ASIAINFO-LINKAGE, INC
Form 10-K
February 28, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the fiscal year ended December 31, 2012

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the transition period from to .

Commission File Number: 001-15713

ASIAINFO-LINKAGE, INC.

(Exact name of Registrant as specified in its charter)

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

4th Floor, Zhongdian Information Tower

6 Zhongguancun South Street, Haidian District

Beijing 100086, China

(Address of principal executive offices, including zip code)

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	**The NASDAQ Stock Market LLC**
(Title of Each Class)	**(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 x 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 x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 x 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 x	Accelerated filer ¨
Non-accelerated filer (Do not check if a smaller reporting company) ¨	Smaller reporting company ¨

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

Based on the closing sale price of the common stock on the NASDAQ Global Market on June 29, 2012, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $607,737,644.46.

The number of shares outstanding of the registrant s common stock, $0.01 par value, was 72,762,347 at February 19, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information is incorporated by reference to the Proxy Statement for the registrant s 2013 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.

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ASIAINFO-LINKAGE, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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Cautionary Statement

Except for historical information, the statements contained in this report 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, or IT, products and services in China. Our solutions, products and services include business support systems, or BSS, containing billing and customer relationship management, or CRM, and other software and services. Our software and services enable our customers to build, maintain, operate, manage and improve their communications infrastructure. Our largest customers are the major telecommunications carriers in China and their provincial subsidiaries, including China Mobile Communications Corporation, or China Mobile, China United Telecommunications Corporation, or China Unicom, and China Telecommunications Corporation, or China Telecom.

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

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

Recent Developments

On January 4, 2012, we announced that we signed an agreement to provide a convergent billing solution to Nepal Doorsanchar Company Limited, or Nepal Telecom, in Nepal on December 21, 2011.

On January 20, 2012, we announced the receipt of a non-binding proposal letter from Power Joy (Cayman) Limited, or Power Joy, a wholly owned subsidiary of CITIC Capital China Partners II, L.P., pursuant to which Power Joy proposed to acquire all of our outstanding shares of common stock in cash at a price that represents a premium over the stock price. A special committee of the board of directors, or the Special Committee, was formed to consider the proposal and any potential alternative transactions. The Special Committee retained Shearman & Sterling LLP as its legal counsel and Goldman Sachs (Asia) L.L.C. as its financial advisor to assist it in consideration of such matters. On March 26, 2012, we announced that the Special Committee would solicit interest from, and engage in discussions with, other potential qualified interested parties regarding a potential transaction involving us, and to evaluate any proposals it receives. There can be no assurance that any definitive offer will be made, that any agreement will be executed or that any transaction will be approved of or consummated.

In June 2012, we opened an office in Cambridge, United Kingdom as part of our ongoing initiative to expand international operations, particularly in EMEA markets.

On January 29, 2013, we announced the successful implementation of a billing solution for the Code Division Multiple Access, or CDMA, network of Nepal Telecom.

On February 4, 2013, we announced that Veris™ will be the new brand name of our product family to enable the digital lifestyle. We plan to continue to invest in customer experience management, open platform and smarter pipe areas, and we believe our new branding strategy reinforces this plan. Our flagship Veris™ suite of BSS and related solutions is available in the Asia Pacific region and Europe, Middle East and Africa markets. This suite includes the mature core solutions of Veris Billing, Veris CRM and Veris BI.

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 outbound call services for our clients 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, we provide outbound call services on behalf of telecommunications operators in the PRC and may provide other value-added telecommunications services. Accounting principles generally accepted in the United States, or GAAP, require 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 the Telecommunications Industry. For more information on certain regulatory and other risks associated with our contractual arrangements related to Beijing Star VATS Technologies Co., Inc., or Star VATS, and Beijing Zhongxinjia Sci-Tech Development Co., Ltd., or ZXJ, please see the discussion in Item 1A of this report, Risk Factors.

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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) 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 Ms. Yao Yuan.
(3) Beijing Star VATS Technologies Co., Inc., or Star VATS 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 is not currently licensed to conduct such business.
(4) Chengdu Yalian Zhixing Technology Ltd. is a domestic Chinese company with 60% of its shares held by Star VATS and 40% held by Shanghai Yuzhi Communication Technology, Ltd.
(5) Asiainfo-Linkage (Thailand) Ltd. is a Thai company with 48.9975% and 0.0025% of its shares held by AsiaInfo Singapore and AsiaInfo-Linkage (H.K.) Systems Co., Ltd., respectively. The remaining 51% of Asiainfo-Linkage (Thailand) Ltd. is held by one of our employees, but is controlled by our subsidiary AsiaInfo Singapore through a series of contractual arrangements.
(6) 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.
(7) Beijing Zhongxinjia Sci-Tech Development Co., Ltd., a domestic Chinese company, is owned by two of our employees but controlled by our subsidiary Beijing Shangxin Yitong Information and Technology Co., Ltd. through a series of contractual arrangements.

Industry Background and Market Opportunities

Our largest customers are the three major telecommunications operators in China and their provincial subsidiaries. The restructuring in past few years of China s telecommunications industry opened the fixed-line,

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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. Operators invest heavily in third generation mobile, or 3G, wireless local network, or WIFI, long-term evolution, or LTE, fiber network and mobile to mobile infrastructure to provide pervasive internet access, and they are motivated to increase the customer experience to obtain return on investment.

We believe that continued increases in the number of subscribers, especially 3G users, strategic development of telecommunication carriers in the face of competition among internet operators and 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, the 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 also plan to expand our telecommunication software and service offerings to telecommunication providers in Southeast Asia and EMEA markets, where 3G upgrades, software convergence and analytical tools such as business intelligence, or BI, are in high demand as operators in these regions look to upgrade and expand their systems going forward.

