>/s/ JUN WU</u> <b>Jun Wu</b>	Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	February 28, 2011
<u>/s/ YUNGANG LU</u> <b>Yungang Lu</b>	Board Member	February 28, 2011
<u>/s/ DAVIN MACKENZIE</u> <b>Davin Mackenzie</b>	Board Member	February 28, 2011
<u>/s/ SEAN SHAO</u> <b>Sean Shao</b>	Board Member	February 28, 2011
<u>/s/ TOM MANNING</u> <b>Tom Manning</b>	Board Member	February 28, 2011
<u>/s/ EDWARD TIAN</u> <b>Edward Tian</b>	Board Member	February 28, 2011
<u>/s/ XIWEI HUANG</u> <b>Xiwei Huang</b>	Board Member, Vice President and Chief Operating Officer	February 28, 2011

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**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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Consolidated statements of operations for the years ended December 31, 2010, 2009 and 2008 . . . . . F-4  
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of AsiaInfo-Linkage, Inc.

We have audited the accompanying consolidated balance sheets of AsiaInfo-Linkage, Inc., its subsidiaries, and its variable interest entities (collectively, the “Company”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of AsiaInfo-Linkage, Inc., its subsidiaries, and its variable interest entities at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2011 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Beijing, the People’s Republic of China  
February 28, 2011

**ASIAINFO-LINKAGE, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share amounts)

	Year Ended December 31,	
	2010	2009
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents .....	\$ 237,844	\$238,553
Restricted cash .....	13,943	5,540
Short-term investments—available for sale securities .....	31,682	27,674
Short-term investments—held to maturity securities .....	10,570	13,716
Accounts receivable (net of allowances of \$2,514 and \$2,619 as of December 31, 2010 and 2009, respectively) .....	258,338	129,646
Inventories, net .....	9,902	9,535
Other receivables .....	5,934	2,841
Deferred income tax assets—current .....	13,781	2,968
Prepaid expenses and other current assets .....	4,774	5,679
Total current assets .....	586,768	436,152
Long-term investments .....	5,646	4,696
Property and equipment, net .....	5,961	2,989
Other acquired intangible assets, net .....	209,626	3,818
Deferred income tax assets—non-current .....	2,066	2,161
Goodwill .....	433,139	22,262
Prepaid land use right .....	10,000	9,699
Total Assets .....	\$1,253,206	\$481,777
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY</b>		
Current Liabilities:		
Accounts payable .....	\$ 89,867	\$ 76,019
Accrued expenses .....	25,391	21,793
Deferred revenue .....	27,963	45,547
Accrued employee benefits .....	72,309	39,403
Other payables .....	6,608	6,187
Income taxes payable .....	18,457	2,862
Other taxes payable .....	11,678	7,620
Deferred income tax liabilities .....	3,657	1,340
Total current liabilities .....	255,930	200,771
Unrecognized tax benefits .....	4,870	3,052
Deferred income tax liabilities—non-current .....	51,836	—
Other long term liabilities .....	274	163
Total liabilities .....	312,910	203,986
Redeemable noncontrolling interest .....	1,918	1,122
Equity:		
AsiaInfo-Linkage, Inc. stockholders' equity:		
Common stock (100,000,000 shares authorized; \$0.01 par value, 77,933,404 and 50,115,821 shares issued as of December 31, 2010 and 2009, respectively; 74,933,404 and 47,115,821 shares outstanding as of December 31, 2010 and 2009, respectively) .....	779	501
Additional paid-in capital .....	840,328	244,838
Treasury stock, at cost (3,000,000 and 3,000,000 shares as of December 31, 2010 and 2009, respectively) .....	(27,749)	(27,749)
Retained earnings .....	72,076	15,199
Statutory reserve .....	21,640	22,306
Accumulated other comprehensive income .....	30,794	20,212
Total AsiaInfo-Linkage, Inc. stockholders' equity .....	937,868	275,307
Noncontrolling interest .....	510	1,362
Total equity .....	938,378	276,669
Total Liabilities and Equity .....	\$1,253,206	\$481,777

See the accompanying notes to consolidated financial statements.

**ASIAINFO-LINKAGE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except share and per share amounts)

	Year Ended December 31,		
	2010	2009	2008
Revenues:			
Software products and solutions	\$ 301,970	\$ 179,177	\$ 116,258
Service	26,596	21,704	16,834
Third party hardware	14,817	12,875	13,789
Total revenues	<u>343,383</u>	<u>213,756</u>	<u>146,881</u>
Cost of revenues:			
Software products and solutions	147,386	78,780	54,548
Service	12,341	9,439	7,012
Third party hardware	14,074	12,231	13,099
Total cost of revenues	<u>173,801</u>	<u>100,450</u>	<u>74,659</u>
Gross profit	<u>169,582</u>	<u>113,306</u>	<u>72,222</u>
Operating expenses:			
Sales and marketing	50,019	32,868	24,706
General and administrative	23,284	16,582	10,087
Research and development	36,172	30,415	19,874
Government grant	—	(1,342)	—
Total operating expenses	<u>109,475</u>	<u>78,523</u>	<u>54,667</u>
Income from operations	<u>60,107</u>	<u>34,783</u>	<u>17,555</u>
Other income, net:			
Interest income	2,851	2,215	4,670
Dividend income	507	178	545
Gain from sales of short-term investments	472	1,210	4,866
Impairment loss on short-term investments	(281)	—	(4,684)
Impairment loss on long-term investments	—	—	(2,042)
Other expenses, net	(353)	(36)	(559)
Total other income, net	<u>3,196</u>	<u>3,567</u>	<u>2,796</u>
Income before provisions for income taxes and discontinued operations	<u>63,303</u>	<u>38,350</u>	<u>20,351</u>
Provision for income taxes	<u>9,560</u>	<u>4,893</u>	<u>3,846</u>
Income from continuing operations	<u>53,743</u>	<u>33,457</u>	<u>16,505</u>
Discontinued operations:			
Loss from operations of discontinued operations	1,663	2,341	1,737
Gain (loss) on sales of discontinued operations	(84)	—	1,306
Provision for income taxes	521	368	773
Income from discontinued operations, net of taxes	<u>1,058</u>	<u>1,973</u>	<u>2,270</u>
Net income	<u>54,801</u>	<u>35,430</u>	<u>18,775</u>
Less: Net loss attributable to the noncontrolling interest	<u>(1,410)</u>	<u>(429)</u>	<u>(15)</u>
Net income attributable to AsiaInfo-Linkage, Inc.	<u>\$ 56,211</u>	<u>\$ 35,859</u>	<u>\$ 18,790</u>
Earnings per share:			
Net income from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:			
Basic	<u>\$ 0.90</u>	<u>\$ 0.75</u>	<u>\$ 0.37</u>
Diluted	<u>\$ 0.89</u>	<u>\$ 0.73</u>	<u>\$ 0.35</u>
Net income from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholder:			
Basic	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.05</u>
Diluted	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.05</u>
Net income attributable to AsiaInfo-Linkage, Inc. common stockholders:			
Basic	<u>\$ 0.92</u>	<u>\$ 0.79</u>	<u>\$ 0.42</u>
Diluted	<u>\$ 0.91</u>	<u>\$ 0.77</u>	<u>\$ 0.40</u>
Weighted average shares used in computation:			
Basic	<u>61,036,299</u>	<u>45,182,831</u>	<u>44,828,915</u>
Diluted	<u>61,782,710</u>	<u>46,386,278</u>	<u>46,675,694</u>

See the accompanying notes to consolidated financial statements.

**ASIAINFO-LINKAGE, INC.**

**CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME**

(In thousands, except share amounts)

	AsiaInfo-Linkage, Inc. Stockholders						Comprehensive Income
	Common Stock Shares	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Statutory Reserve	Accumulated Other Comprehensive Income	
<b>Balance at January 1, 2008</b>	44,781,903	\$450	\$ (1,953)	\$(31,018)	\$13,874	\$18,570	\$207,788
Noncontrolling interest acquired in business combinations	—	—	—	—	—	—	73
Net income	—	—	—	18,790	—	—	18,775
Statutory reserve	—	—	—	(3,338)	3,338	—	—
Other comprehensive income:	—	—	—	—	—	6,486	6,486
Foreign currency translation adjustments	—	—	—	—	—	—	—
Transfer to income statement of realized (gain)/loss on available-for-sale investments, net of tax effects of \$1,220	—	—	—	—	—	(3,646)	(3,646)
Net unrealized gains (losses) on available-for-sale investments, net of tax effects of \$1,377	—	—	—	—	—	(8,001)	(8,001)
Transfer to income statement of other-than-temporary impairment	—	—	—	—	—	4,684	4,684
Comprehensive income	—	—	—	—	—	—	\$18,298
Stock option exercises	585,951	6	3,947	—	—	—	3,953
Restricted stock units vesting	122,137	1	(1)	—	—	—	—
Performance-based restricted stock units vesting	731,879	7	(7)	—	—	—	—
Stock-based compensation (stock options)	—	13	—	—	—	—	13
Stock-based compensation (restricted stock units)	—	600	—	—	—	—	600
Stock-based compensation (performance-based restricted stock units)	—	2,949	—	—	—	—	2,949
Excess tax benefit from share-based compensation	—	582	—	—	—	—	582
Repurchase of common stock	(2,755,700)	—	(25,796)	—	—	—	(25,796)
<b>Balance at December 31, 2008</b>	43,466,170	\$464	\$(27,749)	\$(15,566)	\$17,212	\$18,093	\$208,460
Noncontrolling interest acquired in business combinations	—	—	—	—	—	—	1,655
Net income	—	—	—	35,859	—	—	35,430
Net income attributable to redeemable noncontrolling interest	—	—	—	—	—	—	(429)
Statutory reserve	—	—	—	(5,094)	5,094	—	78
Other comprehensive income:	—	—	—	—	—	58	58
Foreign currency translation adjustments	—	—	—	—	—	—	—
Transfer to income statement of realized (gain)/loss on available-for-sale investments, net of tax effects of nil	—	—	—	—	—	(1,210)	(1,210)
Net unrealized gains (losses) on available-for-sale investments, net of tax effects of \$(388)	—	—	—	—	—	3,271	3,271
Comprehensive income	—	—	—	—	—	—	\$37,549



ASIAINFO-LINKAGE, INC.

CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME

(In thousands, except share amounts)

	AsiaInfo-Linkage, Inc. Stockholders							Total	Comprehensive Income
	Common Stock		Retained Earnings		Accumulated Other		Noncontrolling Interest		
	Shares	Amount	Additional Paid-in Capital	Treasury Stock	(Accumulated Deficit)	Statutory Reserve			
Stock option exercises	2,259,397	23	18,239	—	—	—	—	18,262	
Restricted stock units vesting	124,300	1	(1)	—	—	—	—	—	
Performance-based restricted stock units vesting	1,265,954	13	(13)	—	—	—	—	—	
Stock-based compensation (restricted stock units)	—	—	820	—	—	—	—	820	
Stock-based compensation (performance-based restricted stock units)	—	—	9,845	—	—	—	—	9,845	
<b>Balance at December 31, 2009</b>	<b>47,115,821</b>	<b>\$501</b>	<b>\$244,838</b>	<b>\$(27,749)</b>	<b>\$15,199</b>	<b>\$22,306</b>	<b>\$ 1,362</b>	<b>\$276,669</b>	<b>\$54,801</b>
Net income	—	—	—	—	56,211	—	(1,410)	54,801	
Net loss attributable to redeemable noncontrolling interest	—	—	—	—	—	—	558	558	
Statutory reserve	—	—	—	—	666	(666)	—	—	
Other comprehensive income:	—	—	—	—	—	—	—	—	
Foreign currency translation adjustments	—	—	—	—	—	—	—	9,229	
Transfer to income statement of realized (gain)/loss on available-for-sale investments, net of tax effects of \$35	—	—	—	—	—	—	—	(437)	
Net unrealized gains (losses) on available-for-sale investments, net of tax effects of \$(525)	—	—	—	—	—	—	—	1,509	
Transferred to income statement of other-than-temporary impairment	—	—	—	—	—	—	—	281	
Comprehensive income	—	—	—	—	—	—	—	281	
Stock option exercises	418,649	4	6,031	—	—	—	—	6,035	
Restricted stock units vesting	27,859	—	—	—	—	—	—	—	
Performance-based restricted stock units vesting	538,344	5	(5)	—	—	—	—	—	
Share issued in connection with acquisition of Linkage	26,832,731	269	581,465	—	—	—	—	581,734	
Stock-based compensation (restricted stock units)	—	—	989	—	—	—	—	989	
Stock-based compensation (performance-based restricted stock units)	—	—	7,010	—	—	—	—	7,010	
<b>Balance at December 31, 2010</b>	<b>74,933,404</b>	<b>\$779</b>	<b>\$840,328</b>	<b>\$(27,749)</b>	<b>\$72,076</b>	<b>\$21,640</b>	<b>\$ 510</b>	<b>\$938,378</b>	

See the accompanying notes to consolidated financial statements.

**ASIAINFO-LINKAGE, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands, except share and per share amounts)

	Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 54,801	\$ 35,430	\$ 18,775
Depreciation and amortization of property and equipment	2,304	1,466	1,401
Stock-based compensation expense	7,999	10,665	3,562
Amortization of other acquired intangible assets	22,822	1,386	1,589
Impairment loss on cost method investments	—	—	2,042
Gain on disposal of property and equipment	(66)	(10)	80
Impairment loss on short-term investments	281	—	4,684
Gain from sale of trading securities	—	—	(62)
Gain from sale of available for sales securities	(472)	(1,210)	(4,804)
Provision for bad debts	709	442	452
Gain on sale of discontinued operations	84	—	(1,306)
Proceeds from sales of trading securities	—	—	163
Purchases of trading securities	—	—	(101)
Excess tax benefit from share-based compensation	—	—	(582)
Changes in operating assets and liabilities:			
Accounts receivable	(51,217)	(78,076)	(7,230)
Inventories	909	2,787	(4,299)
Other receivables	1,824	58	612
Deferred income taxes	(13,618)	—	(624)
Prepaid expenses and other current assets	1,524	(254)	1,420
Prepaid land use right	—	(9,699)	—
Accounts payable	4,183	62,184	(9,259)
Accrued expenses	(2,510)	7,558	1,564
Deferred revenue	(24,211)	1,133	15,321
Accrued employee benefits	22,146	11,833	6,846
Other payables	766	568	480
Other taxes payable	1,652	1,309	2,093
Income taxes payable	17,847	4,863	(1,767)
Net cash provided by operating activities	47,757	52,433	31,050
Cash flows from investing activities:			
Decrease (increase) in restricted cash	(8,403)	6,970	3,516
Purchases of available for sale securities	(2,920)	(1,631)	(7,455)
Proceeds from sales of available for sale securities	1,937	6,211	18,853
Purchases of held to maturity securities	(25,079)	(30,435)	—
Proceeds from sales of held to maturity securities	28,667	16,722	1,541
Purchases of property and equipment	(2,438)	(1,404)	(1,812)
Proceeds from disposal of property and equipment	174	10	8
Purchase of businesses, net of cash acquired	(45,691)	(2,662)	(2,186)
Long term equity investment	(950)	—	(4,661)
Proceeds from disposal of discontinued operations net of cash transferred out of \$2,928 and nil for year 2010 and 2008, respectively	(1,447)	—	1,306
Net cash (used in) provided by investing activities	(56,150)	(6,219)	9,110
Cash flows from financing activities:			
Proceeds from exercise of stock options	6,030	18,176	3,953
Repurchases of common stock	—	—	(25,796)
Repayment of short-term bank loans	(5,890)	—	—
Excess tax benefit from share-based compensation	—	—	582
Funds received from noncontrolling interest	—	1,930	73
Net cash provided by (used in) financing activities	140	20,106	(21,188)
Effect of exchange rate changes	7,544	114	4,313
Net (decrease)/increase in cash and cash equivalents	(709)	66,434	23,285
Cash and cash equivalents at beginning of year	238,553	172,119	148,834
Cash and cash equivalents at end of year	\$237,844	\$238,553	\$172,119
Supplemental cash flow information:			
Cash paid during the year:			
Income taxes	\$ 7,255	\$ 2,131	\$ 5,989
Non-cash investing activity			
Share consideration issued for acquisition of Linkage	\$581,734	\$ —	\$ —

See the accompanying notes to consolidated financial statements.

## ASIAINFO-LINKAGE, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years ended December 31, 2010, 2009 and 2008

(Dollar amounts in thousands, except per share amounts)

#### 1. Organization and Principal Activities

AsiaInfo-Linkage, Inc. (“AsiaInfo-Linkage”) is incorporated in the State of Delaware, in the United States (the “US”). AsiaInfo-Linkage principally operates through the following directly owned subsidiaries, or their respective subsidiaries and variable interest entities (“VIEs”): AsiaInfo-Linkage Technologies (China), Inc. (“AsiaInfo-Linkage Technologies”) (100% owned), incorporated in the People’s Republic of China (“PRC”), Linkage-AsiaInfo Technologies (Nanjing), Inc. (“Linkage Nanjing”) (100% owned), incorporated in the PRC and Bonson Information Technology Limited (“Bonson”) (100% owned), incorporated in the British Virgin Islands. AsiaInfo-Linkage, Inc., its subsidiaries and VIEs are collectively referred to as the “Company”.

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

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

Each of the VIEs was established or acquired by the respective equity owners on behalf, and for the exclusive benefit, of AsiaInfo-Linkage Technologies or Lenovo-AsiaInfo. AsiaInfo-Linkage Technologies or Lenovo-AsiaInfo funded the capital requirements of each VIE through the extension of interest-free loans to the equity owners. The amount of borrowings under the VIE loan agreements for the establishment Beijing Star VATS Technologies, Inc. and Beijing Zhongxinjia Sci-Tech Development Co. Ltd. were \$5,099 (RMB 40,000) and \$835 (RMB5,700), respectively.

A subsidiary of AsiaInfo-Linkage entered into exclusive business cooperation agreements with each of the VIEs, where the subsidiary of AsiaInfo-Linkage provides complete business support services and consulting services to the VIEs in exchange for a fee that constitutes substantially all of the VIEs net income. the subsidiary of AsiaInfo-Linkage also entered into a series of agreements with equity owners, including equity pledge arrangements and equity interest transfer agreements, which assigned all of the equity owners’ rights and obligations to the subsidiary of AsiaInfo-Linkage, resulting in the equity owners lacking the ability to make decisions that have a significant effect on the VIEs’ operations and the subsidiary of AsiaInfo-Linkage’s ability to extract the profits from the operation of the VIEs, and assume the VIEs’ residual benefits. Because the subsidiary of AsiaInfo-Linkage absorbs the majority of the economic rewards of the VIEs through service fees and nominal equity holders do not absorb the expected losses because they provided no equity investment with funds borrowed from the subsidiary of AsiaInfo-Linkage, the Company is the primary beneficiary of these VIEs. AsiaInfo-Linkage consolidated its VIEs from their inception.

None of the assets of the Company’s consolidated VIEs can be used only to settle obligations of these VIEs. As of December 31, 2010 and December 31, 2009, respectively, there was \$2,876 and \$20,542 of liabilities of the Company’s consolidated VIEs for which creditors (or beneficial interest holders) did not have recourse to the general credit of AsiaInfo-Linkage or its subsidiaries.

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

	Years Ended December 31,	
	2010	2009
Total assets .....	\$8,155	\$26,271
Total liabilities .....	2,876	20,542

	Years Ended December 31,		
	2010	2009	2008
Net revenue .....	\$7,149	\$2,035	\$ 658
Net income .....	9,501	(568)	(1,135)

## 2. Summary of Significant Accounting Policies

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

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

**Noncontrolling interest**—Effective January 1, 2009, the Company adopted an authoritative pronouncement issued by the Financial Accounting Standards Board (the “FASB”) regarding noncontrolling interests in consolidated financial statements. The pronouncement requires noncontrolling interests to be separately presented as a component of equity in the consolidated financial statements. The presentation regarding noncontrolling interest was retroactively applied for all the presented periods.

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

	As of December 31, 2010	As of December 31, 2009
Cash .....	\$103,744	\$128,213
Cash equivalents:		
Money market funds .....	119,001	92,473
Seven-day notice deposits .....	—	12,009
Others .....	15,099	5,858
Total cash and cash equivalents .....	<u>\$237,844</u>	<u>\$238,553</u>

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

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

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

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

Where the consideration in an acquisition includes contingent consideration the payment of which depends on the achievement of certain specified conditions post-acquisition, from January 1, 2009 the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability it is subsequently carried at fair value with changes in fair value reflected in earnings. For periods prior to January 1, 2009 contingent consideration was not recorded until the contingency was resolved.

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

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

*Level 1*

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

*Level 2*

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

*Level 3*

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

**Short-term investments**—Short-term investments are comprised of marketable debt and equity securities, which are classified as held-to-maturity, trading, or available-for-sale. Short-term investments are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. All of the Company's held-to-maturity securities are classified as short-term investments on the consolidated balance sheets based on their contractual maturity dates which are less than one year and are stated at their amortized costs. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in

earnings. The Company did not purchase or sell trading securities during 2010 and there were no outstanding balances at December 31, 2010 and 2009. Short-term investments classified as available for sale are carried at their fair values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive income. Available for sale securities are classified as current assets on the accompanying consolidated balance sheets because they are available for immediate sale.

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

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

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

**Inventories**—Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the specific identification method.

**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 years

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

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

**Goodwill**—The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The Company performs its annual goodwill impairment test on October 1 of each fiscal year for all reporting units. Goodwill is tested following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount,

including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. The Company recognized no impairment loss on goodwill in 2010, 2009 and 2008.

