

ASIAINFO-LINKAGE, INC
Form PREM14A
July 23, 2013
Table of Contents

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

SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

ASIAINFO-LINKAGE, INC.

(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required

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x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11(c)(1)

(1) Title of each class of securities to which transaction applies:

Common stock, par value US\$0.01 per share of AsiaInfo-Linkage, Inc. (*common stock*)

(2) Aggregate number of securities to which transaction applies:

(A) 61,737,826 shares of common stock issued and outstanding as of June 30, 2013 (consisting of the 72,864,393 shares of common stock outstanding as of June 30, 2013 minus 11,126,567 shares owned by the Rollover Stockholders and Power Joy (Cayman) Limited), (B) 6,425,841 shares of common stock underlying outstanding options as of June 30, 2013 with an exercise price below US\$12.00 per share, and (C) 108,904 shares of common stock underlying outstanding restricted stock units.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 and the Securities and Exchange Commission Fee Rate Advisory #1 for Fiscal Year 2013 (set forth the amount on which the filing fee is calculated and state how it was determined):

The proposed maximum aggregate value of the transaction for purposes of calculating the filing fee is US\$763,301,776.89. The maximum aggregate value of the transaction was calculated based upon the sum of (A) 61,737,826 shares of common stock issued and outstanding as of June 30, 2013 (consisting of the 72,864,393 shares of common stock outstanding as of June 30, 2013 minus the shares owned by Rollover Stockholders and Power Joy (Cayman) Limited) multiplied by US\$12.00 merger consideration, (B) 6,425,841 shares of common stock underlying outstanding options as of June 30, 2013 with an exercise price below US\$12.00 per share multiplied by US\$3.29 per share (which is the difference between the US\$12.00 merger consideration and the weighted average exercise price of such options of US\$8.71 per share), and (C) 108,904 shares of common stock underlying outstanding restricted stock units multiplied by US\$12.00 per share. The filing fee equals the product of 0.00013640 multiplied by the maximum aggregate value of the transaction.

(4) Proposed maximum aggregate value of transaction: US\$763,301,776.89

(5) Total fee paid: US\$104,114.36

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date Filed:

Table of Contents

ASIAINFO-LINKAGE, INC.

PRELIMINARY PROXY MATERIAL SUBJECT TO COMPLETION

, 2013

To the Stockholders of AsiaInfo-Linkage, Inc.:

You are cordially invited to attend a special meeting of stockholders of AsiaInfo-Linkage, Inc., a Delaware corporation (the **Company**, **we**, **us** or **our**) to be held at _____, Beijing time, on _____, 2013, at _____.

At the special meeting, you will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of May 12, 2013 (as it may be amended from time to time, the **merger agreement**), among the Company, Skipper Limited, a Cayman Islands exempted company with limited liability (**Parent**), and Skipper Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Parent (**Merger Sub**).

Under the terms of the merger agreement, Merger Sub will be merged with and into the Company (the **merger**), with the Company surviving the merger as a wholly owned subsidiary of Parent. At the effective time of the merger, Parent will be beneficially owned by Skipper Holdings Limited, a corporation formed under the laws of the Cayman Islands and the sole shareholder of Parent (**Holdco**).

If the merger is completed, each share of Company common stock issued and outstanding immediately prior to the effective time of the merger, other than the excluded shares and the dissenting shares, will be converted into the right to receive US\$12.00 in cash, without interest. We refer to this amount as the **merger consideration**. An **excluded share** is a share of Company common stock held (i) in the treasury of the Company or (ii) by Parent or any direct or indirect wholly owned subsidiary of Parent (including Merger Sub) immediately prior to the time at which the merger becomes effective, including each share of Company common stock to be contributed to Parent by the Rollover Stockholders (as defined below) in accordance with certain rollover agreements entered into by Parent and the Rollover Stockholders (as amended, the **rollover agreements**) and each share of Company common stock to be contributed to Parent by certain other stockholders of the Company in accordance with certain additional rollover agreements, if any, which are entered into by such stockholders and Parent from the date of the merger agreement until the date that is two business days prior to the closing date of the merger. A **dissenting share** is a share of Company common stock held by a stockholder who is entitled to demand and properly demands appraisal of such share pursuant to, and who complies in all respects with, Section 262 of the General Corporation Law of the State of Delaware, as amended (the **DGCL**).

A special committee of our board of directors, consisting entirely of independent directors (the **special committee**), negotiated, reviewed and considered the terms and conditions of the merger agreement and the transactions contemplated by the merger agreement, including the merger. The special committee unanimously determined that the merger is fair and advisable to, and in the best interests of, the Company and its stockholders (other than Parent, Merger Sub, the sponsors (as defined in the accompanying proxy statement), the buyer group parties (as defined in the accompanying proxy statement) and the directors and officers of the Company, and their respective affiliates), whom we refer to as the **unaffiliated stockholders**, approved the merger agreement and declared its advisability, recommended that the stockholders of the Company adopt the merger agreement, directed that the merger agreement be submitted to the stockholders of the Company for their adoption at a special meeting of the stockholders of the Company, and approved the merger agreement, the rollover agreements, the voting agreement, the consortium agreement and any additional rollover agreements and the transactions contemplated thereby for purposes of Section 203 of the DGCL. Our board of directors, after careful consideration and acting on the unanimous recommendation of the special committee, determined that the merger is fair and advisable to, and in the best interests of, the Company and the unaffiliated stockholders, approved the merger agreement and declared its advisability, recommended that the stockholders of the Company adopt the merger agreement, directed that the merger agreement be submitted to the stockholders of the Company for their adoption at a special meeting of the stockholders of the Company, and approved the merger agreement, the rollover agreements, the voting agreement, the consortium agreement and any additional rollover agreements and the transactions contemplated thereby for purposes of Section 203 of the DGCL. Please note that one of our directors, Mr. Libin Sun, voted against the foregoing recommendations and one of our directors was absent from the meeting at which our board of directors approved these recommendations. **Our board of directors recommends that you vote FOR the proposal to adopt the merger agreement, FOR the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and FOR the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.**

Table of Contents

The merger cannot be completed unless the merger agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of Company common stock as of the record date. More information about the merger is contained in the accompanying proxy statement and a copy of the merger agreement is attached thereto as Annex A.

In considering the recommendation of the special committee and our board of directors, you should be aware that some of the Company's directors and officers have interests in the merger that are different from, or in addition to, the interests of our stockholders generally. Mr. Suning (Edward) Tian (one of our directors), Ms. Jean Qin Kong (Mr. Suning (Edward) Tian's spouse), PacificInfo Limited (one of our stockholders which is wholly owned by Mr. Suning (Edward) Tian), Mr. Jian (James) Ding (our co-chairman), New Media China Investment I, Ltd. (one of our stockholders which is wholly owned by Mr. Jian (James) Ding) and Mr. Steve Zhang (one of our directors and our chief executive officer) (collectively, the **Rollover Stockholders**) and Power Joy (Cayman) Limited (one of our stockholders) beneficially own in the aggregate approximately 15.3% of the total outstanding shares of Company common stock. The Rollover Stockholders have agreed with Parent and Holdco, to contribute to Parent shares of Company common stock owned by them in exchange for newly issued shares of Holdco, immediately prior to the effective time of the merger. Power Joy (Cayman) Limited has agreed with Parent and Holdco to contribute to Parent shares of Company common stock owned by it in exchange for newly issued shares of Holdco, immediately prior to the effective time of the merger. The accompanying proxy statement includes additional information regarding certain interests of the Company's directors and officers that may be different from, or in addition to, the interests of our stockholders generally.

We encourage you to read the accompanying proxy statement in its entirety because it explains the proposed merger, the documents related to the merger and other related matters.

Regardless of the number of shares of Company common stock you own, your vote is important. The failure to vote will have the same effect as a vote AGAINST the proposal to adopt the merger agreement. Whether or not you plan to attend the special meeting, please take the time to submit a proxy by following the instructions on your proxy card as soon as possible. If your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee, you should instruct your broker, dealer, commercial bank, trust company or other nominee how to vote in accordance with the voting instruction form furnished by your broker, dealer, commercial bank, trust company or other nominee. The failure to instruct your broker, dealer, commercial bank, trust company or other nominee to vote your shares of our common stock FOR the proposal to adopt the merger agreement will have the same effect as a vote AGAINST the proposal to adopt the merger agreement.

We appreciate your continued support of the Company.

Sincerely,

Davin A. Mackenzie

Director

The merger has not been approved or disapproved by the Securities and Exchange Commission or any state securities commission. Neither the Securities and Exchange Commission nor any state securities commission has passed upon the merits or fairness of the merger or upon the adequacy or accuracy of the information contained in this document or the accompanying proxy statement. Any representation to the contrary is a criminal offense.

The accompanying proxy statement is dated _____, 2013 and is first being mailed to stockholders on or about _____, 2013.

Table of Contents

ASIAINFO-LINKAGE, INC.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of AsiaInfo-Linkage, Inc. (the **Company**, **we**, **us** or **our**) will be held at _____, Beijing time, on _____, 2013, at _____, for the following purposes:

1. To adopt the Agreement and Plan of Merger, dated as of May 12, 2013 (as it may be amended from time to time, the **merger agreement**), among the Company, Skipper Limited, a Cayman Islands exempted company with limited liability (**Parent**), and Skipper Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Parent (**Merger Sub**), providing for the merger of Merger Sub with and into the Company (the **merger**), with the Company surviving the merger as a wholly owned subsidiary of Parent;
2. To approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger; and
3. To approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.

For more information about the merger and the other transactions contemplated by the merger agreement, please review the accompanying proxy statement and the merger agreement attached thereto as Annex A.

A special committee of our board of directors, consisting entirely of independent directors (the **special committee**), negotiated, reviewed and considered the terms and conditions of the merger agreement and the transactions contemplated by the merger agreement, including the merger. The special committee unanimously determined that the merger is fair and advisable to, and in the best interests of, the Company and its stockholders (other than Parent, Merger Sub, the sponsors (as defined in the accompanying proxy statement), the buyer group parties (as defined in the accompanying proxy statement) and the directors and officers of the Company, and their respective affiliates), whom we refer to as the **unaffiliated stockholders**, approved the merger agreement and declared its advisability, recommended that the stockholders of the Company adopt the merger agreement, directed that the merger agreement be submitted to the stockholders of the Company for their adoption at a special meeting of the stockholders of the Company, and approved the merger agreement, the rollover agreements (as amended, the **rollover agreements**), the voting agreement, the consortium agreement and any additional rollover agreements and the transactions contemplated thereby for purposes of Section 203 of the General Corporation Law of the State of Delaware, as amended (the **DGCL**). Our board of directors, acting on the unanimous recommendation of the special committee, determined that the merger is fair and advisable to, and in the best interests of, the Company and the unaffiliated stockholders, approved the merger agreement and declared its advisability, recommended that the stockholders of the Company adopt the merger agreement, directed that the merger agreement be submitted to the stockholders of the Company for their adoption at a special meeting of the stockholders of the Company, and approved the merger agreement, the rollover agreements, the voting agreement, the consortium agreement and any additional rollover agreements and the transactions contemplated thereby for purposes of Section 203 of the DGCL. Please note that one of our directors, Mr. Libin Sun, voted against the foregoing recommendations and one of our directors was absent from the meeting at which our board of directors approved these recommendations. **Our board of directors recommends that you vote FOR the proposal to adopt the merger agreement, FOR the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and FOR the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.**

Table of Contents

Mr. Suning (Edward) Tian (one of our directors), Ms. Jean Qin Kong (Mr. Suning (Edward) Tian's spouse), PacificInfo Limited (one of our stockholders which is wholly owned by Mr. Suning (Edward) Tian), Mr. Jian (James) Ding (our co-chairman), New Media China Investment I, Ltd. (one of our stockholders which is wholly owned by Mr. Jian (James) Ding) and Mr. Steve Zhang (one of our directors and our chief executive officer) (collectively, the **Rollover Stockholders**) and Power Joy (Cayman) Limited beneficially own in the aggregate approximately 15.3% of the total outstanding shares of Company common stock. The Rollover Stockholders have agreed with Parent and Skipper Holdings Limited, a corporation formed under the laws of the Cayman Islands and the sole shareholder of Parent (**Holdco**), to contribute to Parent shares of Company common stock owned by them in exchange for newly issued shares of Holdco, immediately prior to the effective time of the merger. Power Joy (Cayman) Limited has agreed with Parent to contribute to Parent shares of Company common stock owned by it in exchange for newly issued shares of Holdco, immediately prior to the effective time of the merger.

Only stockholders of record at the close of business, New York time, on _____, are entitled to notice of and to vote at the special meeting and at any and all adjournments or postponements thereof.

The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Company common stock. The approval, on an advisory, non-binding basis, of the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger requires the affirmative vote of the holders of a majority of the shares of Company common stock present in person or represented by proxy and entitled to vote at the special meeting as of the record date. The approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement requires the affirmative vote of the holders of a majority of the shares of Company common stock present in person or represented by proxy and entitled to vote at the special meeting as of the record date, whether or not a quorum is present.

Regardless of the number of shares of Company common stock you own, your vote is important. The failure to vote will have the same effect as a vote AGAINST the proposal to adopt the merger agreement. Whether or not you plan to attend the special meeting, please take the time to submit a proxy by following the instructions on your proxy card as soon as possible. If your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee, you should instruct your broker, dealer, commercial bank, trust company or other nominee how to vote in accordance with the voting instruction form furnished by your broker, dealer, commercial bank, trust company or other nominee. The failure to instruct your broker, dealer, commercial bank, trust company or other nominee to vote your shares of our common stock FOR the proposal to adopt the merger agreement will have the same effect as a vote AGAINST the proposal to adopt the merger agreement.

If you plan to attend the special meeting, please note that you may be asked to present valid photo identification, such as a driver's license or passport. If you wish to attend the special meeting and your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee (i.e., in _____ street name), you will need to bring a copy of your voting instruction card or statement reflecting your share ownership as of the record date.

By Order of the Board of Directors,

Davin A. Mackenzie

Director

Important Notice of Internet Availability

This proxy statement for the special meeting to be held on _____ is available free of charge at www.envisionreports.com/asia.

YOUR VOTE IS IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON, YOU ARE ENCOURAGED TO VOTE AS SOON AS POSSIBLE. YOU MAY VOTE YOUR SHARES OF COMPANY COMMON STOCK BY TELEPHONE, OVER THE INTERNET, OR BY SIGNING AND DATING THE ENCLOSED PAPER COPY OF THE PROXY CARD AND RETURNING IT PROMPTLY. VOTING BY PROXY WILL NOT PREVENT YOU FROM ATTENDING THE MEETING AND VOTING IN PERSON IF YOU SO DESIRE.

Table of Contents

SUMMARY VOTING INSTRUCTIONS

Ensure that your shares of Company common stock can be voted at the special meeting by submitting your proxy or contacting your broker, dealer, commercial bank, trust company or other nominee.

If your shares of Company common stock are registered in the name of a broker, dealer, commercial bank, trust company or other nominee: check the voting instruction card forwarded by your broker, dealer, commercial bank, trust company or other nominee to see which voting options are available or contact your broker, dealer, commercial bank, trust company or other nominee in order to obtain directions as to how to ensure that your shares of Company common stock are voted at the special meeting.

If your shares of Company common stock are registered in your name: submit your proxy as soon as possible by telephone, via the Internet or by signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope, so that your shares of Company common stock can be voted at the special meeting.

Instructions regarding telephone and Internet voting are included on the proxy card.

The failure to vote will have the same effect as a vote **AGAINST** the proposal to adopt the merger agreement. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be voted ***in favor of*** the proposal to adopt the merger agreement, the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.

The failure to instruct your broker, dealer, commercial bank, trust company or other nominee to vote your shares of our common stock **FOR** the proposal to adopt the merger agreement will have the same effect as a vote **AGAINST** the proposal to adopt the merger agreement.

If you have any questions, require assistance with voting your proxy card, or need additional copies of proxy material, please call D.F. King & Co., Inc., toll free at 1-800-758-5880, collect at 212-269-5550 or by email at asiainfo@dfking.com.

Table of Contents**TABLE OF CONTENTS**

	Page
<u>PRELIMINARY PROXY STATEMENT</u>	1
<u>SUMMARY TERM SHEET RELATED TO THE MERGER</u>	1
<u>QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER</u>	19
<u>SPECIAL FACTORS RELATING TO THE MERGER</u>	25
<u>Overview of the Transaction</u>	25
<u>Management and Board of Directors of the Surviving Corporation</u>	25
<u>Background of the Merger</u>	25
<u>Purposes and Reasons of Our Board of Directors and Special Committee for the Merger</u>	48
<u>Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger</u>	49
<u>Opinion of Goldman Sachs, Financial Advisor to the Special Committee</u>	54
<u>Purposes and Reasons of the Buyer Consortium for the Merger</u>	62
<u>Positions of the Buyer Consortium Regarding the Fairness of the Merger</u>	63
<u>Certain Effects of the Merger</u>	66
<u>Effects on the Company if Merger is not Completed</u>	67
<u>Plans for the Company</u>	68
<u>Prospective Financial Information</u>	68
<u>Financing of the Merger</u>	71
<u>Limited Guarantees</u>	73
<u>Voting Agreement</u>	73
<u>Consortium Agreement</u>	74
<u>Limitation on Remedies</u>	74
<u>Interests of the Company's Directors and Officers in the Merger</u>	74
<u>Relationship Between Us and Buyer Consortium</u>	82
<u>Dividends</u>	83
<u>Determination of the Merger Consideration</u>	83
<u>Regulatory Matters</u>	83
<u>Fees and Expenses</u>	83
<u>Material United States Federal Income Tax Consequences</u>	84
<u>Material PRC Tax Consequences</u>	86
<u>Delisting and Deregistration of Company Common Stock</u>	86
<u>Litigation Relating to the Merger</u>	86
<u>THE SPECIAL MEETING</u>	88
<u>Date, Time and Place</u>	88
<u>Purpose of the Special Meeting</u>	88
<u>Recommendation of Our Board of Directors and Special Committee</u>	88
<u>Record Date; Stockholders Entitled to Vote; Quorum</u>	88
<u>Vote Required</u>	89
<u>Stock Ownership and Interests of Certain Persons</u>	90
<u>Voting Procedures</u>	90
<u>Other Business</u>	91
<u>Adjournments and Postponements</u>	91
<u>Revocation of Proxies</u>	91
<u>Rights of Stockholders Who Object to the Merger</u>	92
<u>Solicitation of Proxies</u>	92
<u>Assistance</u>	92
<u>PROPOSAL ONE ADOPTION OF THE MERGER AGREEMENT</u>	93
<u>THE MERGER AGREEMENT</u>	93

Table of Contents

<u>Effects of the Merger: Directors and Officers; Certificate of Incorporation; Bylaws</u>	93
<u>Closing and Effective Time of the Merger</u>	94
<u>Treatment of Common Stock, Company Options and Company Restricted Stock Units</u>	94
<u>Exchange and Payment Procedures</u>	95
<u>Representations and Warranties</u>	96
<u>Conduct of Business Pending the Merger</u>	99
<u>Parent Forbearance</u>	101
<u>Access to Information</u>	101
<u>Alternative Takeover Proposals</u>	101
<u>Indemnification: Directors and Officers Insurance</u>	104
<u>Financing</u>	105
<u>Obligation of Parent</u>	106
<u>Conditions to the Merger</u>	106
<u>Termination</u>	107
<u>Termination Fees and Reimbursement of Expenses</u>	108
<u>Fees and Expenses</u>	111
<u>Remedies</u>	111
<u>Amendment: Waiver of Conditions</u>	111
<u>COMMON STOCK OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS</u>	112
<u>COMMON STOCK TRANSACTION INFORMATION</u>	114
<u>APPRAISAL RIGHTS</u>	115
<u>SELECTED FINANCIAL INFORMATION</u>	119
<u>Selected Historical Financial Information</u>	119
<u>Ratio of Earnings to Fixed Charges</u>	119
<u>Net Book Value per Share of Company Common Stock</u>	120
<u>MARKET PRICE AND DIVIDEND INFORMATION</u>	120
<u>PROPOSAL TWO MERGER-RELATED COMPENSATION</u>	121
<u>PROPOSAL THREE ADJOURNMENT OF THE SPECIAL MEETING</u>	121
<u>OTHER MATTERS</u>	121
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	123
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	123
<u>ANNEX A: AGREEMENT AND PLAN OF MERGER</u>	A-1
<u>ANNEX B: LIMITED GUARANTEE</u>	B-1
<u>ANNEX C: LIMITED GUARANTEE</u>	C-1
<u>ANNEX D: LIMITED GUARANTEE</u>	D-1
<u>ANNEX E: LIMITED GUARANTEE</u>	E-1
<u>ANNEX F: LIMITED GUARANTEE</u>	F-1
<u>ANNEX G: PAYMENT AGREEMENT</u>	G-1
<u>ANNEX H: FINANCIAL ADVISOR OPINION</u>	H-1
<u>ANNEX I: DELAWARE GENERAL CORPORATION LAW SECTION 262</u>	I-1
<u>ANNEX J: DIRECTORS AND EXECUTIVE OFFICERS OF EACH FILING PERSON</u>	J-1
<u>ANNEX K: FORM OF PROXY CARD</u>	K-1

Table of Contents

ASIAINFO-LINKAGE, INC.
SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON
PRELIMINARY PROXY STATEMENT

This proxy statement contains information related to a special meeting of stockholders of AsiaInfo-Linkage, Inc. which will be held at _____, Beijing time, on _____, 2013, at _____, and any adjournments or postponements thereof. We are furnishing this proxy statement to stockholders of AsiaInfo-Linkage, Inc. as part of the solicitation of proxies by our board of directors for use at the special meeting. This proxy statement is dated _____, 2013 and is first being mailed to stockholders on or about _____, 2013.

