ASIAINFO HOLDINGS INC
Form 10-Q
November 09, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2006

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 HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

4TH FLOOR, ZHONGDIAN INFORMATION TOWER

6 ZHONGGUANCUN SOUTH STREET, HAIDIAN DISTRICT

BEIJING 100086, CHINA

(Address of principal executive office, including zip code)

+8610 8216 6688

(Registrant s telephone number, including area code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

The number of shares outstanding of the Registrant s common stock as of November 6, 2006 was 42,794,760.

ASIAINFO HOLDINGS, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASIAINFO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(In US dollars thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues:				
Software products and solutions				
Sales to non-related parties	$ 20,055	$ 13,193	$ 50,444	$ 37,624
Sales to related parties		1,790	2,702	8,138
Total software products and solutions	20,055	14,983	53,146	45,762
Service				
Sales to non-related parties	4,106	4,358	8,684	13,573
Sales to related parties		538	1,348	1,387
Total Service	4,106	4,896	10,032	14,960
Third party hardware				
Sales to non-related parties	4,503	3,257	14,312	11,836
Sales to related parties		268	2,686	1,518
Total third party hardware	4,503	3,525	16,998	13,354
Total revenues	28,664	23,404	80,176	74,076
Cost of revenues:				
Software products and solutions (including cost of purchases from related parties of $1 and $10, amortization of acquired intangible assets of $190 and $162 for the three months ended September 30, 2006 and 2005, respectively; cost of purchases from related parties of $32 and $96, amortization of acquired intangible assets of $330 and $486 for the nine months ended September 30, 2006 and 2005, respectively)	9,669	6,943	26,029	21,296
Service (including cost of purchases from related parties of nil and $14 for the three months ended September 30, 2006 and 2005, respectively; cost of purchases from related parties of $9 and $49 for the nine months ended September 30, 2006 and 2005, respectively)	2,542	2,173	6,571	7,857
Third party hardware	4,278	3,348	16,149	12,685
Total cost of revenues	16,489	12,464	48,749	41,838
Gross profit	12,175	10,940	31,427	32,238
	5,657	4,857	13,911	13,540

Sales and marketing (including sales and marketing expenses of $108 and $79 to related parties, amortization of acquired intangible assets of $371 and $96 for the three months ended September 30, 2006 and 2005, respectively; sales and marketing expenses of $155 and $188 to related parties, amortization of acquired intangible assets of $601 and $288 for the nine months ended September 30, 2006 and 2005, respectively)				
General and administrative (including general and administrative expenses of nil and $8 to related parties for the three months ended September 30, 2006 and 2005, respectively; general and administrative expenses of $7 and $27 to related parties for the nine months ended September 30, 2006 and 2005, respectively)	1,533	2,212	6,035	7,350
Research and development (including research and development expenses of $1 and $9 to related parties for the three months ended September 30, 2006 and 2005, respectively; research and development expenses of $24 and $37 to related parties for the nine months ended September 30, 2006 and 2005, respectively)	3,816	3,085	10,518	8,899
Total operating expenses	11,006	10,154	30,464	29,789
Income from operations	1,169	786	963	2,449
Other income				
Interest income	1,054	747	3,149	2,365
Gain (loss) on sales of investments		11		(3)
Other income (expenses), net	(21)	36	(76)	47
Total other income, net	1,033	794	3,073	2,409
Income from continuing operations before income taxes	2,202	1,580	4,036	4,858
Income tax expense	198	75	464	463
Income from continuing operations	2,004	1,505	3,572	4,395
Income (loss) from discontinued operation, net of taxes		(1,078)	140	(1,769)
Net income	$ 2,004	$ 427	$ 3,712	$ 2,626
Net income from continuing operations per share:				
Basic	$ 0.05	$ 0.03	$ 0.08	$ 0.10
Diluted	$ 0.05	$ 0.03	$ 0.08	$ 0.10
Net loss from discontinued operations per share:				
Basic	$ 0.00	$ (0.02)	$ 0.00	$ (0.04)
Diluted	$ 0.00	$ (0.02)	$ 0.00	$ (0.04)
Net income per share				
Basic	$ 0.05	$ 0.01	$ 0.08	$ 0.06
Diluted	$ 0.05	$ 0.01	$ 0.08	$ 0.06
Shares used in computation:				
Basic	42,331,045	46,042,854	43,897,256	44,592,807
Diluted	42,837,799	47,413,803	44,693,929	45,911,250

See notes to condensed consolidated financial statements.

ASIAINFO HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(In US dollars thousands, except share and per share amounts)

	September 30, 2006	December 31, 2005[1]
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 72,095	$ 92,176
Restricted cash	12,728	13,369
Short-term investments	47,460	43,181
Notes receivable (including notes receivable of nil and $1,795 due from related parties as of September 30, 2006 and December 31, 2005, respectively)	954	3,551
Accounts receivable:		
Accounts receivable due from non-related parties (net of allowances of $3,466 and $4,106 as of September 30, 2006 and December 31, 2005, respectively)	46,814	35,364
Accounts receivable due from related parties (net of allowances of $491 and $557 as of September 30, 2006 and December 31, 2005, respectively)	45	5,363
Total accounts receivable	46,859	40,727
Inventories	5,236	5,211
Other receivables (including other receivables of $296 and $316 due from related parties as of September 30, 2006 and December 31, 2005, respectively)	6,181	3,647
Deferred income taxes current	353	244
Prepaid expenses and other current assets	4,928	5,704
Total current assets	196,794	207,810
Long-term investment	1,765	1,729
Property and equipment-net	1,911	2,374
Goodwill	17,888	13,714
Other acquired intangible assets-net	5,209	1,865
Deferred income taxes non-current	733	734
Total Assets	$ 224,300	$ 228,226
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Notes payable	4,608	1,807
Accounts payable (including accounts payable of nil and $249 due to related parties as of September 30, 2006 and December 31, 2005, respectively)	12,187	9,421
Accrued expenses	11,690	11,506
Deferred revenue (including deferred revenue of $315 and $2,047 from related parties as of September 30, 2006 and December 31, 2005, respectively)	16,747	18,685
Accrued employee benefits	13,700	11,849
Other payables (including other payables of $686 and $485 due to related parties as of September 30, 2006 and December 31, 2005, respectively)	5,691	4,475
Income taxes payable	417	444
Other taxes payable	2,771	2,415
Total current liabilities	67,811	60,602

Commitments and contingencies (Note 15)		
Stockholders Equity:		
Common stock, 100,000,000 shares authorized; $0.01 par value; 42,789,142 and 46,920,714 shares issued as of September 30, 2006 and December 31, 2005, respectively; 42,789,142 and 46,144,613 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	428	469
Additional paid-in capital	194,791	215,201
Treasury stock at cost (nil and 776,101 shares as of September 30, 2006 and December 31,2005, respectively)	0	(4,027)
Accumulated deficit	(42,675)	(46,387)
Accumulated other comprehensive income	3,945	2,368
Total stockholders equity	156,489	167,624
Total Liabilities and Stockholders Equity	$ 224,300	$ 228,226

(1) December 31, 2005 balances were extracted from audited financial statements

See notes to condensed consolidated financial statements.

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ASIAINFO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In US Dollars thousands)

	Nine Months Ended	
	September 30,	
	2006	2005
Cash flows from operating activities:		
Net income	$ 3,712	$ 2,626
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,149	1,408
Stock-based compensation expense	410	3
Amortization of other acquired intangible assets	931	1,255
Deferred income taxes	(109)	153
Gain on discontinued operations	(140)	
Loss on disposal of property and equipment	52	21
Loss on sales of short-term investments		3
Change in bad debt allowance	(491)	321
Change in allowance for inventories	(61)	(5)
Changes in operating assets and liabilities:		
Notes receivable	2,597	3,617
Accounts receivable	(5,641)	5,401
Inventories	36	975
Other receivables	(1,929)	(10)
Prepaid expenses and other current assets	776	(1,506)
Notes payable	2,801	(3,296)
Accounts payable	2,766	(4,020)
Accrued expenses	184	(1,765)
Deferred revenue	(1,938)	474
Accrued employee benefits	1,851	3,057
Other payables	872	(375)
Other taxes payable	356	77
Income taxes payable	(27)	60
Net cash provided by operating activities	8,157	8,474
Cash flows from investing activities:		
Decrease in restricted cash	641	125
Decrease (increase) in short-term investments	(3,920)	2,214
Purchases of property and equipment	(657)	(2,136)
Payment for acquisitions	(8,169)	(2,266)
Proceeds from sales of short-term investments		1,074
Proceeds from disposal of subsidiary	161	
Proceeds from disposal of property and equipment	22	1
Net cash used in investing activities	(11,922)	(988)
Cash flows from financing activities:		
Proceeds on exercise of stock options	346	1,818
Repurchase of common stock	(17,786)	(26,414)

Net cash used in financing activities	(17,440)	(24,596)
Net decrease in cash and cash equivalents	(21,205)	(17,110)
Cash and cash equivalents at beginning of period	92,176	94,156
Effect of exchange rate changes on cash and cash equivalents	1,124	1,950
Cash and cash equivalents at end of period	$ 72,095	$ 78,996
Supplemental disclosure of non-cash investing activities:		
Obligations incurred for purchase of equipment	$ 103	$ 173

See notes to condensed consolidated financial statements.

ASIAINFO HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(In US dollars thousands, except share and per share amounts)

1. BASIS OF PREPARATION

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, as promulgated by the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and notes required by US GAAP for complete financial statements. However, management believes that the disclosures are adequate to ensure the information presented is not misleading. US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingencies and results of operations. While management has based their assumptions and estimates on the facts and circumstances existing at September 30, 2006, final amounts may differ from these estimates.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results for the interim period presented. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s audited financial statements on Form 10-K for the fiscal year ended December 31, 2005. The results of operations for the interim periods presented are not indicative of the operating results to be expected for any subsequent interim period or for the Company s fiscal year ending December 31, 2006.

Revenue from software products and solutions includes the benefit of the rebate of valued-added taxes on sales of software and services received from the Chinese tax authorities as part of the People s Republic of China (PRC) government s policy of encouraging software development in the PRC. The rebate totaled $1,164 and $1,095 for the three months ended September 30, 2006 and 2005, respectively. The rebate totaled $3,269 and $3,331 for the nine months ended September 30, 2006 and 2005, respectively.

Revenue in excess of billings is recorded as unbilled receivables and included in accounts receivable and amounted to $19,256 as of September 30, 2006 and $14,913 as of December 31, 2005, respectively, net of allowances. Billings in excess of revenues recognized are recorded as deferred revenue and amounted to $16,747 as of September 30, 2006 and $18,685 as of December 31, 2005. Billings are rendered based on agreed milestones included in customer contracts.

As of September 30, 2006 and December 31, 2005, the balance of accounts receivable, net of allowances was $27,603 and $25,814, respectively, representing amounts billed but not yet collected. All billed and unbilled amounts are expected to be collected within one year.

AsiaInfo Holdings, Inc. uses the United States dollar as its reporting currency and functional currency. The financial records of the Company s PRC subsidiaries are maintained in Renminbi (RMB), their functional currency and the currency of the PRC. Their balance sheets are translated into United States dollars based on the rates of exchange quoted by the People s Bank of China as of the balance sheet date. Their statements of operations are translated using a weighted average rate for the period. Translation adjustments are reflected in accumulated other comprehensive income in stockholders equity.

The RMB is not fully convertible into US dollars or other foreign currencies. The rate of exchange quoted by the People s Bank of China on September 30, 2006 was US$1.00=RMB7.9087. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate or at any other rate.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R), using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with

SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). During the nine-month period ended September 30, 2006, the Company granted 6,200 restricted stock units. The Company recognizes stock-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the restricted stock unit or option vesting term of four years. Prior to the adoption of SFAS 123R, the Company recognized stock-based compensation expense in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC s interpretation of SFAS 123R and the valuation of stock-based payments for public companies. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R. See Note 11 to the Consolidated Condensed Financial Statements for further discussion on stock-based compensation.

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation.

Recently Issued Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes , and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. The Company is currently evaluating whether the adoption of FIN 48 will have a material effect on its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which provides enhanced guidance for using fair value to measure assets and liabilities. This standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 12, 2007, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating whether the adoption of SFAS157 will have a material effect on its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. The standard also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. The Company is currently evaluating whether the adoption of SFAS158 will have a material effect on its consolidated financial position, results of operations or cash flows.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investments, which are unrestricted as to withdrawal or use, and which have maturities of three months or less when purchased.