According to the Ministry of Industry and Information Technology of China, or MIIT, in November 2012, the number of China s mobile phone subscribers increased to 1.1 billion while the number of China s fixed-line phone subscribers decreased to 279 million. Additionally, the number of broadband access subscribers in China increased to 174 million through the end of November 2012, and the number of Internet users in China increased to 746 million. In China s twelfth Five-Year-Plan (2011 2015), the government announced its support and commitment toward 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:

	Year Ended December 31,			
	2009	**2010**	**2011**	**2012**
Fixed-line Telephone				
Subscribers (in millions)	314	294	286	279*
Penetration rate	23%	20%	19%	18%
Mobile Telephone				
Subscribers (in millions)	747	859	975	1,104*
Penetration rate	56%	59%	67%	76%
Internet				
Users (in millions)	384	457	513	746*
Penetration rate	29%	31%	35%	51%
Broadband				
Users (in millions)	103	126	155	174*

Source: National Statistical Bureau of China, MIIT, CINIC

* As of the date of this report, data only available through November 30, 2012.

Our Competitive Strengths

We believe the following strengths differentiate us from our competitors, enabling us to maintain a leadership position in the telecommunications software products and services industry in China, and providing a basis for a competitive offering in international markets. 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 to domestic and international customers.

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Leading provider of telecommunications BSS/OSS solutions. We are a leading provider of business and operation support systems, or BSS/OSS, to Chinese telecommunications carriers and their 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 approximately 58% of China Mobile s billing and 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 19 of its provincial subsidiaries and our operating analysis and decision support system platform for 5 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 12 of its provincial subsidiaries.

Comprehensive, scalable solutions. We offer a comprehensive suite of solutions and services that cover all major telecommunications systems, including business and operations 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 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 time-to-market for new services and improve the effectiveness of marketing and targeting efforts. These capabilities are not only essential to the core operations of any communications services provider, but are also vital to addressing new market challenges and opportunities worldwide, including the rise of over-the-top service providers who deliver content and services over an infrastructure not under the administrative control of the communications service provider. Most of our software products are scalable to accommodate millions of users, enabling 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. Our software can be deployed on modern, cloud-based technology platforms, enabling substantial cost savings and supporting centralized IT operations.

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 and the worldwide market, our recruitment efforts target worldwide talent possessing 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 and a fast growing business in the international market. 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 s telecommunications market. We believe that increased competition and strategic development 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 China.

Global market opportunities. We began providing our software solutions to telecommunications carriers outside of China in 2009, and we have entered into a number of agreements to provide our solutions in the Southeast Asia region. Although a small percentage of our business today, we believe this region will present additional opportunities in the future, as we grow our international business. We plan to leverage our core competency in China s telecom space as we target international opportunities. Starting in 2011, we accelerated our product integration and standardization initiatives through the development of new products and features for our strategic projects both in China and Southeast Asia. And in 2012, we opened an office in United Kingdom as part of our ongoing initiative to expand into EMEA markets. Although our competitors are well established in these markets, many of their IT systems are based on technology which will need to be replaced by modern architectures capable of supporting new services and business models with lower operational costs. We believe our software products are well suited to meet these needs, presenting a good medium-term opportunity for us. Furthermore, we believe that many of the technology innovations we have developed in China are relevant to international markets, and that our experiences in international markets will enable us to bring differentiated products and best-in-class solutions to China s market. We will continue to reinvest in strategic areas of our business to drive long-term, sustainable growth.

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.

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Implementing product standardization and integration initiatives. We plan to leverage our increased research and development capability and our know-how and experience serving our clients in the China market, and to develop a comprehensive, integrated BSS offering that provides a holistic view of the customer and features an embedded integration and implementation layer to reduce time to production. The offering will consist of key solutions from our product portfolio, including Billing, CRM and operating support system, or OSS. The embedded integration and implementation layer and best practice product model will enable development of multiple business processes, resulting in faster time to market for new product and services. Veris has a modern architecture, harnessing advanced technology to offer real-time convergent charging, real-time actionable business intelligence based on big data processing, and real-time monetization. The products can run on cloud computing platforms, which enable cost-effective performance at a very large scale, as well as the opportunity to centralize BSS operations across multiple regions or countries.

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 both in China and abroad. During 2012 we developed the Veris brand for our software products family, which will be launched in international markets during the first quarter of 2013. We chose Veris for the implication of accuracy, flexibility and agility from its Latin roots. This new brand will be used for both our current BSS suites and our future product suites, which will jointly support our vision and mission to enable the digital lifestyle.

Raising human capital. We believe our ability to effectively recruit, train, develop and retain talent is critical to our business success. We have a dedicated team solely focused on human capital and leadership development. We plan to promote our training, continued education and career development programs, which are designed to enhance our technical and managerial personnel s skill sets in alignment with their respective roles. We will continue to evaluate our competency model, which is based on the core value of our company culture, to determine the areas where we may enhance the capabilities of our technical and managerial personnel, which provides cross-functional assignments and exposure to our strategic initiatives.

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, distributed computing, cloud-based technology platforms 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.

Our business model is to be a customer-centric total solution provider. We focus on our customers wants and needs. We provide business operational consulting services to work together with customers to understand their situation and problems. We help our customers to increase revenue, improve operational efficiency and reduce costs with our in-depth know-how by the combination of both business and technology. We also provide

IT architecture services to help our customers plan for continuous improvement of their IT systems to address market challenges. Our professional services organization implements IT projects based on our core products listed in the following sections and provides configuration, change requests and ongoing support services to smoothen routine system operations. Our research and development, or R&D organization continually harvests business requirements and leverages de facto industry standards to evolve our core products.

Besides our foundational BSS we have provided to operators across China to enable their daily operations, we are also deploying new solutions to help customers address business challenges in the digital lifestyle era. For example, we helped China Unicom and its provincial subsidiaries to build one of the largest online service centers, in terms of subscriber numbers, and electronic shopping malls in the world, we helped China Telecom and its provincial subsidiaries to build convergent policy control facilities to tune quality of services according to customer profiles across wireless, broadband and WIFI connections, and we helped China Mobile and its provincial subsidiaries to evolve multiple electronic contact channels to support more than 70% of its sales and customer service requests, thereby dramatically reducing their operational costs.