SUMMARY TERM SHEET RELATED TO THE MERGER

This summary term sheet highlights selected information in this proxy statement regarding the merger and may not contain all of the information about the merger that is important to you. We have included page references in parentheses to direct you to more complete descriptions of the topics presented in this summary term sheet. You should carefully read this proxy statement in its entirety, including the annexes and the other documents to which we have referred you, for a more complete understanding of the matters being considered at the special meeting. You may obtain without charge copies of documents incorporated by reference into this proxy statement by following the instructions under *Where You Can Find More Information* beginning on page 123.

In this proxy statement, the terms **we**, **us**, **our**, **AsiaInfo** and the **Company** refer to AsiaInfo-Linkage, Inc. and its subsidiaries. We refer to Skipper Holdings Limited as **Holdco**, Skipper Limited as **Parent** and Skipper Acquisition Corporation as **Merger Sub**. We refer to Mr. Suning (Edward) Tian (one of our directors), Ms. Jean Qin Kong (Mr. Suning (Edward) Tian's spouse), PacificInfo Limited (one of our stockholders which is wholly owned by Mr. Suning (Edward) Tian), Mr. Jian (James) Ding (our co-chairman), New Media China Investment I, Ltd. (one of our stockholders which is wholly owned by Mr. Jian (James) Ding) and Mr. Steve Zhang (one of our directors and our chief executive officer) collectively as the **Rollover Stockholders**. We refer to stockholders of the Company who may enter into additional rollover agreements with Parent prior to the closing for the contribution of up to 800,000 shares of Company common stock to Parent in exchange for shares of Holdco as the **Additional Rollover Stockholders**. We refer to the Rollover Stockholders, Jun (Michael) Wu, Yadong Jin and Guoxiang Liu collectively as the **Voting Stockholders**. We refer to Power Joy (Cayman) Limited as **Power Joy**. We refer to Power Joy, CITIC Capital (Tianjin) Equity Investment Limited Partnership, CPEChina Fund, L.P., Ellington Investments Pte. Ltd., Al Gharrafa Investment Company, AlpInvest Partners Co-investments 2012 I C.V., AlpInvest Partners Co-investments 2012 II C.V., AlpInvest Partners Co-investments 2011 II C.V., CBC TMT III Limited and InnoValue Capital Ltd. as the **sponsors**. We refer to the parties to any of the rollover agreements (as amended, the **rollover agreements**) and the additional rollover agreements (if any), the voting agreement and the consortium agreement, including all amendments thereto or modifications thereof, other than Parent and Merger Sub or any of their respective affiliates as the **buyer group parties**. We refer to the buyer group parties, Parent and Merger Sub collectively as the **buyer consortium**. We refer to the stockholders of the Company (other than Parent, Merger Sub, the sponsors, the buyer group parties and the directors and officers of the Company, and their respective affiliates) as the **unaffiliated stockholders**. We refer to Parent, the Rollover Stockholders, the sponsors and their respective affiliates as the **Excluded Persons**. We refer to the Agreement and Plan of Merger, dated as of May 12, 2013, among the Company, Parent and Merger Sub, as the **merger agreement**, as it may be amended from time to time.

Table of Contents

The Parties

The Company

AsiaInfo-Linkage, Inc. is a leading provider of high-quality telecommunications software solutions and IT related services in China. Its software and services enable its customers to build, maintain, operate, manage and improve their communications infrastructure. It provides software solutions to telecommunications carriers and cable television, or TV, operators in China as well as telecommunications operators in other countries. It also provides a variety of services including business operational consulting services, IT architecture planning services, system integration services based on its own products and other third party software and hardware, change of request implementation, maintenance on customer premise and management services. The Company's principal executive offices are located at 4th Floor, Zhongdian Information Tower, 6 Zhongguancun South Street, Haidian District, Beijing 100086, China. The Company's telephone number is (86)10-8216-6688.

Parent

Skipper Limited was formed under the laws of the Cayman Islands solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. Parent is a direct, wholly owned subsidiary of Holdco. Parent has not engaged in any business except for activities incidental to its formation and in connection with the transactions contemplated by the merger agreement, including the merger and related financing transactions. The business address of Parent is c/o CITIC Capital Partners Management Limited, 28th Floor CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, and its telephone number is (852)-3710-6888.

Merger Sub

Skipper Acquisition Corporation was formed under the laws of the State of Delaware by Parent solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. Merger Sub is a direct, wholly owned subsidiary of Parent. Upon completion of the merger, Merger Sub will no longer exist. Merger Sub has not engaged in any business except for activities incidental to its formation and in connection with the transactions contemplated by the merger agreement, including the merger and related financing transactions. The business address of Merger Sub is c/o CITIC Capital Partners Management Limited, 28th Floor CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, and its telephone number is (852)-3710-6888.

Holdco

Skipper Holdings Limited was formed under the laws of the Cayman Islands solely for the purpose of owning Parent and consummating certain transactions in connection with the merger. Holdco is currently a direct, wholly owned subsidiary of Skipper Investment Limited. Immediately prior to the effective time of the merger, Holdco will issue certain of its shares to the Rollover Stockholders, any Additional Rollover Stockholders, Power Joy, the sponsors and certain other buyer group parties in consideration for either the contribution of shares of Company common stock owned by them or their equity commitments, as the case may be, to Parent. Holdco has not engaged in any business except for activities incidental to its formation and in connection with the transactions contemplated by the merger agreement, including the merger and related financing transactions. The business address of Holdco is c/o CITIC Capital Partners Management Limited, 28th Floor CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, and its telephone number is (852)-3710-6888.

Mr. Suning (Edward) Tian

Mr. Suning (Edward) Tian is one of our directors. Mr. Tian's business address is Unit 906, Level 9, Cyberport 2, 100 Cyberport Road, Hong Kong. His telephone number is (852)-2122-8400. He is a citizen of the People's Republic of China (the **PRC**). During the past five years, Mr. Tian has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), nor has he been a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Table of Contents

Ms. Jean Qin Kong

Ms. Jean Qin Kong is the spouse of Mr. Suning (Edward) Tian. Ms. Kong's address is Unit 906, Level 9, Cyberport 2, 100 Cyberport Road, Hong Kong. Her telephone number is (852)-2122-8400. She is a citizen of the United States. During the past five years, Ms. Kong has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), nor has she been a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

PacificInfo Limited

PacificInfo Limited (**PacificInfo**) was formed under the laws of the British Virgin Islands by Mr. Tian for investment holding purposes. PacificInfo is wholly owned by Mr. Suning (Edward) Tian. The business address of PacificInfo is Unit 906, Level 9, Cyberport 2, 100 Cyberport Road, Hong Kong, and its telephone number is (852)-2122-8400.

Mr. Jian (James) Ding

Mr. Jian (James) Ding is the co-chairman of our board of directors. Mr. Ding's business address is 28-7 Bishui Zhuangyuan, Changping District, Beijing 102206, China. His telephone number is (86)-10-5706-9898. He is a citizen of the Hong Kong SAR. During the past five years, Mr. Ding has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), nor has he been a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

New Media China Investment I, Ltd.

New Media China Investment I, Ltd. (**New Media**) was formed under the laws of the British Virgin Islands by Mr. Ding for investment holding purposes. New Media is wholly owned by Mr. Jian (James) Ding. The business address of New Media is Bishui Zhuangyuan, Changping District, Beijing 102206, China, and its telephone number is (86)-10-5706-9898.

Mr. Steve Zhang

Mr. Steve Zhang is one of our directors and president and chief executive officer. Mr. Zhang's business address is c/o AsiaInfo-Linkage, Inc., 4th Floor, Zhongdian Information Tower, 6 Zhongguancun South Street, Haidian District, Beijing 100086, China. His telephone number is (86)-10-8216-6688. He is a citizen of the United States. During the past five years, Mr. Zhang has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), nor has he been a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Skipper Investment Limited

Skipper Investment Limited (**CCP Co-Investment Co**) was formed under the laws of the Cayman Islands for investment holding purposes and is a direct, wholly owned subsidiary of Power Joy. The business address of CCP Co-Investment Co is c/o CITIC Capital Partners Management Limited, 28th Floor CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, and its telephone number is (852)-3710-6888.

Power Joy

Power Joy was formed under the laws of the Cayman Islands for investment holding purposes and is a direct, wholly owned subsidiary of CITIC Capital China Partners II, L.P. The business address of Power Joy is c/o CITIC Capital Partners Management Limited, 28th Floor CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, and its telephone number is (852)-3710-6888.

Table of Contents

CITIC Capital MB Investment Limited

CITIC Capital MB Investment Limited (**CITIC Capital MB**) was formed under the laws of the Cayman Islands for investment purposes and is a direct, wholly owned subsidiary of CITIC Capital Holdings Limited. The business address of CITIC Capital MB is 28th Floor CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, and its telephone number is (852)-3710-6888.

CITIC Capital (Tianjin) Equity Investment Limited Partnership

CITIC Capital (Tianjin) Equity Investment Limited Partnership (**RMB Fund**) was formed under the laws of the PRC for investment purposes. RMB Fund is controlled by CITIC Capital (Tianjin) Investment Management Limited Partnership. The business address of RMB Fund is c/o CITIC Capital Partners Management Limited, 28th Floor CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, and its telephone number is (852)-3710-6888.

CPEChina Fund L.P.

CPEChina Fund, L.P., (**CPEChina**), is a Cayman Islands exempted limited partnership principally engaged in the business of investment. The principal business address and telephone number for CPEChina is PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands, +1 345 949 8066.

Al Gharrafa Investment Company

Al Gharrafa Investment Company (**Al Gharrafa**) was formed under the laws of the Cayman Islands for investment holding purposes. Al Gharrafa is legally and beneficially wholly owned by Qatar Holding LLC. The business address of Al Gharrafa is Q-Tel Tower, 8th Floor, Diplomatic Area Street, West Bay, P.O. Box 23224 Doha, Qatar, and its telephone number is +974 4499-5900.

Ellington Investments Pte. Ltd.

Ellington Investments Pte. Ltd. (**Ellington**) was formed under the laws of Singapore for investment holding purposes. Ellington is wholly owned by Bartley Investments Pte. Ltd., which is a wholly owned subsidiary of Tembusu Capital Pte. Ltd., which is a wholly owned subsidiary of Temasek Holdings (Private) Ltd. The business address of Ellington is 60b Orchard Road, #06-18, Tower 2, The Atrium@Orchard, Singapore 238891, and its telephone number is +65-6828-6828.

AlpInvest Partners Co-Investments 2011 II C.V.

AlpInvest Partners Co-Investments 2011 II C.V. (**AlpInvest 2011 II**) is a limited partnership (*Commanditaire Vennootschaap*) formed under the laws of the Netherlands for securities investment purposes and is controlled by its general partner, AlpInvest Partners 2011 B.V. (**AlpInvest 2011 B.V.**) which is wholly owned and controlled by AlpInvest Partners B.V. (**AlpInvest B.V.**).

AlpInvest Partners Co-investments 2012 I C.V.

AlpInvest Partners Co-Investments 2012 I C.V. (**AlpInvest 2012 I**) is a limited partnership (*Commanditaire Vennootschaap*) formed under the laws of the Netherlands for securities investment purposes and is controlled by its general partner, AlpInvest Partners 2012 I B.V. (**AlpInvest 2012 I B.V.**) which is wholly owned and controlled by AlpInvest B.V.

AlpInvest Partners Co-investments 2012 II C.V.

AlpInvest Partners Co-Investments 2012 II C.V. (**AlpInvest 2012 II**) is a limited partnership (*Commanditaire Vennootschaap*) formed under the laws of the Netherlands for securities investment purpose and is controlled by its general partner, AlpInvest Partners 2012 II B.V. (**AlpInvest 2012 II B.V.**) which is wholly owned and controlled by AlpInvest B.V.

Table of Contents

Each of AlpInvest 2011 B.V., AlpInvest 2012 I B.V., AlpInvest 2012 II B.V. and AlpInvest B.V. (together with AlpInvest 2011 II, AlpInvest 2012 I and AlpInvest 2012 II, the **AlpInvest Entities**) are principally engaged in investment management.

The principal business address and telephone number for each of the AlpInvest Entities is Jachthavenweg 118, 1081 KJ Amsterdam, the Netherlands, and its telephone number is +31 20 540 7575.

CBC TMT III Limited

CBC TMT III Limited (**CBC**) was formed under the laws of the British Virgin Islands by China Broadband Capital Partners, L.P. for investment holding purposes. CBC is wholly owned by China Broadband Capital Partners II, L.P. The business address of CBC is c/o China Broadband Capital Partners II, L.P., Unit 906, Level 9, Cyberport 2, 100 Cyberport Road, Hong Kong, and its telephone number is (852)-2122-8400.

InnoValue Capital Ltd.

InnoValue Capital Ltd. (**InnoValue**) was formed under the laws of the British Virgin Islands by Ms. Liu Tzu-Lien for investment holding purposes. InnoValue is wholly owned by Ms. Liu Tzu-Lien. The business address of InnoValue is No. 113-3, Sec. 1 An-Ho Road, Taipei 106 Taiwan, and its telephone number is +886 2 2700 6930.

Mr. Jun (Michael) Wu

Mr. Jun (Michael) Wu is our executive vice president and chief financial officer. Mr. Wu's business address is c/o AsiaInfo-Linkage, Inc., 4th Floor, Zhongdian Information Tower, 6 Zhongguancun South Street, Haidian District, Beijing 100086, China. His telephone number is (86)-10-8216-6688. He is a citizen of the PRC. During the past five years, Mr. Wu has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), nor has he been a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Mr. Yadong Jin

Mr. Yadong Jin is our executive vice president, chief technology officer and general manager of marketing. Mr. Jin's business address is c/o AsiaInfo-Linkage, Inc., 4th Floor, Zhongdian Information Tower, 6 Zhongguancun South Street, Haidian District, Beijing 100086, China. His telephone number is (86)-10-8216-6688. He is a citizen of the PRC. During the past five years, Mr. Jin has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), nor has he been a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Mr. Guoxiang Liu

Mr. Guoxiang Liu is our executive vice president. Mr. Liu's business address is c/o AsiaInfo-Linkage, Inc., 4th Floor, Zhongdian Information Tower, 6 Zhongguancun South Street, Haidian District, Beijing 100086, China. His telephone number is (86)-10-8216-6688. He is a citizen of the PRC. During the past five years, Mr. Liu has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), nor has he been a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Table of Contents

Overview of the Transaction (page 25)

The Company, Parent and Merger Sub entered into the merger agreement on May 12, 2013. Under the terms of the merger agreement, Merger Sub will be merged with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of Parent (the **merger**). The Company, as the surviving corporation, will continue to do business under the name AsiaInfo-Linkage, Inc. following the merger.

At the effective time of the merger, each share of Company common stock issued and outstanding immediately prior to the effective time of the merger (other than the excluded shares and the dissenting shares) will be converted into the right to receive US\$12.00 in cash without interest (the **merger consideration**). An **excluded share** is a share of Company common stock held (i) in the treasury of the Company or (ii) by Parent or any direct or indirect wholly owned subsidiary of Parent (including Merger Sub) immediately prior to the time at which the merger becomes effective, including each share of Company common stock to be contributed to Parent by the Rollover Stockholders (as defined below) in accordance with certain rollover agreements entered into by Parent and the Rollover Stockholders and each share of Company common stock to be contributed to Parent by certain other stockholders of the Company in accordance with certain additional rollover agreements, if any, which are entered into by such stockholders and Parent from the date of the merger agreement until the date that is two business days prior to the closing date of the merger. A **dissenting share** is a share of Company common stock held by a stockholder who is entitled to demand and properly demands appraisal of such share pursuant to, and who complies in all respects with, Section 262 of the General Corporation Law of the State of Delaware, as amended (the **DGCL**).

Following and as a result of the merger:

the unaffiliated stockholders will no longer have any interest in, and will no longer be stockholders of the Company, and will not participate in any of the Company's future earnings or growth;

shares of Company common stock will no longer be listed on the NASDAQ Global Market, and price quotations with respect to shares of Company common stock in the public market will no longer be available; and

the registration of shares of Company common stock under the Securities Exchange Act of 1934, as amended (the **Exchange Act**), will be terminated.

The Special Meeting (page 88)

The special meeting will be held at _____, Beijing time, on _____, 2013, at _____. At the special meeting, you will be asked to, among other things, adopt the merger agreement. See *Questions and Answers About the Special Meeting and the Merger* for additional information on the special meeting, including how to vote your shares of Company common stock.

Stockholders Entitled to Vote; Vote Required to Adopt the Merger Agreement (page 88)

You may vote at the special meeting and any adjournment or postponement thereof if you owned any shares of Company common stock at the close of business, New York time, on _____, the record date for the special meeting. On that date, there were _____ shares of Company common stock outstanding and entitled to vote at the special meeting. You may cast one vote for each share of Company common stock that you owned on that date. Adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Company common stock. See *The Special Meeting* beginning on page 88 for additional information.

Merger Consideration (page 94)

If the merger is completed, each share of Company common stock issued and outstanding immediately prior to the effective time of the merger, other than as provided below, will be converted into the right to receive the merger consideration in cash without interest. Each excluded share will be automatically cancelled without any conversion thereof and no payment or distribution shall be made with respect thereto. Each dissenting share will be canceled without payment of the merger consideration and the holders of such shares will instead be entitled to appraisal rights under, and in conformity with, the DGCL.

Table of Contents

Prior to the effective time of the merger, Parent will designate a commercial bank or trust company reasonably satisfactory to the Company to act as the paying agent. At the effective time of the merger, Parent will deposit, or will cause to be deposited, with the paying agent an amount in cash sufficient for the paying agent to make payments to the holders of shares of Company common stock and the holders of options and restricted stock units that were granted under the stock plans of the Company pursuant to the merger agreement. Promptly after the effective time of the merger (but in any event no later than three business days from the date thereof), each record holder of shares of Company common stock will be sent (i) a letter of transmittal describing how it may exchange its shares of Company common stock for the merger consideration and (ii) instructions for effecting the surrender of share certificates in exchange for its merger consideration. You will not be entitled to receive the merger consideration until you surrender your stock certificate or certificates along with a properly completed and validly executed letter of transmittal to the paying agent or until the paying agent receives an agent's message in the case of shares held in book-entry form, and, in each case, such other documents as may be required by the paying agent and approved by Parent and us. See *The Merger Agreement Treatment of Common Stock, Company Options and Company Restricted Stock Units* and *The Merger Agreement Exchange and Payment Procedures* beginning on page 94 for additional information.

Treatment of Company Options and Company Restricted Stock Units (page 94)

At the effective time of the merger, (i) each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier I employee, and (ii) 73.3% of each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier II employee, will be converted into an option to purchase a number of shares of Holdco equal to the number of shares subject to such options to purchase shares of Company common stock (or such applicable portion thereof in the case of a tier II employee). The exercise price of the option to purchase a share of Holdco will be equal to the excess of (x) the fair market value of a share of Holdco immediately following the effective time of the merger as determined by Parent in good faith over (y) the excess of the merger consideration over the per share exercise price of such existing options to purchase shares of Company common stock. The other terms and conditions of such options to purchase shares of Company common stock will continue to apply to the options to purchase shares of Holdco. A **tier I employee** refers to an employee of the Company with the title of vice president or a more senior title as of the date of the merger agreement. A **tier II employee** refers to an employee of the Company with the title of director as of the date of the merger agreement.

At the effective time of the merger, (i) 26.7% of each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier II employee, and (ii) each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by an employee of the Company who is neither a tier I employee nor a tier II employee, will be canceled in consideration of an award of restricted stock units (or in the case of a U.S. taxpayer, restricted stock) that provides for the issuance of a number of shares of Holdco. Such number of shares of Holdco will have an aggregate fair market value as of immediately after the effective time of the merger as determined by Parent in good faith equal to the excess of the merger consideration over the per share exercise price of such options to purchase shares of Company common stock, multiplied by the number of shares of Company common stock subject to such options. The awards of restricted stock units and restricted stock will have the same vesting and forfeiture provisions as applied to such options to purchase shares of Company common stock.

At the effective time of the merger, (x) each outstanding and vested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan, and (y) each outstanding option, whether vested or unvested, to purchase shares of Company common stock that was granted under a stock plan of the Company other than the Company's 2011 Stock Incentive Plan, will be canceled in consideration of, as soon as practicable after the effective time of the merger, (i) the right to receive a cash payment in an amount equal to the excess of the merger consideration over the per share exercise price of such options, or (ii) at the election of the holder of such options, the right to receive a number of shares of Holdco with an aggregate fair market value as of immediately following the effective time of the merger as determined by Parent in good faith equal to the excess of the merger consideration over the per share exercise price of such options, multiplied by the number of shares of Company common stock subject to such options, which will not be subject to any forfeiture restriction (but may be subject to a transfer restriction).

Table of Contents

At the effective time of the merger, each outstanding restricted stock unit relating to a share of Company common stock that was granted under a stock plan of the Company will be converted into a restricted stock unit that provides for the issuance of a share of Holdco, which restricted stock unit shall be subject to the same vesting and forfeiture provisions as applied to such restricted stock unit relating to a share of Company common stock.

The treatment of Company options and Company restricted stock units described in the four immediately preceding paragraphs does not apply to any Company options or Company restricted stock units held by any director of the Company who is not a buyer group party. At the effective time of the merger, each outstanding option to purchase shares of Company common stock held by a director of the Company who is not a buyer group party, whether vested or unvested, will be canceled in consideration of the right to receive a cash payment in an amount equal to the excess of the merger consideration over the per share exercise price of such option, multiplied by the number of shares of Company common stock subject to such option. At the effective time of the merger, each outstanding restricted stock unit relating to a share of Company common stock held by a director of the Company who is not a buyer group party will be converted into the right to receive the merger consideration.