**Acquired intangible assets, net**—Amortization of customer relationship is computed using the estimated attrition pattern of the acquired customers. Acquired intangible assets with definite lives are amortized on a straight-line basis over their expected useful economic lives. In process research and developments (“IP R&D”) assets are capitalized as indefinite-lived intangible assets until the completion or abandonment of the associated research and development efforts.

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

Core technologies	5 to 6 years
Existing technologies	3 years
Trade names and Trademarks	2 to 19 years
Contract backlogs	0.5 to 3 years
Customer lists	5 years
Customer relationships	2 to 10 years
Distribution network	3 to 4 years
Software	1 to 6 years
Non-compete agreements	2 to 10 years
In process research and developments (“IP R&D”)	Indefinite

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

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

Revenues from customer orders requiring significant production, modifications, or customization of the software are recognized over the service period based on the percentage of completion method measured based on the relationship of costs already incurred to the total estimated costs to be incurred. 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. We generally bifurcate the third-party hardware from our development services and recognize the hardware revenue upon customer acceptance. Because PCS services have never been sold separately in these arrangements, they do not have stand-alone fair value or vendor specific objective evidence of fair value. The percentage of completion method of revenue recognition is therefore applied to the period from the start of the significant production, modifications, or customization through the last element delivered which is typically the end of the bundled PCS services period. Revisions in estimated contract costs are made in the period in which the

circumstances requiring the revision become known. Provisions, if any, are made currently for anticipated losses on uncompleted contracts.

Consulting and other professional services revenues are recognized when the services are performed. Sales of third-party hardware, if not bundled with other arrangements, are recognized when shipped if all other revenue recognition criteria are met. Costs associated with revenues are recognized when incurred.

The Company reports revenue net of sales returns and business taxes. Business taxes included in revenue during 2010, 2009, and 2008 totalled \$8,279, \$6,791, and \$4,269, respectively. Software revenue includes value-added tax rebates received from the Chinese tax authorities on the sales of software and software-related services. Such rebates are granted to the Company as part of the PRC government's policy to encourage software development in the PRC, and are recorded as a component of revenue when the relevant compliance requirements are met, there are no further obligations, and are not subject to future returns or reimbursements. Total rebates recorded were \$11,496, \$10,119 and \$7,405 in 2010, 2009 and 2008, respectively.

The Company generated 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 Arrangement is determined as a percentage of the gross contract amount. The Company has 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 agent, in determining whether to record as revenues the gross amount billed to the Company's customers and related costs or the net amount earned after deducting hardware costs paid to the vendor, even though the Company bears inventory risks after the vendor ships the products to the Company and the Company bills gross amounts to the Company's customers. The Company records the net amount earned after deducting hardware costs as agency service revenue because (1) the vendor is the primary obligor in these transactions, (2) the Company has no latitude in establishing the prices, (3) the Company is not involved in the determination of the product specifications, and (4) the Company does not have the right to select suppliers.

Revenue recognized in excess of billings is recorded as unbilled receivables and is included in trade accounts receivable. Amounts billed but not yet collected are recorded as billed receivables and are included in trade 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.

The information security products sold by the Company's Lenovo-AsiaInfo division are accounted for under US GAAP accounting guidance regarding software revenue recognition for products' with multiple deliverables. The related software contained in the Company's information security products is considered to be more than incidental and is essential to the functionality of the related equipment. These information security products are sold bundled with PCS services over a term of one, two or three years.

For contracts entered into before December 31, 2008, the Company recognized total arrangement fees for the information security products as revenue upon delivery assuming all other revenue recognition criteria were met regardless of whether the PCS services terms were one, two or three years because (a) PCS services primarily included telephone and online support, (b) PCS services were substantially provided within the first year of the arrangement term, (c) the costs of providing PCS services had historically been insignificant and were expected to be insignificant in the future, and (d) PCS services did not include upgrades or enhancements. PCS services provided beyond the first year of the service term had historically been negligible. The Company accrued the estimated costs of providing PCS services upon delivery of the Lenovo-AsiaInfo information security software products.

For contracts entered into after January 1, 2010, the Company extended PCS services terms to include unspecified upgrades. In addition, the Company has established vendor-specific objective evidence of fair value



of the PCS services. Therefore, the security products revenue is recognized upon delivery and the PCS services is deferred and recognized ratably over the PCS services period.

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

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

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

**Software development costs**—Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. To date, the Company has essentially completed its software development concurrently with the establishment of technological feasibility, and, accordingly, no costs have been capitalized.

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

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

**Foreign currency translation**—AsiaInfo-Linkage uses the United States dollar as its reporting currency and functional currency. The financial records of AsiaInfo-Linkage’s PRC subsidiaries and VIEs are maintained in Renminbi (“RMB”), their functional currency and the currency of the PRC.

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

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

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

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

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

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

**Concentration of credit risk**—The Company holds its cash and cash equivalents, restricted cash, and short-term investments in highly rated financial instruments and with highly rated financial institutions. In addition, the Company's investment policy limits its exposure to concentrations of credit risk. The Company sells its products and services to various customers in the telecommunication industry in China. The Company generally requires no collateral against accounts receivable. To reduce credit risk, the Company performs credit evaluations of its customers. The Company maintains allowances for doubtful accounts for estimated losses resulting from its customers' inability to make required payments. Information relating to the Company's significant customers is summarized in Note 21.

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

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

**Comprehensive income**—Comprehensive income includes net income, unrealized gain (loss) on short-term investments, and foreign currency translation adjustments. Comprehensive income for the years presented has been disclosed within the consolidated statements of equity and comprehensive income.

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

Short-term investments are classified as available-for-sale or trading, as discussed in Note 5. Certain long-term investments have been written down to their fair value, as of December 31, 2008, as discussed in Note 8. Fair value of other long-term investments is not disclosed because the fair value of the investments is not readily determinable.

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

**Newly adopted accounting pronouncements**—In June 2009, the FASB issued an authoritative pronouncement that changes how a company determines whether an entity should be consolidated when such entity is insufficiently capitalized or is not controlled by the company through voting (or similar rights). The determination of whether a company is required to consolidate an entity is based on, among other things, the entity's purpose and design and the company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The pronouncement retains the scope of previously issued pronouncements but added entities previously considered qualifying special purpose entities, since the concept of these entities was eliminated by FASB. The pronouncement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The adoption of this pronouncement did not have any significant impact on the Company's financial condition or results of operations.

In January 2010, the FASB issued authoritative guidance to improve disclosures about fair value measurements. This guidance amends previous guidance on fair value measurements to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurement on a gross basis rather than on a net basis as currently required. This guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for annual and interim periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activities of purchases, sales, issuances, and settlements on a gross basis, which will be effective for annual and interim periods beginning after December 15, 2010. Early application is permitted and, in the period of initial adoption, entities are not required to provide the amended disclosures for any previous periods presented for comparative purposes. The adoption of this pronouncement did not have any significant impact on the Company's financial condition or results of operations.

**Accounting pronouncements not yet adopted**—In June 2009, the FASB issued an authoritative pronouncement that changes how a company determines whether an entity should be consolidated when such entity is insufficiently capitalized or is not controlled by the company through voting (or similar rights). The determination of whether a company is required to consolidate an entity is based on, among other things, the entity's purpose and design and the company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The pronouncement retains the scope of previously issued pronouncements but added entities previously considered qualifying special purpose entities, since the concept of these entities was eliminated by FASB. The pronouncement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The Company does not expect the adoption of this pronouncement to have a significant impact on its financial condition or results of operations.

In September 2009, the FASB issued an authoritative pronouncement regarding revenue arrangements with multiple deliverables. This pronouncement was issued in response to practice concerns related to accounting for revenue arrangements with multiple deliverables under the existing pronouncement. Although the new pronouncement retains the criteria from the existing pronouncement for when delivered items in a multiple-deliverable arrangement should be considered separate units of accounting, it removes the separation criterion under the existing pronouncement that objective and reliable evidence of the fair value of any undelivered items must exist for the delivered items to be considered a separate unit or separate units of accounting. The new pronouncement is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply this pronouncement prospectively to new or materially modified arrangements after the pronouncement's effective date or retrospectively for all periods presented. Early application is permitted. However, if the entity elects prospective application and early adopts this pronouncement after its first interim reporting period, it must also retrospectively apply this pronouncement as of the beginning of that fiscal year and disclose the effect of the retrospective adjustments on the prior interim periods' revenue, income before taxes, net income, and earnings per share. The Company does not expect the adoption of this pronouncement to have a significant impact on its financial condition or results of operations.

In September 2009, the FASB issued an authoritative pronouncement regarding software revenue recognition for arrangements with multiple deliverables. This pronouncement addresses how consideration should be allocated to different units of accounting and removes the previous criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables. The pronouncement provides that products containing both software and non-software components that function together to deliver the product's essential functionality are excluded from the scope of current revenue recognition guidance for software products. The pronouncement includes factors that entities should consider when determining whether the software and non-software components function together to deliver the product's essential functionality. The pronouncement is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply this pronouncement prospectively to new or materially modified arrangements after the pronouncement's effective date, or retrospectively for all periods presented. Early application is permitted. However, if the entity elects prospective application and early adopts this pronouncement after its first interim reporting period, it must also retrospectively apply this pronouncement as of the beginning of that fiscal year and disclose the effect of the retrospective adjustments on the prior interim periods' revenue, income before taxes, net income, and earnings per share. The Company does not expect the adoption of this pronouncement to have a significant impact on its financial condition or results of operations.

In April 2010, the FASB issued an authoritative pronouncement regarding the milestone method of revenue recognition. The scope of this pronouncement is limited to arrangements that include milestones relating to research or development deliverables. The pronouncement specifies criteria that must be met for a vendor to recognize consideration that is contingent upon achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The criteria apply to milestones in arrangements within the scope of this pronouncement regardless of whether the arrangement is determined to have single or multiple deliverables or units of accounting. The pronouncement will be effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early application is permitted. Affected entities can apply this guidance prospectively to milestones achieved after adoption. However, retrospective application to all prior periods is also permitted. The Company is in the process of evaluating the effect of adoption of this pronouncement.

In October 2010, the FASB issued an authoritative pronouncement regarding accounting for costs associated with acquiring or renewing insurance contracts. The pronouncement addresses diversity in practice regarding the interpretation of which costs relating to the acquisition or renewal of insurance contracts qualify for deferral and which costs should be capitalized. The pronouncement will be effective for fiscal years beginning after December 15, 2011. While the guidance is required to be applied prospectively upon adoption, retrospective application is also permitted (to all prior periods presented). Early adoption is also permitted, but only at the

beginning of an entity's annual reporting period. The Company does not believe the adoption of this pronouncement will significantly impact the financial position or results of operations of the Company.