3. SHORT-TERM INVESTMENTS

Short-term investments are classified as available-for-sale and consist principally of corporate stocks, bond funds, balanced funds and variable rate preferred securities issued by major financial institutions. Available-for-sale investments are carried at fair market value and unrealized holding gains or losses resulting from changes in market value associated with such investments are recorded in accumulated other comprehensive income in stockholders equity. As of September 30, 2006 and December 31, 2005, all short-term investments, except corporate stocks, of the Company had maturities of less than one year. The Company had no sales of short-term investments during the three-month and nine-month periods ended September 30, 2006, and incurred a gain of $11 (proceeds from the sales of corporate stock of $593 with cost of $582) and a loss of $3 (proceeds from the sales of corporate stock of $1,074 with cost of $1,077) on the sales of short-term investments during the three- and nine-month periods ended September 30, 2005.

The following table provides additional information concerning the Company s short-term investments:

	September 30, 2006		December 31, 2005	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Bond fund	$ 19,313	$ 19,336	$ 12,490	$ 12,504
Balanced fund	3,796	4,014		
Variable rate preferred securities	23,775	23,775	30,000	30,000
Corporate stock	538	335	538	677
Total	$ 47,422	$ 47,460	$ 43,028	$ 43,181

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4. NOTES RECEIVABLE

As of September 30, 2006 and December 31, 2005, the balances of notes receivable of $954 and $3,551, respectively, included bank acceptance drafts of $174 and $258, and commercial acceptance notes of $780 and $3,293, respectively, all of which are non-interest bearing and due within six months of issuance.

5. COMPREHENSIVE INCOME

The components of comprehensive income for the periods presented are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	$ 2,004	$ 427	$ 3,712	$ 2,626
Unrealized gain (loss) on available-for-sale investments - net of tax effect	104	290	(8)	186
Change in cumulative foreign currency translation adjustment	843	1,990	1,585	2,000
Comprehensive income	$ 2,951	$ 2,707	$ 5,289	$ 4,812

6. CREDIT FACILITIES

At September 30, 2006 and December 31, 2005, the Company had total short-term banking facilities for working capital purposes totaling $40,231 and $24,357 respectively. The banking facilities as of September 30, 2006 expire between October 2006 and January 2008. The facilities were secured by bank deposits of $11,942 and $11,762 as of September 30, 2006 and December 31, 2005, respectively. At September 30, 2006 and December 31, 2005, unused short-term credit facilities were $35,069 and $21,754, respectively. The used facilities are pledged as security for standby letters of credit and notes payable issued to hardware suppliers and customers. Additional bank deposits of $786 and $1,607 were used for issuing standby letters of credit and bank acceptance drafts at September 30, 2006 and December 31, 2005, respectively. Bank deposits pledged as security for these credit facilities (which are presented as restricted cash in the consolidated condensed balance sheets) totaled $12,728 and $13,369 at September 30, 2006 and December 31, 2005, respectively.

7. ACQUISITION

(a) In May 2006, the Company acquired Shanghai Emice Information Technology Company Limited s (Shanghai Emice) business of call centers, customer relationship management and business support systems servicing Shanghai Mobile, for total cash consideration of $4,179, including $51 in transaction costs. Of such consideration, the Company withheld $413 to be paid on the first anniversary of the closing date, contingent on potential indemnification claims that the Company might have against Shanghai Emice. The primary reason for this acquisition was to provide Shanghai Mobile with a complete software solution and further the Company s strategy of expanding its high-margin telecom software solutions business.

The transaction was recorded using the purchase method of accounting, and accordingly, the acquired assets and liabilities were recorded at their estimated fair values on the acquisition date. The Company preliminarily allocated the initial purchase price of $4,179 to the assets acquired, based on their estimated fair values, as follows:

		Estimated useful life
Software	$ 320	1 year
Contract Backlog	5	0.6 year
Customer Relationship	1,470	5 years
Non-Compete Agreement	24	2 years
Goodwill	2,360	

Total	$ 4,179

The fair market value of the intangible assets was determined using the cost , income approach-excess earnings and with & without method. In performing this purchase price allocation, the Company considered, among other factors, forecasted financial performance of the acquired business, market performance, and the market potential of the acquired business in China. The results of operations of the acquired business have been included with those of the Company subsequent to the acquisition date, May 26, 2006. The acquired goodwill is deductible for tax purposes.

(b) In May 2006, the Company acquired Shanghai Changjiang Technology Development Co. Ltd s (Changjiang Technology) telecom operation support business group, for total cash consideration of $610, including $47 in transaction costs. Of such consideration, the Company withheld $281, payment of which is contingent on the acquired business net sales results (measured under US GAAP) during the 12-month period after closing. The primary reason for this acquisition was to enhance the Company s leading telecommunication software solutions offering, and to further its strategic focus on its core business.

The transaction was recorded using the purchase method of accounting, and accordingly, the acquired assets and liabilities were recorded at their estimated fair values on the acquisition date. The Company preliminarily allocated the initial purchase price of $610 to the assets acquired, based on their estimated fair values, as follows:

		Estimated useful life
Software	$ 205	5 years
Customer Relationship	34	5 years
Non-Compete Agreement	3	5 years
Goodwill	368	
Total	$ 610	

The fair market value of the intangible assets was determined using the cost , income approach-excess earnings and with & without method. In performing this purchase price allocation, the Company considered, among other factors, forecasted financial performance of the acquired business, market performance, and the market potential of the acquired business in China. The results of operations of the acquired business have been included with those of the Company subsequent to the acquisition date, May 26, 2006. The acquired goodwill is deductible for tax purposes.

(c) In July 2006, the Company acquired certain assets and businesses of Beijing GCTech Company Limited (GCTech), including telecom software contracts with China Netcom and China Telecom, as well as certain key employees, and other related assets, for total cash consideration of $3,596, including $56 in transaction costs, of which $3,563 had been paid as of September 30, 2006. GCTech is also entitled to two additional earn-out payments, contingent on the future performance, in next one or two years from the closing date. The contingent payment will be paid in cash and in common stock of the Company. The Company believes that the acquisition furthers its strategy of expanding its high-margin telecom software solutions business.

The transaction was recorded using the purchase method of accounting, and accordingly, the acquired assets and liabilities were recorded at their estimated fair values on the acquisition date. The Company preliminarily allocated the initial purchase price of $3,596 to the assets acquired, based on estimated fair values, as follows:

		Estimated useful life
Software BSS/OSS	$ 485	5.5 years
Software Fee Collection	97	4.5 years
Software VAS	307	4.5 years
Software Others	19	1.5 years
Contract Backlog	644	1 year
Customer Relationship	544	5.0 years
Non-Compete Agreement	94	4.5 years
Goodwill	1,406	
Total	$ 3,596	

Goodwill will be adjusted if the initial purchase price is increased upon resolution of the contingent consideration above. The fair market value of the intangible assets was determined using the cost , income approach-excess earnings and with & without method. In performing this purchase price allocation, the Company considered, among other factors, forecasted financial performance of the acquired business, market performance, and the market potential of the acquired business in China. The results of operations of the acquired business have been included with those of the Company subsequent to the acquisition date, July 1, 2006. The acquired goodwill is deductible for tax purposes.

The following unaudited pro forma information summarizes the results of operations for the Company, including the acquired businesses of Shanghai Emice, Changjiang Technology and GCTech. This information has been prepared assuming that the acquisitions occurred as of

January 1, 2006 and 2005, respectively. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisitions been completed at the beginning of the periods indicated, nor is it indicative of future operating results:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2,006 (Unaudited)	2,005 (Unaudited)	2,006 (Unaudited)	2,005 (Unaudited)
Total revenue	$ 28,664	$ 24,591	$ 83,518	$ 77,637
Net income	2,004	170	3,482	2,008
Net income per share				
Basic	$ 0.05	$ 0.00	$ 0.08	$ 0.05
Diluted	$ 0.05	$ 0.00	$ 0.08	$ 0.04
Shares used in calculation of net income per share (unaudited)				
Basic	42,331,045	46,042,854	43,897,256	44,592,807
Diluted	42,837,799	47,413,803	44,693,929	45,911,250

The pro forma results of operations give effect to certain pro forma adjustments, including amortization of acquired intangible assets with definite lives and income tax benefits associated with the acquisition.

8. GOODWILL

The changes in the carrying amount of goodwill during the nine-month periods ended September 30, 2006 and 2005 were as follows:

	September 30,			
	2006		2005	
	AsiaInfo Technologies	Lenovo-AsiaInfo	AsiaInfo Technologies	Lenovo-AsiaInfo
Balance as of beginning of period	$ 12,332	$ 1,382	$ 11,840	$ 25,864
Goodwill obtained in acquisitions of businesses	4,134			
Foreign exchange difference due to translation	40			
Balance as of the end of the period	$ 16,506	$ 1,382	$ 11,840	$ 25,864

Beginning in 2002, with the adoption of SFAS 142, Goodwill and Other Intangible Assets , goodwill is no longer amortized, but instead tested for impairment upon first adoption and annually thereafter, or more frequently if events or changes in circumstances indicate that it might be impaired. The Company uses a two-step impairment test to identify potential goodwill impairment and recognizes a goodwill impairment loss in the statement of operations when the carrying amount of goodwill exceeds its implied fair value. The Company performs annual goodwill impairment tests in the fourth quarter of each year. The last goodwill impairment tests were performed in the fourth quarter of 2005 and impairment losses totaling $18,855 were recognized. During the nine-month period ended September 30, 2006, no events occurred or circumstances changed indicating the goodwill might be impaired, and the Company performed no goodwill impairment test between annual tests.

9. NOTES PAYABLE

As of September 30, 2006 and December 31, 2005, the balances of notes payable of $4,608 and $1,807, respectively, represented commercial notes of $275 and $289, and bank acceptance drafts of $4,333 and $1,518, respectively, each of which is non-interest bearing and due within six months of issuance.

10. INCOME TAXES

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

Reconciliation between the provision for income taxes computed by applying the U.S. federal tax rate to income from continuing operations before income taxes and equity in loss of affiliate and the actual provision for income taxes is as follows:

	Nine Months Ended September 30,	
	2006	2005
U.S. federal rate	35%	35%
Difference between statutory rate and foreign effective tax rate	(29)	(30)
Change in tax rate	(2)	(34)
(Decrease) increase in valuation allowance	(9)	14
Other	17	25
	12%	10%

11. STOCK-BASED COMPENSATION

As of September 30, 2006, the Company has two stock-based employee compensation plans: the 2002 Stock Option Plan and the 2005 Stock Incentive Plan. As of September 30, 2006, 4,500,000 shares were authorized for issuance under 2002 Stock Option Plan. Shares as to which an option is granted under the 2002 Stock Option Plan but remains unexercised at the expiration, forfeiture or other termination of such option may be the subject of the grant of further options. Under 2005 Stock Incentive Plan, the number of shares authorized for issuance is (a) 600,000 shares plus (b) any authorized shares of Common Stock that, as of April 21, 2005, were available for issuance under the Company s 2002 Stock Option Plan (the Prior Plan), or that thereafter become available for issuance under the Prior Plan in accordance with its terms.

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Prior to January 1, 2006, the Company accounted for those plans under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB25), and related Interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation , (SFAS 123). Accordingly, the Company recognized compensation expense only when options were granted with a discounted exercise price and when restricted stock units were granted. The compensation expense was recognized ratably over the requisite service period, which was generally the vesting period of the restricted stock units or options.

Prior to January 1, 2006, the Company provided pro forma disclosure amounts in accordance with SFAS No. 148, Accounting for Stock-Based Compensation -Transition and Disclosure (SFAS 148), as if the fair value method defined by SFAS 123 had been applied to its stock-based compensation.

In October 2005, the Company accelerated the vesting of approximately 2.2 million unvested stock options previously awarded.

In December 2004, FASB issued SFAS123 (revised 2004), Share-Based Payment (SFAS123R). Under the new standard, companies are no longer able to account for stock-based compensation transactions using the intrinsic value method in accordance with APB25. Instead, companies are required to account for such transactions using a fair-value method and recognize the compensation expense.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R, using the modified prospective transition method and therefore has not restated the results from prior periods. Under this transition method, stock-based compensation expense for the nine-month period ended September 30, 2006 included compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006 based on the fair market value as of the grant date, measured in accordance with SFAS 123. The Company recognizes the compensation costs net of a forfeiture rate and recognizes the compensation costs for those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the restricted stock units and option vesting term of four years. The Company estimated the forfeiture rate of restricted stock units for the first three quarters of fiscal year 2006 based on its historical experience for the options during the preceding four fiscal years. The amount of stock-based compensation attributable to cost of revenues, sales and marketing, general and administrative expenses, and research and development is included in those line items on the face of the statement of operations.