See *The Merger Agreement Treatment of Common Stock, Company Options and Company Restricted Stock Units* beginning on page 94 for additional information.

Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger (page 49)

Our board of directors, after careful consideration and acting on the unanimous recommendation of the special committee composed entirely of independent directors, recommends that you vote **FOR** the proposal to adopt the merger agreement. Our board of directors also recommends that you vote **FOR** the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and **FOR** the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement. Please note that one of our directors, Mr. Libin Sun, voted against the foregoing recommendations and one of our directors was absent from the meeting at which our board of directors approved these recommendations. Our board of directors and the special committee have determined that the merger is fair to the unaffiliated stockholders. For a discussion of the material factors considered by our board of directors and the special committee in determining to recommend the adoption of the merger agreement and in determining that the merger is fair to the unaffiliated stockholders, see *Special Factors Relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* beginning on page 48 and *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger* beginning on page 49.

Positions of the Buyer Consortium Regarding the Fairness of the Merger (page 63)

Each member of the buyer consortium believes that the merger is fair to the unaffiliated stockholders. Their belief is based upon the factors discussed under the caption *Special Factors Relating to the Merger Positions of the Buyer Consortium Regarding the Fairness of the Merger* beginning on page 63.

Opinion of Goldman Sachs, Financial Advisor to the Special Committee (page 54)

On May 12, 2013, at a meeting of the special committee, Goldman Sachs (Asia) L.L.C. (**Goldman Sachs**), financial advisor to the special committee, rendered to the special committee its oral opinion, subsequently confirmed in writing, that, as of May 12, 2013, and based upon and subject to the limitations and assumptions set forth therein, the consideration of US\$12.00 in cash to be paid for each share of Company common stock pursuant to the merger agreement was fair from a financial point of view to the holders (other than Parent, the Rollover Stockholders, the sponsors and their respective affiliates) of shares of Company common stock.

Table of Contents

The full text of the written opinion of Goldman Sachs, dated May 12, 2013, which sets forth the assumptions made, procedures followed, matters considered, qualifications and limitations on the review undertaken in connection with the opinion, is attached to this proxy statement as Annex H. The summary of the Goldman Sachs opinion provided in this proxy statement is qualified in its entirety by reference to the full text of the written opinion. Goldman Sachs advisory services and opinion were provided for the information and assistance of the special committee in connection with its consideration of the proposed merger and the opinion does not constitute a recommendation as to how any holder of shares of Company common stock should vote with respect to the proposed merger or any other matter.

Financing of the Merger (page 71)

The buyer consortium estimates that the total amount of funds required to consummate the merger and related transactions will be approximately US\$887 million. The buyer consortium expects to fund this amount through a combination of (i) the contribution of approximately 11,126,567 shares of Company common stock from the Rollover Stockholders and Power Joy to Parent (valued at approximately US\$134 million based on the merger consideration), (ii) equity financing from each sponsor to purchase or cause the purchase of shares of Holdco up to an aggregate amount of approximately US\$415 million in cash, (iii) debt financing of up to US\$330 million from a syndicate of Nomura International (Hong Kong) Limited, Bank of Taiwan, Cathay United Bank, Co., LTD., ICBC International Capital Limited and Maybank Investment Bank Berhad and (iv) the contribution of certain shares of Company common stock underlying restricted stock units pursuant to the merger agreement. See *Special Factors Relating to the Merger Financing of the Merger* beginning on page 71 for additional information.

Limited Guarantees (page 73)

On May 12, 2013, each of Power Joy, CITIC Capital MB Investment Limited, CPEChina Fund, L.P., InnoValue Capital Ltd., and CBC TMT III Limited delivered a limited guarantee to, and Ellington Investments Pte. Ltd. entered into a payment agreement with, the Company, in which they (collectively, the **guarantors**) agreed to guarantee the obligations of Parent and Merger Sub to pay certain fees and reimburse certain expenses, including the termination fee that may become payable to the Company by Parent under certain circumstances set forth in the merger agreement. See *Special Factors Relating to the Merger Limited Guarantee* beginning on page 73 and *The Merger Agreement Fees and Expenses* beginning on page 111 for additional information. Copies of the limited guarantees and the payment agreement are attached as Annexes B to G to this proxy statement.

Voting Agreement (page 73)

Parent and the Voting Stockholders have entered into a voting agreement (as amended) pursuant to which the Voting Stockholders agreed to vote all of their shares in favor of adoption of the merger agreement at the special meeting, and to vote against any (i) acquisition proposal, (ii) reorganization, recapitalization, dissolution, liquidation or winding-up of the Company or any other extraordinary transaction involving the Company, (iii) proposal or corporate action that is made in opposition to or in competition with, or would otherwise frustrate the purposes of, or prevent or delay the consummation of, the transactions contemplated by the merger agreement, including the Merger, or (iv) other matter relating to, or in connection with, any of the foregoing matters. The voting agreements terminate upon the earlier of (i) the closing of the merger and (ii) termination of the merger agreement in accordance with its terms. Additionally, the Voting Stockholders have entered into the voting agreements solely in their capacities as stockholders of the Company, and nothing in the voting agreements will restrict or limit any fiduciary duties owed to the Company. See *Special Factors Relating to the Merger Voting Agreement* beginning on page 73 for additional information.

Consortium Agreement (page 74)

Concurrently with the execution and delivery of the merger agreement, Parent, Merger Sub, Holdco, the sponsors and certain affiliates of the sponsors entered into a consortium agreement that governs the relationship among the parties thereto with respect to the merger agreement and matters relating thereto until the consummation of the merger. See *Special Factors Relating to the Merger Consortium Agreement* beginning on page 74 for additional information.

Table of Contents

Interests of the Company's Directors and Officers in the Merger (page 74)

When considering the recommendation of our board of directors in favor of the adoption of the merger agreement, you should be aware that the members of our board of directors and certain of our officers have the following interests in the merger in addition to their interests as our stockholders generally. These interests may be different from, or in addition to, your interests as our stockholders.

Concurrently with the execution and delivery of the merger agreement, Parent delivered to us the rollover agreements executed by the Rollover Stockholders. The Rollover Stockholders have agreed, among other things, to contribute shares of Company common stock beneficially owned by them (the **Rollover Shares**) to Parent in exchange for newly issued shares of Holdco. In addition, pursuant to the merger agreement, Parent may enter into additional rollover agreements with Additional Rollover Stockholders prior to the closing for the contribution of up to 800,000 shares of Company common stock to Parent in exchange for shares of Holdco. The effect of these transactions will be to allow the Rollover Stockholders and any Additional Rollover Stockholders to remain indirect owners of the surviving corporation after the merger is completed. Because of their equity ownership of Holdco, each Rollover Stockholder and any Additional Rollover Stockholders will enjoy the benefits from any future earnings and growth of the Company after the merger and will also bear the corresponding risks of any possible decreases in future earnings, growth, or value. The Rollover Stockholders and any Additional Rollover Stockholders may also benefit after the merger from the elimination of expenses associated with public company reporting and compliance requirements and increased flexibility as a private rather than a publicly traded company.

At the effective time of the merger, each outstanding option to purchase shares of Company common stock held by a director of the Company who is not a buyer group party, whether vested or unvested, will be canceled in consideration of the right to receive a cash payment in an amount equal to the excess of the merger consideration over the per share exercise price of such option, multiplied by the number of shares of Company common stock subject to such option. At the effective time of the merger, each outstanding restricted stock unit relating to a share of Company common stock held by a director of the Company who is not a buyer group party will be converted into the right to receive the merger consideration.

Additionally, members of the special committee received compensation for their service of evaluating the merger and alternatives thereto, and negotiating the merger agreement and the transactions contemplated by the merger agreement, including the merger. See *Special Factors Relating to the Merger Background of the Merger* beginning on page 25. From the effective time of the merger until the sixth anniversary of the effective time of the merger, to the fullest extent the Company would have been permitted to do so under applicable law (for the avoidance of doubt, subject to the limitations on the Company's ability to indemnify its directors and officers under Section 145 of the DGCL). Parent will indemnify and hold harmless each indemnified party from and against any and all costs or expenses (including reasonable attorneys' fees and expenses), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any actual or threatened claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of, relating to or in connection with (i) the fact that an indemnified party is or was a director or officer of the Company or any of its subsidiaries, (ii) any acts or omissions occurring or alleged to occur prior to or at the effective time of the merger in such indemnified party's capacity as a director, officer, employee or agent of the Company or any of its subsidiaries or other affiliates, or (iii) the merger, the merger agreement or any of the transactions contemplated by the merger agreement.

The members of our board of directors were aware of these additional interests, and considered them, when they adopted the merger agreement, the merger and the other transactions contemplated by the merger agreement. See *Special Factors Relating to the Merger Interests of the Company's Directors and Officers in the Merger* beginning on page 74.

Conditions to the Merger (page 106)

The respective obligations of each of the Company, Parent and Merger Sub to consummate the merger are subject to the satisfaction or waiver of certain conditions. For a more detailed description of these conditions, see *The Merger Agreement Conditions to the Merger* beginning on page 106.

Table of Contents

Regulatory Matters (page 83)

The Company does not believe that any material federal, national, provincial, local or state, whether domestic or foreign, regulatory approvals, filings or notices are required in connection with the merger other than the approvals, filings or notices required under the U.S. federal securities laws, the filing of the certificate of merger with the Secretary of State of the State of Delaware with respect to the merger and the filings under the Anti-Monopoly Law of the PRC (**PRC Anti-Monopoly Law**) and receipt of clearance thereunder approving the merger.

Alternative Takeover Proposals (page 101)

Until the effective time of the merger or, if earlier, the termination of the merger agreement, the Company and its subsidiaries will not, nor will they authorize or direct any of their respective representatives to, directly or indirectly:

solicit, initiate or take any other action knowingly to facilitate or encourage any acquisition proposal (as defined below under *The Merger Agreement Alternative Takeover Proposals*);

engage in, continue or otherwise participate in any discussions or negotiations regarding, or provide any non-public information or data concerning, the Company or any of its subsidiaries to any third party (other than Parent, Merger Sub or any designees of Parent or Merger Sub) with the intent to induce the making, submission or announcement of, or the intent to encourage, facilitate or assist an acquisition proposal; or

approve, endorse, recommend, execute or enter into any letter of intent, agreement in principle, merger agreement, acquisition agreement or other similar agreement (other than an acceptable confidentiality agreement) relating to any acquisition proposal. However, any proposal or suggestion, formal or informal, made by a director of the Company at any meeting of our board of directors or any of its committees, which was not solicited by our board of directors or any of its committees, to take any action described in sub-clause (e) in the definition of acquisition proposal and any discussion of such proposal solely for the purpose of informing such director of the Company's obligations will not (in themselves) be prohibited.

At any time prior to the receipt of the Company's stockholders' adoption of the merger agreement, the Company, its subsidiaries and the Company's and its subsidiaries' representatives may:

grant a waiver, amendment or release under any standstill agreement for the purpose of allowing any third party to make an acquisition proposal;

following the receipt of an unsolicited acquisition proposal, contact the third party who has made such acquisition proposal to clarify and understand the terms and conditions thereof;

following the receipt of an unsolicited acquisition proposal and the determination in good faith by our board of directors that such acquisition proposal either constitutes a superior proposal (as defined below under *The Merger Agreement Alternative Takeover Proposals*) or could reasonably be expected to result in a superior proposal, provide information (including any non-public information or data concerning the Company or any of its subsidiaries) in response to the request of the third party who has made such acquisition proposal; and/or

following the receipt of an unsolicited acquisition proposal and the determination in good faith by our board of directors that such acquisition proposal either constitutes a superior proposal or could reasonably be expected to result in a superior proposal, engage or participate in any discussions or negotiations with the third party who has made such acquisition proposal.

Table of Contents

The merger agreement provides that our board of directors (or any committee thereof composed solely of independent directors, including the special committee) can only (i) effect a change in the Company recommendation (as defined below under *The Merger Agreement Alternative Takeover Proposals*) in response to an intervening event or a superior proposal and/or (ii) authorize the Company to terminate the merger agreement to enter into an alternative acquisition agreement (as defined below under *The Merger Agreement Alternative Takeover Proposals*), if (x) with respect to a change in the Company recommendation, our board of directors (or any committee thereof composed solely of independent directors, including the special committee) determines in good faith, after consultation with its outside legal counsel, that failure to do so would reasonably be expected to be inconsistent with the directors' fiduciary duties under applicable law or (y) with respect to a termination of the merger agreement to enter into an alternative acquisition agreement with respect to a bona fide, written acquisition proposal, our board of directors (or any committee thereof composed solely of independent directors, including the special committee) determines in good faith, based on information then available and after consultation with its independent financial advisor and outside legal counsel, that such acquisition proposal constitutes a superior proposal.

The Company is not entitled to effect a change in the Company recommendation or terminate the merger agreement to enter into an alternative acquisition agreement unless (i) the Company has delivered the change or termination notice to Parent (as defined below under *The Merger Agreement Alternative Takeover Proposals*), and (ii) the Company shall cause its financial and legal advisors to, during the period beginning at 5:00 p.m. Hong Kong time on the day of delivery by the Company to Parent of such change or termination notice (or, if delivered after 5:00 p.m. Hong Kong time or any day other than a business day, beginning at 5:00 p.m. Hong Kong time on the next business day) and ending five business days later at 5:00 p.m. Hong Kong time negotiate with Parent and its representatives in good faith (to the extent Parent desires to negotiate) any proposed modifications to the terms and conditions of the merger agreement and/or the financing documents so that such acquisition proposal ceases to constitute a superior proposal or so that the failure to effect a change in the Company recommendation would no longer reasonably be expected to be inconsistent with the directors' fiduciary duties under applicable law, and (iii) following the end of such negotiation period(s), our board of directors (or any committee thereof composed solely of independent directors, including the special committee) will have determined in good faith (after consultation with its independent financial advisor and outside legal counsel), after considering the terms of any proposed amendment or modification to the merger agreement and/or the financing documents, that (A) with respect to a change in the Company recommendation, the failure to effect a change in the Company recommendation would still reasonably be expected to be inconsistent with the directors' fiduciary duties under applicable law or (B) with respect to a termination of the merger agreement to enter into an alternative acquisition agreement with respect to an acquisition proposal, such acquisition proposal continues to constitute a superior proposal.

The Company is not restricted from issuing a stop, look and listen communication pursuant to Rule 14d-9(f) of the Exchange Act or taking or disclosing to its stockholders a position contemplated by Rule 14e-2(a), Rule 14d-9 or Item 1012(a) of Regulation M-A promulgated under the Exchange Act (or any similar communication to stockholders in connection with the making or amendment of a tender offer or exchange offer).

The Company agrees that it will promptly (and, in any event, within 48 hours) notify Parent if it or any of its representatives becomes aware that any acquisition proposals are received by, any non-public information is requested from, or any discussions or negotiations are sought to be initiated or continued with, the Company, our board of directors (or any committee thereof composed solely of independent directors, including the special committee) or any representative of the foregoing, indicating, in connection with such notice, the identity of the third party making such acquisition proposal and the material terms and conditions of any acquisition proposals and thereafter will keep Parent reasonably informed of the status and terms of any such acquisition proposals (including any amendments thereto that are material in any respect) and the status of any such discussions or negotiations. None of the Company, our board of directors or any committee thereof will enter into any binding agreement or contract with any person to limit the Company's ability to give prior notice to Parent of its intention to effect a change in the Company recommendation or to terminate the merger agreement in light of a superior proposal. For a more detailed description of the alternative takeover proposals, see *The Merger Agreement Alternative Takeover Proposals* beginning on page 101.

Table of Contents

Termination of the Merger Agreement (page 107)

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after receipt of the requisite stockholder approval of the merger (except for termination in connection with the entry into an alternative acquisition agreement with respect to a superior proposal which must occur prior to receipt of the requisite stockholder approval):

by mutual written consent of the Company and Parent;

by either of the Company or Parent, if:

the merger is not consummated by the end date (as defined below under *The Merger Agreement Termination*); provided that this termination right is not available to a party if the failure of such party to fulfill any of its obligations under the merger agreement or other intentional breach is the material cause or contributing factor to the failure of the closing to occur by that date;

any law or order which has the effect of enjoining, restraining, prohibiting or otherwise making illegal the consummation of the transactions contemplated by the merger agreement becomes final and nonappealable; provided, that this termination right is not available to a party if the failure of such party to fulfill any of its obligations under the merger agreement or other intentional breach is the material cause or contributing factor to the issuance of such final, nonappealable law or order; or

our stockholders do not adopt the merger agreement at the special meeting or any adjournment or postponement thereof.

by the Company:

upon a breach by Parent or Merger Sub of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of Parent and Merger Sub becomes untrue, in either case such that the conditions to the obligations of the Company would not be satisfied and such breach cannot be cured by Parent or Merger Sub by the end date or, if capable of being cured, has not been cured within ten business days following receipt by Parent of written notice from the Company of such breach or before the end date; provided that this termination right is not available to the Company if a material breach of the merger agreement by the Company is the material cause or contributing factor to the failure of such condition to be satisfied;

prior to the receipt of the requisite stockholder approval of the merger, in order to enter into an alternative acquisition agreement with respect to a superior proposal; or

if (i) all the closing conditions to the obligations of Parent and Merger Sub have been satisfied or waived by Parent, (ii) Parent fails to fund the exchange fund within three business days following the date on which the closing was required to have occurred pursuant to the merger agreement, and (iii) the Company has irrevocably notified Parent in writing that all the closing conditions to the obligations of the Company have been satisfied at the closing or waived by the Company and it stands ready, willing and able to consummate the merger during such period.

by Parent, if:

upon a breach by the Company of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of the Company becomes untrue, in either case such that the conditions to the obligations of Parent and Merger Sub would not be satisfied and such breach cannot be cured by the Company by the end date or, if capable of being cured, has not been cured within ten business days following receipt by the Company of written notice from Parent of such breach or before the end date; provided that this termination right is not available to Parent if a material breach of the merger agreement by Parent is the material cause or contributing factor to the failure of such condition to be satisfied;

Table of Contents

if (i) prior to the receipt of the requisite stockholder approval of the merger, there has been a change of recommendation, (ii) a tender or exchange offer for the common stock of the Company that constitutes an acquisition proposal (whether or not a superior proposal) is commenced by a person unaffiliated with Parent or any Rollover Stockholder and, within five business days after the public announcement of the commencement of such acquisition proposal, the Company has not filed a Schedule 14D-9 pursuant to Rule 14e-2 and Rule 14d-9 promulgated under the Exchange Act recommending that the stockholders of the Company reject such acquisition proposal and not tender any shares of Company common stock into such tender or exchange offer, or (iii) at any time after receipt or public announcement of an acquisition proposal, our board of directors fails to reaffirm its recommendation that the stockholders of the Company adopt the merger agreement within five business days after receipt of any written request to do so from Parent; or

there is an intentional and material breach by the Company of its covenants relating to holding the stockholders meeting and submitting the merger agreement to the stockholders for approval at such meeting, non-solicitation of acquisition proposals and making and changing its recommendation to stockholders under certain conditions.

Termination Fees and Reimbursement of Expenses (page 108)

The Company is required to pay Parent a termination fee of US\$18 million in the event the merger agreement is terminated:

by Parent, upon a breach by the Company of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of the Company becomes untrue, in either case such that the conditions to the obligations of Parent and Merger Sub would not be satisfied and such breach cannot be cured by the Company by the end date or, if capable of being cured, has not been cured within ten business days following receipt by the Company of written notice from Parent of such breach or before the end date;

by Parent, if (i) prior to the receipt of the requisite stockholder approval of the merger, there has been a change of recommendation, (ii) a tender or exchange offer for the common stock of the Company that constitutes an acquisition proposal (whether or not a superior proposal) is commenced by a person unaffiliated with Parent or any Rollover Stockholder and, within five business days after the public announcement of the commencement of such acquisition proposal, the Company has not filed a Schedule 14D-9 pursuant to Rule 14e-2 and Rule 14d-9 promulgated under the Exchange Act recommending that the stockholders of the Company reject such acquisition proposal and not tender any shares of Company common stock into such tender or exchange offer, or (iii) at any time after receipt or public announcement of an acquisition proposal, our board of directors fails to reaffirm its recommendation that the stockholders of the Company adopt the merger agreement within five business days after receipt of any written request to do so from Parent;

by Parent, if there is an intentional and material breach on the part of the Company of covenants relating to the stockholders meeting of the Company, no solicitation of transactions and change of recommendation;

by the Company, if our stockholders do not adopt the merger agreement at the special meeting or any adjournment or postponement thereof, but only if at the time of such termination Parent has the right to terminate the merger agreement under any of the three events noted above;

by the Company, prior to the receipt of the requisite stockholder approval of the merger, in order to enter into an alternative acquisition agreement with respect to a superior proposal; or

by Parent or the Company, (i) due to the fact that (x) the merger is not consummated by the end date, or (y) our stockholders do not adopt the merger agreement at the special meeting or any adjournment or postponement thereof, (ii) at any time between the date of the merger agreement and such termination a third party has publicly disclosed (or solely in the case of termination due to sub-clause (i)(x) above, otherwise communicated to our board of directors (or any committee thereof composed solely of independent directors,

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including the special committee)) a *bona fide* acquisition proposal, and (iii) within nine months following such termination, the Company enters into a definitive agreement with respect to, recommends to its stockholders, or consummates, any acquisition proposal.