Using this customer-centric service approach, we believe we keep our product portfolio ahead of industry evolution.

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.

Over the past two years we have standardized our products and internationalized our BSS software portfolio into three product lines: Billing, Customer Relationship Management, and Business Intelligence. These are the first products we are launching in EMEA markets under our new Veris brand. The Veris products incorporate the core capabilities we have delivered to our customers in China, including a modern architecture capable of supporting real-time charging and business intelligence at a large scale, and the ability to be deployed on cloud-based platforms. The Veris suite also includes innovations we have developed for customers in Southeast Asia, including flexible options for real-time, personalized marketing offers and end-user control over price plans and budgets. We are beginning to deploy our Veris product line as an upgrade to existing systems installed for our Chinese customers.

Business and Operations Support Systems (BSS/OSS)

We are a leading provider of BSS/OSS to China s telecommunications operators. Our core BSS/OSS offerings primarily include core convergent solutions of Veris Billing, Veris CRM and Veris BI. 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. These products and solutions can be deployed as standalone modules or as complete, pre-integrated solutions.

Our BSS/OSS product suites include the following:

Veris Billing Product Suite. Veris Billing is a flexible, expandable, convergent, real-time charging and billing solution for telecommunications operators. Veris Billing supports the business of mobile operators by providing a full line of integrated solutions, including mediation, online charging, rating, billing, account balance management, as well as system monitoring and disaster recovery management. Veris Billing 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. Veris Billing

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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. The Veris Billing product line also includes partner relationship management, or PRM, capabilities which calculate, manage and reconcile 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. Our PRM 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 PRM 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. A workflow management system, or WFMS, 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.

Veris CRM Product Suite. Veris CRM is a leading CRM solution suite for telecommunications operators. Veris CRM 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.

Veris BI Product Suite. Veris BI 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, Veris BI 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.

OSS Package

Our OSS package is a highly comprehensive and intelligent service fulfilment framework based on OSS fulfilment domain definitions in the TM Forum s eTOM model and OSS specifications of telecom operators, taking into account 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 fulfilment systems and ensures the actual needs and future requirements of telecom operators for system functionality and performance are met.

In our OSS Package, process analysis methodology and project implementation methodology enable the rapid implementation of a telecom service fulfilment system. They provide process analysis methodology, project implementation methodology, inventory data model, interface integration framework and built-in inventory management templates. The OSS package-based service fulfilment system is characterized by rapid process deployment, intelligent self-learning, implementation monitoring, high extensibility and easy integration. It provides comprehensive support for customers complex service fulfilment process and accelerates implementation of new service fulfilment support processes.

The key features to our OSS Package include:

High operational performance

Accelerated time to market for technology agnostic services

Network technology adapters for rapid interface creation

Sophisticated order decomposition and orchestration engine

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End-to-end order management to facilitate rapid launch of 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 highly functional internal formula engine that detects the root cause of network failures and predicts which businesses and applications are likely to be affected. It also incorporates an integrated classification and authentication technology to control 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:

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 and its provincial subsidiaries 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, or GSM, 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 IT solutions and software products that will meet the future needs of our customers. In 2011, we started the integration of our software and services as well as the standardization of our products and services in order to better serve our telecommunication customers both in China and abroad. We upgrade our existing software products to enhance scalability and performance and to provide added features and functions. In 2012, we continued to progress on the standardization of our product suites. Our core products and solutions have been packaged into our Veris product suites. As we continue to expand our business beyond the China market, we expect to provide service and solutions to international telecommunication carriers through our Veris product suite. We had over three thousand employees in our research and development department as of December 31, 2012. Our core product development teams for telecommunications software are located in Beijing, Nanjing, Shanghai, Chengdu, Hangzhou and Guangzhou.

During the fiscal years ended December 31, 2012, 2011 and 2010, we had research and product development expenses of $81.8 million, $58.9 million and $36.2 million, respectively. In 2012, our research and development team made several achievements in the development of Next Generation Business and Operations Support Systems, or NG BOSS, BI systems, and cloud computing, in addition to developing international versions of our BSS and BI systems.

Achievements in NG BOSS development

In 2012, our NG BOSS was upgraded with improvements in billing and CRM functionality. Improvements were also made in retail shop management and real-time user notification, prepaid tracking capabilities as well as improved support for carriers corporate accounts. Billing capabilities combined with eight flexible payment methods provide customers with convenient and simple payment approaches. 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 in process of deploying the next phase of NG BOSS upgrades in China Mobile s provincial entities.

Achievements in BI development

In 2012, our BI 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 2012, 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 2012, 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 research and development efforts in the development of platforms and services that provide multiple users with 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, 2012, revenue from China Mobile and its provincial subsidiaries accounted for $287.4 million, revenues from China Unicom and its provincial subsidiaries were $142.3 million and revenues from China Telecom and its provincial subsidiaries were $94.5 million, or approximately 52.5%, 26.0% and 17.2% of our total revenues, respectively. In the international telecommunications market of Southeast Asia, our current customers consist of U Mobile Sdn Bhd and Nepal Telecom. Outside of the telecommunications industry, we also have customers in China s cable TV industry, such as, Jiangsu Cable, Chongqing Cable, China DB Star, Oriental Cable Network (Shanghai), Hainan Cable and Gehua Cable (Beijing).

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 700 million wireless voice service subscribers as of December 31, 2012, 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, 2012, China Unicom had 200 million mobile (GSM+ wide CDMA) subscribers, 90 million local access subscribers, and 60 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, 2012, China Telecom had 160 million CDMA subscribers, 160 million local access subscribers and 90 million broadband subscribers.

International Telecommunications Customers

We provide both CRM and BI systems to U Mobile in Malaysia, and we also provide convergent real time billing and CRM systems to Nepal Telecom, a leading provider of telecommunication services in Nepal.