For the three- and nine-month periods ended September 30, 2006, stock-based compensation expense related to the restricted stock units and the options under SFAS 123R was allocated as follows:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Cost of revenues	$ 33	$ 99
Sales and marketing	30	88
General and administrative	55	163
Research and development	20	60
Total stock-based compensation expense	$ 138	$ 410

The following table summarizes relevant information as to reported results under the Company s intrinsic value method of accounting for stock awards, with supplemental information as if the fair value recognition provisions of FASB Statement 123 had been applied for fiscal year 2005:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income as reported	$ 427	$ 2,626
Less: Stock-based compensation determined using the fair value method, net of tax effect	(766)	(3,171)

Pro forma loss	$	(339)	$	(545)
Basic and diluted net income per share:				
Basic, as reported	$	0.01	$	0.06
Diluted, as reported	$	0.01	$	0.06
Basic and diluted net loss per share:				
Basic, pro forma	$	(0.01)	$	(0.01)
Diluted, pro forma	$	(0.01)	$	(0.01)

Option activity in the Company s stock option plans is summarized as follows:

	Number of shares	Weighted average exercise price per share
Outstanding, January 1, 2006	8,362,192	$ 6.75
Granted		
Cancelled	(369,929)	7.56
Exercised	(58,587)	4.18
Outstanding, March 31, 2006	7,933,676	6.73
Granted		
Cancelled	(386,978)	6.08
Exercised	(22,192)	3.03
Outstanding, June 30, 2006	7,524,506	6.77
Granted		
Cancelled	(529,703)	7.91
Exercised	(563,750)	1.13
Outstanding, September 30, 2006	6,431,053	7.17

Restricted stock units as of September 30, 2006 and changes during the nine months ended September 30, 2006 were as follows:

	Number of shares	Weighted- Average Grant Date Fair Value
Restricted stock units unvested at January 1, 2006	549,500	$ 4.20
Granted		
Vested		
Forfeited	(2,300)	4.05
Restricted stock units unvested at March 31, 2006	547,200	4.20
Granted	6,200	4.33
Vested		
Forfeited	(17,100)	4.05
Restricted stock units unvested at June 30, 2006	536,300	4.20
Granted		
Vested		
Forfeited	(7,100)	4.05
Restricted stock units unvested at September 30, 2006	529,200	4.21

12. NET INCOME PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income (numerator) Basic and diluted				
Income from continuing operations	$ 2,004	$ 1,505	$ 3,572	$ 4,395
Income (loss) from discontinued operations, net of taxes		(1,078)	140	(1,769)
Net income	$ 2,004	$ 427	$ 3,712	$ 2,626
Shares (denominator)				
Weighted average common stock outstanding				
Basic	42,331,045	46,042,854	43,897,256	44,592,807
Dilutive effect of employee stock options and restricted stock units	506,754	1,370,949	796,673	1,318,443
Diluted	42,837,799	47,413,803	44,693,929	45,911,250
Net income from continuing operations per share				
Basic	$ 0.05	$ 0.03	$ 0.08	$ 0.10
Diluted	$ 0.05	$ 0.03	$ 0.08	$ 0.10
Net income (loss) from discontinued operations, net of tax, per share				
Basic	$ 0.00	$ (0.02)	$ 0.00	$ (0.04)
Diluted	$ 0.00	$ (0.02)	$ 0.00	$ (0.04)
Net income per share				
Basic	$ 0.05	$ 0.01	$ 0.08	$ 0.06
Diluted	$ 0.05	$ 0.01	$ 0.08	$ 0.06

As of September 30, 2006 and 2005, the Company had 4,228,004 and 4,041,038 common stock options outstanding, respectively, that were excluded in the computation of diluted earnings per share (EPS) in these periods, as their exercise prices exceeded the average market values in such periods. These options could potentially have a dilutive effect on EPS in the future.

13. SEGMENT INFORMATION

Since the acquisition of the non-telecom IT services business of Lenovo Group Limited in October 2004, the Company has been organized as two business units, AsiaInfo Technologies, encompassing the Company s traditional telecom business, and Lenovo-AsiaInfo, providing IT services, including security products and services, IT consulting, software customization, and business process outsourcing services, to the enterprise market in China. After disposing of certain non-core business lines during 2005, Lenovo-AsiaInfo now focuses on IT security solutions for the small and medium enterprise market in China. Each business unit is further organized into three operating segments by product type: (1) software products and solutions, (2) service and (3) third party hardware. The Company follows the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information , which establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which discrete financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The accounting policies of the reportable segments are the same as those described in the summary of critical accounting policies. The Company s chief operating decision making group is the Company s Business Committee, comprising the Company s Chief Executive Officer, Chief Financial Officer and its senior management team, who allocate resources and evaluate performance of segments based on the following table of condensed income statement and total assets. Accordingly, other items such as inter-segment sales, interest income (expense), income tax expense (benefit), depreciation and amortization are not disclosed by segment, since this information is not used by the Company s chief operating decision making group to assess the operating performance of individual segments.

The following is a condensed statement of operations and total assets for the Company s reportable segments:

	Three Months Ended Sep 30,					
		2006			**2005**	
	AsiaInfo Technologies	**Lenovo-AsiaInfo**	**Total**	**AsiaInfo Technologies**	**Lenovo-AsiaInfo**	**Total**
Revenue:						
Software products and solutions	$ 16,577	$ 3,478	$ 20,055	$ 11,996	$ 2,987	$ 14,983
Service	3,855	251	4,106	4,053	843	4,896
Third party hardware	4,481	22	4,503	2,788	737	3,525
Total revenue:	24,913	3,751	28,664	18,837	4,567	23,404
Cost of revenues:						
Software products and solutions	7,812	1,857	9,669	5,372	1,571	6,943
Service	2,228	314	2,542	1,601	572	2,173
Third party hardware	4,257	21	4,278	2,647	701	3,348
Total cost of revenues	14,297	2,192	16,489	9,620	2,844	$ 12,464
Gross Profit	10,616	1,559	12,175	9,217	1,723	10,940
Business unit expenses:						
Sales and marketing	4,035	1,622	5,657	2,993	1,864	4,857
General and administrative[1]		(259)	(259)	(123)	407	284
Research and development	3,317	499	3,816	2,736	349	3,085
Total business unit expenses	7,352	1,862	9,214	5,606	2,620	8,226
Contribution profit (loss)	$ 3,264	$ (303)	$ 2,961	$ 3,611	$ (897)	$ 2,714

	Nine Months Ended September 30,					
	2006			2005		
	AsiaInfo Technologies	Lenovo-AsiaInfo	Total	AsiaInfo Technologies	Lenovo-AsiaInfo	Total
Revenue:						
Software products and solutions	$ 45,975	$ 7,171	$ 53,146	$ 35,809	$ 9,953	$ 45,762
Service	9,419	613	10,032	12,854	2,106	14,960
Third party hardware	16,582	416	16,998	12,517	837	13,354
Total revenue:	71,976	8,200	80,176	61,180	12,896	74,076
Cost of revenues:						
Software products and solutions	21,585	4,444	26,029	15,866	5,430	21,296
Service	5,680	891	6,571	6,402	1,455	7,857
Third party hardware	15,754	395	16,149	11,889	796	12,685
Total cost of revenues	43,019	5,730	48,749	34,157	7,681	$ 41,838
Gross Profit	28,957	2,470	31,427	27,023	5,215	32,238
Business unit expenses:						
Sales and marketing	9,403	4,508	13,911	7,831	5,709	13,540
General and administrative[1]	455	(523)	(68)	805	796	1,601
Research and development	9,101	1,417	10,518	7,597	1,302	8,899
Total business unit expenses	18,959	5,402	24,361	16,233	7,807	24,040
Contribution profit (loss)	$ 9,998	$ (2,932)	$ 7,066	$ 10,790	$ (2,592)	$ 8,198

	As of September 30, 2006			As of December 31, 2005		
	AsiaInfo Technologies	Lenovo-AsiaInfo	Total	AsiaInfo Technologies	Lenovo-AsiaInfo	Total
Total assets [2]	$ 201,542	$ 22,758	$ 224,300	$ 208,058	$ 20,168	$ 228,226

[1] General and administrative expenses reported reflect only the direct controllable expenses of each business unit and do not include allocation of corporate general and administrative expenses. The 2006 balances in Lenovo-AsiaInfo segment primarily reflect the results of certain bad debt provision reversals recorded in the three- and nine-month periods ended September 30, 2006.

[2] Included in total assets are net accounts receivable of $43,255 and $3,604 for AsiaInfo Technologies and Lenovo-AsiaInfo at September 30, 2006, respectively, and $37,464 and $3,263 for AsiaInfo Technologies and Lenovo-AsiaInfo at December 31, 2005, respectively.

The following is a reconciliation of operating segment contribution profit to income before provision for income taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Total contribution profit for reportable segments	$ 2,961	$ 2,714	$ 7,066	$ 8,198
Corporate general and administrative expenses	(1,792)	(1,928)	(6,103)	(5,749)
Net interest income	1,054	747	3,149	2,365
Gain from sales of investments		11		(3)
Other income (expense), net	(21)	36	(76)	47

Income before income taxes	$ 2,202	$ 1,580	$ 4,036	$ 4,858

For the three-month and nine-month periods ended September 30, 2006 and 2005, almost all of the Company s revenues were derived from sales to customers in the PRC. Revenues are attributed to a country based on the country of installation of hardware, software and performance of system integration work and software related services. As of September 30, 2006 and 2005, 100% of the Company s long-lived assets were located in the PRC.

14. RELATED PARTIES TRANSACTIONS

The Company entered into a series of contractual agreements with Lenovo Group Limited and its affiliates (collectively Lenovo) in connection with the acquisition of Lenovo s non-telecommunications IT services business in October 2004. In conjunction with that acquisition, the Company delivered 5,472,414 shares of its common stock to Lenovo. As of September 30, 2006, Lenovo owned approximately 13 percent of the Company s outstanding common stock.

Edward Tian, a Director and major shareholder of the Company, was, until May 2006, the Vice President of China Network Communications Group Corporation (together with its affiliates, referred to as China Netcom Group), and an executive officer of both China Netcom Group Corporation (Hong Kong) Limited (China Netcom Hong Kong) and China Netcom (Group) Company Limited (China Netcom Limited), each of which is a subsidiary of the China Network Communications Group Corporation. Effective May 17, 2006, Mr. Tian resigned as the Vice President of China Network Communications Group Corporation, as well as from his position as an executive officer of China Netcom Hong Kong and China Netcom Limited, but will serve as a non-executive Director as well as the Vice Chairman of the Board of Directors of China Netcom Hong Kong. In the six-month period ended June 30, 2006, the Company entered into network solutions and software revenue contracts with China Netcom Group with aggregate contract value of approximately $8,214. In the nine-month period ended September 30, 2005, the Company entered into network solutions and software revenue contracts with China Netcom Group with aggregate contract value of approximately $8,937.

The following table provides a summary of the Company s transactions with Lenovo and China Netcom Group:

	Three months ended September 30,			
	2006	2005		
	Lenovo	Lenovo	China Netcom Group	Total
Revenues:				
Software products and solutions	$	$	$ 1,790	$ 1,790
Service			538	538
Third party hardware			268	268
Total revenues			2,596	2,596
Purchases:				
Software products and solutions	1	5	5	10
Service		1	13	14
Third party hardware				
Total purchases	1	6	18	24
Operating expenses:				
Sales and marketing	108	69	10	79
General and administrative		4	4	8
Research and development	1	2	7	9
Total operating expenses	$ 109	$ 75	$ 21	$ 96

	Nine months ended September 30,					
	2006			2005		
	Lenovo	China Netcom Group[1]	Total	Lenovo	China Netcom Group	Total
Revenues:						
Software products and solutions	$	$ 2,643	$ 2,643	$ 2,938	$ 5,200	$ 8,138
Service		1,348	1,348	31	1,356	1,387
Third party hardware		2,686	2,686		1,518	1,518
Total revenues		6,677	6,677	2,969	8,074	11,043
Purchases:						
Software products and solutions	10	22	32	72	24	96
Service		9	9	25	24	49
Third party hardware						
Total purchases	10	31	41	97	48	145
Operating expenses:						
Sales and marketing	143	12	155	163	25	188
General and administrative		7	7	15	12	27
Research and development	4	20	24	16	21	37
Total operating expenses	$ 147	$ 39	$ 186	$ 194	$ 58	$ 252

[1] China Netcom Group ceased to be a related party of the Company upon Edward Tian s resignation in May 2006 from executive officer positions with China Network Communications Group Corporation, China Netcom Hong Kong and China Netcom Limited. Therefore, the summary of related party transactions with China Netcom Group during the nine-month period ended September 30, 2006 includes only the transactions with China Netcom Group which were entered into during the six-month period ended June 30, 2006.