Table of Contents

Parent is required to pay the Company a termination fee in the event the merger agreement is terminated by the Company:

upon a breach by Parent or Merger Sub of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of Parent and Merger Sub becomes untrue, in either case such that the conditions to the obligations of the Company would not be satisfied and such breach cannot be cured by Parent or Merger Sub by the end date or, if capable of being cured, has not been cured within ten business days following receipt by Parent of written notice from the Company of such breach or before the end date, with the termination fee being in the amount of:

US\$36 million, if such breach by Parent or Merger Sub is a willful breach (as defined below under *The Merger Agreement Termination Fees and Reimbursement of Expenses*); or

US\$18 million, in any other circumstance giving rise to the termination mentioned above; or

if (i) all the closing conditions to the obligations of Parent and Merger Sub have been satisfied or waived by Parent, (ii) Parent fails to fund the exchange fund within three business days following the date on which the closing was required to have occurred pursuant to the merger agreement, and (iii) the Company has irrevocably notified Parent in writing that all the closing conditions to the obligations of the Company have been satisfied at the closing or waived by the Company and it stands ready, willing and able to consummate the merger during such period, with the termination fee being in the amount of:

US\$36 million, if (i) Parent's failure to fund the exchange fund is due to the proceeds of the debt financing not being available, where such unavailability is a result of (x) any willful breach by Parent or Merger Sub of the representations, warranties, covenants or agreements contained in the merger agreement, or (y) any breach by the buyer group parties or any of their respective affiliates (other than the Company and its subsidiaries) of any of the rollover agreements, additional rollover agreements, the voting agreement, the consortium agreement, the debt commitment letter and the equity commitment letters, or (ii) Parent fails to fund the exchange fund when and if the proceeds of the debt financing are available to be drawn down; or

US\$18 million, in any other circumstance giving rise to the termination mentioned above.

The Company is required to reimburse Parent and its affiliates for 100% of their documented out-of-pocket expenses up to US\$5 million actually incurred by any of them in connection with the merger agreement and the transactions contemplated thereunder, in the event the merger agreement is terminated:

by Parent, upon a breach by the Company of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of the Company becomes untrue, in either case such that the conditions to the obligations of Parent and Merger Sub would not be satisfied and such breach cannot be cured by the Company by the end date or, if capable of being cured, has not been cured within ten business days following receipt by the Company of written notice from Parent of such breach or before the end date;

Table of Contents

by Parent, if (i) prior to the receipt of the requisite stockholder approval of the merger, there has been a change of recommendation, (ii) a tender or exchange offer for the common stock of the Company that constitutes an acquisition proposal (whether or not a superior proposal) is commenced by a person unaffiliated with Parent or any Rollover Stockholder and, within five business days after the public announcement of the commencement of such acquisition proposal, the Company has not filed a Schedule 14D-9 pursuant to Rule 14e-2 and Rule 14d-9 promulgated under the Exchange Act recommending that the stockholders of the Company reject such acquisition proposal and not tender any shares of Company common stock into such tender or exchange offer, or (iii) at any time after receipt or public announcement of an acquisition proposal, our board of directors fails to reaffirm its recommendation that the stockholders of the Company adopt the merger agreement within five business days after receipt of any written request to do so from Parent;

by Parent, there has been an intentional and material breach on the part of the Company of covenants relating to the stockholders meeting of the Company, no solicitation of transactions and change of recommendation;

by the Company under any of the circumstances in which Parent solely has a right to terminate the merger agreement; or

by the Company, prior to the receipt of the requisite stockholder approval of the merger, in order to enter into an alternative acquisition agreement with respect to a superior proposal.

Parent is required to reimburse the Company and its affiliates for 100% of their documented out-of-pocket expenses up to US\$5 million actually incurred by any of them in connection with the merger agreement and the transactions contemplated thereunder, in the event the merger agreement is terminated:

by the Company, upon a breach by Parent or Merger Sub of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of Parent and Merger Sub becomes untrue, in either case such that the conditions to the obligations of the Company would not be satisfied and such breach cannot be cured by Parent or Merger Sub by the end date or, if capable of being cured, has not been cured within ten business days following receipt by Parent of written notice from the Company of such breach or before the end date; or

by the Company, if (i) all the closing conditions to the obligations of Parent and Merger Sub have been satisfied or waived by Parent, (ii) Parent fails to fund the exchange fund within three business days following the date on which the closing was required to have occurred pursuant to the merger agreement, and (iii) the Company has irrevocably notified Parent in writing that all the closing conditions to the obligations of the Company have been satisfied at the closing or waived by the Company and it stands ready, willing and able to consummate the merger during such period; or

by Parent, at the time of such termination, the Company had the right to terminate the merger agreement pursuant to any of the above two sub-items.

Remedies (page 111)

The Company's right to terminate the merger agreement and receive payment of (i) a termination fee of either US\$18 million or US\$36 million from Parent, (ii) any reimbursement of costs and expenses pursuant to the merger agreement, and/or (iii) any amount in respect of which it is indemnified by Parent in connection with financing assistance provided by it pursuant to the merger agreement, as may be applicable, is the sole and exclusive remedy of the Company against Parent, Merger Sub, their respective affiliates or financing sources for any loss or damage suffered as a result of any such breach or failure to perform under the merger agreement or other failure of the merger to be consummated.

Table of Contents

Subject to any equitable remedies Parent may be entitled to, Parent's right to receive payment of (i) a termination fee of US\$18 million, and/or (ii) any reimbursement of costs and expenses pursuant to the merger agreement, as may be applicable, is the sole and exclusive remedy of Parent and Merger Sub against the Company for any loss or damage suffered as a result of any such breach or failure to perform under the merger agreement or other failure of the merger to be consummated.

Parent and Merger Sub are entitled to specific performance of the terms under the merger agreement, including an injunction or injunctions to prevent breaches of the merger agreement and to enforce specifically the terms and provisions of the merger agreement. The Company is not entitled to an injunction or injunctions to prevent breaches of the merger agreement by Parent or Merger Sub or any remedy to enforce specifically the terms and provisions of the merger agreement.

Appraisal Rights (page 115)

If the merger is consummated, stockholders of the Company who do not vote in favor of adopting the merger agreement will have the right to seek appraisal of the fair value of their shares of Company common stock as determined by the Delaware Court of Chancery, but only if they comply fully with all requirements of Section 262 of the DGCL, which are summarized in this proxy statement. The value so determined could be more or less than, or the same as, merger consideration.

You should read *Appraisal Rights* beginning on page 115 for a more complete discussion of the appraisal rights in relation to the merger as well as Annex I which contains a full text of the applicable Delaware statute.

Material United States Federal Income Tax Consequences (page 84)

The receipt of cash in exchange for Company common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes and may also be taxable under applicable state, local, foreign or other tax laws. In general, a U.S. Holder (as defined below under *Special Factors Relating to the Merger Material United States Federal Income Tax Consequences*) of Company common stock will recognize gain or loss in an amount equal to the difference, if any, between the amount of cash received in the merger and the U.S. Holder's adjusted tax basis in its shares of Company common stock. In general, a Non-U.S. Holder (as defined below under *Special Factors Relating to the Merger Material United States Federal Income Tax Consequences*) of shares of Company common stock will not be subject to U.S. federal income tax in respect of cash received in the merger, unless such Non-U.S. Holder has certain connections to the United States. The tax consequences of the merger to you will depend upon your own personal circumstances. You should consult your tax advisors to determine the particular tax consequences to you (including the application and effect of any state, local or foreign income and other tax laws) of the merger.

Material PRC Tax Consequences (page 86)

Under the PRC Enterprise Income Tax Law (the **EIT Law**), which took effect on January 1, 2008, enterprises established outside of the PRC whose de facto management bodies are located in the PRC are considered resident enterprises. The implementation rules for the EIT Law define the de facto management body as an establishment that has substantial management and control over the business, personnel, accounts and properties of an enterprise. Although there has not been a definitive determination of the Company's status by the PRC tax authorities, the Company does not believe that it should be considered a resident enterprise under the EIT Law or that the gain recognized on the receipt of cash for Company common stock should be subject to PRC tax to holders of such common stock that are not PRC residents. If, however, the PRC tax authorities were to determine that the Company should be considered a resident enterprise or that the receipt of cash for these common stock should otherwise be subject to PRC tax, then gain recognized on the receipt of cash for Company common stock pursuant to the merger (or through the exercise of dissenter's rights) by holders of such common stock who are not PRC residents could be treated as PRC-source income that would be subject to PRC tax at a rate of 20% in the case of individuals or 10% in the case of enterprises (subject to any applicable treaty relief). You should consult your own tax advisor for a full understanding of the tax consequences of the merger to you, including any PRC tax consequences.

Table of Contents

Litigation Relating to the Merger (page 86)

Since our announcement that we entered into the merger agreement, certain alleged Company stockholders have filed three putative class actions against us, the members of our board of directors and Merger Sub in the Delaware Court of Chancery, under the captions *Guanghai Cai v. AsiaInfo-Linkage, Inc., et al.*, C.A. No. 8583-VCP, *Dawan Liu v. AsiaInfo-Linkage, Inc., et al.*, C.A. No. 8634-VCP, and *Loren Lowry v. AsiaInfo-Linkage, Inc., et al.*, C.A. No. 8695-VCP. Plaintiffs allege that our board of directors breached their fiduciary duties to our stockholders by favoring Parent over other potential purchasers, favoring their own interests over the interests of our stockholders, failing to take appropriate steps to maximize the value of the Company to our stockholders, agreeing to preclusive deal protection devices and otherwise agreeing to sell the Company for an unfairly low price. Plaintiffs further allege that the Company and Merger Sub aided and abetted those alleged breaches of fiduciary duty. Plaintiffs have requested an injunction, rescission of the merger to the extent consummated, money damages if the merger is consummated, certain other equitable relief, and an award of plaintiffs' costs, including legal fees. Plaintiffs in the Liu action have also requested a declaration that the merger is unfair, unjust and inequitable.

Where You Can Find More Information (page 123)

You can find more information about the Company in the periodic reports and other information we file with the SEC. The information is available at the website maintained by the SEC at www.sec.gov. For a more detailed description of the additional information available, see *Where You Can Find More Information* beginning on page 123.

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers are intended to address commonly asked questions regarding the merger, the merger agreement, and the special meeting. These questions and answers may not address all questions that may be important to you as a Company stockholder. Please refer to the section titled "Summary Term Sheet Related to the Merger" beginning on page 1 and the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement, and the documents referred to in this proxy statement, all of which you should read carefully and in their entirety. You may obtain the documents incorporated by reference in this proxy statement without charge by following the instructions in the section titled "Where You Can Find More Information" beginning on page 123.

Q: When and where is the special meeting of our stockholders?

A: The special meeting of stockholders will be held at _____, Beijing time, on _____, at _____.

Q: Why am I receiving this proxy statement?

A: You are receiving this proxy statement in connection with the solicitation of proxies by our board of directors in favor of, among other things, the adoption of the merger agreement. On May 12, 2013, we entered into the merger agreement with Parent and Merger Sub providing for the merger of Merger Sub with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of Parent. After the merger, shares of Company common stock will not be publicly traded.

Q: What matters will be voted on at the special meeting?

A: You will be asked to consider and vote on the following proposals:

adoption of the merger agreement, which provides for the merger;

approval, on an advisory, non-binding basis, of the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger; and

approval of the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.

Q: As a stockholder, what will I receive in the merger?

A: If the merger is completed, you will be entitled to receive US\$12.00 in cash, without interest, for each share of Company common stock that you own immediately prior to the effective time of the merger as described in the merger agreement.

See *Special Factors Relating to the Merger*, *Material United States Federal Income Tax Consequences* and *Material PRC Tax Consequences* beginning on pages 84 and 86, respectively, for a more detailed description of the U.S. federal and PRC tax consequences of the merger. You should consult your own tax advisor for a full understanding of how the merger will affect your U.S. federal, state, local, PRC and/or other non-U.S. taxes.

Q: What vote of our stockholders is required to adopt the merger agreement and other proposals?

A: The vote requirements to approve the proposals are as follows:

For Proposal No. 1 (adoption of the merger agreement), the affirmative vote of the holders of a majority of the outstanding shares of Company common stock must vote **FOR** the proposal to adopt the merger agreement.

Table of Contents

For Proposal No. 2 (the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger), the affirmative vote of the holders of a majority of shares of Company common stock present or represented by proxy at the meeting and entitled to vote is required. The vote on the payment of merger-related compensation is a vote separate and apart from the vote to adopt the merger agreement. Accordingly, you may vote in favor of the adoption of the merger agreement and not in favor the merger-related compensation proposal, or vice versa. Approval of this proposal is not a condition to completion of the merger, and the vote with respect to this proposal is advisory only and will not be binding on the Company, Parent or Merger Sub. If the merger agreement is adopted and the merger is completed, the named executive officers will become entitled to the compensation and benefits described herein regardless of the outcome of this advisory vote.

For Proposal No. 3 (approval of the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement), the affirmative vote of the holders of a majority of the shares of Company common stock present in person or represented by proxy and entitled to vote at the meeting, whether or not a quorum is present, is required.

At the close of business, New York time, on _____, the record date, _____ shares of Company common stock were outstanding and entitled to vote at the special meeting. **Pursuant to the voting agreement, as amended, the Voting Stockholders have agreed to vote approximately 11.6% of the total outstanding shares of Company common stock in favor of the adoption of the merger agreement.**

Q: Who can attend and vote at the special meeting?

A: All stockholders of record as of the close of business, New York time, on _____, the record date for the special meeting, are entitled to receive notice of and to attend and vote at the special meeting, or any postponement or adjournment thereof. If you wish to attend the special meeting and your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee (i.e., in street name _____), you will need to bring a copy of your voting instruction card or statement reflecting your share ownership as of the record date. Street name holders who wish to vote at the special meeting will need to obtain a proxy from the broker, dealer, commercial bank, trust company or other nominee that holds their shares of Company common stock. Seating will be limited at the special meeting. Admission to the special meeting will be on a first-come, first-served basis.

Q: Am I entitled to exercise appraisal rights instead of receiving the merger consideration for my shares of Company common stock?

A: Company stockholders who do not vote in favor of adoption of the merger agreement will have the right to seek appraisal and receive the fair value of their shares of Company common stock in lieu of receiving the merger consideration if the merger closes, but only if they perfect their appraisal rights by complying with the required procedures under Delaware law. See *Appraisal Rights* beginning on page 115 for additional information. For the full text of Section 262 of the DGCL, please see Annex I hereto.

Q: How do I cast my vote if I am a holder of record?

A: If you were a holder of record as of the close of business, New York time, on _____, you may vote in person at the special meeting or by submitting a proxy for the special meeting. You can submit your proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed, postage paid envelope. Holders of record may also vote by telephone or the Internet by following the instructions on the proxy card.

If you properly transmit your proxy, but do not indicate how you want to vote, your proxy will be voted FOR the proposal to adopt the merger agreement, FOR the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and FOR the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.

Table of Contents

Q: How do I cast my vote if my shares of Company common stock are held in street name by my broker, dealer, commercial bank, trust company or other nominee?

A: If you hold your shares in street name, which means your shares of Company common stock are held of record on _____, by a broker, dealer, commercial bank, trust company or other nominee, you must provide the record holder of your shares of Company common stock with instructions on how to vote your shares of Company common stock in accordance with the voting directions provided by your broker, dealer, commercial bank, trust company or other nominee. **If you do not provide your broker, dealer, commercial bank, trust company or other nominee with instructions on how to vote your shares of Company common stock, your shares of Company common stock will not be voted, which will have the same effect as voting AGAINST the proposal to adopt the merger agreement.** Please refer to the voting instruction card used by your broker, dealer, commercial bank, trust company or other nominee to see if you may submit voting instructions using the Internet or telephone.

Q: What will happen if I abstain from voting or fail to vote on the proposal to adopt the merger agreement or other proposals?

A: If you are a beneficial owner of shares of Company common stock held in street name and do not provide the organization that holds your shares of Company common stock with specific voting instructions, under the rules of various national and regional securities exchanges, the organization that holds your shares of Company common stock may generally vote on routine matters but cannot vote on non-routine matters. If the organization that holds your shares of Company common stock does not receive instructions from you on how to vote your shares of Company common stock on a non-routine matter, the organization that holds your shares of Company common stock does not have the authority to vote on the matter with respect to those shares of Company common stock. This is generally referred to as a broker non-vote.

A failure to vote your shares of Company common stock, an abstention from voting or a broker non-vote will have the same effect as a vote AGAINST the proposal to adopt the merger agreement. A failure to vote your shares of Company common stock and broker non-votes will have no effect on the outcome of the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger. An abstention from voting will have the same effect as a vote AGAINST the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger. A failure to vote your shares of Company common stock and broker non-votes will have no effect on the outcome of the proposal to adjourn the special meeting. An abstention from voting will have the same effect as a vote AGAINST the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

All proposals involve matters that we believe will be considered non-routine. We encourage you to provide voting instructions to the organization that holds your shares of Company common stock by carefully following the instructions provided on your proxy card.

Q: Can I change my vote after I have delivered my proxy?

A: Yes. If you are a record holder, you can change your vote at any time before your proxy is voted at the special meeting by properly delivering a later-dated proxy either by mail, the Internet or telephone or attending the special meeting in person and voting. You also may revoke your proxy by delivering a notice of revocation to the Company's Corporate Secretary prior to the vote at the special meeting. If your shares of Company common stock are held in street name, you must contact your broker, dealer, commercial bank, trust company or other nominee to revoke your proxy.

Table of Contents

Q: What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement or multiple proxy or voting instruction cards. For example, if you hold your shares of Company common stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares of Company common stock. If you are a holder of record and your shares of Company common stock are registered in more than one name, you will receive more than one proxy card. **Please submit each proxy and voting instruction card that you receive.**

Q: How does our board of directors recommend that I vote?

A: Our board of directors, after careful consideration and acting on the unanimous recommendation of the special committee composed entirely of independent directors, recommends that our stockholders vote FOR the proposal to adopt the merger agreement. Our board of directors also recommends that you vote FOR the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and FOR the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement. Please note that one of our directors, Mr. Libin Sun, voted against the foregoing recommendations and one of our directors was absent from the meeting at which our board of directors approved these recommendations. See *Special Factors Relating to the Merger Background of the Merger* beginning on page 25 for more details.

You should read *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger* beginning on page 49 for a discussion of the factors that our special committee and board of directors considered in deciding to recommend the adoption of the merger agreement. In addition, in considering the recommendation of the special committee and our board of directors with respect to the merger agreement, you should be aware that some of the Company's directors and executive officers may have interests that are different from, or in addition to, the interests of our stockholders generally. See *Special Factors Relating to the Merger Interests of the Company's Directors and Officers in the Merger* beginning on page 74.

Q: If I am a holder of certificated shares of Company common stock, should I send in my stock certificates now?

A: No. Promptly after the merger is completed, each holder of record as of the time of the merger will be sent written instructions for exchanging their stock certificates for the merger consideration. These instructions will tell you how and where to send in your stock certificates for your cash consideration. You will receive your cash payment after the paying agent receives your share certificates and any other documents requested in the instructions. Please do not send stock certificates with your proxy.

Holders of uncertificated shares of Company common stock (i.e., holders whose shares of Company common stock are held in book-form entry) will automatically receive their cash consideration as soon as practicable after the effective time of the merger without any further action required on the part of such holders.

Q: What constitutes a quorum for the special meeting?

A: The presence at the special meeting in person or by proxy of the holders of a majority of shares of Company common stock issued and outstanding and entitled to vote at the special meeting as of the record date will be necessary to constitute a quorum for the purposes of the special meeting.

Q: Will any proxy solicitors be used in connection with the special meeting?

A: Yes. To assist in the solicitation of proxies, the Company has engaged D.F. King & Co., Inc.

Table of Contents

Q: What happens if the merger is not completed?

A: If the merger agreement is not adopted by our stockholders, or if the merger is not completed for any other reason, you will not receive any payment for your Company common stock pursuant to the merger agreement. Instead, we will remain a publicly traded company and our common stock will continue to be registered under the Exchange Act and listed and traded on the NASDAQ Global Market. Under certain circumstances specified in the merger agreement, we may be required to pay Parent a termination fee of US\$18 million and reimbursement of expenses, or Parent may be required to pay us a termination fee of US\$18 million or US\$36 million and reimbursement of expenses. See *The Merger Agreement Termination Fees and Reimbursement of Expenses* beginning on page 108 for additional information.

Q: When is the merger expected to be completed?

A: We are working to complete the merger as quickly as possible. We expect the transaction to close prior to the end date as defined below under *The Merger Agreement Termination* on page 107; however, we cannot predict the exact timing of the merger. In order to complete the merger, we must obtain the requisite stockholder adoption of the merger agreement and the other closing conditions under the merger agreement must be satisfied or waived.

Q: When and how will I receive the merger consideration for my shares of Company common stock?

A: If you are a record holder of shares of Company common stock, promptly after the effective time of the merger (but in any event no later than three business days), you will be sent (i) a letter of transmittal describing how you may exchange your shares of Company common stock for the merger consideration and (ii) instructions for effecting the surrender of share certificates in exchange for your merger consideration. After you surrender your stock certificate or certificates along with a properly completed and validly executed letter of transmittal to the paying agent or after the paying agent receives an agent's message in the case of shares of Company common stock held in book-entry form, and, in each case, such other documents as may be required by the paying agent and approved by Parent and us, the paying agent will issue and deliver to you a check or wire transfer for the amount of cash you are entitled to receive. See *The Merger Agreement Exchange and Payment Procedures* beginning on page 95 for additional information.

If your shares of Company common stock are held in street name by a broker, dealer, commercial bank, trust company or other nominee, you will receive instructions from your broker, dealer, commercial bank, trust company or other nominee on any actions you may need to take to receive the merger consideration for those shares of Company common stock.

Q: What is householding and how does it affect me?