In December 2010, the FASB issued an authoritative pronouncement on when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. The amendments in this update modify Step 1 so that for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing guidance, which requires that goodwill of a reporting unit be tested for impairment 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 amount. For public entities, the guidance is effective for impairment tests performed during entities' fiscal years (and interim periods within those years) that begin after December 15, 2010. Early adoption will not be permitted. For nonpublic entities, the guidance is effective for impairment tests performed during entities' fiscal years (and interim periods within those years) that begin after December 15, 2011. Early application for nonpublic entities is permitted; nonpublic entities that elect early application will use the same effective date as that for public entities. The Company does not expect the adoption of this pronouncement to have a significant impact on its financial condition or results of operations.

In December 2010, the FASB issued an authoritative pronouncement on disclosure of supplementary pro forma information for business combinations. The objective of this guidance is to address diversity in practice regarding the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments affect any public entity as defined by Topic 805 that enters into business combinations that are material on an individual or aggregate basis. The amendments will be effective for business combinations consummated in periods beginning after December 15, 2010, and should be applied prospectively as of the date of adoption. Early adoption is permitted. The Company does not expect the adoption of this pronouncement to have a significant impact on its financial condition or results of operations.

### **3. Acquisitions**

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

(b) On October 1, 2009, the Company, through its wholly-owned subsidiary Bonson Information Technology Ltd. ("Bonson"), acquired 60% of the share capital of SmartCall Holding Limited ("SmartCall"), a Cayman Islands registered company that, through its subsidiaries in China, provides outbound call services on behalf of telecommunications operators in China, for a cash consideration of up to \$2,213, including a \$1,774 initial payment and contingent consideration up to \$439, subject to the achievement of certain performance goals.

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

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

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

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

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

Concurrently and in connection with the closing under the Combination Agreement, the Company entered into an escrow agreement with Linkage, Mr. Libin Sun as agent for the shareholders of Linkage, and The Bank of New York Mellon. Pursuant to the agreement, 10% of the consideration (consisting of \$6,000 in cash and 2,683,273 shares of the Company’s common stock) was deposited into an escrow account for a period of 18 months as security for the indemnification obligations of Linkage and certain key Linkage shareholders under the Combination Agreement.

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

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

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

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

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

The following unaudited pro forma information summarizes the results of operations of the Company for the years ended December 31, 2010 and 2009 assuming that the Company’s acquisition of Linkage Technologies International Holdings Limited (“Linkage”) occurred as of January 1, 2010 and 2009, respectively. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisitions been completed at the beginning of the periods indicated, nor is it indicative of future operating results.

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Pro forma revenue .....	\$424,576	\$367,365
Pro forma net income attributable to ordinary shareholders of AsiaInfo-Linkage, Inc, ...	55,345	23,264
Pro forma net income per ordinary share—basic .....	\$ 0.74	\$ 0.32
Pro forma net income per ordinary share—diluted .....	\$ 0.74	\$ 0.32

On January 1, 2009, the Company adopted authoritative guidance on fair value measurement for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis.

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

#### 4. Discontinued Operations

(a) In January 2007, the Company sold certain assets and liabilities constituting its financial services IT solutions business (“FIS”), which has been grouped under the Company’s Lenovo-AsiaInfo reportable segment, to Fidelity Information Systems (“Fidelity”), a major U.S.-based provider of IT services and information products to financial institutions, for a maximum cash consideration valued at \$3,581 (RMB25,430) which was structured as follows: (1) \$1,653 (RMB11,740) was received from Fidelity upon closing; (2) \$413 (RMB2,934) escrow amount was transferred to an escrow agent by Fidelity upon closing; (3) \$1,515 (RMB10,756) was to be paid subject to adjustment based upon an earn-out calculation and certain other contingencies.

On March 18, 2008, the Company received the \$1,515 contingent payment from Fidelity and recognized the amount as gain on sales of discontinued operations. Costs related to the contingent payments, amounting to \$209 (RMB1,483), were accrued accordingly.

(b) On December 1, 2010, the Company sold its IT security business through the disposition of Lenovo Security to the management team of its IT security business, including the executive officer Mr. Jian Qi. Under the terms of the agreement, the Company received approximately \$15.0 million in cash in exchange for 100% of our economic interest in Lenovo Security and settlement of certain inter-company liabilities.

Major balance sheet items of Lenovo Security as of December 1, 2010 are as follows:

	<u>December 31, 2010</u>
<b>ASSETS</b>	
Cash and cash equivalents .....	\$ 2,928
Accounts receivable .....	4,658
Other receivable .....	14,459
Inventories .....	4,593
<b>LIABILITIES</b>	
Accounts payable .....	\$ 2,862
Deferred revenue .....	5,421
Accrued employee benefits .....	2,489
Other payables .....	10,860



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

	Lenovo Security			FIS		
	2010	2009	2008	2010	2009	2008
Revenue of discontinued operations . . . . .	\$27,979	\$35,583	\$28,662	\$—	\$—	\$—
Income loss from operations of discontinued operations . . . . .	1,663	2,341	1,737	—	—	—
Gain/(loss) on sales of discontinued operations . . . . .	(84)	—	—	—	—	1,306
Provisions for income taxes . . . . .	521	368	447	—	—	326
Gain on discontinued operations . . . . .	<u>\$ 1,058</u>	<u>\$ 1,973</u>	<u>\$ 1,290</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ 980</u>

### 5. Short-term investments

Short-term investments are classified as held-to-maturity securities, available-for-sale securities and trading securities.

As of December 31, 2010, the Company's held-to-maturity securities consist of term deposits carried at cost of \$10,570. The term deposits 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. The held-to-maturity securities consist of term deposits carried at cost of \$13,716 as of December 31, 2009.

As of December 31, 2010 and 2009, the Company did not hold trading securities.

The following table provides additional information concerning the Company's available-for-sale securities, which consist principally of bond funds, balance funds, stock funds and corporate stocks issued by major financial institutions.

	December 31, 2010				December 31, 2009			
	Cost	Gross unrealized gains	Gross unrealized (losses)	Fair value	Cost	Gross unrealized gains	Gross unrealized (losses)	Fair value
Bond funds . . . . .	\$17,334	\$2,853	\$—	\$20,187	\$16,812	\$1,334	\$—	\$ 18,146
Balanced funds(1) . . . . .	2,733	588	—	3,321	1,465	118	—	1,583
Stock funds . . . . .	5,995	1,949	—	7,944	5,815	1,895	—	7,710
Corporate stocks . . . . .	215	15	—	230	215	20	—	235
Total . . . . .	<u>\$26,277</u>	<u>\$5,405</u>	<u>\$—</u>	<u>\$31,682</u>	<u>\$24,307</u>	<u>\$3,367</u>	<u>\$—</u>	<u>\$ 27,674</u>

(1) Cost is net of \$281 and nil impairment loss as of December 31, 2010 and 2009, respectively, which represent the decline in fair value of the available-for-sale securities. The Company determined that such decline was other-than-temporary based on various factors such as poor performance of that investment.

Where applicable, the Company uses quoted prices in active markets for identical assets or liabilities (Level 1 investments) to determine the fair value of trading and available-for-sale securities. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly, which are included in Level 2 investments. The Company did not have Level 2 investments as of December 31, 2010. The Company's Level 3 investments primarily include investments in certain mutual

funds without quoted prices as of the date of reporting. The Company values its Level 3 investments using the quoted market price as of the most recent priced day prior to the date of reporting because the Company believes the fair value of the investments would not have materially changed during the several days period between the pricing date and the date of reporting.

The available-for-sale securities measured and recorded at fair value on a recurring basis as of December 31, 2010 and 2009 were as follows:

	As of December 31, 2010				As of December 31, 2009			
	Fair Value Measurements at the Reporting Date Using				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 . . . . .	\$20,187	\$—	\$ —	\$20,187	\$18,146	\$—	\$ —	\$18,146
Balanced funds . . .	—	—	3,321	3,321	—	—	1,583	1,583
Stock funds . . . . .	—	—	7,944	7,944	—	—	7,710	7,710
Corporate stocks . .	230	—	—	230	235	—	—	235
Total . . . . .	<u>\$20,417</u>	<u>\$—</u>	<u>\$ 11,265</u>	<u>\$31,682</u>	<u>\$18,381</u>	<u>\$—</u>	<u>\$ 9,293</u>	<u>\$27,674</u>

The following table presents changes in Level 3 stock funds measured on a recurring basis for the twelve-month period ended December 31, 2010 and 2009:

	Years Ended December 31,	
	2010	2009
Beginning balance . . . . .	\$ 9,293	\$5,817
Purchases . . . . .	2,920	1,465
Redemption . . . . .	(1,465)	—
Realized gain . . . . .	(472)	—
Unrealized gain . . . . .	619	2,013
Impairment loss recognized . . . . .	(281)	—
Exchange difference . . . . .	651	(2)
Ending balance . . . . .	<u>\$11,265</u>	<u>\$9,293</u>

The following table provides additional information on the realized gains of the Company as of December 31, 2010 and 2009. For purposes of determining gross realized gains, the cost of securities sold is based on specific identification.

	Years Ended December 31,					
	2010			2009		
	Proceeds	Costs	Gains	Proceeds	Costs	Gains
Available-for-sale securities . . . . .	<u>\$1,937</u>	<u>\$1,465</u>	<u>\$472</u>	<u>\$6,211</u>	<u>\$5,001</u>	<u>\$1,210</u>
Total . . . . .	<u>\$1,937</u>	<u>\$1,465</u>	<u>\$472</u>	<u>\$6,211</u>	<u>\$5,001</u>	<u>\$1,210</u>

## 6. Accounts Receivable

Accounts receivable balances included both billed and unbilled amounts. Revenue recognized in excess of billings is recorded as unbilled receivables. All billed and unbilled amounts are expected to be collected within one year. Accounts receivable balances included bank acceptance drafts receivable and commercial acceptance

drafts receivable. These bank acceptance drafts and commercial acceptance drafts were non-interest bearing and were due within six months of issuance.

The components of accounts receivable as of December 31, 2010 and 2009 were as follows:

	Years Ended December 31,					
	2010			2009		
	IBM Type Arrangement	Non-IBM Type Arrangement	Total	IBM Type Arrangement	Non-IBM Type Arrangement	Total
Billed accounts receivable . . .	\$24,561	\$ 71,355	\$ 95,916	\$21,985	\$36,064	\$ 58,049
Unbilled accounts receivable . . . . .	48,738	115,859	164,597	35,700	37,212	72,912
Bank acceptance drafts . . . . .	—	—	—	—	15	15
Commercial acceptance drafts . . . . .	—	339	339	—	1,289	1,289
Less: accounts receivable allowance . . . . .	(256)	(2,258)	(2,514)	—	(2,619)	(2,619)
Total accounts receivable, net . . . . .	<u>\$73,043</u>	<u>\$185,295</u>	<u>\$258,338</u>	<u>\$57,685</u>	<u>\$71,961</u>	<u>\$129,646</u>

## 7. Inventories

The components of inventories as of December 31, 2010 and 2009 were as follows:

	Years Ended December 31,	
	2010	2009
Raw materials . . . . .	\$ —	\$ 806
Finished goods . . . . .	9,902	8,729
Total . . . . .	<u>\$9,902</u>	<u>\$9,535</u>

## 8. Long-term investments

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

(b) On September 12, 2008, the Company acquired 2,170,000 redeemable convertible Series B Preferred Shares of C-Platform 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. Since 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.