	As of September 30, 2006	As of December 31, 2005		
	Lenovo	Lenovo	China Netcom Group	Total
Balances with related parties:				
Notes receivable	$	$	$ 1,795	$ 1,795
Net accounts receivable	45	37	5,326	5,363
Other receivables	296	289	27	316
Accounts payable		249		249
Deferred revenue	315	320	1,727	2,047
Other payables	686	485		485

James Ding, a major shareholder of the Company and Chairman of its Board of Directors, is also the Chairman of the Board of Directors of Beijing UITV Culture Development Ltd. (Beijing UITV). During the three-month period ended September 30, 2006, the Company did not enter into any software solutions contracts with Beijing UITV. During the nine-month period ended September 30, 2006, the Company entered into software solutions contracts with Beijing UITV valued at approximately $62. The Company recorded nil and $59 of software products and solutions revenue in the three- and nine-month periods ended September 30, 2006, respectively. As of September 30, 2006, the Company had no account receivable from Beijing UITV.

The Company believes that all transactions with related parties were arm s length negotiated transactions on terms that are no less favorable than terms that would have been received from an unrelated party.

15. COMMITMENTS AND CONTINGENCIES

On December 4, 2001, a securities class action case was filed against the Company, certain of its current officers and directors and the underwriters of the Company s initial public offering (IPO). The lawsuit alleged violations of the federal securities laws and was docketed in the United States District Court for the Southern District of New York, or the Court, as Hassan v. AsiaInfo Holdings, Inc., et al. The lawsuit alleged, among other things, that the underwriters of the Company s IPO improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of the Company s common stock in the aftermarket as conditions to their purchasing shares in the Company s IPO. The lawsuit further claimed that these alleged practices of the underwriters should have been disclosed in the Company s IPO prospectus and registration statement. For purposes of case management, the Court has consolidated this case with lawsuits brought against approximately 300 other companies, all alleging similar practices by the underwriters of the companies IPOs.

In June 2003, the Company elected to participate in a proposed settlement agreement with the plaintiffs in this litigation. If ultimately approved by the Court, this proposed settlement would result in a dismissal, with prejudice, of all claims in the litigation against the Company and against any of the other issuer defendants who elect to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. The proposed settlement does not provide for the resolution of any claims against the underwriter defendants, and the litigation against those defendants is continuing. The proposed settlement provides that the class members in the class action cases brought against the participating issuer defendants will be guaranteed a recovery of $1 billion by insurers of the participating issuer defendants. If recoveries totaling $1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition, all participating issuer defendants will be required to assign to the class members certain claims that the Company may have against the underwriters. The plaintiffs have filed a motion asking the Court to give its preliminary approval to the form of the documents, including the notice of the settlement to be sent to class members. On September 1, 2005, after considering the underwriter defendants objections, the Court issued an order preliminarily approving the proposed settlement with the issuers in all respects.

The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers   directors and officers   liability insurance policy proceeds as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer   s insurance coverage were insufficient to pay that issuer   s allocable share of the settlement costs. The Company expects that its insurance proceeds will be sufficient for these purposes and that it will not otherwise be required to contribute to the proposed settlement. The Company believes that the final result of these actions will have no material effect on the Company   s consolidated financial condition, results of operations or cash flows.

16. STOCK REPURCHASE PROGRAM

Since the commencement of the Company   s original stock repurchase program, which was approved by the Company   s Board of Directors in the fourth quarter of 2004, through December 31, 2005, the Company repurchased a total of 5,274,231 shares at a total cost of $27,282.

On January 11, 2006, the Company announced the authorization of another stock repurchase program pursuant to which the Company was entitled, from time to time during a ninety-day period, to purchase up to 4,000,000 shares of its common stock. As of March 31, 2006, the Company repurchased 1,653,555 shares of its common stock at a total cost of $7,368 pursuant to this repurchase program. The Company purchased an additional 441,653 shares during April 2006 at a total cost of $2,195 and the stock repurchase plan expired on April 11, 2006.

On April 25, 2006, the Board of Directors authorized an extension to this share repurchase program for an additional 90 days, from April 25, 2006 to July 24, 2006, but did not change the aggregate number of shares subject to repurchase under the plan. As of June 30, 2006, the Company repurchased 1,226,800 shares of its common stock at a total cost of $5,207 pursuant to the extension of this repurchase program. An additional 677,992 shares were purchased by the Company in July 2006 at a total cost of $3,016. The stock repurchase plan, as extended, was completed on July 18, 2006.

All common stock repurchased by the Company became part of its treasury stock. On June 27, 2006 and September 29, 2006, the Company   s Board of Directors authorized the retirement of 3,799,109 and 976,992 shares of treasury stock, respectively. The retired shares resumed the status of authorized and unissued shares of the Company. As of September 30, 2006, the Company had 42,789,142 shares of common stock issued and outstanding, after taking into account the retirement of 4,776,101 shares of treasury stock. As of that date, the Company had no remaining treasury stock.

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

Except for historical information, the statements contained in this quarterly report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, the Exchange Act . The Private Securities Litigation Reform Act of 1995, or the Reform Act , contains certain safe harbors regarding forward-looking statements. Certain of the forward-looking statements include management s expectations, intentions and beliefs with respect to our growth, our operating results, the nature of the industry in which we are engaged, our business strategies and plans for future operations, our needs for capital expenditures, capital resources and liquidity, and similar expressions concerning matters that are not historical facts. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. All forward-looking statements included in this report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. These cautionary statements are being made pursuant to the provisions of the Reform Act with the intention of obtaining the benefits of the safe harbor provisions of the Reform Act. The factors that could cause actual results to differ materially include, but are not limited to, the factors discussed below under the heading Certain Risks That May Affect Our Operating Results and Our Common Stock under Item 1A. Risk Factors in Part II Other Information.

In this report, AsiaInfo, the Company, we, us and our refer to AsiaInfo Holdings Inc., its subsidiaries and consolidated variable interest entit

Overview

We are a leading provider of high-quality telecom software solutions and security products and services to some of China s largest enterprises, as well as many small and medium sized companies in China. An established leader in the Chinese telecommunications industry, we became a leading provider of security products and services in China with the acquisition of the non-telecom related IT services business of Lenovo Group Limited (Lenovo) in 2004. In the telecommunications market, our software and services enable our customers to build, maintain, operate, manage and continuously improve their communications infrastructure. Our largest customers are the major telecommunications carriers in China and their provincial subsidiaries, such as China Mobile Communications Corporation (China Mobile), China United Telecommunications Corporation (China Unicom), China Network Communications Group Corporation (China Netcom), and China Telecommunications Corporation (China Telecom). In addition to providing customized software solutions to China s telecom carriers, we also offer sophisticated security products and services to many small and medium sized companies in China.

We commenced our operations in the United States in 1993 and moved our major operations from the United States to China in 1995. We began generating significant network solutions revenues in 1996 and significant software revenues in 1998. We conduct the bulk of our business through our operating subsidiaries, most of which are Chinese companies.

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of large telecommunications customers, such as China Mobile, China Unicom, China Netcom and China Telecom. Sales to China Mobile and its subsidiaries amounted to approximately 51%, 50% and 38% of our total revenues in 2005, 2004 and 2003, respectively. Sales to China Unicom and its subsidiaries amounted to approximately 20%, 24% and 38% of our total revenues in 2005, 2004 and 2003, respectively. Sales to China Netcom and its subsidiaries amounted to approximately 12%, 9% and 13% of our total revenues in 2005, 2004 and 2003, respectively. Sales to China Telecom and its subsidiaries amounted to approximately 3%, 3% and 9% of our total revenues in 2005, 2004 and 2003, respectively. The sum of our top five receivable balances represented 93% and 75% of our total receivable balances as at December 31, 2005 and 2004, respectively.

As our telecommunications software and services business focuses on key customers in the telecommunications industry, our operating results are influenced by governmental spending policies in that sector. Historically, a number of state-mandated restructurings in China s telecommunications sector have led to cancellation or delays in telecommunications-related capital expenditure, and have negatively impacted our operating results in certain periods. Ongoing uncertainty in the telecommunications industry, combined with the Chinese government s measures to control over-heating of the Chinese economy, has contributed and may continue to contribute to cautious spending by our telecommunications customers. In addition, any future restructurings affecting our major telecommunications customers may result in delays or cancellation of telecommunications-related spending, which would likely have an adverse impact on our business.

On July 27, 2004, we signed a definitive agreement with Lenovo to acquire its non-telecommunications related information technology services business in a transaction valued at approximately $36.8 million. On October 19, 2004, we completed the closing of this acquisition and formed a new division, Lenovo-AsiaInfo, to operate the acquired assets, along with our other enterprise information solutions assets. We also entered into a forward contract to deliver shares of our common stock having an aggregate market value of approximately $27.2 million at any time during the twelve-month period following the closing date of the acquisition. On July 1, 2005, we settled the forward contract by delivering from treasury stock 4,498,130 shares of our common stock, with a fair market value of $25.2 million, and paying cash of $2.0 million to Lenovo. As of September 30, 2006, Lenovo owned approximately 13% of our outstanding common stock. In 2005, the Lenovo-AsiaInfo division generated approximately $13.2 million in revenue, representing more than 14% of our total revenues for the year.

Consistent with our strategy of focusing on our core telecommunication software solutions and security products and services businesses, during 2005 we sold our subsidiary, Han Management Consulting (China) Limited (Han) to Han s management team. We also sold certain assets constituting our e-government business unit to Pansky Technology Group (Pansky), and certain assets constituting our human resources and business intelligence software businesses unit to Hinge Software Co. Ltd. (Hinge). During the fourth quarter of 2005, we strengthened our leading position in the telecom software solutions market by acquiring the telecom operation support business group of Zheda Lande Scitech Limited and Shanghai Changjiang Technology Development Co., Ltd. In May 2006, we signed two agreements to acquire certain telecom businesses of Shanghai Emice Information Technology Co., Ltd (Shanghai Emice) and Beijing GCTech Company Limited (GCTech), respectively. These acquisitions are consistent with our strategy of expanding our high-margin telecom software solutions business and enhancing our telecommunication software solutions offerings. For details regarding these acquisitions, please refer to Note 7 of the Notes to Condensed Consolidated Financial Statements included in this report.

Since our acquisition of the non-telecom IT services business of Lenovo in October 2004, we have been organized as two divisions, AsiaInfo Technologies, encompassing our traditional telecommunications business, and Lenovo-AsiaInfo, providing IT services, including security products and services to China s enterprise market. Each division is further organized into three operating segments by product types: (1) software products and solutions, (2) service and (3) third party hardware. We follow the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information , which establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

Revenues

We report our revenues on the basis of the three principal types of revenues derived from our business: software products and solutions revenue, service revenue and third party hardware revenue. Please refer to Note 13 of the Notes to Condensed Consolidated Financial Statements for detailed financial information regarding segment reporting.

Software products and solutions revenue. We typically sell our software as part of a total solution package for our customers, which includes proprietary software licenses, professional services related to the design and implementation of the solution (such as consulting, training, technical support and maintenance) and, in cases where the customer requests a turn-key solution, related hardware. Software products and solutions revenue includes two types of revenues: software license revenue and software services revenue. Software license revenue consists of fees received from customers for licenses or sublicenses to use our software products or third party software products in perpetuity, typically up to a specified maximum number of users. In most cases where a customer is required to purchase additional licenses from us because the number of users exceeds the number of licensed users, we enter into an extension agreement with the customer to expand and upgrade the customer s system. These extension contracts will usually include a license for the additional users, updated versions of our software and, if required, additional services and hardware for the customer s network. Our software license revenue also includes the benefit of value-added tax rebates on software license sales, which reflect the Chinese government s policy of encouraging China s software industry. Software services revenue consists of revenue from software installation, customization, training and other services. We also record reductions from revenue for our estimates of expected software sales returns from distributors based on current sales and historical sales returns.

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

Third party hardware revenue. Third party hardware revenue consists of hardware sales for equipment procured by us on behalf of our customers from hardware vendors. We procure for, and sell hardware to, our customers as part of our total solutions strategy. We typically minimize our exposure to hardware inventory risks by sourcing equipment from hardware vendors against letters of credit from our customers. As the telecommunications-related IT services market in China develops, our customers are increasingly purchasing hardware directly from hardware vendors and retaining us for our software and professional services.