A: The Securities and Exchange Commission (SEC) permits companies to send a single set of certain disclosure documents to any household at which two or more stockholders reside, unless contrary instructions have been received, but only if the Company provides advance notice and follows certain procedures. In such cases, each stockholder continues to receive a separate notice of the meeting and proxy card. This householding process reduces the volume of duplicate information and reduces printing and mailing expenses. We have not instituted householding for stockholders of record; however, certain brokerage firms may have instituted householding for beneficial owners of Company common stock held through brokerage firms. If your family has multiple accounts holding Company common stock, you may have already received householding notification from your broker. Please contact your broker directly if you have any questions or require additional copies of this proxy statement. The broker will arrange for delivery of a separate copy of this proxy statement promptly upon your written or oral request. You may decide at any time to revoke your decision to household, and thereby receive multiple copies.

Table of Contents

Q: Who can help answer my questions?

A: If you have any questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card, you should contact D.F. King & Co., Inc., toll free at 1-800-758-5880, collect at 212-269-5550 or by email at asiainfo@dfking.com.

Table of Contents

SPECIAL FACTORS RELATING TO THE MERGER

The following is a description of the material aspects of the merger. While we believe that the following description covers the material terms of the merger, the description may not contain all of the information that is important to you. We encourage you to read carefully this entire document, including the merger agreement attached to this proxy statement as Annex A, for a more complete understanding of the merger. The following description is subject to, and is qualified in its entirety by reference to, the merger agreement.

Overview of the Transaction

The Company, Parent and Merger Sub entered into the merger agreement on May 12, 2013. Under the terms of the merger agreement, Merger Sub will be merged with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of Parent. The Company, as the surviving corporation, will continue to do business under the name AsiaInfo-Linkage, Inc. following the merger.

At the effective time of the merger, each share of Company common stock issued and outstanding immediately prior to the effective time of the merger (other than the excluded shares and the dissenting shares) will be converted into the right to receive US\$12.00 in cash without interest (the **merger consideration**) without interest.

Following and as a result of the merger:

the unaffiliated stockholders will no longer have any interest in, and will no longer be stockholders of, the Company, and will not participate in any of the Company's future earnings or growth;

shares of Company common stock will no longer be listed on the NASDAQ Global Market, and price quotations with respect to shares of Company common stock in the public market will no longer be available; and

the registration of shares of Company common stock under the Exchange Act will be terminated.

Management and Board of Directors of the Surviving Corporation

The board of directors of the surviving corporation will, from and after the effective time of the merger, consist of the directors of Merger Sub as of immediately prior to the effective time of the merger (identified below under *Annex J Directors and Executive Officers of Each Filing Person*), until the earlier of their death, resignation or removal or until their respective successors are duly elected and qualified. The officers of the surviving corporation will, from and after the effective time of the merger, be the officers of the Company as of immediately prior to the effective time of the merger (identified below under *Annex J Directors and Executive Officers of Each Filing Person*), until their respective successors are duly elected or appointed and qualified, or until their earlier death, resignation or removal.

Background of the Merger

Our board of directors and senior management periodically review the Company's long-term strategic plans, industry trends, and potential opportunities with the goal of enhancing stockholder value. As part of this ongoing process, our board of directors and senior management have, from time to time, considered potential strategic alternatives for the Company.

On November 29, 2006, AsiaInfo Holdings, Inc., the name of the Company before its business combination with Linkage Technologies International Holdings Limited (*Linkage*), entered into a Strategic Investor's Agreement with CITIC Capital MB Investment Limited and PacificInfo Limited, pursuant to which CITIC Capital MB Investment Limited acquired approximately 8.7% of the outstanding shares of common stock of AsiaInfo Holdings, Inc. In connection therewith, CITIC Capital MB Investment Limited nominated and the Company appointed the then-current Chief Executive Officer of CITIC Capital Holdings Limited (the parent company of CITIC Capital MB Investment Limited), as a director of the Company.

Table of Contents

On April 8, 2009, CITIC Capital MB Investment Limited entered into a broker trade sale pursuant to which it sold all of its shares of common stock of AsiaInfo Holdings, Inc. In connection therewith, CITIC's designee resigned as a director of AsiaInfo Holdings, Inc.

In December 2009, AsiaInfo Holdings, Inc. entered into a business combination agreement (the "Combination Agreement"), with Linkage, certain stockholders of Linkage, including Mr. Libin Sun, Mr. Guoxiang Liu, Mr. Xiwei Huang, and LT International Limited, an entity controlled by Mr. Sun, and Mr. Sun as agent for the stockholders of Linkage. AsiaInfo Holdings, Inc. entered into a supplemental agreement with such parties on June 5, 2010, which set forth certain ancillary agreements in connection with the Combination Agreement.

Concurrently and as a condition to the execution of the Combination Agreement, the Company entered into a stockholders' agreement (the "2009 Stockholders' Agreement"), with each of Linkage, Mr. Tian, our co-founder and a director, and Mr. Sun, our Executive Co-Chairman and a director, containing certain restrictions on the voting of shares of Company common stock and standstill restrictions following the closing under the Combination Agreement. Pursuant to the 2009 Stockholders' Agreement, Mr. Tian and Mr. Sun each agreed to vote all of their respective voting shares (i) in favor of the election or re-election to our board of directors of the other, and (ii) on all other matters (except their own elections to our board of directors) ("Other Matters"), in proportion to the votes for and against, and the abstentions and withholds, of the outstanding shares of our capital stock entitled to vote generally in the election of directors that are not held by Mr. Tian or Mr. Sun or issued pursuant to the Combination Agreement (the "Proportionality Requirement"). In January 2011, we entered into an amendment to the 2009 Stockholders' Agreement. Pursuant to the amendment, on all Other Matters, Mr. Tian and Mr. Sun agreed to consult with each other prior to any vote of stockholders and attempt in good faith to agree on whether they will vote their respective voting shares for or against, or abstain or withhold authority with respect to, such Other Matters. In the event they failed to agree on such Other Matters, Mr. Tian and Mr. Sun agreed to vote their respective voting shares according to the Proportionality Requirement. Pursuant to the 2009 Stockholders' Agreement, each of Mr. Sun and Mr. Tian were prohibited from engaging in certain activities, including the acquisition of any voting securities of the Company, without first obtaining a waiver of such restrictions from a committee of our board of directors comprised solely of independent directors. In addition, as amended, the 2009 Stockholders' Agreement continued in full force and effect until the earlier of (i) July 1, 2013, and (ii) the date on which either of Mr. Tian or Mr. Sun beneficially owned less than 5% of our voting securities. The 2009 Stockholders' Agreement terminated on July 1, 2013 in accordance with its terms and the Proportionality Requirement no longer restricts Mr. Tian or Mr. Sun from freely voting their voting shares on elections to our board of directors or Other Matters, including the vote upon the proposal to adopt the merger agreement.

In addition, as a condition to the closing of the Combination Agreement, in June 2010 the Company entered into non-competition agreements with each of Mr. Sun, Mr. Liu, Mr. Huang and certain other former officers and directors of Linkage.

The transactions contemplated by the Combination Agreement closed in July 2010. Upon the closing, Mr. Sun became the Executive Co-Chairman and a director of the Company, Mr. Liu became the Executive Vice President of the Company, and Mr. Huang became the Vice President and Chief Operating Officer and a director of the Company. Pursuant to the Combination Agreement, the Company purchased from Linkage 100% of the outstanding share capital of Linkage's wholly-owned subsidiary, Linkage Technologies Investment Limited, a company organized under the laws of the British Virgin Islands, for \$60 million in cash and 26,832,731 shares of common stock of the Company, subject to certain adjustments.

On January 12, 2012, Power Joy (Cayman) Limited ("Power Joy"), a wholly owned subsidiary of CITIC Capital China Partners II, L.P. (together with Power Joy and their affiliates, "CITIC," and both affiliates to CITIC Capital MB Investment Limited), submitted a preliminary non-binding letter (the "January 12 Letter") to our board of directors proposing to acquire all the outstanding shares of Company common stock not already owned by CITIC for US\$12.00 per share in cash. The closing price per share of Company common stock on January 11, 2012 was US\$7.88. (For more information of historical market prices of Company common stock, see *Market Price and Dividend Information* beginning on page 120). At the time the January 12 Letter was sent, CITIC owned approximately 4.5% of the outstanding shares of Company common stock. In the January 12 Letter, CITIC, among other things: (i) stated that it placed significant value on continuity of the Company's leadership, expressed CITIC's desire that both Mr. Sun and Mr. Tian would join their equity interests with CITIC and continue to be major stockholders of the Company following the acquisition, and that its proposal was conditioned on at least one of Mr. Sun or Mr. Tian exchanging the proceeds that they would otherwise receive in the proposed transaction for equity participation in the Company following the consummation of the proposed transaction; (ii) stated that CITIC intended to finance the proposed transaction with a combination of debt and equity capital and that commitments for the debt financing would be in place when definitive transaction documents were executed; (iii) informed our board of directors that CITIC had received a highly confidential letter in respect of such financing from Morgan Stanley Asia Limited ("Morgan Stanley"); (iv) requested that our board of directors grant CITIC access to confidential due diligence; and (v) requested that the proposed transaction proceed in a confidential manner. CITIC also requested an exclusivity period of four weeks in order to complete its due diligence and concurrently negotiate and execute definitive transaction documents, which would include standard deal protection mechanisms and a post-signing go-shop period on customary terms, and stated that it would withdraw its proposal if the Company were to solicit competing proposals from other potential acquirers prior to executing a definitive agreement with CITIC.

Table of Contents

On January 18, 2012, our board of directors held a special meeting via teleconference which was attended by representatives of Shearman & Sterling LLP (Shearman), then the Company's U.S. securities law counsel. Shearman advised the directors as to their fiduciary duties to the stockholders of the Company under Delaware law. The directors discussed the role and function of a potential special committee in connection with the evaluation of a potential going-private transaction involving the Company. After Shearman responded to questions from the directors in respect of these matters, our board of directors resolved unanimously that it was in the best interests of the Company and its stockholders to form, and did form, a special committee consisting of three independent directors, Messrs. Davin Mackenzie, Sean Shao and Yungang Lu, which would consider and attend to all matters in connection with the January 12 Letter and any other alternative transactions involving the Company. The members of the special committee were selected based on their meeting the criteria for an independent director under the NASDAQ listing rules as well as the belief of our board of directors that the three individuals were free from all personal, professional and business relationships with CITIC and its affiliates and the management of the Company, and from any other personal, professional and business relationships which could affect their ability to act impartially in discharging their duties on behalf of the Company's stockholders in connection with a potential transaction involving the Company. Our board of directors authorized the special committee to, among other things: (i) consider, review and evaluate the terms and conditions of any proposed transaction; (ii) negotiate the terms and conditions of any proposed transaction; (iii) express its view as to the fairness to the Company and the unaffiliated stockholders of any proposed transaction; (iv) determine whether, and under what process and conditions, to seek or commence solicitations of interest or proposals from other interested parties for transactions with the Company; (v) reject the proposed transaction or any alternative proposals; (vi) recommend to our board of directors what action, if any, should be taken by the Company with respect to any proposed transaction or any alternative proposals; and (vii) retain legal counsel, financial advisors and such other accountants, appraisers, consultants or advisors to assist it in connection with the performance of its duties as the special committee deemed appropriate in its sole discretion. Our board of directors also resolved that the chairperson and each other member of the special committee would receive US\$5,000 and US\$4,000, respectively, per month for their service on the special committee.

Throughout the course of the next 16 months, the special committee held 48 meetings, received the advice of legal counsel and financial advisors, and reached out to 49 potential transaction partners, including CITIC.

Immediately following the meeting of our board of directors on January 18, 2012, the special committee held a telephonic meeting. During the meeting, the special committee appointed Mr. Mackenzie as its chairman. After Shearman was excused from the meeting, the special committee also considered the engagement of U.S. legal counsel to represent the committee. The special committee concluded that Shearman's service to the Company as its U.S. securities law compliance counsel since July 2011 did not impair Shearman's ability to provide independent advice to the special committee in respect of a proposed transaction and, in fact, provided the benefit of familiarity with the Company and its business. After considering Shearman's experience in similar transactions and its reputation and other qualifications, the special committee decided to engage Shearman as its U.S. legal counsel in connection with a potential transaction involving the Company.

On January 20, 2012, the special committee held a conference call with representatives of Shearman, CITIC, Morgan Stanley and CITIC's legal counsel, Davis Polk & Wardwell LLP (Davis Polk), to discuss several issues in respect of the CITIC proposal, including CITIC's request for exclusivity, a press release to announce the proposal and CITIC's offer being conditioned on at least one of Messrs. Sun and Tian partnering with CITIC. CITIC clarified that it would not expect to withdraw its proposal solely in the event either of Messrs. Sun and Tian were to decline to partner with CITIC in a potential transaction so long as the other agreed to partner with CITIC.

Table of Contents

Following this conference call, on January 20, 2012, the special committee held a telephonic meeting with Shearman present. After discussion, the special committee instructed the Company to issue a press release announcing the receipt of the going-private proposal from CITIC before the opening of the U.S. financial markets that day. After considering the possibility of CITIC's withdrawal of its proposal if its request for an exclusivity period were rejected and the fact that it would take other potential interested investors some time to prepare proposals in respect of a transaction involving the Company, the special committee agreed to grant CITIC a two-week period of exclusivity to begin conducting due diligence. As instructed by the special committee, Shearman conveyed the special committee's views to Davis Polk. Davis Polk subsequently confirmed that CITIC agreed to accept a two-week exclusivity period. The Company issued a press release later on the same day to announce the receipt of CITIC's proposal, the formation of the special committee and that the special committee had been charged with considering CITIC's proposal and any potential alternative transactions, and the engagement of the special committee's legal counsel.

The Company entered into a confidentiality and standstill agreement, and an exclusivity agreement, with CITIC on January 22, 2012. Thereafter, CITIC commenced confidential due diligence.

On January 22, 2012, the special committee held a telephonic meeting with Shearman at which the special committee discussed the engagement of an independent financial advisor. In addition, the special committee held discussions with Mr. Steve Zhang, the chief executive officer of the Company, in order to obtain management's perspectives on a potential transaction and to obtain additional information as to the Company's present financial position and future operations. As CITIC's proposal was conditioned on at least one of Messrs. Sun and Tian partnering with CITIC in a potential transaction, the special committee also decided to discuss CITIC's proposal with each of them. At the invitation of the special committee, Mr. Tian then joined the meeting and told the special committee that he might be interested in participating with CITIC in a potential transaction. The special committee also tried to reach Mr. Sun during the meeting but was unable to do so. The special committee determined to contact Mr. Sun in the next few days.

On January 22 and 23, 2012, as instructed by the special committee, Shearman contacted six investment banks which had experience serving as independent financial advisor to special committees in going-private transactions to solicit their interest in serving as the financial advisor to the special committee.

On January 24, 2012, Shearman and Davis Polk met to discuss CITIC's offer and a potential transaction involving the Company. On behalf of CITIC, Davis Polk requested that the parties: (i) begin negotiating a draft merger agreement, the initial draft of which was to be provided by CITIC; (ii) extend the exclusivity period to the four week period originally requested in the January 12 Letter; and (iii) permit CITIC to communicate with Messrs. Tian and Sun in respect of the proposed transaction.

On January 24, 2012, the special committee held a telephonic meeting with Shearman. Shearman reported CITIC's requests to the special committee. After discussion, the special committee decided not to agree to CITIC's requests until after engaging a financial advisor and reviewing the draft merger agreement to be provided by CITIC.

On January 25, 2012, the special committee held a telephonic meeting and invited Mr. Sun to attend. Mr. Sun noted that he had not to date had discussions with CITIC, that he did not intend to partner with CITIC in the acquisition of the Company, and that his preliminary view at the time was that the proposed acquisition was not attractive to him. Mr. Sun expressed his view that the proposal was financially inadequate and that the potential transaction could be disruptive to the Company's operations. Mr. Sun also expressed his view that the Company should remain independent at that time. In response to a question from the special committee, Mr. Sun said that he would not support a potential transaction with CITIC even if CITIC were to raise the proposed price, as he did not see CITIC being a controlling stockholder that could add any value to the Company. Mr. Sun then left the meeting. The special committee noted Mr. Sun's views, and also noted that, although Mr. Sun would not support the proposed transaction, Mr. Tian had stated his interest in participating in a potential transaction, which would satisfy CITIC's request that at least one of Messrs. Sun or Tian join in a potential transaction. After discussion, the special committee agreed that it would be advisable to further consider CITIC's proposal and permit CITIC to engage in discussions with Messrs. Tian and Sun only at a later time, after the special committee determined whether the key terms in the merger agreement to be proposed by CITIC were in the best interests of the Company's public stockholders. The special committee also confirmed that it had made no decision with respect to CITIC's proposal or whether to sell the Company.

Table of Contents

On January 26, 2012, the special committee engaged Morris, Nichols, Arshat & Tunnell LLP (MNAT) as its Delaware legal counsel. MNAT had not previously acted as legal counsel to the Company.

On January 26, 2012, Davis Polk circulated a draft merger agreement to Shearman.

On January 29, 2012, Shearman provided a summary of the key issues raised by the draft merger agreement to the special committee for its consideration.

On January 31, 2012, after reviewing proposals submitted by six investment banks to serve as independent financial advisor to the special committee, the special committee interviewed four investment banks. After interviews and discussion with Shearman, the special committee decided to have further discussions with three of the four investment banks including Goldman Sachs (Asia) L.L.C. (Goldman Sachs) with respect to their proposals and also asked each of the three investment banks to disclose any potential conflicts of interest.

On February 3, 2012, Davis Polk sent to Shearman a draft extension agreement proposing to extend CITIC 's exclusivity period for an additional two weeks.

On February 3, 2012, the special committee held a telephonic meeting with Shearman to discuss the draft extension agreement and the special committee 's engagement of an independent financial advisor. The special committee concluded that it was not prepared to respond to CITIC 's request for extension of its exclusivity period and instructed Shearman to notify Davis Polk accordingly. On the same day, the special committee had follow-up discussions with the three investment banks regarding their respective proposed strategies, staffing arrangements and any potential conflicts of interests. After reviewing the reputation, credentials, experience, team members and proposed terms of engagement of each of the three investment banks, the special committee decided to proceed with discussions to engage Goldman Sachs as its financial advisor in connection with the potential going-private transaction and instructed Shearman to begin negotiating the terms of an engagement letter with Goldman Sachs.

On February 7, 2012, the special committee held a telephonic meeting with Shearman, at which the Special Committee decided to engage Goldman Sachs as its financial advisor and executed an engagement letter with Goldman Sachs. See Special Factors Relating to the Merger Opinion of Goldman Sachs, Financial Advisor to the Special Committee for more details. On the same day, the Company issued a press release announcing the special committee 's engagement of Goldman Sachs as its financial advisor.

On February 8, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman to discuss the next steps in respect of the proposed transaction. The special committee decided to suspend due diligence by CITIC (in order to give the special committee additional time to consider next steps) and instructed Goldman Sachs to conduct a financial analysis of the Company and to reach out to certain unaffiliated stockholders of the Company to solicit views from such stockholders as to the proposal made by CITIC.

On February 9, 2012, Morgan Stanley, acting as CITIC 's financial advisor in respect of a potential transaction, contacted Goldman Sachs to request the special committee 's extension of the exclusivity period and the resumption of the due diligence process.

On February 10, 2012, the special committee held a telephonic meeting which was attended by Goldman Sachs, Shearman and Goldman Sachs 's legal counsel, Fried, Frank, Harris, Shriver & Jacobson LLP (Fried Frank). After discussion, the special committee decided not to extend the exclusivity period granted to CITIC and instructed Goldman Sachs to seek clarification from CITIC on what further due diligence CITIC required.

During the two weeks following February 10, 2012, Goldman Sachs conducted a review of the business, operations and financial performance of the Company. Goldman Sachs also had discussions with the senior management and finance team of the Company regarding these matters.

On February 23, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman at which Goldman Sachs communicated to the special committee the preliminary views of certain unaffiliated stockholders of the Company as to a potential transaction and the inquiries and indications of interest it had received from certain private equity firms. Goldman Sachs noted that the stockholders with whom it had communicated had not expressed any preliminary views on the attractiveness of a potential transaction involving the Company and were of the opinion that they would be in a better position to form a view after more detailed information about CITIC 's offer, including the offer price, was made available.

Table of Contents

On March 5, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman at which the special committee discussed with its advisors: (i) the Company's stockholder profile and Goldman Sachs's further communications with certain unaffiliated stockholders as to a potential transaction; (ii) inquiries from certain potential interested buyers; (iii) the progress of the financial analysis being conducted by Goldman Sachs; and (iv) the status of the discussions with CITIC.

On March 8, 2012, the special committee held a meeting with Goldman Sachs and Shearman in the Beijing offices of Shearman at which Goldman Sachs reviewed certain draft financial projections of the Company prepared by its management. At the invitation of the special committee, Mr. Jun (Michael) Wu, the chief financial officer of the Company, attended the portion of the meeting during which the management projections were discussed. See "Special Factors Relating to the Merger Prospective Financial Information" for more details of the financial projections of the Company.

On March 10, 2012, the special committee received a letter from Mr. Sun requesting that the special committee grant a waiver of his standstill obligations under the 2009 Stockholders' Agreement so that he may, solely in his capacity as a stockholder of the Company, undertake activities he deemed necessary or desirable in connection with CITIC's proposal and/or developing his own alternative acquisition proposal.

On March 12, 2012, Goldman Sachs and CITIC discussed a potential transaction involving the Company. CITIC expressed its continuing interest in such transaction and confirmed that it owned 4.5% of the outstanding shares of Company common stock as of the January 12 Letter and as of the March 12 call with Goldman Sachs.