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. The Company believes that the transaction furthers its ongoing strategy of expanding its market leading telecommunications software solutions business in China

## 9. Property and Equipment, Net

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Furniture, fixtures and electronic equipment .....	\$ 12,472	\$ 9,621
Motor vehicles .....	1,312	796
Leasehold improvements .....	2,012	2,714
Software .....	2,212	2,351
Building .....	571	—
	<u>18,579</u>	<u>15,482</u>
Less: Accumulated depreciation and amortization .....	(12,618)	(12,493)
Property and equipment, net .....	<u>\$ 5,961</u>	<u>\$ 2,989</u>

## 10. Goodwill

The changes in the carrying amount of goodwill during the years ended December 31, 2010 and 2009 were as follows:

	<b>As of December 31,</b>					
	<b>2010</b>			<b>2009</b>		
	<b>Telecom Solutions Business</b>	<b>Security- Business</b>	<b>Total</b>	<b>Telecom Solutions Business</b>	<b>Security- Business</b>	<b>Total</b>
<b>Gross amount:</b>						
Beginning balance .....	\$ 46,183	\$ 21,395	\$ 67,578	\$ 44,566	\$ 21,394	\$ 65,960
Goodwill recognized in acquisition .....	413,189	—	413,189	1,530	—	1,530
Disposal .....	—	(21,395)	(21,395)	—	—	—
Exchange differences .....	242	—	242	87	1	88
Ending balance .....	<u>459,614</u>	<u>—</u>	<u>459,614</u>	<u>46,183</u>	<u>21,395</u>	<u>67,578</u>
<b>Accumulated impairment loss:</b>						
Beginning balance .....	(26,461)	(18,855)	(45,316)	(26,380)	(18,855)	(45,235)
Disposal .....	—	18,855	18,855	—	—	—
Charge for the year .....	—	—	—	—	—	—
Exchange differences .....	(14)	—	(14)	(81)	—	(81)
Ending balance .....	<u>(26,475)</u>	<u>—</u>	<u>(26,475)</u>	<u>(26,461)</u>	<u>(18,855)</u>	<u>(45,316)</u>
Goodwill, net .....	<u>\$433,139</u>	<u>\$ —</u>	<u>\$433,139</u>	<u>\$ 19,722</u>	<u>\$ 2,540</u>	<u>\$ 22,262</u>

The Company performs its annual goodwill impairment tests on October 1 of each year. Based on the impairment tests performed, no impairment charges were recognized for the years ended December 31, 2010, 2009 and 2008, respectively.

## 11. Acquired Intangible Assets, Net

	Years Ended December 31,								
	2010					2009			
	Gross carrying amount	Accumulated amortization	Disposal	Foreign exchange difference	Net carrying amount	Gross carrying amount	Accumulated amortization	Foreign exchange difference	Net carrying amount
Core technology	\$ 45,931	\$ (5,964)	\$ —	—	\$ 39,967	\$ 2,331	\$(2,321)	\$—	\$ 10
Trade name	21,041	(882)	(4)	—	20,155	341	(309)	—	32
Contract backlog	12,474	(7,342)	—	12	5,144	2,451	(2,463)	12	—
Customer list	131	(143)	—	12	—	131	(119)	12	24
Customer relationship	117,758	(8,272)	(3)	300	109,783	2,739	(1,901)	280	1,118
Distribution network	870	(870)	—	—	—	870	(870)	—	—
Software	1,758	(1,753)	(37)	160	128	1,758	(1,457)	154	455
Non-compete agreement	1,437	(373)	(188)	24	900	446	(188)	23	281
Corporate business agency agreement	2,037	(657)	—	2	1,382	2,037	(139)	—	1,898
Existing technology	38,328	(6,333)	—	—	31,995	—	—	—	—
“IPR&D” assets	172	—	—	—	172	—	—	—	—
	<u>\$241,937</u>	<u>\$(32,589)</u>	<u>\$(232)</u>	<u>\$510</u>	<u>\$209,626</u>	<u>\$13,104</u>	<u>\$(9,767)</u>	<u>\$481</u>	<u>\$3,818</u>

The future amortization expenses for the net carrying amount of intangible assets with definite lives as of December 31, 2010 are expected to be as follows:

2011	\$ 46,575
2012	41,433
2013	32,545
2014	23,445
2015 and thereafter	65,456
	<u>\$209,454</u>

The Company recognized no impairment loss on intangible assets with definite lives in 2010, 2009 and 2008.

## 12. Prepaid land use right

The Company has commenced the process to obtain land use rights 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. In connection with the agreement, the Company will be eligible to enter into a land transfer agreement with relevant PRC government authorities in order to obtain land use rights with respect to such land. As of December 31, 2010, the Company had paid approximately \$10,000, after an exchange rate difference adjustment of \$301, pursuant to the agreement with ZSPD. The Company has recorded the \$10,000 as a prepaid land use right on its consolidated balance sheets as of December 31, 2010. The Company expects to report land use rights at cost less accumulated amortization and to amortize the cost of the

land use rights on a straight-line basis over the term of the land use rights to be authorized, which is expected to be 50 years.

### 13. Credit Facilities

As of December 31, 2010, the Company had total short-term credit facilities for working capital purposes totalling \$95,968, expiring in December 2011. The credit facilities were secured by bank deposits of \$10,293 as of December 31, 2010. Credit facilities of \$13,356 were pledged as security for issuing letters of credit and accounts payable to hardware suppliers and customers. As of December 31, 2010, unused short-term credit facilities were \$82,612. In addition, the Company had standby letters of credit and bank acceptance drafts as of December 31, 2010, which were collateralized by bank deposits of \$3,650. Total bank deposits pledged as security for credit facilities, standby letters of credit, and bank acceptance drafts totalled \$13,943 as of December 31, 2010 and were presented as restricted cash in the consolidated balance sheets. As of December 31, 2009, the Company had total short-term credit facilities totalling \$31,968, which expired in December 2010 and were secured by bank deposits of \$5,000.

### 14. Accounts payable

Accounts payable included bank acceptance drafts payable of \$2,813 and \$1,932 and commercial acceptances payable of nil and \$426 as of December 31, 2010 and 2009, respectively. These bank acceptance drafts and commercial acceptances were non-interest bearing and were due within six months of issuance. As of December 31, 2010, the Company's accounts payable balance related to the IBM-Type Arrangement was approximately \$75,278, under which the Company is contractually obligated to pay its vendor only when the customer, China Mobile, pays the Company.

### 15. Other Taxes Payable

	<u>Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Individual income taxes withheld .....	\$ 4,856	\$2,516
Business taxes payable .....	6,798	5,158
Others .....	24	(54)
	<u>\$11,678</u>	<u>\$7,620</u>

### 16. Income Taxes

The components of income before provisions for income taxes and discontinued operations are as follows:

	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
United States .....	\$(13,892)	\$(10,236)	\$ (3,078)
Foreign .....	77,195	48,586	23,429
	<u>\$ 63,303</u>	<u>\$ 38,350</u>	<u>\$ 20,351</u>

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

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

	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current			
United States:			
Federal .....	\$ (84)	\$(838)	\$ 2,098
State .....	1	(66)	92
Foreign .....	<u>23,109</u>	<u>4,903</u>	<u>3,434</u>
Total current income tax expense .....	23,026	3,999	5,624
Deferred			
United States:			
Federal .....	—	1,107	(552)
State .....	—	75	(19)
Foreign .....	<u>(13,466)</u>	<u>(288)</u>	<u>(1,207)</u>
Total deferred income tax expense (benefit) .....	<u>(13,466)</u>	<u>894</u>	<u>(1,778)</u>
Total provisions for income taxes .....	<u>\$ 9,560</u>	<u>\$ 4,893</u>	<u>\$ 3,846</u>

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

	<u>Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Allowances and reserves .....	\$ 12,360	\$ 3,613
Depreciation and amortization .....	895	1,114
Net operating loss and credits carry forwards .....	12,220	4,765
Acquired intangibles .....	<u>971</u>	<u>1,315</u>
Total gross deferred tax assets .....	26,446	10,807
Valuation allowance .....	<u>(13,532)</u>	<u>(6,409)</u>
Total net deferred tax assets .....	12,914	4,398
Deferred tax liabilities:		
Amortization of acquired intangibles .....	(51,462)	—
Unrealized gain on short-term investments .....	<u>(1,098)</u>	<u>(609)</u>
Total net deferred tax assets .....	<u>\$(39,646)</u>	<u>\$ 3,789</u>
	<u>Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Current deferred tax assets .....	\$ 13,781	\$ 2,968
Non-current deferred tax assets .....	2,066	2,161
Current deferred tax liabilities .....	(3,657)	(1,340)
Non-current deferred tax liabilities .....	(51,836)	—
Total net deferred tax assets .....	<u>\$(39,646)</u>	<u>\$ 3,789</u>

Deferred income taxes result principally from differences in the recognition of certain assets and liabilities for tax and financial reporting purposes and the tax effect of tax loss carry forwards. As of December 31, 2010, operating loss carry forwards amounted to \$17,078 and \$5,505 for U.S. federal and California state income tax purposes, which will begin to expire in 2023 and 2014, respectively. A valuation allowance of \$13,532 for various deferred tax assets including operating loss carry forwards from various tax jurisdictions has been established as it is determined that it is more likely than not that the relevant deferred tax assets will not be realized. The Company has elected to track the portion of its federal and state net operating loss carry forwards

attributable to stock option benefits, in a separate memo account pursuant to FASB ASC 718 (formerly known as SFAS 123(R)). Therefore, these amounts are no longer included in the Company's gross or net deferred tax assets. Pursuant to ASC 718, the benefit of these net operating loss carry forwards will only be recorded to equity when they reduce cash taxes payable. The cumulative amounts recorded in the memo account as of December 31, 2010 were \$5,415 and \$754 for both federal and state tax purposes.

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

On March 16, 2007, the National People's Congress adopted the Enterprise Income Tax Law (the "EIT Law"), which became effective on January 1, 2008. Prior to December 31, 2008, certain of the Company's PRC entities applied for High-and-New-Tech Enterprise ("HNTE") status that would allow them to be subject to income tax at a reduced rate 15% based on the EIT Law. The official HNTE certificates have been issued in December 2008 and are valid for AsiaInfo-Linkage Technologies, AsiaInfo-Linkage Technologies (Chengdu) and Linkage Nanjing till the end of 2010. Under the EIT Law, a "resident enterprise" which may include an enterprise established outside of the PRC with management located in the PRC, will be subject to the PRC income tax. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed a resident enterprise, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

AsiaInfo-Linkage Technologies and Linkage Nanjing were approved as a Key Software Enterprise, and were eligible for a further reduced tax rate of 10% for 2008 and 2009. Both companies applied for Key Software Enterprise status for 2010, which were under review by the relevant governmental authorities as of the end of year 2010.