Net revenue. Although we report our revenue on a gross basis, inclusive of hardware acquisition costs, we manage our business internally based on revenues net of hardware costs, or net revenues, which is consistent with our strategy of providing our customers with high value IT professional services and, where efficient, outsourcing lower-end services such as hardware acquisition and installation. This strategy may result in lower growth rates for total revenue as against prior periods, but will not adversely impact revenue net of hardware costs. The following table shows our revenue breakdown on this basis and reconciles our net revenues to total revenues:

	Three Months Ended					
	September 30, 2006			September 30, 2005		
	AsiaInfo Technologies	Lenovo-AsiaInfo	Total	AsiaInfo Technologies	Lenovo-AsiaInfo	Total
Revenues net of hardware costs						
Software products and solutions revenue	$ 16,577	$ 3,478	$ 20,055	$ 11,996	$ 2,987	$ 14,983
Service revenue	3,855	251	4,106	4,053	843	4,896
Third party hardware revenue net of hardware costs	224	1	225	141	36	177
Total revenues net of hardware costs	20,656	3,730	24,386	16,190	3,866	20,056
Total hardware costs	4,257	21	4,278	2,647	701	3,348

Total revenues	$ 24,913	$ 3,751	$ 28,664	$ 18,837	$ 4,567	$ 23,404

	Nine Months Ended					
	September 30, 2006			September 30, 2005		
	AsiaInfo Technologies	Lenovo-AsiaInfo	Total	AsiaInfo Technologies	Lenovo-AsiaInfo	Total
Revenues net of hardware costs						
Software products and solutions revenue	$ 45,975	$ 7,171	$ 53,146	$ 35,809	$ 9,953	$ 45,762
Service revenue	9,419	613	10,032	12,854	2,106	14,960
Third party hardware revenue net of hardware costs	828	21	849	628	41	669
Total revenues net of hardware costs	56,222	7,805	64,027	49,291	12,100	61,391
Total hardware costs	15,754	395	16,149	11,889	796	12,685
Total revenues	$ 71,976	$ 8,200	$ 80,176	$ 61,180	$ 12,896	$ 74,076

We believe total revenues net of hardware costs in each of the segments of our business more accurately reflects our core business, which is the provision of software solutions and services, and provides transparency to our investors. We believe this measure provides transparency to our investors because it is the measure used by our management to evaluate the competitiveness and performance of our business in each of the segments. In addition, third party hardware revenue tends to fluctuate from period to period depending on the requirements of our customers. As a result, a presentation that excludes third party hardware costs allows investors to better evaluate the performance of our core business and we have provided a reconciliation of this measure to the most directly comparable US GAAP financial measure, total revenues, above.

We have evaluated the criteria outlined in EITF No. 99-19, Reporting Revenue Gross as Principal Versus Net as an Agent, in determining whether it is appropriate under US GAAP to record the gross amount of revenues and related costs or the net amount earned after deducting hardware costs paid to the supplier. We record the gross amounts billed to our customers because we are the primary obligor in these transactions, bear the inventory risk, have latitude in establishing prices, are involved in the determination of the product specifications, bear credit risk or have the right to select suppliers.

Cost of Revenues

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

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

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

software license fees paid to third-party software providers for the right to sublicense their products to our customers as part of our solutions offerings as well as the amortization expenses of acquired intangible assets.

The costs associated with designing and modifying our proprietary software are classified as research and development expenses as incurred.

Service costs. Service costs consist primarily of compensation and travel expenses for the professionals involved in designing and implementing IT services, management consulting and network solutions projects. Service costs also include hardware warranty costs. We accrue hardware warranty costs upon final acceptance. We typically obtain manufacturers warranties for hardware we sell, which cover a portion of the warranties that we give to our customers. Our estimates of warranty cost are based on our current experience with contracts for which the warranty period has expired.

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

Operating Expenses

Operating expenses are comprised of sales and marketing expenses, research and development expenses, general and administrative expenses and impairment of goodwill and intangible assets. Stock-based compensation expenses attributable to cost of revenues, sales and marketing, general and administrative, and research and development expenses are included in those line items on the face of the statement of operations.

Sales and marketing expenses include compensation expenses for employees in our sales and marketing departments, third party advertising expenses, amortization expense of acquired intangible assets, as well as sales commissions and sales agency fees.

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

Taxes

Except for certain hardware procurement and resale transactions, we conduct substantially all of our business through our Chinese subsidiaries, which are generally subject to a 30% state corporate income tax and a 3% local income tax.

Under the income tax laws of China, foreign invested enterprises, or FIEs, satisfying certain criteria can enjoy preferential tax treatment. Several of our operating subsidiaries are FIEs and enjoy certain preferential tax treatments in China. Please refer to Note 13 to our consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended on December 31, 2005 for details of the preferential tax treatment for these subsidiaries.

The unified Chinese corporate income tax laws for domestic enterprises and FIEs may take effect in the near future. We anticipate that these unified tax laws will eliminate various preferential tax provisions in China. However, such unified tax laws should not affect any preferential tax treatments granted to FIEs in previous years.

Sales of hardware procured in China are subject to a 17% value-added tax. Most of our sales of hardware procured outside of China are made through our U.S. parent company, AsiaInfo Holdings, Inc., and thus are not subject to the value-added tax. We effectively pass value-added taxes on hardware sales through to our customers and do not include them in revenues reported in our financial statements. Companies that develop their own software and register the software with the relevant authorities in China are generally entitled to a value-added tax refund. If the net amount of the value-added tax payable exceeds 3% of software sales and software-related services, the excess portion of the value-added tax is refundable immediately. This policy is effective until 2010.

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

Foreign Exchange

A majority of our revenues and expenses relating to hardware sales and substantially all of our revenues and expenses relating to the software and service components of our business are denominated in Renminbi. The value of our shares will be affected by the foreign exchange rate between U.S. dollars and Renminbi because the value of our business is effectively denominated in Renminbi, while our shares are traded in U.S. dollars. Furthermore, an increase in the value of the Renminbi may require us to exchange more U.S. dollars into Renminbi to meet the working capital requirements of our subsidiaries in China. Depreciation of the value of the U.S. dollar will also reduce the value of the cash we hold in U.S. dollars, which we may use for purposes of future acquisitions or other business expansion. We actively monitor our exposure to these risks and adjust our cash position in the Renminbi and the U.S. dollar when we believe such adjustments will reduce our foreign exchange risks. We did not engage in any significant foreign exchange transactions in the nine-month period ended September 30, 2006.

Pursuant to the rate of exchange quoted by China s central bank, as of September 30, 2006 the exchange rate between the U.S. dollar and the Renminbi was US$1.00 = RMB7.9087.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with US GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amount of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenues and cost of revenues under customer contracts, warranty obligations, bad debts, inventory allowance provisions, income taxes, goodwill and other intangible assets, and litigation. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition. Revenues from customer orders requiring significant production, modifications, or customization of the software are recognized over the installation and customization period based on the percentage of completion method as prescribed by SOP No. 81-1, Accounting for Performance of Construction-Type and Certain Product-Type Contracts (SOP 81-1). Labor costs and direct project expenses are used to determine the stage of completion, except for revenues associated with the procurement of hardware. Such hardware-related revenues are recognized upon delivery. Estimates of hardware warranty costs are included in determining project costs. On contracts that do not involve significant implementation or customization essential to the functionality of our product, license fees through both direct or reseller arrangements is recorded when there is persuasive evidence of an arrangement for a fixed or determinable fee that is probable of collection and when the related products are shipped and/or installed as prescribed by SOP No. 97-2, Software Revenue Recognition (SOP 97-2) . For consulting and other professional services revenue, we recognize our service revenue as such services are performed or ratably over the contractual period and recognize the costs associated with these contracts as incurred.

We also record reductions from revenue for our estimates of expected software sales returns from distributors based on current sales and historical sales return. Recognized revenues and profit are subject to adjustments in current periods as the contract progresses to completion. If we do not have a sufficient basis to measure progress toward completion, revenue will be recognized upon completion. For contracts with multiple elements, we allocate revenue to each element of a transaction based upon its fair value as determined by vendor specific objective evidence , or VSOE. Revenue is deferred for the fair value of any undelivered elements and recognized for the remainder of the arrangement fee attributable to the delivered elements when the basic criteria in SOP 97-2 have been met. If the only undelivered element is post-contract support, or PCS, for which we have established VSOE, we recognize the difference between the total arrangement fee and the amount deferred for PCS as revenue upon delivery. The PCS revenue is recognized ratably over the PCS term. If the costs related to PCS are insignificant and for a period of up to one year, which include telephone support, we accrue the costs at the time the revenue is recorded.

Revenue in excess of billings is recorded as unbilled receivables and amounts billed but not yet collected are recorded as billed receivables. Billings in excess of revenues recognized are recorded as deferred revenue. Provisions for estimated losses on contracts are made in the period in which the anticipated losses become known. Actual costs and gross margins on such contracts could differ from management s estimates and those differences could be material to the consolidated financial statements. Historically, our estimates for costs and gross margins have not differed significantly from actual costs and gross margins. However, any material deviation of such costs and gross margins from our estimates would impact our future operating results.

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

Goodwill. Beginning in 2002, with the adoption of SFAS 142, Goodwill and Other Intangible Assets, goodwill is no longer amortized, but instead tested for impairment upon first adoption and annually thereafter, or more frequently if events or changes in circumstances indicate that it might be impaired. We use a two-step impairment test to identify potential goodwill impairment and recognize a goodwill impairment loss in the statement of operations when the carrying amount of goodwill exceeds its implied fair value. We perform all goodwill impairment tests in the fourth quarter of each year. The latest goodwill impairment tests were performed in the fourth quarter of 2005 and impairment losses totaling $18.9 million were recognized.

Stock-based compensation. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, using the modified prospective transition method and therefore we have not restated prior periods results. Under this transition method, stock-based compensation expense for the first three quarters of fiscal year 2006 included compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006 based on the fair market value as of the grant date, measured in accordance with SFAS 123. We recognize the compensation costs net of a forfeiture rate and recognize the compensation costs for those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the restricted stock unit and option vesting term of four years. We estimated the forfeiture rate of restricted stock units based on our historical experience for the options during the preceding four fiscal years. The amount of stock-based compensation attributable to cost of revenues, sales and marketing, general and administrative expenses, and research and development are included in those line items on the face of the statement of operations. We did not expect any tax benefits resulting from tax deductions in excess of the compensation cost recognized and therefore no deferred tax assets were recorded upon the adoption of SFAS 123R. For the three-month and nine-month periods ended September 30, 2006, we recorded $0.1 and $0.4 million of stock-based compensation expense, respectively, and the adoption of FAS 123R has had no material effect on our results of operations and financial condition.

Consolidated Results of Operations

Revenues. Gross revenues were $28.7 million for the three-month period ended September 30, 2006, 22% higher than the year ago period and up 19% sequentially. Gross revenues were $80.2 million for the nine-month period ended September 30, 2006, representing an increase of 8% over the comparable period in 2005. The overall increases in gross revenues are largely the result of increases in software products and solutions revenues described below.

Software products and solutions revenue was $20.1 million and $53.1 million, respectively, for the three-month and nine-month periods ended September 30, 2006, representing increases of 34% and 16% over the comparable periods in 2005 and a 18% sequential increase. The increases in software products and solutions revenue were mainly due to the continuous growth in our telecommunication software business, which has grown organically and through several small acquisitions. We are seeing increasing interest from our telecommunications customers in differentiating and improving their customer services. During the third quarter, we deployed software solutions for telecommunications customers in areas including customer management, network support and sales management. Third quarter telecom software products and solutions revenue rose 38% year-over-year and 11% sequentially as telecom customers upgraded and expanded their BOSS capabilities and invested in more sophisticated technology. During the third quarter, sales to our top four customers (China Mobile, China Unicom, China Netcom and China Telecom) accounted for 83% of software products and solutions revenue in our AsiaInfo Technologies division. Service revenue was $4.1 million and $10.0 million, respectively, in the three-month and nine-month periods ended September 30, 2006, representing decreases of 16% and 33% against the comparable periods in 2005 and a 53% increase over the previous quarter. The sequential increase was primarily due to revenues from a maintenance contract with China Unicom. Third party hardware revenue for the three-month and nine-month periods ended September 30, 2006 was $4.5 million and $17.0 million, respectively, 28% and 27% increases over the comparable periods in 2005 and a 5% sequential increase. Third party hardware revenue has been generally decreasing in the past several years as we have increasingly focused on our software product and solutions business; however, from time to time we offer hardware for certain projects in response to customer requests.

Our Lenovo-AsiaInfo division contributed 13% to our gross revenues in the third quarter of 2006, including a 17% contribution to software products and solutions revenue and a 6% contribution to service revenue. Lenovo-AsiaInfo contributed 20% to our gross revenue in the year-ago period and 11% in the previous quarter.

Cost of revenues. Our cost of revenues increased 32% to $16.5 million and increased 17% to $48.7 million, respectively, in the three-month and nine-month periods ended September 30, 2006, compared to $12.5 million and $41.8 million in the comparable periods of 2005. Our cost of revenue increased 12% over the previous quarter. The increases were in line with our increases in gross revenue.

Gross profit. Our gross profit margin decreased from 47% in the same period last year to 42% in the third quarter of 2006. The decrease against the year-ago period was mainly due to fluctuations in third party hardware revenues and the increase in our headcount as we prepare to capitalize on future market opportunities. Sequentially, our gross profit margin increased from 39% to 42%, which reflected the improving operating results of our Lenovo-AsiaInfo division.