On March 14, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Goldman Sachs reported on, among other things, its discussion with CITIC regarding a potential transaction. The special committee also discussed with its advisors Mr. Sun's request for the special committee to waive his standstill obligations under the 2009 Stockholders' Agreement. After discussion, the special committee decided that it was premature to agree to Mr. Sun's request before the special committee had reviewed Goldman Sachs's financial analysis regarding the transaction proposed by CITIC and the strategic alternatives to such transaction. On March 15, 2012, as instructed by the special committee, Shearman conveyed the special committee's responses to Mr. Sun's legal counsel, Kirkland & Ellis LLP (Kirkland & Ellis).

On March 21, 2012, the special committee held a meeting with Goldman Sachs and Shearman at which the special committee further discussed Mr. Sun's request for a waiver of his standstill obligations under the 2009 Stockholders' Agreement. At this meeting, Goldman Sachs reviewed with the special committee certain financial information regarding the Company and also reviewed strategic alternatives that might be available to the Company in lieu of the going-private transaction proposed by CITIC, including the possibility of remaining independent either with or without a levered recapitalization, a share buyback or the declaration of a special dividend. Goldman Sachs also provided a summary of the management projections and the key assumptions used by the Company's management. After discussing with Goldman Sachs and Shearman the advantages and disadvantages of various strategic alternatives and the manner in which a sale of a public company might be conducted, Goldman Sachs and Shearman were excused from the meeting. After further internal deliberations, the special committee decided that, to maximize the value of the Company in the best interests of the Company and its stockholders, the special committee would initiate a formal process to solicit interest from, and engage in discussions with, other potential qualified interested parties regarding a potential transaction involving the Company, and to evaluate any proposals received.

On March 25, 2012, as requested by the special committee, our board of directors convened a special meeting via teleconference. After discussion, our board of directors unanimously adopted resolutions expressly authorizing the special committee to consider, waive or amend the terms of the 2009 Stockholders' Agreement.

On March 26, 2012, the Company issued a press release announcing that the special committee had determined to solicit interest from, and engage in discussions with, other potential qualified interested parties regarding a potential transaction involving the Company, and to evaluate any proposals it might receive.

Table of Contents

Between March 26, 2012 and April 1, 2012, the Company and the special committee's advisors identified potential qualified interested parties to contact in connection with a potential transaction involving the Company, and prepared a draft confidentiality agreement, a draft process letter, a memorandum containing certain key information pertaining to the Company and a draft merger agreement. On April 1, 2012, the special committee approved a list of 48 parties to be contacted, comprising 19 potential strategic bidders and 29 potential financial bidders.

On March 30, 2012, Mr. Sun sent an email to the special committee to reiterate his request for a waiver under the 2009 Stockholders' Agreement. In the email, Mr. Sun stated that he expected to receive a formal invitation from the special committee to participate in the process.

On March 30, 2012, after discussions with Goldman Sachs and Shearman, the special committee sent written communication guidelines to both the members of the Board and the management of the Company reminding them that, among other things, they should not discuss or communicate with or make any comments to third parties about the proposed transaction, irrespective of whether such information was public or non-public.

Beginning on April 2, 2012, Goldman Sachs contacted 48 potential bidders previously identified to gauge their potential interest in a transaction involving the Company. On behalf of the special committee, Shearman and Goldman Sachs also began to negotiate with interested potential bidders the terms of a form confidentiality agreement.

On April 5, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman at which Goldman Sachs reported on the preliminary feedback that it had received from potential bidders. Goldman Sachs and Shearman also discussed with the special committee the status of negotiations with potential bidders as to the confidentiality agreement. Goldman Sachs and Shearman discussed with the special committee the possibility that a broad waiver of the standstill obligations of Messrs. Sun and Tian at this time might render the bidding process less competitive as it would allow each of these individuals to form a consortium with one or more other potential bidders before the first round of bids were due. Following these discussions, the special committee decided to grant Mr. Sun only a limited waiver of his obligations under the 2009 Stockholders' Agreement upon his execution of a waiver letter and a confidentiality agreement which would be substantially identical to the confidentiality agreements to be executed by other potential bidders and allow Mr. Sun to develop his own proposal in respect of an alternative transaction (but not to enter into any discussion with CITIC or any other potential bidder at this stage). The special committee also decided to grant a similar waiver to Mr. Tian, who was bound by the same standstill restrictions under the 2009 Stockholders' Agreement.

On April 10, 2012, Shearman sent a draft of an amended and restated confidentiality agreement between the Company and CITIC to Davis Polk. The draft was prepared based on the form confidentiality agreement to be entered into with other potential bidders in the strategic review process.

On April 10, 2012, Mr. Mackenzie, on behalf of the special committee, informed each of Messrs. Sun and Tian, respectively, that the special committee had decided to waive the standstill restrictions in Section 6 of the 2009 Stockholders' Agreement to the extent necessary solely to allow each of them to form his own proposal in connection with a transaction involving the Company. Mr. Mackenzie also sent a draft waiver letter and confidentiality agreement to each of Messrs. Sun and Tian. Each waiver was conditioned on the execution and delivery by the signatory of the waiver letter and the confidentiality agreement attached thereto. The confidentiality agreement prohibited the signatory and his representatives from negotiating, discussing or entering into any agreement or arrangement with CITIC or any other potential bidder in respect of a proposed transaction without the prior written consent of the special committee.

From April 10, 2012 through May 11, 2012, 15 potential bidders, including 2 potential strategic bidders and 13 potential financial bidders, executed confidentiality agreements with the Company. Each executed confidentiality agreement includes a customary standstill provision but also allows each signatory to initiate confidential communications with Goldman Sachs in connection with or for the purposes of a possible transaction with the Company, notwithstanding execution of the Merger Agreement.

On April 13, 2012, Shearman and Kirkland & Ellis discussed the scope of the waiver the special committee was willing to grant to Mr. Sun. Following the discussion, Mr. Sun decided not to sign the proposed confidentiality agreement. Neither Mr. Sun nor Mr. Tian executed a waiver letter or a confidentiality agreement.

Table of Contents

On April 13, 2012, the special committee held a telephonic meeting during which Goldman Sachs and Shearman updated the special committee as to communications with potential bidders and the status of negotiations of the confidentiality agreements with each of them. The special committee also instructed Goldman Sachs to contact each of Mr. Sun and Mr. Tian to further review the proposed restrictions on their communications with other potential bidders as set out in the draft confidentiality agreement. The special committee further instructed Goldman Sachs and Shearman to coordinate with the Company's management to prepare a virtual data room and management presentations in connection with the bidder due diligence process.

On April 16 and 17, 2012, Goldman Sachs communicated with each of Messrs. Sun and Tian, respectively, as instructed by the special committee.

Beginning on April 16, 2012, as instructed by the special committee, Goldman Sachs sent process letters together with an information package on the Company to each of the 15 potential bidders which had executed a confidentiality agreement with the Company. The process letter invited the potential bidders to submit their first-round indicative bids by May 14, 2012.

On April 20, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Goldman Sachs and Shearman provided updates on the feedback from the potential bidders and the negotiation of confidentiality agreements with potential bidders.

On April 23, 2012, Goldman Sachs received an indication of interest in the Company from a private equity firm (Bidder B) which it had not contacted in respect of a potential transaction involving the Company. The special committee decided to include Bidder B in the strategic review process and instructed Shearman to commence negotiating the confidentiality agreement with Bidder B.

On May 7, 2012, the special committee engaged Haiwen Partners (Haiwen) as its PRC legal counsel.

On May 9, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Goldman Sachs and Shearman provided further updates on feedback from the potential bidders and the negotiation of confidentiality agreements up to this date.

On May 14 and 15, 2012, Goldman Sachs received bid letters from six potential bidders comprising (i) five financial investors, namely, CITIC, Bidder B, a private equity firm (Bidder A) and two other private equity firms and (ii) one strategic investor (collectively, the First Round Bidders). The First Round Bidders submitted indications of interest valuing the Company at US\$11.50 to US\$15.00.

On May 15, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman to review the bid letters submitted by the First Round Bidders. Goldman Sachs and Shearman described the proposed process for a second round of the strategic review process. After discussion, the special committee decided to take additional time to further review and discuss internally among the special committee members the terms of the bid letters submitted by the First Round Bidders and to convene another meeting to decide whether or not to proceed with a second round of the strategic review process.

On May 21, 2012, after negotiations, CITIC and the Company entered into an amended and restated confidentiality agreement based on the form confidentiality agreement entered into with other potential bidders in the strategic review process.

On May 23, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman. After further reviewing the bid letters with its advisors, the special committee decided that (i) it should proceed with a second round of the strategic review process and (ii) all the First Round Bidders other than Bidder B (because its bid was the lowest received bid among the First Round Bidders) should be invited to participate in the next round of the strategic review process.

From May 29, 2012 through July 4, 2012, the Company provided the five remaining First Round Bidders with access to a virtual data room and a physical data room for due diligence purposes. The Company also held management presentations for these bidders with Goldman Sachs in attendance and provided the remaining First Round Bidders with the financial projections of the Company prepared by its management. See Special Factors Relating to the Merger Prospective Financial Information for more details in respect of the financial projections of the Company.

Table of Contents

On June 22, 2012, Goldman Sachs sent process letters for the second round of the strategic review process to the five remaining bidders and invited them to submit their second round bids by July 4, 2012.

On July 4, 2012, CITIC and Bidder A submitted second round bids. Two other First Round Bidders withdrew from the strategic review process, indicating that they were no longer interested in pursuing a potential transaction with the Company and the remaining First Round Bidder advised that it was only interested in exploring a business collaboration in the ordinary course of business with the Company and was not interested in acquiring an equity interest in the Company. CITIC's bid proposed an offer price of US\$12.50 per share. Bidder A's bid proposed an offer price of US\$12.32 to US\$13.22 per share.

From July 4 through September 24, 2012, CITIC and Bidder A and their respective representatives continued to conduct due diligence on the Company under the supervision of the special committee and its advisors.

On July 5, 2012, pursuant to the special committee's request communicated by Goldman Sachs that the offer price in the bid be expressed as a fixed number as opposed to a range, Bidder A submitted its revised bid which set its offer price at US\$12.80 per share.

On July 6, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman to discuss the terms of the second round bids. Following discussion, the special committee decided to continue the strategic review process.

On July 19, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Goldman Sachs presented updated materials regarding its financial analysis of the Company. After deliberation and discussion with its advisors, the special committee determined that it was in the best interests of the Company's stockholders, in order to encourage CITIC and Bidder A to maximize the value of their respective proposals, to (i) consent to CITIC and Bidder A and their representatives, including permitted potential co-investors and financing sources, engaging in discussions with Messrs. Sun and Tian in connection with a proposed transaction, and (ii) grant a limited waiver to Messrs. Sun and Tian from the standstill restrictions and the voting provisions set forth in the 2009 Stockholders' Agreement in respect of such discussions.

On July 23 and 24, 2012, the Company, at the direction of the special committee, granted its consent to CITIC and Bidder A and their respective representatives engaging in discussions with each of Messrs. Tian and Sun and their respective representatives in connection with a proposed transaction.

On July 25, 2012, the Company, at the direction of the special committee, entered into a confidentiality agreement with each of Mr. Sun and Mr. Tian, which were each substantially identical to the confidentiality agreements to be executed by other potential bidders, and granted each of them a limited waiver of the standstill restrictions and the voting provisions set forth in the 2009 Stockholders' Agreement. The waiver allowed each of Messrs. Sun and Tian to engage in discussions with CITIC and/or Bidder A and to engage in discussions with their own representatives in potentially making a proposal to the Company in respect of an alternative transaction. The special committee directed Goldman Sachs to assist in arranging meetings between CITIC and Bidder A and each of Messrs. Tian and Sun.

On July 25, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman during which Shearman provided an update on its drafting of the merger agreement and reviewed key terms of the draft merger agreement with the special committee.

On August 1, 2012, Goldman Sachs received a request from Bidder A for the special committee's consent to enter into discussions and negotiations with 28 private equity firms and their respective representatives regarding their potential participation as co-investors in a proposed transaction involving the Company.

On August 2, 2012, the special committee adopted a resolution to confirm that its prior consents, granted to CITIC and Bidder A on July 23, 2012 and July 24, 2012 respectively, constituted approval of any nonbinding agreements, arrangements or understandings between each of CITIC or Bidder A and its representatives, on the one hand, and Mr. Sun and/or Mr. Tian, on the other hand, in connection with a proposed transaction that may result from the activities permitted under such prior consents for the purposes of Section 203 of the Delaware General Corporation Law. On the same day, the special committee sent a written acknowledgement of the foregoing to each of CITIC and Bidder A.

Table of Contents

On August 2, 2012, with the permission of the special committee, representatives of CITIC travelled to Nanjing and met with Mr. Sun to ask for his support and participation in CITIC's proposed transaction. At this meeting, Mr. Sun stated to the representatives from CITIC the following: (i) in his opinion the Company's current management is not taking the Company in the optimal strategic direction; (ii) he is the largest stockholder and should have, and has been trying to gain, management control over the Company in order to change its strategic direction; (iii) he believed that the Company could be worth considerably more than CITIC's US\$12.50 per share proposed offer price if he were able to obtain management control; and (iv) he was opposed to any transaction that did not result in him gaining management control of the Company.

On August 6, 2012, Goldman Sachs received a request from Morgan Stanley for the special committee to grant CITIC a consent to enter into discussions with Messrs. Tian, James Ding, Zhang and Wu in respect of their participation in CITIC's proposed transaction.

On August 6, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman at which Goldman Sachs updated the special committee on the strategic review process. As to CITIC's request to engage in discussions with the senior management of the Company, the special committee decided, after discussion with its advisors, that it would not grant this request at this stage and would re-consider granting the request after the final round bids had been received. The special committee also noted that it had already granted CITIC and Bidder A permission to enter into discussions with Messrs. Tian and Sun.

Later in the day on August 6, 2012, Goldman Sachs had a discussion with Bidder A regarding its request to enter into discussions with 28 private equity firms as potential co-investors. Goldman Sachs advised Bidder A that two of the 28 private equity firms were CITIC's limited partners and may have joined CITIC in its due diligence investigations in connection with CITIC's proposed transaction. After discussion, Bidder A agreed to withdraw its request for the special committee's consent to enter into discussions with these two private equity firms.

On August 7, 2012, the special committee granted the consent requested by Bidder A allowing Bidder A to enter into discussions and negotiations with the other 26 private equity firms and their respective representatives regarding their potential participation in the proposed transaction as co-investors.

On August 9, 2012, Shearman received from Bidder A's legal counsel, Sullivan & Cromwell LLP (Sullivan & Cromwell), a request for the special committee's consent to Bidder A entering into discussions and negotiations regarding the proposed transaction with two additional potential co-investors and their respective representatives.

On August 10, 2012, the special committee granted its consent to Bidder A entering into discussions and negotiations regarding the proposed transaction with the two additional potential co-investors and their respective representatives and another consent to Bidder A to enter into exclusive arrangements with two commercial banks as requested by Bidder A in its second round bid letter.

On August 14, 2012, Mr. Sun sent a letter to the special committee in which he stated that he had commenced discussions with Bidder A based on the waiver granted to him on July 25, 2012 and disclosed his interest in potentially participating together with Bidder A and any potential co-investors introduced by Bidder A in the proposed transaction. In the same letter, Mr. Sun also requested (i) certain additional waivers under the 2009 Stockholders' Agreement and waivers under the confidentiality agreement between him and the Company dated as of July 25, 2012 to permit him and his representatives to, among other things, enter into discussions, agreements, arrangements and understandings regarding the proposed transaction with management members and other employees of the Company who owned shares of Company common stock, as well as with potential co-investors of Bidder A, (ii) a consent under Section 203 of the Delaware General Corporation Law in connection with the foregoing proposed discussions, agreements, arrangements and understandings, and (iii) 8 to 12 weeks from the date of such letter to assemble his own potential bidder consortium.

On August 15, 2012, Kirkland & Ellis, as counsel for Mr. Sun, circulated to the special committee, Goldman Sachs and Shearman an estimated timetable for a consortium organized by Mr. Sun to form and submit an acquisition proposal. According to this estimated timetable, Mr. Sun would be able to provide definitive acquisition documents by mid-October 2012.

Table of Contents

On August 16, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman. The special committee discussed with its advisors Mr. Sun's letter dated August 14, 2012 and instructed its advisors to prepare a response to Mr. Sun's letter. The special committee also agreed that the final bids should be submitted by mid-September 2012. The special committee and its advisors believed that submission deadline was reasonable and in the best interests of the Company's stockholders because each bidder, as well as Mr. Sun as a potential bidder, had been given sufficient time to form a bid.

On August 17, 2012, at the direction of the special committee, Goldman Sachs sent final round process letters to CITIC and Bidder A. The deadline for submitting definitive legally-binding proposals was originally set to be September 10, 2012. After considering the request of Bidder A for more time to complete due diligence and find co-investors, the special committee agreed to extend the bid deadline to September 24, 2012. Goldman Sachs also informed Mr. Sun of this extended bid deadline and that the special committee did not agree to extend the bid deadline to mid-October, 2012 for him.

On August 17, 2012, Shearman received from Sullivan & Cromwell a request for the special committee's consent to Bidder A entering into discussions and negotiations regarding the proposed transaction with three additional potential co-investors and their respective representatives.

On August 19, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman to further discuss the requests in Mr. Sun's letter to the special committee dated August 14, 2012. After discussion with its advisors, the special committee decided to consent to Mr. Sun and his representatives engaging in (i) discussions and negotiations with bona fide potential providers of equity financing to CITIC and Bidder A in connection with the proposed transaction, and (ii) due diligence on the Company in connection with the proposed transaction. The special committee also decided to request that Mr. Sun provide written confirmation of the nature of his proposed involvement in the proposed transaction (whether as a participant with a potential investor or otherwise). After confirming Mr. Sun's intended role in the proposed transaction, the special committee would further consider Mr. Sun's request to communicate with management and employee stockholders of the Company. These positions were communicated to Mr. Sun the following day.

On August 20, 2012, the special committee granted its consent to Bidder A to enter into discussions and negotiations regarding the proposed transaction with three additional potential co-investors and their respective representatives.

Later that day, Kirkland & Ellis, on behalf of Mr. Sun, confirmed that Mr. Sun was interested in potentially participating in the consortium led by Bidder A.

On August 21, 2012, Shearman delivered to Kirkland & Ellis a written consent of the special committee for Mr. Sun to engage in discussions with certain bona fide potential co-investors of Bidder A and to conduct due diligence on the Company solely in connection with a potential co-investment by Mr. Sun with Bidder A in the proposed transaction.

On August 21, 2012, Mr. Sun filed with the SEC a Schedule 13D/A disclosing that after discussions with the special committee and, with the permission of the special committee, preliminary discussions with certain qualified interested parties regarding the proposed transaction, Mr. Sun had determined that he was interested in potentially participating in a proposed transaction involving the Company.

On August 21, 2012, CITIC sent a letter to Goldman Sachs in response to the final round process letter sent by Goldman Sachs on August 17, 2012, requesting (i) a three-week exclusive negotiation period beginning prior to the bid deadline set out in the August 17, 2012 letter, (ii) reimbursement by the Company of its expenses of up to US\$3 million in connection with the proposed transaction, and (iii) the special committee's consent to enter into discussions with the Company's management stockholders, particularly Messrs. Zhang and Ding.

On August 22, 2012, Shearman received from Sullivan & Cromwell a request for the special committee's consent to Bidder A entering into discussions and negotiations regarding a proposed transaction with a new potential co-investor and its representatives.

Table of Contents

On August 23, 2012, Mr. Sun sent a letter to the special committee, confirming that he was interested in potentially participating in a consortium led by Bidder A in the proposed transaction, but also stating that he was considering forming his own consortium and submitting an alternative proposal in respect of the proposed transaction. He also raised issues in respect of what he described as feedback from Bidder A including with respect to the due diligence process and the management's lack of confidence in the business and future of the Company. He went on to request access to conduct due diligence in connection with preparing an alternative proposal and a consent to enter into discussions with the management and other employees of the Company. In addition, he requested an extension of the bid deadline to approximately 8 to 12 weeks from the date of his letter.

On August 23, 2012, Bidder A sent a letter to Goldman Sachs requesting (i) permission to enter into discussions with the Company's management and employee stockholders, (ii) further information for due diligence purposes and (iii) an extension of the date for submission of its final proposal to a date that was eight weeks after completion of certain items, including completion of Bidder A's due diligence and permission being granted for Bidder A to enter into agreements with the Company's management.

On August 23, 2012, Mr. Tian filed with the SEC a Schedule 13D/A announcing that, with the permission of the special committee, Mr. Tian had engaged in preliminary discussions with certain qualified interested parties, including CITIC, and determined that he was interested in potentially participating in a proposed transaction with CITIC.

On August 24, 2012, the special committee granted the consent requested by Bidder A to allow it to enter into discussions and negotiations regarding the proposed transaction with an additional potential co-investor and its representatives.

On August 24, 2012, at the direction of the special committee, Shearman distributed an initial draft merger agreement to CITIC and Bidder A.

On August 27, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman to discuss the issues raised in the letters from CITIC, Mr. Sun and Bidder A. After discussion with its advisors, the special committee decided to respond to CITIC to the effect that only if CITIC's bid ultimately were determined by the special committee to be superior to any other bid received, the special committee would be prepared to enter into an exclusivity arrangement with CITIC and would agree to the inclusion of expense reimbursement provisions in the merger agreement to be executed in connection with the proposed transaction, in each case, on terms to be negotiated at an appropriate time. Taking into account the stockholder structure of the Company and the timetable of the proposed transaction, the special committee also determined to permit communications between any of CITIC, Mr. Sun, and Bidder A and a limited number of the largest management and employee stockholders only after final round bids were received.

On August 28, 2012, Shearman received from Sullivan & Cromwell a request for the special committee's consent to Bidder A to enter into discussions and negotiations regarding the proposed transaction with two additional potential co-investors and their respective representatives.