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

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

Undistributed foreign earnings amounted to approximately \$106,240 as of December 31, 2010. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income tax or PRC foreign withholding taxes, if any, has been made. Upon distribution of those earnings, the Company would be subject to US income taxes (subject to a reduction for foreign tax credits), if any.



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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
US Federal Rate .....	35%	35%	35%
Difference between statutory rate and foreign effective tax rate .....	(28)%	(32)%	(38)%
Subpart F income inclusion .....	3%	—	4%
Non-deductible meals and entertainment expenses .....	2%	1%	2%
Stock based compensation .....	2%	5%	(1)%
PRC super R&D deduction .....	(2)%	(2)%	(1)%
Change in valuation allowance .....	1%	4%	2%
Qualified Electing Fund income .....	—	1%	8%
Change in tax rates .....	2%	1%	8%
	<u>15%</u>	<u>13%</u>	<u>19%</u>

During the years ended December 31, 2010, 2009 and 2008, if the Company's subsidiaries and VIEs in the PRC were neither in the tax holiday period nor had they been specifically allowed special tax concessions, the income tax expense and earnings per share amounts would be as follows:

	<u>Years ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Changes in income tax expense .....	\$1,089	\$3,102	\$ 940
Net income per ordinary share-basic .....	1.02	0.78	0.43
Net income per ordinary share-diluted .....	1.01	0.76	0.42

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

	<u>As of December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Beginning balance .....	3,052	1,326	834
Additions based on tax position related to the prior year .....	139	760	104
Additions based on tax positions related to the current year .....	1,679	966	388
Ending balance .....	<u>4,870</u>	<u>3,052</u>	<u>1,326</u>

Included in the balance of unrecognized tax benefits as of December 31, 2010, are tax benefits of \$4,870 that, if recognized, would affect the effective tax rate and none would affect deferred tax assets. The Company has adopted the accounting policy that interest and penalties will be classified as a component of the provisions for income taxes. Additional interest and penalties of \$111 were recognized as of December 31, 2010.

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

The Company is subject to taxation in the US and various states and foreign jurisdictions. There is one ongoing examination by the Hong Kong taxing authority at this time. The Company believes that it has not taken any aggressive filing positions in its Hong Kong tax filings and it is expected that it will not be subject to additional tax liabilities or penalties. There are no ongoing examinations by other taxing authorities at this time. The Company's tax years starting from 2002 to 2010 remain open in various tax jurisdictions. The Company does not anticipate any significant changes of its uncertain tax positions within the next 12 months.

## 17. Net income per share

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

	Years Ended December 31,		
	2010	2009	2008
Amounts attributable to AsiaInfo-Linkage, Inc. common stockholders (numerator)			
Income from continuing operations, net of taxes .....	\$ 55,153	\$ 33,886	\$ 16,520
Income from discontinued operations, net of taxes .....	1,058	1,973	2,270
Net income .....	<u>\$ 56,211</u>	<u>\$ 35,859</u>	<u>\$ 18,790</u>
Shares (denominator):			
Weighted average common stock outstanding .....			
Basic .....	61,036,299	45,182,831	44,828,915
Dilutive effect of employee stock options and restricted stock units .....	746,411	1,203,447	1,846,779
Diluted .....	<u>61,782,710</u>	<u>46,386,278</u>	<u>46,675,694</u>
Earnings per share			
Net income from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders			
Basic .....	<u>\$ 0.90</u>	<u>\$ 0.75</u>	<u>\$ 0.37</u>
Diluted .....	<u>\$ 0.89</u>	<u>\$ 0.73</u>	<u>\$ 0.35</u>
Net income from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders			
Basic .....	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.05</u>
Diluted .....	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.05</u>
Net income attributable to AsiaInfo-Linkage, Inc. common stockholders			
Basic .....	<u>\$ 0.92</u>	<u>\$ 0.79</u>	<u>\$ 0.42</u>
Diluted .....	<u>\$ 0.91</u>	<u>\$ 0.77</u>	<u>\$ 0.40</u>

The Company had nil, 258,000 and 667,815 common stock options outstanding in 2010, 2009 and 2008, respectively, which could have potentially diluted EPS in the future, but were excluded in the computation of diluted EPS in those periods, as their exercise prices were above the average market values in such periods.

## 18. Commitments and Contingencies

**Operating Leases**—As of December 31, 2010, the Company had commitments under certain non-cancellable operating leases through 2011 to 2015 that require annual minimum rentals as follows:

2011 .....	\$4,340
2012 .....	3,171
2013 .....	204
2014 .....	56
2015 .....	2
	<u>\$7,773</u>

The leased properties are principally located in the PRC and are used for administration and research and development purposes. The leases are renewable subject to negotiation. Rental expenses were \$6,021, \$3,794 and \$3,187 for the years ended December 31, 2010, 2009 and 2008, respectively.

**Letters of Credit**—As of December 31, 2010, the Company had outstanding standby letters of credit to customers of \$8,393.

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

Changes in the product warranty accrual for the years ended December 31, 2010 and 2009 were as follows:

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Balance at beginning of year	\$ 266	\$ 418
Current year provision	23	38
Payments	—	(1)
Expired warranty	(253)	(189)
Foreign exchange difference	8	—
Balance at end of year	<u>\$ 44</u>	<u>\$ 266</u>

**Litigation**—In December 2001, a securities class action case was filed in New York City against the Company, certain of its officers and directors and the underwriters of the Company’s initial public offering (“IPO”). The lawsuit alleged violations of the U.S. federal securities laws and was docketed in the U.S. District Court for the Southern District of New York as *Hassan v. AsiaInfo Holdings, Inc., et al.* The lawsuit alleged, among other things, that the underwriters of the Company’s IPO improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of the Company’s common stock in the aftermarket as conditions of their purchasing shares in the Company’s IPO. The lawsuit further claimed that the alleged practices of the underwriters should have been disclosed in the Company’s IPO prospectus and registration statement. The suit seeks rescission of the plaintiffs’ alleged purchases of the Company’s common stock as well as unspecified damages. In addition to the case against the Company, various other plaintiffs had filed approximately 1,000 other, substantially similar class action cases (collectively, the “IPO Allocation Cases”) against approximately 300 other publicly traded companies and their IPO underwriters in New York City, which along with the case against the Company, had all been transferred to a single federal district judge for purposes of case management.

In April 2009, the Company and most of the other issuer defendants in the IPO Allocation Cases reached a definitive agreement with the plaintiffs and the underwriter defendants to settle the IPO Allocation Cases. The definitive agreement was filed with the court on April 2, 2009 and a final approval was granted by the court on October 6, 2009. The final approval is subject to appeal until November 5, 2009. Several objectors filed timely appeals and those appeals remain pending. If the settlement is approved, the Company expects any damages payable to the plaintiffs to be fully funded by its directors’ and officers’ liability insurance policies. If the litigation proceeds, the Company intends to continue to defend the litigation vigorously. Moreover, if the litigation proceeds, the Company believes that the underwriters may have an obligation to indemnify the Company for the legal fees and other costs of defending this suit and that its directors’ and officers’ liability insurance policies would also cover the defense and potential exposure in the suit.

In addition, the Company received a letter dated July 30, 2007 from a putative stockholder demanding that the Company investigate and prosecute a claim for alleged short-swing trading in violation of Section 16(b) of

the Securities Exchange Act of 1934, as amended (the “Exchange Act”), by the underwriters of the Company’s IPO and certain of the Company’s unidentified directors, officers and stockholders. On October 9, 2007, the putative stockholder commenced a civil lawsuit in the U.S. District Court for the Western District of Washington against Morgan Stanley and Deutsche Bank, two of the lead underwriters of the Company’s IPO, alleging violations of Section 16(b) of the Exchange Act. The complaint alleges that the combined number of shares of the Company’s common stock beneficially owned by the lead underwriters and certain unnamed officers, directors and principal stockholders exceeded ten percent of the Company’s outstanding common stock from the date of the Company’s IPO on March 3, 2000, through at least March 2, 2001. It further alleges that those entities and individuals were thus subject to the reporting requirements of Section 16(a) and the short-swing trading prohibition of Section 16(b), and failed to comply with those provisions. The complaint seeks to recover from the lead underwriters any “short-swing profits” obtained by them in violation of Section 16(b). None of the Company’s directors, officers or stockholders is named as defendants in this action, although the Company is named as a nominal defendant. In July 2008, the Company filed a joint motion to dismiss, with several other issuers who are also named as nominal defendants in the action. In March 2009, the court granted the issuer defendants’ joint motion to dismiss without prejudice on the grounds that the plaintiff failed to make an adequate demand to the Company prior to filing her complaint. The plaintiff subsequently appealed the judgment to the Court of Appeals for the Ninth Circuit, and the underwriter defendants have filed certain cross-appeals. Oral arguments with respect to these appeals occurred in early October 2010.

In December 2010, the Ninth Circuit Court of Appeals affirmed decision to dismiss the case on the grounds that the plaintiff’s demand letters were insufficient to put the issuers on notice of the claims asserted against them dismissing the case with prejudice. The Ninth Circuit, however, reversed and remanded certain claims relating to the underwriters. In January 2011, the Ninth Circuit denied certain petitions for rehearing and ordered that no further petitions for rehearing may be filed. In January 2011, the Ninth Circuit stayed the issuance of its mandate for ninety days pending the filing of an appeal to the United States Supreme Court.

The Company intends to continue to defend vigorously the two litigation matters described above. While the Company cannot guarantee the outcome of these proceedings, the Company does not believe that the final results of these lawsuits will have a material effect on the Company’s consolidated financial condition, results of operations or cash flows.

## **19. Employee Retirement Benefits**

The Company’s employees in the PRC are entitled to retirement benefits calculated with reference to their base salaries upon retirement and their length of service in accordance with a government managed benefits plan. The PRC government is responsible for administering the benefits for these retired employees. The Company is required to make contributions to the state retirement plan at a rate of 12% to 22% of the monthly base salaries of the current employees. Employees who are citizens or permanent residents of the United States and who have been employed for more than six months are entitled to retirement benefits under a Simplified Employee Pension Plan (the “Plan”). The Company contributes 5% of the employees’ monthly salaries to the Plan. Total retirement benefit expenses for such benefit contributions for the years ended December 31, 2010, 2009 and 2008 were \$10,036, \$5,500 and \$4,014, respectively.

In addition, the Company is required by law to contribute approximately 16.5% to 24.8% of base salaries of its PRC employees for staff welfare, housing, medical and education benefits, representing an expense of \$14,079, \$8,462 and \$5,755 in 2010, 2009 and 2008, respectively.