During the third quarter, our telecommunications business posted a contribution profit, before corporate general and administrative expenses, of $3.3 million, decreasing by 10% over the same period last year and increasing 8% sequentially. The year-over-year decrease was largely due to the increases in sales and marketing expenses and R&D expenses discussed below while the sequential increase was largely due to the increase in gross profit. Lenovo-AsiaInfo posted a contribution loss, before corporate general and administrative expenses, of $0.3 million, representing a $0.5 million sequential improvement from the contribution loss in the previous quarter as the business unit continued to recover.

Operating expenses. Our operating expenses in the third quarter of 2006 were $11.0 million, representing a decrease of 8% over the comparable period in 2005 and a sequential increase of 22%. The year-over-year decrease was mainly attributable to reduction in general and administrative expenses, while the sequential increase was primarily due to increased sales and marketing expenses discussed below.

Sales and marketing expenses were $5.7 million and $13.9 million for the three-month and nine-month periods ended September 30, 2006, representing increases of 16% and 3% over the comparable periods in 2005 and a 34% sequential increase**.** The increases were mainly due to increased sales commissions relating to a higher volume of sales orders in the third quarter, as well as heightened marketing activities.

General and administrative expenses were $1.5 million and $6.0 million for the three-month and nine-month periods ended September 30, 2006, representing decreases of 31% and 18% over the comparable periods in 2005. Total direct general and administrative expenses for our business units decreased, as a result of lower overheads in our Lenovo-AsiaInfo business unit and changes in the provision for doubtful debts. Corporate general and administrative expenses decreased both year-over-year and sequentially as a result of the increasing efficiency of our internal administrative processes.

Research and development expenses were $3.8 million and $10.5 million for the three-month and nine-month periods ended September 30, 2006, representing increases of 24% and 18% over the comparable periods in 2005 and a 9% increase compared to the previous quarter. The increases were in line with our strategy of continuing to invest in our research and development capabilities and position AsiaInfo for future market opportunities.

Net income from continuing operations. Net income from continuing operations for the third quarter of 2006 was $2.0 million, or $0.05 per basic share. Net income in the year-ago period was $1.5 million or $0.03 per basic share, and $1.2 million or $0.03 per basic share in the previous quarter.

Net income (loss) from discontinued operations. There was no income or loss from discontinued operations in the third quarter. In the year-ago period net loss from discontinued operations was $1.1 million, or $0.02 per basic share. The Company recorded a gain from discontinued operations of $0.1million in the previous quarter. Discontinued operations refer to certain non-core businesses that the Company discontinued in previous periods.

Net income (loss). Net income for the third quarter of 2006 was $2.0 million, or $0.05 per basic share, compared to $0.4 million, or $0.01 per basic share, for the year-ago period, and $1.3 million, or $0.03 per basic share, for the previous quarter.

Liquidity and Capital Resources

Our capital requirements are primarily working capital requirements related to hardware sales and costs associated with the expansion of our business, such as research and development and sales and marketing expenses. We recognize hardware costs in full upon delivery of the hardware to our customers. In order to minimize our working capital requirements, we generally obtain from our hardware vendors payment terms that are timed to permit us to receive payment from our customers for the hardware before our payments to hardware vendors are due.

With respect to our billing cycle, we generally require our customers to pay 80% to 90% of the invoice value of the hardware upon delivery. We typically place orders for hardware against back-to-back orders from customers and seek favorable payment terms from hardware vendors. However, we sometimes obtain less favorable payment terms from our customers, thereby increasing our working capital requirements. In addition to this careful management of our billing cycle, we have also historically financed working capital and other financing requirements through private placements of equity securities, our initial public offering in March of 2000 and, to a limited extent, bank loans.

Our net cash provided by operating activities for the nine-month period ended September 30, 2006 was $8.2 million. This was primarily attributable to our net income of $3.7 million, adjusted by net non-cash related expenses of $1.8 million, and a net increase in the components of our working capital of $2.7 million.

Our accounts receivable balance at September 30, 2006 was $46.9 million, consisting of $27.6 million in billed receivables and $19.3 million in unbilled receivables. Our billed receivables are recorded based on agreed milestones included in customer contracts. Our unbilled receivables are based on revenue we have booked through the percentage completion method, but for which we have not yet billed the customer. Our day s sales outstanding at September 30, 2006 were 147 days, as compared to last quarter s 142 days.

Our inventory position at the end of the third quarter of 2006 was approximately $5.2 million, which was approximately the same as it was on December 31, 2005. Sequentially, it increased by US$1.1 million from US$4.1 million as of June 30, 2006. The sequential increase was mainly due to increased raw material and finished goods in our Lenovo-AsiaInfo business unit.

Our net cash used in investing activities for the nine-month period ended September 30, 2006 was $11.9 million. This was primarily due to the increase in short-term investments of $3.9 million, payment for acquisitions of $8.1 million, and purchase of property and equipment of $0.7 million. This was partially offset by a decrease of restricted cash of $0.6 million.

Our net cash used in financing activities for the nine-month period ended September 30, 2006 was $17.4 million. This was primarily due to repurchases of our common stock of $17.7 million, offset by proceeds generated by the exercise of stock options of $0.3 million.

As of September 30, 2006, we had total short-term credit facilities for working capital purposes totaling $40.2 million, expiring by January 2008, which were secured by bank deposits of $11.9 million. At September 30, 2006, unused short-term credit facilities were $35.1 million and used facilities totaled $5.1 million. The used facilities were pledged as security for issuing standby letters of credit and notes payable to hardware suppliers and customers. Additional bank deposits of $0.8 million were used for issuing standby letters of credit and bank acceptance drafts as of September 30, 2006. Bank deposits pledged as security for these credit facilities totaled $12.7 million as of September 30, 2006 and are presented as restricted cash in the consolidated balance sheets.

We anticipate that our available funds and cash flows generated from operations will be sufficient to meet our anticipated needs for working capital, capital expenditures and business expansion through 2006. We may need to raise additional funds in the future, however, in order to fund acquisitions, develop new or enhanced services or products, respond to competitive pressures to compete successfully for larger projects involving higher levels of hardware purchases, or if our business otherwise grows more rapidly than we currently predict. We anticipate that we would raise additional funds, if necessary, through new issuances of shares of our equity securities in one or more public offerings or private placements, or through credit facilities extended by lending institutions.

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

Off-Balance Sheet Arrangements

As of September 30, 2006, we have not entered into any material off-balance sheet arrangements with any individuals or entities.

Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes , and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. We are currently evaluating whether the adoption of FIN 48 will have a material effect on its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which provides enhanced guidance for using fair value to measure assets and liabilities. This standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 12, 2007, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating whether the adoption of SFAS157 will have a material effect on its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. The standard also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. We are currently evaluating whether the adoption of SFAS158 will have a material effect on its consolidated financial position, results of operations or cash flows.

For information concerning certain risks that may affect our operating results and the value of our Common Stock, please see Item 1A.   Risk Factors   in Part II Other Information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risk primarily associated with our cash and short-term investments. To date, we have not entered into any types of derivatives to hedge against interest-rate changes. There have been no significant changes in our exposure to changes in interest rates for the quarter ended September 30, 2006. Our exposure to interest rate changes is limited as we do not have any material borrowings.

We are exposed to exchange rate risk in connection with the relative value of the U.S. dollar and the Renminbi. Substantially all of our revenues and expenses relating to the service and software components of our business are denominated in Renminbi. As of September 30, 2006, the rate of exchange quoted by the People s Bank of China was US$1.00 = RMB7.9087. If the exchange rate were to increase by 10% to US$1.00 = RMB8.6996, our net assets would potentially decrease by $8.6 million. If the exchange rate were to decrease by 10% to US$1.00 = RMB7.1178, our net assets would potentially increase by $10.6 million**.**

The value of our shares may be affected by the foreign exchange rate between U.S. dollars and Renminbi because the value of our business is effectively denominated in Renminbi, while our shares are traded in U.S. dollars. Furthermore, an increase in the value of the Renminbi may require us to exchange more U.S. dollars into Renminbi to meet the working capital requirements of our subsidiaries in China. Depreciation of the value of the U.S. dollar will also reduce the value of the cash we hold in U.S. dollars, which we may use for purposes of future acquisitions or business expansion. We actively monitor our exposure to these risks and adjust our cash position in the Renminbi and the U.S. dollar when we believe such adjustments will reduce our foreign exchange risk. We did not engage in any significant foreign exchange transactions during the nine-month period ended September 30, 2006.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective. There were no significant changes in our internal controls over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the period covered by this report.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See discussions under Item 3, Part I of our annual report on Form 10-K filed with the SEC on March 15, 2006. During the fiscal quarter ended September 30, 2006, we did not have any other material legal proceedings brought against us. In addition, no material developments occurred in connection with any previously reported legal proceedings against us during the last fiscal quarter.

ITEM 1A. RISK FACTORS

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

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.

Most of our large telecommunications customers are directly or indirectly owned or controlled by the government of China. Accordingly, their business strategies, capital expenditure budgets and spending plans are largely decided in accordance with government policies, which, in turn, are determined on a centralized basis at the highest level by the National Development and Reform Commission of China. As a result, the growth of our business is heavily dependent on government policies for telecommunications infrastructure. Insufficient government allocation of funds to sustain the growth of China s telecommunications industries in the future could reduce the demand for our products and services and have a material adverse effect on our ability to grow our business.

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). Under the restructuring, the northern division of China Telecom merged with China Netcom and was renamed China Network Communications Group Corporation, or China Netcom Group, while the southern division continued to use the China Telecom name. As a result of the restructuring, new orders for telecommunications infrastructure expansion and improvement projects decreased, adversely affecting our revenue. Any similar restructurings of this nature could cause our operating results to vary unexpectedly from quarter to quarter in the future.

Our customer base is concentrated and the loss of one or more of our customers could cause our business to suffer significantly.

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, such as China Mobile, China Unicom, China Telecom and China Netcom Group. China Mobile accounted for 51% of our revenues in 2005. The loss, cancellation or deferral of any large contract by any of our large customers would have a material adverse effect on our revenues, and consequently our profits. Despite our business development in the security products and services market following the acquisition of Lenovo-AsiaInfo s IT service business unit in 2004, the revenue expected to be generated by our business outside the telecommunications industry is still limited compared to our overall revenues. Moreover, we cannot provide any assurance that a material proportion of our revenues will be derived from other industries in the future.

Our acquisition of Lenovo s IT services business and any future acquisitions or investments may expose us to potential risks and have an adverse effect on our ability to manage our business.

Selective acquisitions, such as our 2004 acquisition of Lenovo s non-telecommunications IT service division, form part of our strategy to further expand our business. If we are presented with appropriate opportunities that we feel will enhance our revenue growth, operations and profitability, we may acquire additional businesses, services or products that are complementary to our core business. Such acquisitions could result in the use of significant amounts of cash and/or dilutive issuances of our common stock. Such acquisitions involve other significant risks. For example, our integration of such acquired entities and/or operations into our business may not be successful and may not enable us to expand into new business platforms as well as we expect. This would significantly affect the expected benefits of these acquisitions. Moreover, the integration of new businesses into our operations has required significant attention from our management. Future acquisitions will also likely present similar challenges.

The security products and services business unit we acquired from Lenovo in 2004 faced strong challenges in the final months of 2005. It experienced significantly lower shipment volume than we anticipated and made only a nominal contribution to our revenue for the fourth quarter of 2005. As a result, full year earnings for Lenovo-AsiaInfo were significantly below our expectations. Following the disappointing quarter, Mr. Yu Bing, formerly Chief Executive Officer of the Lenovo-AsiaInfo division and member of our Board, submitted his resignation. We also received resignations from approximately 45 other employees in our Lenovo-AsiaInfo division. Our management team, under the guidance of our Board, is currently conducting an inquiry into the events surrounding the revenue shortfall in the fourth quarter of 2005 and the resignations from the Lenovo-AsiaInfo division. Based on the progress of that inquiry to date, we believe that the shortfall was, at least in part, the result of unexcused absences on the part of employees in our security division during the quarter. We are currently in the process of formulating claims to recover damages, and will provide more information as appropriate.

The acquisition of Lenovo s non-telecommunications IT services division and possible future acquisitions may also expose us to other potential risks, including risks associated with unforeseen or hidden liabilities, the diversion of resources from our existing businesses and potential loss, or harm to, relationships with employees and clients as a result of our integration of new businesses. In addition, we cannot be sure that we will be able to realize the benefits we anticipate from acquiring any companies, or that we will not incur costs, including those relating to intangible assets or goodwill, in excess of our projected costs for these transactions. The occurrence of any of these events could have a material and adverse effect on our ability to manage our business, our financial condition and our results of operations.