On August 29, 2012, the special committee granted its consent to Bidder A entering into discussions and negotiations regarding the proposed transaction with the 33rd potential co-investor and its representatives, but did not grant its consent with respect to Bidder A's discussions and negotiations with the 34th potential co-investor and its representatives due to a lack of available background information concerning the 34th potential co-investor.

On August 30, 2012, at the direction of the special committee, Goldman Sachs sent a letter to CITIC (i) stating that the special committee would be prepared to allow CITIC to have limited discussions with certain management and employee stockholders (other than Messrs. Sun and Tian) who collectively owned 7.1% of the outstanding shares of Company common stock about the number of shares they would be willing to roll over in the proposed transaction and that Goldman Sachs would arrange such discussions, and (ii) confirming that in the event that the bid submitted by CITIC ultimately were determined by the special committee to be superior to any other bid submitted in respect of the proposed transaction, the special committee would be prepared to revisit the decision whether to enter into exclusivity arrangements with CITIC and agree to the inclusion of expense reimbursement provisions in the merger agreement on terms to be negotiated at an appropriate time.

Table of Contents

On August 30, 2012, the special committee sent to Mr. Sun a letter noting that Mr. Sun's consideration of forming his own consortium to submit an alternative proposal was contrary to the intentions he had indicated to the special committee prior to August 23, 2012. The letter also stated that, if there were a bona fide probability that Mr. Sun would submit an independent bid in connection with the proposed transaction, the special committee would welcome a statement from Mr. Sun, for the special committee's consideration, setting out in detail his indicative valuation, proposed acquisition structure and potential equity and debt financing sources, as soon as practicable and, in any event, no later than September 24, 2012. The special committee also responded to Mr. Sun on the issues he had raised in respect of what he described as feedback from Bidder A on due diligence and the lack of confidence of the management in the future of the Company, stating that the special committee and its advisors believed that all due diligence requests from Bidder A had substantially been resolved and that it had not ever received the impression from Bidder A or the management of the Company that there was any lack of confidence in the Company. The special committee invited Mr. Sun to provide any support for the foregoing assertions and asked him to share with the special committee as soon as practicable any thoughts on inspiring the confidence of the management and other employees of the Company to further maximize stockholder value. As to Mr. Sun's request for access to management for rollover discussions, the special committee informed Mr. Sun that it would be prepared to allow all the bidders and their representatives to have limited discussion with certain management and employee stockholders (other than Messrs. Sun and Tian) who collectively owned approximately 7.1% of the outstanding shares of Company common stock about the number of shares they would be willing to roll over in the proposed transaction and that Goldman Sachs would arrange such discussions. As to Mr. Sun's request for an extension of the bid deadline, the special committee advised that it would not grant an extension because it was in the best interests of the Company and its stockholders to maintain the pace of the process.

On August 30, 2012, at the direction of the special committee, Goldman Sachs sent a letter to Bidder A stating that the special committee would be prepared to allow Bidder A to discuss with certain management and employee stockholders (other than Messrs. Sun and Tian) who collectively owned approximately 7.1% of the outstanding shares of Company common stock the number of shares they would be willing to roll over in the proposed transaction and that Goldman Sachs would arrange such discussions. The letter also responded to Bidder A's requests in respect of due diligence and additional time for the submission of its final proposal to the effect that the Company had provided and was continuing to provide Bidder A with appropriate due diligence on a timely basis and that the special committee had extended the previously-contemplated bid deadline of September 10 to September 24, 2012 and was of the view that Bidder A would have had ample time to form its bid prior to September 24, 2012.

On September 5, 2012, Mr. Sun sent a letter to the special committee asserting among other things that he had not been released from certain restrictions or been given sufficient time to form his own consortium, both of which, the letter contended, prevented him from forming his most competitive bid. He requested a release from such restrictions and additional time. Mr. Sun also mentioned that he believed the true value of the Company had not been reflected in the five-year performance forecasts provided by the Company management and further asserted that he had the ability to inspire the confidence of members of management of the Company so as to further maximize stockholder value but did not articulate any specific thoughts in that regard.

On September 6, 2012, Mr. Tian's legal counsel, Skadden, Arps, Slate, Meagher & Flom LLP (Skadden), sent an email to Goldman Sachs requesting the special committee's consent to Mr. Tian entering into discussions and negotiations regarding the proposed transaction with three potential co-investors including China Broadband Capital Partners II, L.P. Later on the same day, Shearman discussed such request with Skadden and Skadden clarified that Mr. Tian was considering bringing these potential co-investors into the consortium led by CITIC, as opposed to forming a consortium of his own.

On September 7, 2012, the special committee sent to Mr. Sun a response to his September 5, 2012 letter stating, among other things, that: (i) the special committee disagreed with Mr. Sun as to his characterizations of the bidding process; (ii) the special committee would welcome any real probability that Mr. Sun would submit an independent bid; and (iii) the special committee proposed a meeting between Mr. Sun and his representatives and the special committee and its representatives to discuss how best to expedite an independent bid from Mr. Sun, Mr. Sun's thoughts on the management projections and how Mr. Sun believed he could further maximize stockholder value, regardless of the identity of the winning bidder, and any other issues Mr. Sun may raise. The special committee proposed holding the meeting on September 10 or 11, 2012 in Beijing and offered to be flexible if such date and location were inconvenient for Mr. Sun. Mr. Sun and his representatives never responded to the special committee's letter dated September 7, 2012 and did not at any time over the next eight months (i) outline the terms of an independent bid to be made by him or any other potential strategic transaction involving the Company or (ii) provide concrete views as to the value of the Company.

Table of Contents

On September 10, 2012, the special committee granted its consent to Mr. Tian to enter into discussions and negotiations regarding the proposed transaction with the three potential co-investors and their representatives requested by Mr. Tian in Skadden's email to Goldman Sachs on September 6, 2012.

On September 11, 2012, Morgan Stanley sent an email to Goldman Sachs and Shearman requesting the special committee's consent to CITIC entering into discussions and negotiations regarding the proposed transaction with CPEChina as a potential co-investor.

On September 12, 2012, Morgan Stanley sent an email to Goldman Sachs requesting the special committee's consent to CITIC entering into discussions and negotiations regarding the proposed transaction with the same three potential co-investors in respect of which the special committee had granted consent to Mr. Tian to enter into discussions and negotiations.

Later in the day on September 12, 2012, the special committee granted its consent to CITIC to enter into discussions and negotiations regarding the proposed transaction with these three potential co-investors and CPEChina, as requested by CITIC.

On September 14, 2012, Skadden contacted Goldman Sachs and requested the special committee's consent to Mr. Tian entering into discussions and negotiations regarding the proposed transaction with Bidder B as a co-investor in the consortium led by CITIC.

On September 14, 2012, on a telephonic discussion with Goldman Sachs, CITIC requested an extension of the deadline for the submission of the final round bid to October 19, 2012 because CITIC needed additional time to incorporate the four new co-investors into its consortium.

On September 17, 2012, the special committee held a telephonic meeting with its advisors to discuss the progress of the proposed transaction. The special committee discussed Mr. Tian's request to engage in discussions with Bidder B as a co-investor in respect of the proposed transaction. After such discussion, and noting that Bidder B had not been selected to continue in the process after the first round, the special committee decided not to grant its consent to this request at this stage. Goldman Sachs also reported to the special committee that Mr. Sun had advised Goldman Sachs of his intention to participate with Bidder A rather than to submit his own bid in respect of the proposed transaction. After discussion with its advisors, the special committee reaffirmed its decision not to allow the bidders access to the Company's management stockholders for the purposes of discussing the management stockholders' participation in the proposed transaction until after the receipt of final bids and confirmation that the bidders had arranged credible equity and/or debt financing.

On September 20, 2012, the special committee reviewed with Goldman Sachs the Company's operational costs and profit margins during the preceding six quarters.

On September 25, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman, during which Goldman Sachs reported to the special committee that Bidder A had notified Goldman Sachs of its withdrawal from the process for the proposed transaction and stated that it would not submit a final round bid because it would be difficult for it to put together a consortium and a winning bid. Goldman Sachs also reported to the special committee that CITIC had requested an extension of the deadline for submission of its final bid to October 19, 2012 to allow additional time for its new co-investors to conduct due diligence. After discussion with its advisors, the special committee decided to extend the submission date for the final bid to mid-October 2012.

On September 27, 2012, at the direction of the special committee, Goldman Sachs sent a letter to CITIC, extending the submission date of CITIC's final proposal to October 15, 2012.

Table of Contents

On October 15, 2012, Skadden sent an email to Goldman Sachs requesting the special committee's consent to Mr. Tian entering into discussions and negotiations regarding the proposed transaction with InnoValue Capital Ltd.

On October 15, 2012, CITIC submitted its final bid in respect of the proposed transaction, which proposed an offer price of US\$11.50 per share. The bid proposal was accompanied by a highly confidential letter from ICBC International Capital Limited (ICBCI) and CITIC's comments on the draft merger agreement which reflected CITIC's positions with respect to the terms of the draft merger agreement, including, among other things, that: (i) the merger agreement be signed together with a debt commitment letter rather than requiring that an executed definitive facility agreement be in place as of signing; (ii) the Company have not less than US\$330 million of net cash immediately before the closing of the proposed transaction; (iii) the proposed transaction not be conditioned on approval by a majority of the outstanding shares of Company common stock held by disinterested stockholders (the majority of the minority condition); (iv) the Company be required to submit the proposed transaction to the stockholders (the force the vote provision); (v) CITIC's closing of the proposed transaction be conditioned on, among other things, dissenting shares of Company common stock constituting no more than 10% of the outstanding shares of Company common stock, each of certain senior employees of the Company not leaving the Company and having entered into new employment and non-compete agreements with the Company and the Company's completion of the disposal of its interests in certain entities contractually controlled by the Company (the VIEs); (vi) both the Company's termination fee and CITIC's reverse termination fee be equal to 3.5% of the equity value of the Company, (vii) the Company pay a termination fee, equal to 1% of the equity value of the Company, in the event the stockholders did not approve the proposed transaction; (viii) CITIC be entitled to an expense reimbursement by the Company in addition to the Company's termination fee; and (ix) the specific performance remedy be available only to CITIC.

In connection with the submission of CITIC's final bid, Morgan Stanley explained to Goldman Sachs that CITIC reduced its price to US\$11.50 per share in light of the deteriorating financial performance of the Company over the first two quarters of 2012 and indications from due diligence that this deteriorating performance would continue into the third quarter and potentially beyond.

On October 17, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman to review CITIC's October 15 bid. After considering the strategic review process and discussing CITIC's bid with its advisors, the special committee decided that the current bid submitted by CITIC was not acceptable without a price increase. The special committee instructed Goldman Sachs to contact CITIC and its financial advisor to seek an upward revision to the bid price proposed by CITIC.

From October 18, 2012 to October 21, 2012, Goldman Sachs held several telephonic meetings with CITIC and Morgan Stanley. On October 22, 2012, Morgan Stanley verbally communicated a revised offer on behalf CITIC of US\$12.00 per share, subject to (i) agreement of the special committee that this will be the final price, (ii) deletion of the majority of the minority condition, and (iii) completion of confirmatory due diligence by CITIC. Morgan Stanley stated that CITIC would not submit a written offer on these terms unless the special committee advised CITIC that these conditions were acceptable.

On October 24, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman to further discuss the next steps in respect of the transaction process. After such discussion, the special committee agreed that in order to maximize the interests of the public stockholders of the Company and as a negotiation tactic, the special committee would seek a higher offer price of US\$12.50 per share from CITIC, which was offered by CITIC in its second round bid, and would consider being more flexible with CITIC on certain terms of the merger agreement in exchange for a higher price, if necessary. Goldman Sachs delivered to CITIC the special committee's request for higher price immediately after the meeting.

On October 26, 2012, the special committee held a telephonic meeting with Shearman and MNAT to discuss the fiduciary duties of the directors under Delaware law. The special committee also discussed whether to include a majority of the minority condition in the draft merger agreement. After discussion, and in light of (i) the extensive outreach performed, (ii) the facts that the potential buyer group would only have a relatively small minority interest before closing and the potential rollover stockholders would only hold a relatively small percentage of the outstanding shares of Company common stock and (iii) CITIC's continued insistence on the removal of the majority of the minority condition, the special committee decided that, although it would continue to request inclusion of a majority of the minority condition, it would be willing to trade such a condition in exchange for other terms, including price, that would be favorable to the Company and its public stockholders. Over the next several weeks, the special committee discussed CITIC's request to delete the majority of the minority condition from the draft merger agreement.

Table of Contents

On November 3, 2012, the special committee granted its consent to CITIC and Mr. Tian entering into discussions and negotiations with InnoValue Capital Ltd. regarding the proposed transaction.

On November 12, 2012, CITIC submitted a revised bid with an increased offer price of US\$12.00 per share. CITIC advised that this proposal reflected CITIC's best and final offer and requested a further three week period to complete its confirmatory due diligence.

On November 12, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman to review CITIC's revised bid and discuss the next steps of the proposed transaction. Goldman Sachs reported to the special committee that it would conduct a preliminary financial analysis in respect of CITIC's revised proposal and make a presentation to the special committee.

On November 14, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Fried Frank also attended the meeting. Goldman Sachs presented to the special committee its preliminary financial analysis in respect of CITIC's revised bid dated November 12, 2012 and answered questions from the special committee with respect to such analysis. Goldman Sachs reviewed with the special committee strategic alternatives that might be available to the Company in lieu of the transaction proposed by CITIC. After Goldman Sachs and its counsel left the meeting, the special committee continued to discuss Goldman Sachs's preliminary financial analysis, the alternatives available to the Company and the next steps the special committee should take. Goldman Sachs was then asked to rejoin the meeting, after which the special committee determined, assuming the fairness of the offer price of US\$12.00 per share and the certainty of financing, that it would proceed with negotiating the proposed transaction with CITIC.

From November 16, 2012 through November 19, 2012, the special committee discussed with its advisors CITIC's comments to the draft merger agreement. After these discussions, the special committee decided, among other things, to retain its existing positions on the key open points, and propose that the Company's termination fee and CITIC's termination fee be 1.5% and 5%, respectively, of the equity value of the Company.

On November 19, 2012, Shearman held discussions with the Company's management as to the management's views with respect to the representations, warranties and covenants in the draft merger agreement.

On November 20, 2012, at the direction of the special committee, Shearman sent a revised draft merger agreement to Davis Polk reflecting the special committee's positions discussed above.

On November 25, 2012, Davis Polk sent a markup of the draft merger agreement to Shearman. As reflected in that markup, CITIC retained its existing positions on the key open deal terms, counter-proposed 2% of the equity value of the Company as the Company's termination fee and 2.5% of the equity value of the Company as CITIC's reverse termination fee, offered to cap its proposed expense reimbursement by the Company at US\$10 million and accepted the special committee's position not to have a termination fee payable if stockholders do not approve the proposed transaction.

On November 26, 2012, Shearman provided the special committee with a summary of CITIC's November 25 comments to the draft merger agreement.

On November 27, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman. At the request of the special committee, Goldman Sachs further discussed its financial analysis presented on November 14, 2012.

Between November 27 and November 30, 2012, Shearman and Davis Polk negotiated certain key issues of the draft merger agreement as reflected in CITIC's November 25 comments to the draft merger agreement.

Table of Contents

On November 30, 2012, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Goldman Sachs reported to the special committee that it had had discussions with Morgan Stanley in respect of the status of the proposed transaction. After discussion with its advisors, the special committee decided that, in the interests of time, the negotiation of the draft merger agreement and the finalization of the financing documents should move forward in parallel, and instructed Goldman Sachs and Shearman to convey this position to CITIC and its advisors.

On December 7, 2012, the special committee met with CITIC at the Hong Kong offices of Goldman Sachs. Representatives of Goldman Sachs, Shearman, Morgan Stanley and Davis Polk were in attendance. After negotiating the open issues on the draft merger agreement, CITIC agreed to the special committee's positions on the following key open points: (i) the closing of the proposed transaction would not be conditioned on the dissenting shares of Company common stock being less than a specified capped percentage of the shares of Company common stock; (ii) the closing of the proposed transaction would not be conditioned on any senior employees of the Company entering into any employment or other agreements; instead, the special committee would consent to CITIC having discussions with such employees with the aim of finalizing their employment arrangements before the closing of the proposed transaction; and (iii) the closing of the proposed transaction would not be conditioned on completion of the disposition of the Company's interests in the VIEs; instead, the Company would agree to a covenant to use reasonable best efforts to complete this disposition. The special committee in turn agreed that the merger agreement would not contain a majority of the minority condition. The parties did not reach agreement on any other open issues at this meeting.

On December 13, 2012, Shearman sent a revised draft of the merger agreement to Davis Polk reflecting the agreement between the special committee and CITIC on the issues discussed during their meeting on December 7, 2012.

On December 18, 2012, Goldman Sachs contacted Morgan Stanley to discuss the transaction process. Morgan Stanley informed Goldman Sachs that, in light of the ongoing deterioration in the Company's financial performance, ICBCI would need to review the Company's financials for the fourth quarter of 2012 before making a final decision to commit debt financing. Morgan Stanley also advised that CITIC and its potential co-investors would be able to provide draft equity financing documents soon. Goldman Sachs requested Morgan Stanley and CITIC to work in parallel on both the financing documents as well as on the draft merger agreement.

On December 24, 2012, Morgan Stanley sent the initial draft equity commitment letter to Goldman Sachs.

On January 5, 2013, CITIC and ICBCI met with Mr. Wu to review the Company's preliminary high-level results of the fourth quarter of 2012. Mr. Wu confirmed that the Company's results would meet management's previous guidance and would likely be above the mid-point of the range, but when taken together with the prior three quarters would still show substantial under-performance for the year in relation to the management forecasts for 2012 previously provided to CITIC. Morgan Stanley also informed Goldman Sachs that ICBCI would need an additional few weeks to finalize the debt commitment letter.

On January 25, 2013, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Goldman Sachs updated the special committee on CITIC's financing arrangements in connection with the proposed transaction. The special committee and its advisors then discussed whether to execute the merger agreement on the basis of a debt commitment letter as opposed to requiring that an executed facility agreement be in place at signing. The special committee noted that CITIC had advised that it remained unwilling to agree to this, did not believe it was market practice to require this, and in any event a considerable amount of additional time would be required in order to finalize a facility agreement. After discussion with its advisors, the special committee agreed that it would be acceptable, on balance, to enter into the merger agreement based on a debt commitment letter rather than risk the delay of waiting for a full facility agreement, assuming that all other terms were acceptable to the special committee. At the meeting, Mr. Mackenzie reported to the special committee that he had had a conversation with Mr. Sun, during which Mr. Sun had stated that he expected that some stockholders of the Company would not support the proposed transaction based on the current offer price.

On January 29, 2013, Goldman Sachs and Shearman held a telephonic meeting with ICBCI, CITIC and Morgan Stanley on CITIC's debt financing arrangements and the estimated timing thereof. ICBCI informed the other parties that it was in the process of obtaining internal approval and it would likely require another two to three weeks to obtain such approval.

Table of Contents

On February 1, 2013, Shearman, CITIC and Davis Polk held a telephonic meeting to discuss the draft merger agreement and debt financing documents. Shearman advised that the special committee could only consider accepting CITIC's position to sign the merger agreement on the basis of a debt commitment letter instead of an executed facility agreement if it had an opportunity to first review and comment on a draft of the proposed debt commitment letter. CITIC and Davis Polk agreed to provide a copy of the draft ICBCI debt commitment letter as soon as possible and suggested that they would be in a better position to provide their comments to the draft merger agreement if the special committee confirmed that it would be acceptable in principle to execute the merger agreement on the basis of a debt commitment letter.

On February 4, 2013, Shearman sent a markup of the draft equity commitment letter to Davis Polk and Davis Polk sent a draft ICBCI debt commitment letter to Shearman, the terms of which were still subject to further review and negotiations by CITIC and ICBCI.

From February 6, 2013 through March 6, 2013, Shearman, Fried Frank, Davis Polk and ICBCI's legal counsel, Latham & Watkins LLP, discussed the terms of the draft ICBCI debt commitment letter.

On February 6, 2013, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Goldman Sachs updated the special committee on CITIC's debt financing process in connection with the proposed transaction. After careful consideration of all relevant factors, including prevailing market practice in comparable transactions, CITIC's obligations under the merger agreement to secure debt financing prior to the closing, and concerns with deal certainty and further delays in timing, the special committee decided to move forward on the basis that the merger agreement would be executed based on a debt commitment letter.

On February 7, 2013, Shearman and Davis Polk held a telephonic meeting to discuss the remaining open issues in the draft merger agreement, including the force the vote provision, the definition of superior proposal, expense reimbursement and CITIC's reverse termination fee. Davis Polk stated CITIC would agree to the special committee's position that the Company would not be required to have a minimum net cash amount as a condition to the closing if CITIC could obtain tighter interim operating covenants. The parties did not reach agreement on the remaining open issues during that telephonic meeting; however, Shearman informed Davis Polk that the special committee had agreed that the merger agreement could be signed based on a debt commitment letter. After the telephonic meeting, Davis Polk sent to Shearman a revised draft of the merger agreement reflecting CITIC's position on the open issues and an initial draft of the limited guarantee to be executed by the signatories to the equity commitment letters.

On February 8, 2013, Shearman provided the special committee with a summary of CITIC's positions on the open issues in the draft merger agreement.

From February 8, 2013 through February 19, 2013, the special committee, Goldman Sachs, Shearman, MNAT and Fried Frank held multiple discussions on the remaining open issues in the merger agreement. After such discussions, the special committee decided to counter-propose that, among other things: (i) our board of directors should have the right to change its recommendation in response to an intervening event; (ii) the expense reimbursement should be mutual and capped at US\$5 million each; (iii) CITIC's reverse termination fee should be equal to 4.25% of the equity value of the Company; (iv) the Company should have the right to trigger an early termination of the merger agreement if a limited guarantee or any financing document were to be terminated or failed to be effective or enforceable; (v) the specific performance remedy should be reciprocal; and (vi) the percentage threshold in the definition of superior proposal should be 50%, which would allow our board of directors to consider any potential bid made or joined by any current significant stockholder of the Company.