Cable TV Industry

China s current cable TV industry is fragmented with over two thousand small cable TV operators. The Chinese government has initiated a consolidation of the cable TV industry into 31 provincial level entities and to be the 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. Our customers in China s cable TV industry are the largest cable operators in their respective markets, such as Jiangsu Cable, Chongqing Cable, China DB Star, Oriental Cable Network (Shanghai), Hainan Cable and Gehua Cable (Beijing).

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 globally. Our sales organizations are structured into five strategic customer accounts, namely China Mobile, China Unicom, China Telecom, Cable TV market and international markets. 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 and other online marketing activities;
- coordinating our attendance at industry tradeshows and conferences;
- producing corporate and product brochures and monthly customer newsletters;
- conducting seminars and media conferences;
- conducting ongoing public relations and analyst relations programs;
- developing thought leadership propositions; and
- creating and placing advertisements.

Competition

The telecommunications software market is a highly competitive environment. Our competitors within China include local companies such as 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 in China, 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 Oracle, Amdocs, Convergys, Comverse, Huawei, and ZTE along with other international players. We also face local competition from companies in Southeast Asian and EMEA countries. We believe our core competencies will facilitate our expansion into the international telecommunications software and services market. However, our global competitors are well established in international markets, have entered into their respective markets earlier than us, and 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. Our limited exposure in the global telecommunication software market presents a barrier to our further expansion, but we have taken and are continuing to take steps to overcome this.

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China s cable TV industry is currently fragmented with over two thousand cable TV operators and many more software and service providers with whom we compete. We are able to provide high quality software and services to China s cable TV operators. The cable TV industry is being consolidated at a national headquarters level with 31 provincial level subsidiaries, and we plan to gain customers during this industry consolidation.

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

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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 China s twelfth Five-Year-Plan (2011 2015), the government reiterated the importance of developing and strengthening the IT and telecommunications industry in China. The PRC government s encouragement of more sophisticated and integrated systems with enhanced security could prove favorable to the growth of our business. Moreover, the PRC government has stated its 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;

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- 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, or VAT, 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 VAT rebate on sales of software. The implementation guidance of this new circular has not been issued as of the date of this report, although the implementation guidance for VAT rebates on sales of software was issued in October 2011.

In April 2012, the Ministry of Finance and State Administration of Taxation jointly issued a notice to further encourage the development of software and integrated circuits industries. Pursuant to this notice, important software enterprises within the national planning scope can enjoy a tax rate of 10% for business income tax if the enterprise has enjoyed no other tax exemption preferences in the same year.

In August 2012, the State Administration of Taxation, Ministry of Finance, Ministry of Commerce, MIIT and the National Development and Reform Commission jointly issued a notice promulgating trial measures on selecting important software and integrated circuit design enterprises within the national planning scope. In this notice, the national authorities set forth detailed qualifications for selecting the important software enterprises within the national planning scope. Such enterprises will be selected every two years. Any enterprise that satisfies one of the following conditions can apply for selection as an important software enterprise:

- Annual total income for the sales of software products equals or exceeds RMB150 million, and the enterprise does not have loss in the same year;

- Annual total income for the sales of software products is less than RMB150 million, and the comprehensive grades marked by the relative local authorities ranks within top five within all the applicant enterprises; and

- Annual total income for the sales of software products equals or exceeds $5 million, and the proportion of the annual income for software exportation equals or exceeds 50% of the enterprise s annual gross income.

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.

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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 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 November 2009. ZXJ obtained a License for Operating Value-Added Telecommunications Services (Type 2), issued by the MIIT 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, since the expiration of Star VATS license. 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 became effective in November 2005. Circular 75, together with its subsequent implementation procedures and clarifications, requires PRC residents (including both legal persons and natural persons) 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. PRC residents who are shareholders of offshore special purpose companies that were established and which completed their inbound investment before November 2005 were required to register with the local SAFE branch before March 31, 2006. SAFE has further issued a series of implementation guidance, including the most recent Circular 75 Operation Instruction issued in May 2011 that took effect in July 2011, which stipulates the application documents that should be submitted to the local SAFE branch and the approval principle adopted by the local SAFE branch. 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 may result in restrictions on certain of our subsidiaries ability to pay dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation to us and our ability to increase our investment in those subsidiaries, and could also subject the relevant PRC residents to fines or sanctions imposed by the PRC government.

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 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 or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings issued by the State Council in August 2008 are triggered. In addition, the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises, issued by MOFCOM in August 2011, specifies that mergers and acquisitions by foreign

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investors involved in an industry related to national security are subject to strict review by MOFCOM, and prohibit any activities attempting to bypass such security review, including by structuring the transaction through a proxy or contractual control arrangements. We believe that our business is not in an industry related to national security, but it is possible that MOFCOM or other government agencies may publish interpretations contrary to our understanding or broaden the scope of such security reviews in the future, in which case our future acquisitions in the PRC may be closely scrutinized or prohibited. Compliance with these requirements could be time-consuming,, and any related approval processes, including obtaining approval from MOFCOM and going through security review procedures, 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 registered capital into RMB by restricting the uses for the converted RMB. Circular 142 requires that the RMB capital converted from foreign currency registered capital of a foreign-invested company 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, unless specifically provided otherwise. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of a foreign-invested company. The use of such RMB may not be changed without approval from SAFE, and may not be used to repay RMB loans if the proceeds of such loans have not yet been used. Moreover, SAFE promulgated a notice, known as Circular 59 in November 2010, which requires that government authorities to closely examine the authenticity of settlement of net proceeds from offshore offerings and that net proceeds be settled in the manner described in the offering documents. SAFE also promulgated a notice known as Circular 45 in November 2011, which, among other things, restricts a foreign-invested enterprise from using RMB converted from its registered capital to provide entrusted loans or repay entrusted loans between non-financial enterprises. Violations of these circulars may result in severe penalties, including significant fines. As a result, Circular 142, Circular 59 and Circular 45 may significantly limit our ability to invest in or acquire other PRC companies using the RMB capital converted from foreign currency registered capital of our PRC subsidiaries and the net proceeds from offshore offerings.