The long and variable sales cycles for our products 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 services and products involves a significant commitment of its resources and extended evaluation. As a result, our sales cycle tends to be lengthy. We spend considerable time and expense educating and providing information to prospective customers about features and applications of our services and products. Because our major customers often operate large and complex networks, they usually expand their networks in large increments on a sporadic 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 often relates to hardware procurement. Since we recognize most of the revenues relating to hardware plus a portion of services and software revenues 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 operating results are not a good indication of our future performance and should not be overly relied upon. It is likely that our operating results 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. We generally require our customers to pay 80% to 90% of the invoice value of the hardware upon delivery. We typically place orders for hardware against back-to-back orders from customers and seek favorable payment terms from hardware vendors. This policy has historically minimized our working capital requirements. However, for certain large and strategically important projects, we have agreed to payment of less than 80% to 90% of the invoice value of the hardware upon delivery in order to maintain competitiveness. Wider adoption of less favorable payment terms or delays in hardware deliveries could cause our working capital needs to increase significantly.

We have sustained losses in prior years and may incur slower earnings growth, earnings declines or net losses in the future.

Although we had net income in 2001, 2002 and 2004, we sustained net losses in 2003 and 2005. There are no assurances that we can sustain profitability or avoid net losses in the future. We continue to expect that certain of our operating expenses will increase as our business grows. The level of these expenses will be largely based on anticipated organizational growth and revenue trends and a high percentage of those expenses, particularly compensation expenses, will be fixed. As a result, any delays in expanding sales volume and generating revenue could result in substantial operating losses.

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.

PRC laws and regulations currently prohibit foreign-invested companies from engaging in systems integration businesses involving state secrets, which is part of the IT services business we acquired from Lenovo in 2004. PRC laws and regulations also restrict certain foreign invested companies from participating in the value-added telecommunications services (VATS) business, which we are exploring the possibility of entering. Substantial uncertainties exist with respect to our contractual arrangements with Lenovo Computer, Lenovo Security and Star VATS, due to uncertainties regarding the interpretation and application of current and future PRC laws and regulations.

In 2001, the State Secrecy Bureau of China promulgated the Administrative Measures for Qualification of Computer Information Systems Integration Involving State Secrets, which expressly prohibits foreign persons or foreign-invested enterprises from engaging in systems integration businesses involving state secrets, also referred to as restricted businesses .

We and our PRC operating subsidiaries are considered foreign persons or foreign-invested enterprises under PRC laws. In addition to a number of other types of IT services, one of the businesses operated by the IT services division we acquired from Lenovo in 2004 was a restricted business. We currently operate the restricted business through Lenovo Security Technologies (Beijing), Inc. (Lenovo Security) and Lenovo Computer System and Technology Services Limited (Lenovo Computer). When we acquired the restricted business, we had intended to operate the restricted business through Lenovo Security upon the receipt by Lenovo Security of all requisite business licenses and qualifications. Lenovo Security has obtained most of requisite business licenses and qualifications, such as the Computer Information System Integration Concerning State Secrets Qualification Certificate issued by the National Administration for Protection of State Secrets. Lenovo Security is in the process of applying for the remaining licenses. Since September, 2006, Lenovo Security has conducted the substantial majority of our operations in relation to the restricted business and, consequently, generates most of our revenue derived from the restricted business.

Lenovo Computer is owned by certain subsidiaries of Lenovo. Lenovo Security is owned by Legend Holdings Limited, the parent company and controlling shareholder of Lenovo, and two of our employees who are PRC citizens. We do not currently have any equity interest in Lenovo Computer or Lenovo Security and instead enjoy economic benefits substantially similar to equity ownership in such companies through contractual arrangements between Lenovo-AsiaInfo Technologies, Inc., or Lenovo-AsiaInfo, our wholly-owned subsidiary, and these affiliated entities and their respective shareholders. Further information on these arrangements is set forth under the heading Certain Relationships and Related Transactions in the definitive proxy statement for our 2006 annual meeting of stockholders, filed with the SEC on March 15, 2006.

At the closing of our acquisition of Lenovo s IT services business, our Chinese legal counsel, T&C Law Office, and Chinese legal counsel to Lenovo Group, Tian Yuan Law Firm, each delivered legal opinions to the effect that our ownership structure of Lenovo Computer and Lenovo Security, and the contractual arrangements among us, Lenovo-AsiaInfo, these affiliated entities and their respective shareholders, are in compliance with all existing PRC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations, including regulations governing the validity and enforcement of such contractual arrangements. Accordingly, we cannot assure you that PRC government authorities will not ultimately take a view contrary to the opinion of our and Lenovo s Chinese counsel. If the PRC government finds that our contractual arrangements with Lenovo Computer and Lenovo Security do not comply with the prohibition on foreign-invested companies from engaging in systems integration businesses involving state secrets, we could be subject to severe penalties.

In June of 2004 we entered into similar contractual arrangements with Star VATS, a domestic company owned by certain of our employees who are PRC citizens, which has been established to engage in the VATS business in China. Star VATS is in the process of developing VATS products and services that we hope to offer in China. We anticipate that if we successfully launch our VATS products and services, all of our business related to such products and services will be conducted through Star VATS. Star VATS will generate any revenue relating to such business and will make use of the licenses and approvals that are essential to such business. We do not have any equity interest in Star VATS, but instead have the right to enjoy economic benefits similar to equity ownership through our contractual arrangements with Star VATS and its shareholders. In the opinion of our Chinese legal counsel, T&C Law Firm, the contractual arrangements among us, Star VATS, and the shareholders of Star VATS are in compliance with all existing PRC laws and regulations. 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, we cannot assure you that PRC government authorities will not ultimately take a view contrary to the opinion of our Chinese legal counsel. If the PRC government finds that our contractual arrangements with Star VATS do not comply with the restrictions on certain foreign invested companies from engaging in VATS businesses, we could be subject to severe penalties.

Our contractual arrangements with Lenovo Computer, Lenovo Security and Star VATS may not be as effective in providing operational control as direct ownership of these affiliated entities and may be difficult to enforce.

Although we have been advised by Chinese legal counsel that our contractual arrangements with Lenovo Computer, Lenovo Security and Star VATS are valid, binding and enforceable under current PRC laws, these arrangements may not be as effective in providing control as direct ownership of these affiliated entities would be. 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.

We may not be able to operate the systems integration businesses involving state secrets once we acquire all of the equity interest in Lenovo Computer and Lenovo Security.

PRC laws and regulations currently prohibit foreign persons or foreign-invested enterprises from engaging in systems integration businesses involving state secrets. We and our subsidiaries are considered foreign persons or foreign-invested enterprises under PRC laws. Unless such prohibition is lifted in the future, we will not be able to operate such business after we acquire all of the equity interest in Lenovo Computer and Lenovo Security pursuant to the terms of our contractual arrangements with Lenovo Computer and Lenovo Security and their respective shareholders. The loss of this line of business may materially and adversely affect our business, financial condition and results of operations.

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

The PRC State Administration of Foreign Exchange, or SAFE, issued a public notice on January 24, 2005 concerning the application of foreign exchange regulations to mergers and acquisitions involving foreign investment in China. Among other things, the public notice provides that if an offshore company controlled by PRC residents intends to acquire a PRC company, such acquisition will be subject to strict examination by the relevant foreign exchange authorities.

On April 21, 2005, SAFE issued another public notice clarifying the January notice, and on October 21, 2005 SAFE issued a third notice, known as Circular 75, which replaced the first two notices and set forth a new regulatory framework for transactions involving offshore companies. Under Circular 75, if an acquisition of a PRC company by an offshore company controlled by PRC residents occurred prior to the various SAFE notices, certain PRC residents may be required to submit a registration form to the local SAFE branch to register their ownership interests in the offshore company. The PRC resident must also amend such registration form if there is a material event affecting the offshore company, such as, among other things, a change in share capital, a transfer of shares, or if such company is involved in a merger, acquisition or a spin-off transaction or uses its assets in China to guarantee offshore obligations. In the past, we have acquired a number of assets from, or equity interests in, PRC companies through issuances of our shares of common stock to individuals who may be deemed to be PRC residents for the purpose of the SAFE notices. However, there is substantial uncertainty as to whether we would be considered an offshore company for purposes of Circular 75, thus giving rise to a retroactive filing obligation. Moreover, it is uncertain whether SAFE would impose any obligations on us in the event it determines that these PRC residents have an obligation to register under the notices.

As it is uncertain how the SAFE notices will be interpreted or implemented, we cannot predict how these regulations will affect our future acquisition strategy and business operations. For example, if we decide to acquire additional PRC companies, we cannot assure you that we or the owners of such companies will be able to complete the filings and registrations, if any, required by the SAFE notices. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

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

Effective January 1, 2002, we adopted SFAS No. 142, which requires us, among other things, to conduct annual reviews of goodwill and intangible assets for impairment. 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.

We recorded a non-cash impairment charge of $21.2 million as a result of an independent valuation during the fourth quarter of 2005 of the goodwill and acquired intangible assets mainly attributable to our acquisition of Lenovo-AsiaInfo s IT service business unit in 2004. It is possible that future reviews will result in further write-downs of goodwill and other intangible assets.

We are highly dependent on our executive officers.

Each of our executive officers is responsible for an important segment 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.

We face a competitive labor market in China for skilled personnel and therefore are highly dependent on the skills and services of our existing key skilled personnel and our ability to hire additional skilled employees.

Competition for highly skilled software design, engineering and sales and marketing personnel is intense in China. Our failure to attract, assimilate or retain qualified personnel to fulfill our current or future needs could impair our growth. Competition for skilled personnel comes primarily from a wide range of foreign companies active in China, many of which have substantially greater resources than we have. Limitations on our ability to hire and train a sufficient number of personnel at all levels would limit our ability to undertake projects in the future and could cause us to lose market share.

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

We customarily provide our customers with one to three year warranties, under which we agree to maintain installed systems at no additional cost to our customers. The maintenance services cover both hardware and our proprietary and third party software products. Although we seek to arrange back-to-back warranties with hardware and software vendors, we have the primary responsibility to maintain the installed hardware and software. 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 maintain 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 rights, which we protect through a combination of confidentiality arrangements and copyright, trademark, and patent registrations. We have registered some marks and filed trademark applications for other marks with the United States Patent and Trademark Office, the Trademark Bureau of the State Administration of Industry and Commerce in China and the Trade Marks Registry in Hong Kong. We have also registered copyrights with the State Copyright Bureau in China with respect to certain of our software products, although we have not applied for copyright protection elsewhere (including the United States). We have filed some patent applications and have acquired some existing patents in the PRC for certain hardware and software products used or developed in our business. Despite these precautions, the legal regime protecting intellectual property rights in China is weak. Because 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.

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 licensed services or technology without authorization, or to develop similar technology independently. Policing unauthorized use of our licensed technology is difficult and there can be no assurance that the steps we take will prevent misappropriation or infringement of our proprietary technology. In addition, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others, which could result in substantial costs and diversion of our resources.

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

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

We currently license technology from third parties and intend to do so increasingly in the future as we introduce services that require new technology. There can be no assurance that these technology licenses will 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.

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 shareholders, live outside of the United States, principally in Beijing and Hong Kong. As a result, you may not be able to:

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

We do not intend to pay and may be restricted from paying dividends on our common stock.

We have never declared or paid dividends on our capital stock and we do not intend to declare any dividends in the foreseeable future. We currently intend to retain future earnings to fund our growth. Furthermore, if we decide to pay dividends, foreign exchange and other regulations in China may restrict our ability to distribute retained earnings from China or convert those payments from Renminbi into foreign currencies.

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

Substantially all of our revenues, expenses and liabilities are denominated in either U.S. dollars or Renminbi. As a result, we are subject to the effects of exchange rate fluctuations between those currencies. Because of the unitary exchange rate system introduced in China on January 1, 1994, the official bank exchange rate for conversion of Renminbi to U.S. dollars experienced a devaluation of approximately 50%. Since we report our financial results in U.S. dollars, any future devaluation of the Renminbi against the U.S. dollar may have an adverse effect on our reported net income.

Substantially all our revenues and expenses relating to hardware sales are denominated in U.S. dollars, and substantially all our revenues and expenses relating to the software and services component of our business are denominated in Renminbi. The value of our shares may be affected by the foreign exchange rate between the U.S. dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while our shares are traded in U.S. dollars. Furthermore, an increase in the value of the Renminbi may require us to exchange more U.S. dollars into Renminbi to meet the working capital requirements of our subsidiaries in China. Depreciation of the value of the U.S. dollar will also reduce the value of the cash we hold in U.S. dollars, which we may use for purposes of future acquisitions or other business expansion.

In July 2005, the People s Bank of China, or PBOC, raised the value of the Renminbi by 2.1% against the U.S. dollar. Moreover, according to the PBOC, the Renminbi will no longer be pegged to the US dollar, but instead it will float in a tight band against a basket of foreign currencies. While we do not believe that this change will have a significant impact on the results of our operations, we cannot guarantee that future changes in exchange rate policy will not affect our business.

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

We operate in a highly competitive environment, both in the telecommunications market and in the market for IT security services and solutions. In the telecommunications market, our competitors include multinational companies such as Amdocs, Digital China, Huawei, Linkage and Neusoft. In the security products and services market, our competitors are mainly local players such as Topsec and Netscreen and international players such as Cisco.