## **20. Distribution of Profits**

As stipulated by the relevant laws and regulations applicable to PRC foreign investment enterprises, the Company’s PRC subsidiaries are required to make appropriations from net income as determined under accounting principles generally accepted in the PRC (“PRC GAAP”) to non-distributable reserves which include

a general reserve, an enterprise expansion reserve and an employee welfare and bonus reserve. Wholly-foreign-owned PRC subsidiaries are not required to make appropriations to the enterprise expansion reserve but appropriations to the general reserve are required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The employee welfare and bonus reserve is determined by the Company's Board of Directors.

The general reserve is used to offset future extraordinary losses. The subsidiaries may, upon a resolution passed by the stockholders, convert the general reserve into capital. The employee welfare and bonus reserve is used for the collective welfare of the employees of the subsidiaries. The enterprise expansion reserve is used for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of retained earnings determined according to PRC law. Appropriations to general reserves by the Company's PRC subsidiaries were nil, \$5,094 and \$3,338 in 2010, 2009 and 2008, respectively.

As a result of these PRC laws and regulations and the requirement that distributions by PRC entities can only be paid out of distributable profits computed in accordance with PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Company. Amounts restricted include paid-in capital and the statutory reserves of the Company's PRC subsidiaries and VIE. As of December 31, 2010, the aggregate amounts of capital and statutory reserves restricted which represented the amount of net assets of the relevant subsidiaries and VIE in the Company not available for distribution was \$89,694. As a result, the restricted net assets held by the Company's consolidated subsidiaries is lower than 25% of the consolidated net assets as of December 31, 2010.

## 21. Certain Significant Risks and Uncertainties

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents, restricted cash, short-term investments, and trade accounts receivable. The Company places its cash and cash equivalents, restricted cash, short-term investments with various financial institutions in the PRC and the US. As of December 31, 2010 and 2009, 0.1% and 5% of short-term investments were placed with financial institutions in the US, respectively.

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

	Year Ended December 31,					
	2010		2009		2008	
	Revenues (in thousands)	Percentage of Total Revenues	Revenues (in thousands)	Percentage of Total Revenues	Revenues (in thousands)	Percentage of Total Revenues
China Mobile . . . . .	\$210,396	61.3%	\$149,032	69.7%	\$104,977	71.5%
China Telecom . . . . .	51,088	14.9	19,565	9.2	11,871	8.1
China Unicom . . . . .	76,334	22.2	44,543	20.8	15,906	10.8
China Netcom* . . . . .	—	—	—	—	13,854	9.4
Total . . . . .	<u>\$337,818</u>	<u>98.4%</u>	<u>\$213,140</u>	<u>99.7%</u>	<u>\$146,608</u>	<u>99.8%</u>

\* On October 15, 2008, China Netcom merged with China Unicom.

Individual customer amounts receivable consisted of 10% or more of total accounts receivable as of December 31, 2010 and 2009 were as follows:

	Percentage of accounts receivable as of December 31,	
	2010	2009
China Mobile .....	55%	71%
China Unicom .....	23%	16%
China Telecom .....	20%	9%

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

	Years Ended December 31,		
	2010	2009	2008
Balance at beginning of year .....	\$2,619	\$ 2,605	\$ 2,427
Provision for bad debts .....	709	442	452
Write-offs and other .....	(814)	(428)	(274)
Balance at end of the year .....	<u>\$2,514</u>	<u>\$ 2,619</u>	<u>\$ 2,605</u>

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

## 22. Stock-based compensation plan

### *2002 Stock Option Plan and Prior Plans*

Under the Company's 2002 Stock Option 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 Stock Option 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 Stock Option Plan, the Company adopted annual stock option plans for each of 1995, 1996, 1997, 1998, 1999 and 2000 (such plans, together with the 2002 Stock Option Plan, are referred to hereinafter as the "Option Plans").

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

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which was developed for use in estimating the fair value of traded options that have no vesting

restrictions and are fully transferable. The Company's employee stock options have characteristics significantly different from those of traded options. In addition, option valuation models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock, and changes in the subjective input assumptions can materially affect the fair value estimate of employee stock options. The value of options granted was estimated on the date of the respective grant using the following weighted average assumptions:

	<u>Year Ended December 31, 2005</u>
<b>Option Grants</b>	
Weighted average risk-free rate of return .....	4.20%
Weighted average expected option life .....	5 years
Weighted average volatility rate .....	81%
Weighted average dividend yield .....	—

Activities for the Option Plans are summarized as follows:

	<u>Outstanding Options</u>		<u>Aggregate intrinsic value</u>
	<u>Number of shares</u>	<u>Weighted average exercise price</u>	
Outstanding, January 1, 2008 .....	3,968,020	\$ 8.83	
Granted .....	—	—	
Forfeited .....	(25,317)	14.85	
Exercised .....	<u>(585,951)</u>	6.75	
Outstanding, December 31, 2008 .....	<u>3,356,752</u>	9.14	
Granted .....	—	—	
Forfeited .....	(32,750)	5.37	
Exercised .....	<u>(2,259,397)</u>	8.08	
Outstanding, December 31, 2009 .....	<u>1,064,605</u>	11.51	
Granted .....	—	—	
Forfeited .....	(45,540)	28.00	
Exercised .....	<u>(498,141)</u>	16.04	
Outstanding, December 31, 2010 .....	<u><u>520,924</u></u>	\$ 5.74	5,645
Vested and expected to vest, December 31, 2010 .....	520,924	5.74	5,645
Exercisable, December 31, 2010 .....	520,924	5.74	5,645

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of \$16.57 of the Company's common stock on December 31, 2010.

Total intrinsic value of options exercised for each of the three years ended December 31, 2010, 2009 and 2008 was \$3,434, \$26,107 and \$3,615, respectively.

As of December 31, 2010, there was no unrecognized share-based compensation cost relating to share options.

Additional information on options outstanding as of December 31, 2010 is as follows:

Range of average exercise price	Options Outstanding as of December 31, 2010			Options Exercisable as of December 31, 2010	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$3.35-\$5.70 . . . . .	374,234	2.70	\$ 4.57	374,234	\$ 4.57
\$6.51-\$7.07 . . . . .	44,535	2.74	7.07	44,535	7.07
\$7.88-\$9.63 . . . . .	101,055	0.26	9.38	101,055	9.38
\$10.00-\$14.56 . . . . .	1,100	1.06	14.56	1,100	14.56
Total . . . . .	<u>520,924</u>	2.22	\$ 5.74	<u>520,924</u>	\$ 5.74

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

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

As of December 31, 2010, the activity of RSUs under the 2005 Plan is summarized as follows:

	Number of shares	Weighted average grant date fair value
Restricted share units unvested at January 1, 2008 . . . . .	257,074	\$ 4.29
Granted . . . . .	28,000	10.55
Vested . . . . .	(122,137)	4.26
Forfeited . . . . .	<u>(15,125)</u>	5.02
Restricted share units unvested at December 31, 2008 . . . . .	147,812	5.42
Granted . . . . .	86,500	11.48
Vested . . . . .	(124,300)	4.58
Forfeited . . . . .	<u>(8,212)</u>	9.54
Restricted share units unvested at December 31, 2009 . . . . .	101,800	11.26
Granted . . . . .	139,285	24.38
Vested . . . . .	(27,859)	10.83
Forfeited . . . . .	<u>(34,876)</u>	13.04
Restricted share units unvested at December 31, 2010 . . . . .	<u>178,350</u>	\$21.22

Total intrinsic values of RSUs vested for the three years ended December 31, 2010, 2009 and 2008 were \$708, \$3,544 and \$1,386, respectively.

As of December 31, 2010, there was \$2,913 unrecognized share-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 1.49 years. To the extent the actual forfeiture rate is different from the original estimate, actual share-based compensation cost related to these awards may be different from the expectation.



*2005 Stock Incentive Plan – Performance-based Restricted Share Units (PSUs)*

In November 2006, the Compensation Committee of the Board of Directors of the Company approved a Performance Stock Unit (“PSU”) awards program under the 2005 Plan. Under this program, the Company was approved to grant no more than 2,213,068 shares of PSUs under the 2005 Plan. These awards vest based on certain performance-based or market-based criteria, including annual earnings before interest and taxes, annual net revenue growth, average stock closing price and the Company’s new business revenue percentage, provided that the award holder continues to be an employee of the Company at the time the performance goals are met. Each PSU represents the contingent right of the participant to receive a share of common stock or an equivalent payment. 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.

Fair values of PSUs with performance conditions generally equal their intrinsic value on the date of grant. Fair values of PSUs with market conditions are calculated with a Monte-Carlo simulation model using assumptions underlying the Black-Scholes methodology as follows:

Weighted average risk-free rate of return .....	4.7%
Weighted average expected life .....	1.49 years
Weighted average volatility rate .....	45%
Weighted average dividend yield .....	—

The activity of performance based PSUs under the 2005 Plan is summarized as follows:

	<u>Number of shares</u>	<u>Weighted average grant date fair value</u>
PSUs unvested at January 1, 2008 .....	1,099,340	\$5.05
Granted .....	—	—
Vested .....	(439,529)	5.06
Forfeited .....	(32,900)	4.99
PSUs unvested at December 31, 2008 .....	<u>626,911</u>	<u>5.05</u>
Granted .....	—	—
Vested .....	(472,089)	5.05
Forfeited .....	(154,822)	5.05
PSUs unvested at December 31, 2009 .....	<u>—</u>	<u>\$ —</u>

The activity of market based PSUs under the 2005 Plan is summarized as follows:

	<u>Number of shares</u>	<u>Weighted average grant date fair value</u>
PSUs unvested at January 1, 2008 .....	549,930	\$2.42
Granted .....	—	—
Vested .....	(292,350)	2.66
Forfeited .....	(16,450)	2.33
PSUs unvested at December 31, 2008 .....	<u>241,130</u>	<u>2.14</u>
Granted .....	—	—
Vested .....	(239,880)	2.14
Forfeited .....	(1,250)	2.14
PSUs unvested at December 31, 2009 .....	<u>—</u>	<u>\$ —</u>

Total intrinsic value of PSUs vested for the years ended December 31, 2010 and 2009 was nil and \$12,167, respectively.

### 2008 Stock Incentive Plan

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

As of December 31, 2010, 1,689,400 PSUs were granted under the 2008 Plan. These awards will vest based on certain performance-based criteria, such as the Company's operating margin annual growth rate, provided the award holder continues to be an employee of the Company at the time the performance goals are met. Each PSU represents a contingent right of the participant to receive a payment in respect of a share of the Company's common stock, whether in shares, cash, or a combination thereof, subject to the terms and conditions of individual performance stock unit agreement. The Company also has the right, in its sole discretion, to pay cash in lieu of the issuance of vested shares of common stock. No such cash payment right was exercised by the Company.