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 February 19, 2013, our subsidiaries or VIEs held the following certifications or qualifications, among others, that are important to enable us to engage in certain industry or business activities:

- Computer Information System Integration Qualification Certificate (Level 1) issued by MIIT (holder: AsiaInfo-Linkage Technologies (China), Inc.);
- Computer Information System Integration Qualification Certificate (Level 1) issued by MIIT (holder: Linkage-AsiaInfo Technologies (Nanjing), Inc.); and
- The People s Republic of China License for Operating Value-Added Telecommunications Services issued by MIIT (holder: Beijing Zhongxinjia Sci-Tech Development Co., Ltd.).

As of February 19, 2013, 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 Beijing Municipal Science & Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal National Taxation Bureau and Beijing Municipal Local Taxation Bureau (holder: AsiaInfo-Linkage Technologies (China), Inc.);

Hi-tech Enterprise Approval Certificate issued by Jiangsu Provincial Science & Technology Department, Jiangsu Provincial Finance Department, Jiangsu Provincial National Taxation Bureau and Jiangsu Municipal Local Taxation Bureau (holder: Linkage-AsiaInfo Technologies (Nanjing), Inc.);

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

Software Enterprise Certificate issued by Beijing Municipal Commission of Economy and Information Technology (holder: AsiaInfo-Linkage Technologies (China), Inc.);

Software Enterprise Certificate issued by Sichuan Provincial Economic and Information Commission (holder: AsiaInfo-Linkage Technologies (Chengdu), Inc.);

Software Enterprise Certificate issued by Jiangsu Economic and Information Technology Commission (holder: Linkage-AsiaInfo Technologies (Nanjing), Inc.);

Hi-tech Product Approval Certificate (Linkage New Generation Business Intelligence System Software V1.0) issued by Jiangsu Provincial Science & Technology Department (holder: Linkage-AsiaInfo Technologies (Nanjing), Inc.);

Hi-tech Product Approval Certificate (AsiaInfo-Linkage New Generation Billing System Software V1.0) issued by Jiangsu Provincial Science & Technology Department (holder: Linkage-AsiaInfo Technologies (Nanjing), Inc.);

Hi-tech Product Approval Certificate (AsiaInfo-Linkage New Generation Customer Relationship Management System Software V1.0) issued by Jiangsu Provincial Science & Technology Department (holder: Linkage-AsiaInfo Technologies (Nanjing), Inc.); and

Hi-tech Product Approval Certificate (AsiaInfo-Linkage Integrated Monitoring System Software V1.0) issued by Jiangsu Provincial Science & Technology Department (holder: Linkage-AsiaInfo Technologies (Nanjing), Inc.).

As of February 19, 2013, 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 Carnegie Mellon University (holders: AsiaInfo-Linkage Technologies (China), Inc. and AsiaInfo-Linkage Technologies (Chengdu), Inc.);

Quality Management System Certificate (GB/T 19001-2008 idt ISO 9001:2008 Standard) issued by Guangzhou Saibao Certification Co., Ltd. (holder: Linkage-AsiaInfo Technologies (Nanjing), Inc., AsiaInfo-Linkage Technologies (China), Inc. and AsiaInfo-Linkage Technologies (Chengdu), Inc.);

Information Technology Security Service Certification (Security Engineering Level 1) issued by China Information Technology Security Evaluation Center (holder: AsiaInfo-Linkage Technologies (China), Inc.); and

Membership of TM Forum Certification (Level B2) issued by the President and Chairman of TM Forum (holder: AsiaInfo-Linkage).

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 16 trademark applications with the United States Patent and Trademark Office, five of which have been registered, eight of which have been published for opposition and three of which are newly filed AsiaInfo-Linkage Technologies (China), Inc. s new logo and design. Our trademark applications covering AsiaInfo-Linkage s logo and design has been granted eight by the Trademark Bureau of the State Administration of

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Industry and Commerce in China, and 71 other logos and designs have been registered. In addition, we have filed 12 trademark applications with the Hong Kong Trade Marks Registry, six of which have been passed to registration and six in application. We have filed an aggregate of 45 trademark applications in Thailand, Malaysia, Singapore, Australia, Japan and the European Union, 17 of which have been registered. We have filed trademark applications in China, the United States, European Union and Singapore for our new Veris trademark. We have been granted 17 patents and currently have 14 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 been granted one patent by the United States Patent and Trademark Office. 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, 2012, we had 11,246 employees. We devote significant resources to recruiting professionals with relevant industry experience. Most of our senior management and technical employees are 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.

Financial Information about Segments

Please refer to Note 29 of the notes to consolidated financial statements included in this report for detailed information regarding our segment reporting.

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, as soon as such reports become available on the SEC website at www.sec.gov. The contents of our website are not incorporated by reference into this report or any of our other Exchange Act reports.

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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 accounted for 98%, 98% and 96% of our total revenues in 2010, 2011 and 2012 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 headquarters 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 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.

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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. It is also possible that software becomes centralized at the headquarters level of PRC telecommunications carriers or that China Mobile may establish two large data centers for the operation of its software structure, which may materially and adversely affect our operations.

In May 2008, China restructured its telecommunications carriers, creating three major carriers that have mobile, fixed-line and data 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, and in particular we expect our international sales to have long sales cycles in light of our smaller market presence. 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 International Business Machines Corporation, or 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, such as projects in Southeast Asia, 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.