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.

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 MII, 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, there can be no assurance that the economic reform strategy will not 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.

Recently, the Chinese government s increased measures to control economic growth have contributed and will continue to contribute to cautious spending by our telecommunications customers. Such measures may also result in the delay of certain large telecommunications-related projects, which could have a material adverse effect on our business.

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.

If our stock price is volatile, 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, and we are currently involved in this type of 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 of 2000. For more information on that litigation, please see the discussion under the heading Item 1. Legal Proceedings in Part II of this Report. Litigation is often expensive and diverts management s attention and resources, which could materially and adversely affect our business.

Future sales of shares by existing stockholders could cause the market price of our common stock to fall.

If our stockholders sell substantial amounts of our common stock in the public market, including shares issued upon the exercise of outstanding options, the market price of our common stock could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

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 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, the Board 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 to be not less than three or more than ten directors. The terms of the office of the eight-member board of directors have been divided into three classes: Class I, whose term will expire at the annual meeting of the stockholders to be held in 2009; Class II, whose term will expire at the annual meeting of stockholders to be held in 2007; and Class III, whose term will expire at the annual meeting of stockholders to be held in 2008. This classification of the Board 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 (as defined therein) which occurs within one year after a change of control (as defined therein), including payment of one year of base salary and bonus, immediate vesting of 50% of any outstanding unvested stock options held by the executive officer and the provision of medical benefits and housing allowance. If a change of control occurs, and regardless of whether a covered termination takes place, the executive officers may be entitled to accelerated vesting of 50% of any outstanding unvested stock options held by the executive officer. The potential obligations to pay executive officers such severance amounts may discourage a potential acquirer from effecting a change of control.

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

In July 2002, President George W. Bush signed the Sarbanes-Oxley Act of 2002, or the Act, into law. 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 Board members, 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 auditors 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 in time to meet the deadline imposed by the Act for compliance with the requirements of Section 404. If we fail to achieve and 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, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and 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. Furthermore, we will incur recurring costs and expend management time and other resources necessary to comply with Section 404 and other requirements of the Act.

We are exposed to certain tax risks with respect to tax benefits enjoyed by certain of our subsidiaries.

We believe that our tax return positions are justifiable, but tax authorities might challenge certain positions we have asserted. For instance, one of our PRC subsidiaries, which was certified as a High and New Technology Enterprises , has enjoyed a favorable 7.5% enterprise income tax rate since 2002. In early 2006, we were unofficially notified by local tax authorities that there could be issues regarding the subsidiary s entitlement to this preferential tax rate. These authorities have suggested that High and New Technology Enterprises might not qualify for a 7.5% preferential tax treatment. We have addressed the issue with the tax authorities and they have unofficially withdrawn their notification and continue to let us enjoy the 7.5% tax rate for 2005 and 2006 year.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On January 11, 2006, our Board authorized a stock repurchase program pursuant to which we were entitled, from time to time during a ninety day period (expiring on April 11, 2006), to purchase up to 4,000,000 shares of our common stock. As of April 11, 2006, we had repurchased 2,095,208 shares at a cost of $9.6 million.

On April 25, 2006, our Board authorized an extension to the share repurchase program for an additional 90 days, from April 25, 2006 to July 24, 2006, but did not change the aggregate number of shares subject to repurchase under the plan. As of July 18, 2006, we purchased 1,904,792 shares at a cost of $8.2 million, pursuant to the extension of the share purchase program. The stock repurchase program and the extension were completed on July 18, 2006. The following table provides a breakdown of the purchases we made under the repurchase plan during the quarter ended September 30, 2006.

All common stock we repurchased became part of our treasury stock. On June 27, 2006 and September 29, 2006, our Board of Directors authorized the retirement of 3,799,109 and 976,992 shares of treasury stock, respectively. The retired shares resumed the status of authorized and unissued shares. As of September 30, 2006, we had 42,789,142 shares of common stock issued and outstanding, after taking into account the retirement of 4,776,101 shares of treasury stock. As of that date, we had no remaining treasury stock.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan
July 1, 2006 July 31, 2006	677,992	$ 4.45	4,000,000	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

Please see Exhibit Index.

SIGNATURE

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

	AsiaInfo Holdings, Inc.	
Date: November 9, 2006	By:	/s/ Ying Han
	Name:	Ying Han
	Title:	Chief Financial Officer

Table of Contents

EXHIBIT INDEX

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

Exhibit Number	Description
3.1 (1)	Certificate of Incorporation of AsiaInfo Holdings, Inc., dated June 8, 1998
3.2 (1)	Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated August 27, 1999
3.3 (2)	Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated November 15, 2000
3.4 (2)	Certificate of Correction to Certificate of Amendment to Certificate of Incorporation of AsiaInfo Holdings, Inc., dated January 18, 2001
3.5 (3)	Amended and Restated By-Laws of AsiaInfo Holdings, Inc., dated October 21, 2004
4.1 (1)	Specimen Share Certificate representing AsiaInfo Holdings, Inc. shares of common stock
10.1 (1)	Lease of AsiaInfo s headquarters at 6 Zhongguancun South Street, Beijing, China, dated August 31, 1999
10.2 (4)	Master Executive Employment Agreement between AsiaInfo Holdings, Inc. and Ying Han dated May 30, 2003*
10.3 (4)	Change of Control Severance Agreement between AsiaInfo Holdings, Inc. and Ying Han dated May 30, 2003*
10.4 (5)	Master Executive Employment Agreement between AsiaInfo Holdings, Inc. and Steve Zhang dated April 1, 2004*
10.5 (5)	Change of Control Severance Agreement between AsiaInfo Holdings, Inc. and Steve Zhang dated April 1, 2004*
10.6 (6)	Acquisition Agreement between AsiaInfo Holdings, Inc. and Lenovo Group Limited dated July 27, 2004
10.7 (3)	Supplement and Amendment No. 1 to Acquisition Agreement dated as of October 1, 2004
10.8 (7)	Trademark License Agreement between Bonson Information Technology Limited and Lenovo (Beijing) Limited dated October 19, 2004
10.9 (7)	Patent, Copyright and Technology License Agreement between Lenovo (Beijing) Limited, Legend Holdings Limited, Bing Yu and Zheng Wang dated October 19, 2004
10.10 (7)	Patent Assignment Agreement between Lenovo (Beijing) Limited, Legend Holdings Limited, Bing Yu and Zheng Wang dated October 19, 2004
10.11 (7)	Exclusive Business Cooperation Agreement between Lenovo-AsiaInfo Technologies, Inc. and Lenovo Computer System and Technology Services Co., Ltd. dated October 19, 2004
10.12 (7)	Share Pledge Agreement between Lenovo-AsiaInfo Technologies, Inc., Lenovo (Beijing) Limited and Lenovo Computer System and Technology Services Co., Ltd. dated October 19, 2004
10.13 (7)	Share Pledge Agreement between Lenovo-AsiaInfo Technologies, Inc., Lenovo Manufacturing Limited and Lenovo Computer System and Technology Services Co., Ltd. dated October 19, 2004
10.14 (7)	Equity Transfer Arrangement Agreement between Lenovo-AsiaInfo Technologies, Inc., Lenovo Group Limited, Lenovo (Beijing) Limited, Lenovo Manufacturing Limited, Lenovo Computer System and Technology Services Co., Ltd. and Bonson Information Technology Limited dated October 19, 2004
10.15 (7)	Power of Attorney executed by Lenovo (Beijing) Limited dated October 19, 2004
10.16 (7)	Power of Attorney executed by Lenovo Manufacturing Limited dated October 19, 2004
10.17 (7)	Loan Agreement between Lenovo-AsiaInfo Technologies, Inc. and Legend Holdings Limited dated October 19, 2004
10.18 (8)	AsiaInfo Holdings, Inc. 2005 Stock Incentive Plan, as amended through April 8, 2005*
10.19 (9)	Power of Attorney executed by Legend Holdings Limited dated December 2, 2004
10.20 (9)	

	Exclusive Business Cooperation Agreement between Lenovo-AsiaInfo Technologies, Inc. and Lenovo Security Technologies (Beijing), Inc. dated December 2, 2004
10.21 (9)	Share Pledge Agreement between Lenovo-AsiaInfo Technologies, Inc., Legend Holdings Limited and Lenovo Security Technologies (Beijing), Inc. dated December 2, 2004
10.22 (9)	Equity Transfer Arrangement Agreement between Lenovo-AsiaInfo Technologies, Inc., Legend Holdings Limited and Lenovo Security Technologies (Beijing), Inc. dated December 2, 2004
10.23 (9)	Loan Agreement executed by Lenovo-AsiaInfo Technologies, Inc. and Zheng Wang dated October 19, 2004

10.24 (9)	Power of Attorney executed by Zheng Wang dated December 2, 2004
10.25 (9)	Share Pledge Agreement between Lenovo-AsiaInfo Technologies, Inc., Zheng Wang and Lenovo Security Technologies (Beijing), Inc. dated December 2, 2004
10.26 (9)	Exclusive Option Agreement between Lenovo-AsiaInfo Technologies, Inc., Zheng Wang and Lenovo Security Technologies (Beijing), Inc. dated December 2, 2004*
10.27 (10)	Frame Contract by and among Bing Yu, Lenovo-AsiaInfo Technologies, Inc., Lenovo Security Technologies (Beijing), Inc., and James Ding, dated January 3, 2006
10.28 (10)	Equity Interest Transfer Agreement between Bing Yu and James Ding, dated January 3, 2006
10.29 (10)	Exclusive Option Agreement by and among Lenovo-AsiaInfo Technologies, Inc., James Ding and Lenovo Security Technologies (Beijing), Inc., dated January 3, 2006
10.30 (10)	Share Pledge Agreement by and among Lenovo-AsiaInfo Technologies, Inc., James Ding and Lenovo Security Technologies (Beijing), Inc. dated January 3, 2006
10.31 (10)	Loan Agreement between Lenovo-AsiaInfo Technologies, Inc. and James Ding, dated January 3, 2006
10.32 (10)	Power of Attorney executed by James Ding, dated January 3, 2006
10.33 (11)	Frame Contract by and among James Ding, Lenovo-AsiaInfo Technologies, Inc., Lenovo Security Technologies (Beijing), Inc. and Jian Qi, dated June 2, 2006
10.34 (11)	Equity Interest Transfer Agreement between James Ding and Jian Qi, dated June 2, 2006
10.35 (11)	Exclusive Option Agreement by and among Lenovo-AsiaInfo Technologies, Inc., Jian Qi and Lenovo Security Technologies (Beijing), Inc., dated June 2, 2006
10.36 (11)	Share Pledge Agreement by and among Lenovo-AsiaInfo Technologies, Inc., Jian Qi and Lenovo Security Technologies (Beijing), Inc., dated June 2, 2006
10.37 (11)	Loan Agreement between Lenovo-AsiaInfo Technologies, Inc. and Jian Qi, dated June 2, 2006
10.38 (11)	Power of Attorney executed by Jian Qi, dated June 2, 2006
10.39 (10)	Employment Contract between AsiaInfo Technologies (China), Inc. and Steve Zhang, dated December 8, 2005 (English Translation)*
10.40 (10)	Employment Contract between AsiaInfo Technologies (China), Inc. and Ying Han, dated January 1, 2006 (English Translation)*
10.41 (10)	Confidentiality and Non-Competition Agreement between AsiaInfo Technologies (China), Inc. and Steve Zhang, dated December 8, 2005 (English Translation)*
10.42 (10)	Confidentiality and Non-Competition Agreement between AsiaInfo Technologies (China), Inc. and Ying Han, dated January 1, 2006 (English Translation)*
11.1	Statement regarding computation of per share earnings (included in Note 12 to the consolidated condensed financial statements in this report)
24.1	Power of Attorney (included on signature page to this report)
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer required by Rules 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract, or compensatory plan or arrangement.

(1) Incorporated by reference to our Registration Statement on Form S-1 (No.333-93199).

(2) Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2000.
(3) Incorporated by reference to our Current Report on Form 8-K filed on October 25, 2004.
(4) Incorporated by reference to our Quarterly Report on Form 10-Q filed on August 14, 2003.
(5) Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
(6) Incorporated by reference to our Quarterly Report on Form 10-Q filed on August 9, 2004.
(7) Incorporated by reference to our Quarterly Report on Form 10-Q filed on November 9, 2004.
(8) Incorporated by reference to our Revised Proxy Statement for the 2004 Annual Meeting of Stockholders filed on April 14, 2004.
(9) Incorporated by reference to our Quarterly Report on Form 10-Q filed on May 10, 2005.
(10) Incorporated by reference to our Annual Report on Form 10-K filed on March 15, 2006.
(11) Incorporated by reference to our Quarterly Report on Form 10-Q filed on August 9, 2006.