The activity of performance based PSUs under the 2008 Plan is summarized as follows:

	<u>Number of shares</u>	<u>Weighted average grant date fair value</u>
Performance-based restricted stock units unvested at January 1, 2009 . . . . .	—	\$ —
Granted . . . . .	1,669,400	13.17
Vested . . . . .	(553,985)	13.17
Forfeited . . . . .	<u>(34,002)</u>	13.10
Performance-based restricted stock units unvested at December 31, 2009 . .	<u>1,081,413</u>	\$13.17
Granted . . . . .	20,000	20.63
Vested . . . . .	(538,344)	13.31
Forfeited . . . . .	<u>(75,981)</u>	13.10
Performance-based restricted stock units unvested at December 31, 2010 . .	<u><u>487,088</u></u>	\$13.33

Total intrinsic value of PSUs vested for the years ended December 31, 2010, 2009 and 2008 was \$10,621, \$11,063 and nil, respectively.

As of December 31, 2010, there was \$4,871 unrecognized share-based compensation cost related to PSUs, which is expected to be recognized into the consolidated statements of operations over a weighted-average vesting period of 0.75 years. To the extent the actual forfeiture rate is different from original estimate; actual share-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. Stock-based compensation expense related to the stock options, RSUs and PSUs are as follows:

	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cost of revenues . . . . .	\$1,984	\$ 2,969	\$ 682
Sales and marketing . . . . .	2,107	2,955	1,258
General and administrative . . . . .	2,774	3,159	1,048
Research and development . . . . .	<u>1,134</u>	<u>1,582</u>	<u>574</u>
Total stock-based compensation expense . . . . .	<u><u>\$7,999</u></u>	<u><u>\$10,665</u></u>	<u><u>\$3,562</u></u>

The total income tax benefit recognized in the income statement for share-based compensation arrangements was nil for 2010, nil for 2009, and \$200 for 2008.

### **23. Stock Repurchase Program**

On September 11, 2007, the Company announced the authorization of a stock repurchase program under which the Company was entitled to repurchase up to 3,000,000 shares of its outstanding common stock. Pursuant to this program, the Company was entitled, from time to time for a period of four months, depending on market conditions, share price and other factors, make one or more purchases, on the open market, or in privately negotiated transactions, subject to availability, of up to 3,000,000 shares of common stock. As of December 31, 2007, the Company repurchased 244,300 shares of its common stock at a total cost of \$1,953 pursuant to this repurchase program.

On February 27, 2008, the Company's Board of Directors authorized an extension to the 2007 share repurchase program through July 10, 2008. Under the extended program, the Company was authorized to repurchase a total of 2,755,700 shares of its outstanding common stock, from time to time, depending on market conditions, share price and other factors, make one or more purchases on the open market or in privately negotiated transactions. Any common stock repurchased by the Company became part of its treasury stock and may be retired or used by the Company to finance or execute acquisitions or other arrangements. As of July 10, 2008, the Company had repurchased 166,400 shares of its common stock at a total cost of \$1,664 pursuant to this repurchase program.

On September 17, 2008, the Company announced a new stock repurchase program under which the Company was authorized to repurchase up to 3,000,000 shares of its outstanding common stock. As of December 31, 2008, the Company had repurchased 2,589,300 shares of its common stock at a total cost of \$24,132.

No repurchases occurred in 2009 and 2010.

### **24. Related Party Transactions**

The Company entered into consulting agreements with Mr. Tom Manning, one of its directors, in January 2009 and February 2009, pursuant to which Mr. Manning agreed to provide certain management and consulting services to the Company. As of December 31, 2010, the Company paid approximately \$443 to Mr. Manning pursuant to the agreements. Mr. Manning did not provide any management and consulting services to the Company and the Company did not pay any service fees to Mr. Manning pursuant to the agreements in the year 2010.

### **25. 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 Mr. 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.

(b) In October 2009, the Company acquired 60% of the share capital of SmartCall as set out in Note 3.

### **26. Redeemable noncontrolling interest**

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

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

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

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

These noncontrolling interests were recorded outside of the permanent equity on the consolidated balance sheets initially at the fair value of the noncontrolling interests as of the date of incorporation or the date of acquisition of these subsidiaries. Subsequently, each noncontrolling interest was carried at the higher of (1) the initial carrying amount, increased or decreased for the noncontrolling interest's share of net income or loss or (2) the accreted amount to the expected redemption value. The change of the carrying amounts of the redeemable noncontrolling interest is recognized as net income attributable to noncontrolling interest in the consolidated statements of operations. For the year 2010, the amounts charged to the net income attributable to noncontrolling interests were \$558, which represents the noncontrolling interests' share of net loss of these subsidiaries.

	<u>Redeemable Noncontrolling Interest</u>
<b>Balance at December 31, 2009</b>	<b>\$1,122</b>
Incorporation of new subsidiaries .....	1,354
Net loss .....	(558)
Adjustment to redemption value .....	—
<b>Balance at December 31, 2010</b> .....	<b><u>\$1,918</u></b>

## 27. Segment Information

Our operations are currently organized into three business units by three major customers, the three telecommunication carriers in China. In accordance with FASB guidance, each of these three 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 three operating segments are aggregated into one reportable segment because they meet the aggregation criteria of FASB that have same economic characteristics.

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

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

## 28. Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data for the years ended December 31, 2010, 2009 and 2008 are presented in the following table.

	Three Months Ended			
	December 31	September 30	June 30	March 31
<b>Year Ended December 31, 2010</b>				
Total revenues	\$114,380	\$110,462	\$59,298	\$59,243
Total cost of revenues	62,596	63,220	24,858	23,127
Gross profit	51,784	47,242	34,440	36,116
Total operating expenses	35,700	29,784	20,142	23,849
Income from continuing operations	14,722	14,862	13,282	10,877
Income from discontinued operations, net of taxes	557	1,267	189	(955)
Net loss attributable to noncontrolling interest	(226)	(326)	(435)	(423)
Net income attributable to AsiaInfo-Linkage, Inc.	15,505	16,455	13,906	10,345
Net income per share from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	\$ 0.20	\$ 0.20	\$ 0.29	\$ 0.24
Diluted	\$ 0.20	\$ 0.20	\$ 0.29	\$ 0.23
Net income per share from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	\$ 0.01	\$ 0.02	\$ —	\$ (0.02)
Diluted	\$ 0.01	\$ 0.02	\$ —	\$ (0.02)
Net income per share attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	\$ 0.21	\$ 0.22	\$ 0.29	\$ 0.22
Diluted	\$ 0.21	\$ 0.22	\$ 0.29	\$ 0.21
<b>Year Ended December 31, 2009</b>				
Total revenues	\$ 61,349	\$ 52,556	\$52,698	\$47,153
Total cost of revenues	27,533	24,424	26,953	21,540
Gross profit	33,816	28,132	25,745	25,613
Total operating expenses	22,015	19,267	19,086	18,155
Income from continuing operations	11,241	7,955	7,414	6,847
Income from discontinued operations, net of taxes	2,123	1,123	(211)	(1,062)
Net loss attributable to noncontrolling interest	(435)	13	(2)	(5)
Net income attributable to AsiaInfo-Linkage, Inc.	13,799	9,065	7,205	5,790
Net income per share from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	\$ 0.25	\$ 0.18	\$ 0.16	\$ 0.15
Diluted	\$ 0.25	\$ 0.17	\$ 0.16	\$ 0.15
Net income per share from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	\$ 0.04	\$ 0.02	\$ —	\$ (0.02)
Diluted	\$ 0.04	\$ 0.02	\$ —	\$ (0.02)
Net income per share attributable to AsiaInfo-Linkage, Inc				
Basic	\$ 0.29	\$ 0.20	\$ 0.16	\$ 0.13
Diluted	\$ 0.29	\$ 0.19	\$ 0.16	\$ 0.13
<b>Year Ended December 31, 2008</b>				
Total revenues	\$ 41,763	\$ 36,288	\$36,751	\$32,079
Total cost of revenues	20,089	18,150	20,358	16,062
Gross profit	21,674	18,138	16,393	16,017
Total operating expenses	15,901	13,540	12,635	12,591
Income from continuing operations	724	5,579	5,367	4,835
Income from discontinued operations, net of taxes	1,476	516	(146)	424
Net loss attributable to noncontrolling interest	(11)	(4)	—	—
Net income attributable to AsiaInfo-Linkage, Inc	2,211	6,099	5,221	5,259
Net income per share from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	\$ 0.02	\$ 0.12	\$ 0.12	\$ 0.11
Diluted	\$ 0.02	\$ 0.12	\$ 0.11	\$ 0.10
Net income per share from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	\$ 0.03	\$ 0.01	\$ —	\$ 0.01
Diluted	\$ 0.03	\$ 0.01	\$ —	\$ 0.01
Net income per share attributable to AsiaInfo-Linkage, Inc. common stockholders:				
Basic	\$ 0.05	\$ 0.13	\$ 0.12	\$ 0.12
Diluted	\$ 0.05	\$ 0.13	\$ 0.11	\$ 0.11

## 29. Subsequent Event

The Company evaluated events occurring after December 31, 2010 until the date the consolidated financial statements were issued.

(a) On February 23, 2011, the relevant PRC governmental authorities announced that AsiaInfo-Linkage Technologies and Linkage Nanjing were granted the Key Software Enterprise status for the year 2010. Consequently, the Company expects to recognize a tax benefit of approximately \$5,000 in 2011.

(b) On January 30, 2011, the Board of Directors of the Company authorized a new stock repurchase program, under which the Company may, from time to time for a period of twelve months, depending on market conditions, share price and other factors, make one or more purchases, on the open market or in privately negotiated transactions, of up to \$60,000 in aggregate value of the Company's outstanding common stock. Any common stock repurchased by the Company will become part of its treasury stock.

(c) The Board of Directors of the Company approved to adopt the 2011 Stock Incentive Plan (the "2011 Plan") on February 19, 2011, which is subject to approval of the Company's stockholders. The 2011 Plan is intended to better align the interests of participants in the 2011 Plan with the Company's stockholders and to promote the Company's long-term growth and profitability by providing the Company with the tools to remain competitive in attracting and retaining employees, directors, officers, consultants, advisors and independent contractors. Under the 2011 Plan, the Company may grant participants restricted stock awards, performance stock awards, stock options, or other types of equity incentives which represents up to 7,501,752 shares of the common stock of the Company.

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# CORPORATE INFORMATION

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Listing AsiaInfo-Linkage's common stock is listed on  
the NASDAQ Global Select Market under the  
symbol ASIA.

Annual Meeting  
of Stockholders The annual meeting will be held on April 21,  
2011 at the Company's headquarters in Beijing,  
China. The record date for stockholders entitled  
to notice and to vote is February 22, 2011.

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Investor Relations For further information regarding 2010, or  
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Website AsiaInfo-Linkage's corporate materials,  
investor information and financial statements  
for 2010 are available online at  
[www.asiainfo-linkage.com](http://www.asiainfo-linkage.com).



*AsiaInfo-Linkage, Inc.*

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