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

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 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

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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 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 November 2009, 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, SAFE issued Circular 75, which sets forth a regulatory framework for the foreign exchange matters in relation to the use of an offshore special purpose company by PRC residents to seek offshore equity financing and conduct round-trip investments or acquisitions in China. Among other things, Circular 75 provides that if a round-trip investment in a PRC company by an offshore special purpose company controlled by PRC residents occurred prior to November 1, 2005 when Circular 75 became effective, the PRC resident shareholders were required to submit a registration form to the local SAFE branch to register their ownership interests in the offshore special purpose company prior to March 31, 2006. Circular 75 also provides that, prior to establishing or assuming control of an offshore special purpose company for the purpose of obtaining financing for that offshore special purpose 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 special purpose 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 in the offshore special purpose 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. SAFE has further issued a series of implementation guidance, including the most recent Circular 75 Operation Instruction, which took effect in July 2011, which stipulates the application documents that should be submitted to the local SAFE branch and the approval principle adopted by the local SAFE branch. 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 may result in restrictions on certain of our subsidiaries ability to pay dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation to us and our ability to increase our investment in those subsidiaries and could subject the relevant PRC resident to fines or sanctions imposed by the PRC government.

Circular 75 and the 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 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 MOFCOM and the 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 or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council in August 2008, are triggered. In addition, MOFCOM issued Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises in August 2011, which provides that mergers and acquisitions by foreign investors involved in an industry related to national security are subject to strict review by MOFCOM. These rules also prohibit any activities attempting to bypass such security review, including by structuring the transaction through proxy or contractual control arrangements. We believe that our business is not in an industry related to national security. However, it is possible that MOFCOM or other government agencies may publish interpretations contrary to our understanding or broaden the scope of such security review in the future, in which case our future acquisitions in the PRC may be closely scrutinized or prohibited. Compliance with these requirements to complete such transactions could be time-consuming, and any related approval processes, including obtaining approval from MOFCOM and going through security review procedures, 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 Circular 142, regulating the conversion by a foreign-invested company of foreign currency registered capital into RMB by restricting the uses for the converted RMB. Circular 142 requires that the RMB capital converted from foreign currency registered capital of a foreign-invested company 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, unless specifically provided otherwise. In addition, SAFE strengthened its oversight of the flow and use of the RMB fund converted from foreign currency registered capital of a foreign-invested company. The use of such RMB may not be changed without SAFE s approval, and may not be used to repay

RMB loans if the proceeds of such loans have not yet been used. Moreover, SAFE promulgated a Circular No. 59 in November 2010, which requires that government authorities closely examine the authenticity of settlement of net proceeds from offshore offerings and the net proceeds be settled in the manner described in the offering documents. SAFE also promulgated Circular 45 in November 2011, which, among other things, restricts a foreign-invested enterprise from using RMB converted from its registered capital to provide entrusted loans or repay entrusted loans between non-financial enterprises. Violations of these circulars may result in severe penalties, including significant fines.

As a result, Circular 142, Circular 59 and Circular 45 may significantly limit our ability to invest in or acquire other PRC companies using the RMB capital converted from foreign currency registered capital of our PRC subsidiaries and the net proceeds from offshore offerings, which could adversely affect our ability to expand our business.

We have recorded non-cash impairment charges to net income in 2011, and we 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 statements of operations. 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. 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.

As of December 31, 2012, we did not recognize non-cash impairment charges to net income related to our short-term or long-term investments. However, as of December 31, 2011, we recognized a $0.1 million non-cash impairment charge to net income related to our short-term investments in certain stock funds and a $1.0 million impairment on long-term investments, representing the decline in fair value of our 9.5% equity stake in Santen Corporation, a Cayman Islands company, which, through its subsidiaries in China, provides a form of value-added telecommunication services to telecommunications carriers in China. We might incur such non-cash impairment charges in the future and the amount might be significant. 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 executive officers has entered into employment agreements and confidentiality and non-competition agreements with us. However, if any dispute arises between our 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.

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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, Hong Kong, European Union, Thailand, Malaysia, Singapore, Australia and Japan. 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. We have been granted one patent in the U.S., and have not applied for patent protection elsewhere. 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.

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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 U.S. dollars and RMB, and we expect will be conducted in certain Southeast Asian currencies, may subject us to currency exchange rate risk due to fluctuations in the exchange rate between such 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. 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. In addition, as we pursue our global strategy, we have to settle transactions denominated in various currencies of Southeast Asian countries and expect to continue to do so in future, which may create similar foreign exchange risk associated with the currencies of these jurisdictions. Depreciation of the value of the U.S. dollar will also reduce the value of the cash we hold in U.S. dollars, which we may use for purposes of future acquisitions or other business expansion.

We use U.S. dollars as our reporting and functional currency. The financial records of our Chinese subsidiaries and VIEs are maintained in RMB, their functional currency, and our subsidiaries and VIEs in Southeast Asia maintain their financial records in the currencies of their local jurisdiction. 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 $0.6 million, $17.3 million and $9.2 million in other comprehensive income in 2012, 2011 and 2010, 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 within China 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, Huawei, and ZTE 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. Our global competitors may have greater financial, technical, human resources and have entered into the respective markets much earlier than us, and 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 our limited exposure in the global telecommunication software market might impede our further expansion.

China s cable TV industry is currently fragmented with over two thousand cable TV operators and many more software and service providers whom we compete with. Our subsidiary Hangzhou Zhongbo Software Technology Co., Ltd., or Hangzhou Zhongbo 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.

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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. We were involved in 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, which was settled in January 2012. Moreover, we are currently involved in a litigation alleging short-swing trading by the underwriters of our initial public offering. Although we do not expect these actions to have a material effect on our consolidated financial condition, results of operations or cash flows, litigation is often expensive, 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, 2012, 72,699,318 shares of our common stock were outstanding, and there were approximately 6,847,806 shares of our common stock issuable upon exercise of outstanding stock options and vesting of outstanding 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,

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whose term will expire at the annual meeting of the stockholders to be held in 2015; 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 2014. 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 all accrued and unpaid salary, bonus, reimbursable expenses, vacation and employee benefits, immediate vesting of 50%, or 100% in the case of Steve Zhang, our President and Chief Executive Officer, 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.

The audit reports included in our annual report are prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of any benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor s audits and its quality control procedures. As a result, investors may be deprived of any benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. As a result, investors may lose confidence in our reported financial information and procedures and the quality of our financial statements, which may have an adverse effect on our stock price.

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

The Enterprise Income Tax Law of the PRC, or 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 rates, as they have been qualified as High-and-New-Technology Enterprises, or HNTEs, or have previously been qualified as Key Software Enterprises under the EIT Law. The qualification of our subsidiaries as Key Software Enterprises may not be renewed and the qualification of our subsidiaries as HNTEs may be challenged, revoked or rejected by tax authority in the future, which would result in the loss of the preferential tax rate enjoyed as a result of such qualifications and 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 their investments may be negatively affected.

We may undertake foreign or domestic 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. Such growth may include expansion outside of China and into cable and other markets besides our traditional telecommunication market. For instance, as of January 31, 2013, we are in the progress of providing our telecommunications solutions to customers in Malaysia, Cambodia, and Nepal, and we also have customers in China s cable TV industry, such as, Jiangsu Cable, Chongqing Cable, China DB Star, Oriental Cable Network (Shanghai), Hainan Cable Gehua Cable (Beijing). Joint ventures and strategic alliances may expose us to new operational, regulatory and market risks, as well as risks associated with additional capital requirements. These risks can be particularly pronounced when entering into new geographic or vertical markets in which we have less experience. In addition, we may not be able to identify suitable future acquisition candidates or joint venture or alliance partners. Even if we identify suitable candidates or partners, we may be unable to complete an acquisition, joint venture 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, such as international markets or vertical markets in which we have not previously operated;
- 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.

Our international expansion efforts, particularly in Southeast Asia, may face political, economic, legal, social, management and customer risks that could harm our business.

An important part of our business strategy is to pursue global market opportunities. Although a small percentage of our business today, we have entered into a number of agreements to provide our software solutions

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in the Southeast Asia region and believe this region will present additional opportunities in future. However, expanding into this region presents a number of risks. Many countries in Southeast Asia are emerging markets and are subject to greater political, economic, legal, and social risks than more developed markets, including risks relating to:

- political and governmental instability, including domestic political conflicts and inability to maintain consensus;
- economic instability, including weak banking systems, inflation and currency risk, lack of capital, and changing or inconsistent economic policy;
- weaknesses in legal systems, including inconsistent or uncertain national and local regimes, unavailability of judicial or administrative guidance, and inexperience;
- tax uncertainty, including tax law changes, limited tax guidance, and difficulty determining tax liability or planning tax-efficient structures;
- unreliability of official government statistics or reports;
- import/export, foreign exchange, and other trade-related matters;
- organized crime, political corruption, money laundering and other crime; and
- cultural and language differences.

In addition, there are numerous operational risks associated with our doing business outside of China, particularly in Southeast Asia. In many countries in Southeast Asia, it is difficult to recruit, employ and retain qualified personnel to manage and oversee our local operations, sales and other activities. It may also be difficult for our executive officers who reside in the PRC to effectively oversee the day-to-day management of our operations in these countries. Furthermore, there may be many established incumbent players in these markets who already enjoy a significant presence, and it may be difficult for us to win market share from them or to overcome local barriers of entry for foreign competitors. Moreover, we have less experience dealing with customers in emerging Southeast Asian markets, including assessing customer creditworthiness and managing collections and accounts receivable, which together with the economic instability in the region may result in increased allowances for doubtful accounts. Any of these risks may have a material adverse effect on our business, financial condition and results of operations.

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 and goodwill for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Various testing approaches are permissible under GAAP but may lead to materially different outcomes depending on the assumptions used, which are inherently uncertain and subjective. 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. In addition, our stock price has significantly declined in recent years, which might increase the possibility of goodwill impairment.

ITEM 1B. Unresolved Staff Comments

We have not received any material comments from the SEC staff more than 180 days before the end of 2012 regarding our periodic or current reports that remained unresolved at the date hereof.

ITEM 2. Properties

Our principal development facilities and administrative offices are currently located in Beijing and Nanjing and occupy, in the aggregate, approximately 28,859 square meters. Each of our subsidiaries and VIEs generally enter into separate leases. The current leases for our Beijing facilities mostly expire in December 2013, and for our Nanjing facilities the central four leases expire in February 2013, July 2013 and November 2013. We also have regional branches in various cities in China, including Shanghai, Guangzhou, Chengdu, Hangzhou, Nanjing, Shenyang, Haikou, Changsha, Jinan, Haerbin, Tianjin, Wuhan, Fuzhou, Beijing and Macao as well as regional offices in Singapore, Thailand, Malaysia, Cambridge, United Kingdom and Santa Clara, California.

In China, all land is owned by the government of China, its agencies and its collectives, which grant land use right for periods ranging from 50 to 70 years that are typically renewable. To obtain land use right, various steps may be involved to develop the land or obtain related government approvals. We completed 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 20,964 square meters over ground 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 $10.8 million, all of which had been paid to ZSPD as of December 31, 2011. In connection with the agreement, we became eligible to enter into a land transfer agreement with relevant PRC government authorities in order to obtain the land use right with respect to such land. In May 2011, we entered into a land use right transfer agreement with the Beijing Municipal Bureau of Land and Resources pursuant to which we would acquire land use right with a 50-year term, for a consideration of approximately $2.9 million, plus related local levy of $0.1 million, paid in June and August 2011, respectively. As of December 31, 2011, we had obtained the National Land Use Right Certificate, the Land Use Planning Permit and the Construction Project Plan Permit.

ITEM 3. Legal Proceedings

In October 2012, a putative stockholder of our Company filed a civil action, derivatively on our behalf, against the members of our board of directors and certain officers. The action, captioned *Halpert v. Zhang, et al.* (No. 12-cv-01339-SLR), was filed in the United States District Court for the District of Delaware. The plaintiff has asserted claims for breach of fiduciary duty, corporate waste, and unjust enrichment in connection with grants of stock options allegedly made in an amount that violates purported limitations set forth in our 2011 Stock Incentive Plan, or the 2011 Plan. The plaintiff has requested rescission of the option grants in question, an award of unspecified damages to us, certain other equitable and injunctive relief, and an award of plaintiff s costs and disbursements, including legal fees. We and the individual defendants have filed various motions to dismiss the action.

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

During the fiscal quarter ended December 31, 2012, 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. Mine Safety Disclosures

Not applicable.

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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 $
2012:		
Fourth Quarter	11.66	9.92
Third Quarter	12.64	10.09
Second Quarter	12.90	9.52
First Quarter	13.85	7.53
2011:		
Fourth Quarter	11.70	6.21
Third Quarter	17.65	7.10
Second Quarter	22.91	13.49
First Quarter	21.92	17.00

As of February 25, 2013, we had approximately 696 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, 2012 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 2013 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
Equity compensation plans approved by security holders	6,847,806(1)	$ 8.73(2)	3,549,805(3)
Equity compensation plans not approved by security holders	0	0	0
Total	6,847,806(1)	$ 8.73(2)	3,549,805(3)

(1)

Includes 6,668,198 shares issuable upon exercise of outstanding stock options; 179,608 shares issuable upon vesting of outstanding restricted stock units; and 0 shares issuable under outstanding performance stock units.

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(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 2011 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, 2007 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, 2007 was the closing sales price of $11.00 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.

	December 2007 ($)	December 2008 ($)	December 2009 ($)	December 2010 ($)	December 2011 ($)	December 2012 ($)
AsiaInfo-Linkage, Inc.	100.00	107.64	276.82	150.64	70.45	98.64
Nasdaq U.S. & Foreign Index	100.00	59.03	82.25	97.32	98.63	110.78
S&P 500 Information Technology	100.00	56.86	91.96	101.32	103.77	119.15

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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 Operations 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 Note 4, Note 27 and Note 28 of the notes to consolidated financial statements for detailed information regarding discontinued operations and noncontrolling interest, respectively.

	Year Ended December 31,				
	2012	2011(1)	2010(1)	2009(1)	2008(1)
	(Amounts in thousands of U.S. dollars, except per share data)				
Selected Consolidated Statements of Operations Data:					
Total revenues	$ 547,872	$ 480,984	$ 343,383	$ 213,756	$ 146,881
Total cost of revenues	333,764	273,095	173,801	100,450	74,659
Gross profit	214,108	207,889	169,582	113,306	72,222
Total operating expenses	192,375	152,309	109,472	78,522	54,665
Total other income, net	13,360	5,220	3,178	3,610	2,851
Income from continuing operations	29,724	72,896	53,728	33,501	16,562
Income from discontinued operations, net of taxes	229	90	1,073	1,929	2,213
Net income	29,953	72,986	54,801	35,430	18,775
Less: net loss attributable to noncontrolling interest	(2,880)	(1,573)	(1,410)	(429)	(15)
Net income attributable to AsiaInfo-Linkage, Inc.	32,833	74,559	56,211	35,859	18,790
Earnings per share:					
Net income from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:					
Basic	$ 0.45	$ 1.02	$ 0.90	$ 0.75	$ 0.37
Diluted	$ 0.45	$ 1.01	$ 0.89	$ 0.73	$ 0.35
Net income from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders:					
Basic	$ 0.00	$ 0.00	$ 0.02	$ 0.04	$ 0.05
Diluted	$ 0.00	$ 0.00	$ 0.02	$ 0.04	$ 0.05
Net income attributable to AsiaInfo-Linkage, Inc. common stockholders:					
Basic	$ 0.45	$ 1.02	$ 0.92	$ 0.79	$ 0.42
Diluted	$ 0.45	$ 1.01	$ 0.91	$ 0.77	$ 0.40

	As of December 31,				
	2012	2011	2010	2009	2008
	(Amounts in thousands of U.S. dollars)				
Selected Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 273,520	$ 272,438	$ 237,844	$ 238,553	$ 172,119
Total assets	1,282,323	1,270,161	1,253,206	481,777	323,154
Total equity	1,018,340	976,913	938,378	276,669	208,460

(1) The selected consolidated statements of operations data for the year ended December 31, 2011, 2010, 2009 and 2008 have been retrospectively adjusted to reflect the effect of the discontinued operations.

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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 IT products and services in China. Our solutions, products and services include convergent solutions of billing, CRM, BI, and operation support system, system integration solutions, network management solutions and service application solutions. 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. We are also the leading provider in China s cable television BSS market, providing billing and CRM solutions and services. We won several important contracts to provide modernized BSS for consolidated provincial level cable operators, such as Jiangsu Cable TV and Zhejiang Cable TV, as well as operators in Chongqing and Beijing. We believe the successful implementation of these projects has brought additional value to our customers and positions us well for the future cable industry consolidation among multiple regional operators, which we expect to accelerate in the coming years.

We are also expanding our footprint in the international telecommunications software and services market by leveraging the valuable experience gained from our Chinese telecommunications carriers. In 2011, we won new contracts from customers in Southeast Asia, including Malaysia, Nepal and others, after a detailed selection process against other industry leading vendors, which is a significant achievement given the long selling cycle of business support software. In June 2012, we opened our first European based sales office in Cambridge, United Kingdom as part of our ongoing initiative to expand operations across EMEA markets. We expect additional revenue contribution from markets other than China over the next few years.

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. On July 1, 2010, we completed the combination with Linkage and, in connection with the closing, changed our corporate name to AsiaInfo-Linkage, Inc.

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,					
	2012		2011		2010	
	Revenues (in thousands)	Percentage of Total Revenues	Revenues (in thousands)	Percentage of Total Revenues	Revenues (in thousands)	Percentage of Total Revenues
China Mobile	$ 287,355	52.5%	$ 252,693	52.5%	$ 210,396	