On February 20, 2013, Shearman and Davis Polk held a telephonic meeting to discuss the draft merger agreement. During this meeting, Shearman put forward the special committee's positions as described above.

On February 21, 2013, the special committee held a telephonic meeting with Goldman Sachs and Shearman. The special committee directed Goldman Sachs to discuss with management a draft budget for 2013, including updated management projections (the Draft 2013 Budget), which the Company had prepared in the ordinary course of business, and to report to the special committee the data and assumptions contained therein and how they compared to prior projections.

Table of Contents

On February 21, 2013, Shearman sent a revised draft of the merger agreement to Davis Polk reflecting the positions discussed during the February 20 telephone call between Shearman and Davis Polk.

On February 24, 2013, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Goldman Sachs reported to the special committee its discussion with Mr. Wu as to the management projections reflected in the Draft 2013 Budget. Mr. Wu reported these projections were lower than the previous management projections, which had been provided to Goldman Sachs for its valuation analysis and the First Round Bidders for their due diligence purposes, primarily because of the volatility in the Company's international business (although the Company's core onshore business was largely unaffected). After discussion with its advisors, the special committee decided to discuss the Draft 2013 Budget with our board of directors and recommend to our board of directors that the Company's management be requested to clarify certain aspects of the management projections reflected in the Draft 2013 Budget (such as separating the international and onshore businesses, and presenting a range of outcomes for the international business) and produce a revised budget (including revised projections) which would be submitted to our board of directors for approval.

On February 26, 2013, Davis Polk sent initial drafts of the rollover agreements and voting agreement to Shearman.

On February 28, 2013, Shearman and Davis Polk held a telephonic meeting to negotiate the remaining open issues in respect of the draft merger agreement.

Later that day, Shearman sent an email to Davis Polk summarizing the major open issues in respect of the draft limited guarantee, including the nature and scope of coverage of the limited guarantee, certain waivers and the assignability of the limited guarantee.

On February 28, 2013, Shearman and Davis Polk held a telephonic meeting to negotiate the remaining open issues in respect of the draft merger agreement.

Later that day, Shearman sent an email to Davis Polk summarizing the major open issues in respect of the draft limited guarantee, including the nature and scope of coverage of the limited guarantee, certain waivers and the assignability of the limited guarantee.

On February 28, 2013 Davis Polk sent Shearman revised drafts of certain sections of the merger agreement, including the first detailed proposal on a covenant describing the treatment of existing employee stock options in connection with the closing of the transaction.

Based on this draft proposal, Shearman and Mr. McKenzie inquired whether there had been any discussions between CITIC and certain members of the Company's management in respect of their employment arrangements. CITIC and the Company's management confirmed to the special committee that no material discussions had taken place on these matters to date.

On March 1, 2013, Morgan Stanley informed Goldman Sachs that ICBCI had obtained final internal approval in respect of the debt financing but had also requested that certain terms be added to the draft ICBCI debt commitment letter, which would require additional time for negotiations between CITIC and ICBCI.

On March 5, 2013, Morgan Stanley sent a revised draft of the ICBCI debt commitment letter to Goldman Sachs.

From March 6, 2013 through March 8, 2013, the special committee, Goldman Sachs and Shearman discussed the remaining open issues on the draft merger agreement.

On March 7, 2013, Shearman and Davis Polk held a telephonic meeting to discuss the major open issues on the draft limited guarantee.

On March 8, 2013, Shearman sent a revised draft of the merger agreement to Davis Polk.

On March 11, 2013, Shearman sent a revised draft of the limited guarantee to Davis Polk.

On March 12, 2013, Shearman and Davis Polk held a telephonic meeting to discuss the ICBCI debt commitment letter.

Table of Contents

Later that day, CITIC communicated to Mr. Mackenzie a brief update on the status of the debt financing to be provided by ICBCI. CITIC confirmed that ICBCI received its final internal approval for the debt financing in the week of February 25, 2013 and advised that CITIC and ICBCI had been working to finalize the terms of the ICBCI debt commitment letter. On the same day, Mr. Mackenzie sent a response to CITIC via email, requesting information as to what issues were causing the additional delay and clarification as to whether there was another potential source of debt financing and, if so, whether this was likely to result in further delays in finalizing the debt financing. Later on the same day, CITIC responded to Mr. Mackenzie, assuring him and the special committee of its commitment to completing the proposed transaction. CITIC stated that it was extremely focused on finalizing the financing arrangements as quickly as possible and believed that the financing arrangements would be finalized in the very near term. CITIC also stated that it was exploring options for the debt financing that could lead to a more attractive financing package for the proposed transaction, but that such efforts had not been the cause of any delay.

On March 13, 2013, the special committee received a revised copy of the Draft 2013 Budget, including updated management projections, from the Company's management. Later that day, the special committee held a telephonic meeting with Goldman Sachs and Shearman. At the meeting, the special committee reviewed and discussed the updated management projections with Goldman Sachs. The special committee noted that the updated management projections were based on the Company's current strategy to aggressively expand overseas by penetrating the Europe, Middle East and Africa markets. In order to analyze the options available for the development of the Company's overseas business, and at the request of our board of directors, the Company's management had also developed two alternative scenarios for the purpose of sensitivity analysis. After such further review and discussion, the special committee decided to approve the updated management projections and to present such projections for the review of our board of directors and approval at a special meeting of our board of directors, which occurred the following day. At that meeting of our board of directors, our board of directors approved the updated Draft 2013 Budget and the revised management projections reflected in that Budget. Also at the March 13, 2013 meeting, the special committee instructed Shearman to remind CITIC and the Company's management that any discussions between CITIC and management concerning employment or compensation arrangements require prior consent from the special committee. Shearman promptly carried out the special committee's instruction.

On March 15, 2013 Morgan Stanley on behalf of CITIC requested to Goldman Sachs that the special committee approve a meeting in the near future between representatives of CITIC and members of the Company's senior management team to discuss the overall proposed transaction structure, as well as CITIC's proposals regarding employment agreements, the proposed management incentive program, rollover agreements and voting support agreements to be entered into with senior management and other employees of the Company in connection with the transaction.

On March 19, 2013, with the consent of the special committee, Messrs. Zhang, Wu, Yadong Jin and Liu met with CITIC in its Beijing offices to discuss extension of their employment agreements with the Company, rollover of the senior management members' company stock awards and the proposed equity-based incentive plan of the surviving corporation after the closing. Representatives of Goldman Sachs and Shearman also attended. During the meeting, CITIC delivered to each of the above four senior management members a draft agreement extending his existing employment agreement. CITIC also provided copies of such employment extension agreements to Goldman Sachs and Shearman for their review. See "Special Factors Relating to the Merger" Interests of the Company's Directors and Officers in the Merger Employment and Change-in-Control Agreements for more details.

On March 20, 2013, Goldman Sachs provided the revised management projections to CITIC. After reviewing such projections, CITIC did not state that the revised projections created any issue in respect of CITIC's valuation or offer price.

On March 21, 2013, Shearman, CITIC, Davis Polk and Fangda, CITIC's PRC counsel, held a telephonic meeting to discuss the Company's plans to dispose of its interests in the Company's VIEs in connection with the proposed transaction.

From March 21, 2013 through May 12, 2013, Shearman, Haiwen, the Company's management and Han Kun Law Offices, the Company's PRC counsel, worked to develop a potential plan to dispose of the Company's interests in the VIEs, identify and negotiate with potential buyers of the Company's interests in the VIEs, draft and finalize the VIE transfer documents, and engage an independent asset appraiser to determine the fair market value of the VIEs. Shearman also regularly reported on and discussed the progress of this process with the special committee and Goldman Sachs and kept CITIC, Davis Polk and Fangda informed as to progress.

On March 22, 2013, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Goldman Sachs presented the special committee with an updated preliminary financial analysis in respect of CITIC's revised bid dated November 12, 2012 and discussed that analysis with the special committee.

On March 28, 2013, the special committee, Goldman Sachs, Shearman, CITIC, Morgan Stanley and Davis Polk held a telephonic meeting to discuss pending issues in respect of the proposed transaction. CITIC requested that the disposition by the Company of its interests in the VIEs be completed before the signing of the merger agreement.

Table of Contents

On April 2, 2013, Davis Polk sent a revised draft of the merger agreement to Shearman.

On April 5, 2013, Shearman and Davis Polk held a telephonic meeting to negotiate the key remaining open issues on the draft merger agreement

On April 6, 2013, Shearman provided the special committee with a summary of CITIC's positions on the key open issues in the draft merger agreement.

On April 6, 2013, Shearman conveyed to Davis Polk the special committee's position on certain key open issues in the draft merger agreement, including that: (i) the special committee would not insist on the Company having a right to specific performance and to be a third party beneficiary under the equity commitment letters or on the Company's right to terminate the merger agreement in the event of a failure of the debt financing; (ii) CITIC's termination fee should be 6.375% of the equity value of the Company in the event of CITIC's intentional breach or failure to close the proposed transaction when all the closing conditions are satisfied or waived and 4.5% of the equity value of the Company in the event of CITIC's unintentional material breach or failure of the debt financing; and (iii) the expense reimbursement should be mutual and capped at an amount to be specified.

From April 6, 2013 through April 8, 2013, Shearman and Davis Polk negotiated the remaining open issues on the draft merger agreement.

On April 9, 2013, the special committee held a telephonic meeting with Goldman Sachs and Shearman, during which Shearman updated the special committee on its discussions with Davis Polk on the remaining open issues in the draft merger agreement.

On April 15, 2013, Shearman sent a revised draft of the merger agreement to Davis Polk reflecting the special committee's position on these open issues, and the Company engaged an independent asset appraiser to determine the fair market value of the VIEs in connection with the Company's disposition of its interests in the VIEs.

From April 16, 2013 through April 30, 2013, Shearman and Davis Polk negotiated the final terms of the draft merger agreement. During the same period, Shearman and Davis Polk also negotiated the other transaction documents, including the Company's disclosure schedule, the rollover agreements, voting agreement, equity commitment letter and limited guarantee.

On April 22, 2013, Morgan Stanley sent Goldman Sachs a finalized debt commitment letter from a syndicate of banks comprised of Nomura International (Hong Kong) Limited, Bank of Taiwan and Cathay United Bank, Co., Ltd. and informed Goldman that this syndicate, instead of ICBCI, would provide debt financing for the proposed transaction.

On April 24, 2013, CITIC requested that the special committee consent to CITIC having discussions with Mr. Ding regarding his potential execution of a rollover agreement. Later on the same day, the special committee granted this consent.

On April 25, 2013, Mr. Sun sent an email to Mr. Mackenzie, the chairman of the special committee, requesting that the Company return certain Linkage trademarks and brand names that had been licensed by Lianchuang Technology Company Limited, a company controlled by Mr. Sun (Lianchuang), to an affiliate of the Company in connection with the transactions contemplated by the Combination Agreement, to Lianchuang upon the completion of the proposed transaction, because he would cease to be a stockholder of the Company at such time.

From April 25, 2013 through May 11, 2013, the special committee, Shearman and the Company's management discussed Mr. Sun's requests regarding the Linkage trademarks. The Company's management expressed the view that Mr. Sun's request had no legal basis and was not acceptable to the Company from a commercial perspective. During the same period, Shearman kept CITIC and Davis Polk informed of these developments.

Table of Contents

On April 25, 2013, Davis Polk sent the initial draft consortium agreement and Parent disclosure schedule to Shearman documenting the proposed members of the consortium led by CITIC, the intended rollover stockholders and the stockholders who would be parties to the draft voting agreement.

On April 25, 2013, Shearman sent Davis Polk its comments on the debt commitment documents to be executed by the syndicate of banks providing debt financing for the proposed transaction (the Nomura debt commitment documents).

From April 25, 2013 through April 27, 2013, Shearman held telephonic meetings with Davis Polk to discuss Shearman's comments on the Nomura debt commitment documents.

On April 26, 2013, Davis Polk held telephonic meetings with Paul Hastings LLP (Paul Hastings), counsel for the syndicate of banks, to discuss Shearman's comments on the Nomura debt commitment papers, following which Paul Hastings sent a revised set of Nomura debt commitment papers to Davis Polk, and Davis Polk then sent a revised set of Nomura debt commitment papers to Shearman.

On April 27, 2013, Davis Polk held telephonic meetings with Shearman to discuss Shearman's comments on the revised set of Nomura debt commitment papers, following which Shearman confirmed that the revised set of Nomura debt commitment papers was acceptable to the special committee.

On April 29, 2013, Shearman sent a revised draft of the merger agreement to Davis Polk.

On April 30, 2013, Mr. Liu confirmed that the employment extension agreement delivered to him at the March 19, 2013, meeting was acceptable. See Special Factors Relating to the Merger Interests of the Company's Directors and Officers in the Merger Employment and Change-in-Control Agreements for more details.

On May 1, 2013, Davis Polk sent comments on the draft merger agreement to Shearman.

On May 2, 2013, Goldman Sachs held a telephonic meeting with Morgan Stanley to discuss CITIC's reverse termination fee. Morgan Stanley stated that CITIC would not accept any increase to the proposed termination higher-tier and lower-tier reverse termination fees of 4% and 2%, respectively, of the equity value of the Company.

On May 2, 2013, the special committee discussed with Goldman Sachs and Shearman CITIC's position on its termination fee and the parties' rights to expense reimbursement. After these discussions, the special committee decided to accept CITIC's position regarding CITIC's termination fee and propose either (i) a mutual expense reimbursement provision capped at US\$5 million or (ii) a reduction of the Company's termination fee to 0.9% of the equity value of the Company. Later that day, Shearman conveyed to Davis Polk the special committee's proposal.

On May 6, 2013, each of Messrs. Zhang, Wu and Jin confirmed that the employment extension agreement delivered to each of them at the March 19, 2013, meeting was acceptable. See Special Factors Relating to the Merger Interests of the Company's Directors and Officers in the Merger Employment and Change-in-Control Agreements for more details.

On May 7, 2013, Mr. Sun sent the special committee drafts of certain agreements to be entered into between the Company and Lianchuang. In the cover email, Mr. Sun proposed that, before the formal announcement of a transaction with CITIC the Company should agree that (i) all the trademark license agreements between Lianchuang and Linkage Technology (Nanjing) Co., Ltd. (Nanjing Linkage), an indirect, wholly-owned subsidiary of the Company, under which five Linkage trademarks had been licensed to Nanjing Linkage, would be terminated, (ii) the Company would agree not to continue to use the trade names and trademarks containing the word Linkage and related logos, and (iii) the Company would release Mr. Sun, Mr. Liu, Mr. Huang and certain other individual former stockholders of Linkage and their affiliates from their non-compete agreements with the Company, in each case, upon the closing of the proposed take-private transaction.

On May 7, 2013, in connection with the preparation of its fairness opinion, Goldman Sachs disclosed to the special committee and Shearman that Goldman Sachs or certain of its affiliates had, in matters unrelated to the proposed transaction, provided investment banking services to affiliates of certain members of the consortium led by CITIC. The special committee and Shearman requested Goldman Sachs to provide further information regarding such services. See Special Factors Relating to the Merger Opinion of Goldman Sachs, Financial Advisor to the Special Committee for more details.

Table of Contents

On May 7, 2013, Davis Polk informed Shearman that CITIC had accepted the special committee's proposal regarding mutual expense reimbursement with a cap of US\$5 million each.

From May 7, 2013 through May 12, 2013, Shearman and Davis Polk discussed and finalized execution versions of the merger agreement and the other transaction documents.

On May 9, 2013, the special committee held a telephonic meeting with Goldman Sachs and Shearman. Shearman updated the special committee as to progress and various developments, including the finalization of the draft merger agreement and the other transaction documents and Mr. Sun's request regarding the cessation of the Company's use of the Linkage trademarks and the release of Mr. Sun, Mr. Liu, Mr. Huang and certain other former stockholders of Linkage and their affiliates from their non-compete agreements. The special committee also discussed with its advisors the provision by Goldman Sachs or certain of its affiliates, in matters unrelated to the proposed transaction, of investment banking services to affiliates of certain members of the consortium led by CITIC. After discussion, the special committee requested Goldman Sachs to provide additional information about the services it had provided to the affiliates of such consortium members (including the fees it had earned). In light of, among other things, the identity of the relevant consortium members, the relative participation of each of the relevant consortium members in the proposed transaction, and the fact that they had become part of the consortium only relatively recently in the entire strategic review process, the special committee determined that Goldman Sachs remained free from any material conflicts of interest that could impact its ability to provide the committee with independent financial advice. After discussion, the special committee decided to propose a meeting of our board of directors for Sunday, May 12, 2013.

On May 9, 2013, pursuant to the special committee's request, Goldman Sachs provided to the special committee detailed information in respect of its services to and fees earned from certain members of the consortium led by CITIC in the proposed transaction. The special committee had no further questions after reviewing the additional information provided by Goldman Sachs.

On May 10, 2013, after a majority of the members of our board of directors had confirmed their availability to attend a special meeting of our board of directors on May 12, 2013, a special meeting of our board of directors was called for May 12, 2013 to discuss the proposed transaction. Together with the meeting notice, each member of our board of directors received certain materials including the full package of finalized transaction documents.

On May 11, 2013, Davis Polk informed Shearman that ICBCI and Maybank Investment Bank Berhad had agreed to join the syndicate of banks providing debt financing in respect of the proposed transaction.

On May 11, 2013, the Company's legal department circulated to the special committee and our board of directors, including Mr. Sun, a memorandum setting forth management's view that Mr. Sun's requests regarding the Linkage trademarks and non-compete agreements had no legal basis.

In the morning of May 12, 2013, a special meeting of our board of directors was convened via teleconference, with Goldman Sachs and Shearman in attendance, to discuss the proposed transaction. All directors were in attendance except Mr. Huang. Mr. Huang had initially indicated that he could attend the meeting of our board of directors scheduled for the morning of May 12, 2013 but subsequently stated that he was not available that morning and would not be available, even to attend a teleconference, for several days. After discussion with its advisors, and considering both the likelihood that delaying the meeting of our board of directors to even the earliest date Mr. Huang indicated he might be available could be viewed negatively by CITIC and introduce uncertainty in the transaction, and that all other directors indicated they could attend the currently scheduled meeting, the special committee decided not to recommend rescheduling the meeting of our board of directors.

At the special meeting of our board of directors on May 12, 2013, Mr. Sun requested (i) additional time to review the draft transaction documents and the fairness of the merger consideration and (ii) certain additional information in respect of the bid process and Goldman Sachs's financial analysis. After discussion, Mr. Sun agreed that the meeting should continue as planned, with his request to be considered at the time of the vote by the directors in respect of the transaction. Following an overview provided by Mr. Mackenzie, who acted as chairman of the special meeting of our board of directors, as to the work undertaken by the special committee to date in connection with the transaction, Goldman Sachs reported in further detail to our board of directors on the process conducted by the special committee and its advisors in connection with the proposed transaction and Shearman reported to our board of directors the major commercial terms of the proposed transaction and briefed our board of directors regarding the directors' fiduciary duties. Messrs. Ding, Tian and Zhang recused themselves from further deliberation of our board of directors and left the meeting. Goldman Sachs then presented to the remaining directors its financial analysis, and reviewed the alternatives available to the Company, including the possibility of remaining independent either with or without a levered recapitalization, a share buyback or the declaration of a special dividend.

Table of Contents

After Goldman Sachs's responses to questions from the directors, the special meeting of our board of directors adjourned, and the special committee held a telephonic meeting with Goldman Sachs and Shearman. The special committee discussed with its advisors the substantive and procedural factors of the proposed transaction including the updated terms of the transaction documents. Goldman Sachs reviewed with the special committee its financial analysis and delivered to the special committee its oral opinion, which was subsequently confirmed in writing, that, as of May 12, 2013, and based upon and subject to the limitations and assumptions set forth in the written opinion, the consideration of US\$12.00 in cash to be paid for each share of the Company common stock pursuant to the merger agreement was fair from a financial point of view to the holders (other than Parent, the Rollover Stockholders, the Sponsors and their respective affiliates) of shares of the Company common stock. The special committee considered the potential strategic alternatives presented by Goldman Sachs to our board of directors and determined that other alternatives were less favorable to the unaffiliated stockholders than the transactions contemplated by the merger agreement given the potential rewards, risks and uncertainties associated with those alternatives. The special committee also considered Mr. Sun's requests for additional time and information and decided that based on the facts of the transaction, including the fact that each director had been given sufficient time and information, it would not recommend delaying the vote of our board of directors. The special committee then unanimously resolved to, among other things, recommend that our board of directors adopt resolutions approving the Merger Agreement and declaring its advisability.

Following the meeting of the special committee, our board of directors reconvened its special meeting via teleconference, with Messrs. Ding, Tian and Zhang rejoining the meeting. After the special committee reported its recommendations, and after discussion among the members of our board of directors, all directors present at the meeting except for Mr. Sun voted against Mr. Sun's request to postpone action on the resolutions in respect of the proposed transaction. Our board of directors then proceeded to vote on the transaction and decided, by a vote of 7-1, to adopt resolutions, among other things, approving the Merger Agreement and declaring its advisability. Mr. Sun voted against such resolutions based on his assertion that he did not have sufficient time to consider the proposed transaction.

Later in the day on May 12, 2013, the Company, Parent and Merger Sub executed the Merger Agreement and the parties to the other transaction documents executed such other transaction documents that, on their terms, were to be executed simultaneously with the Merger Agreement.

On May 12, 2013, the Company's relevant subsidiaries and employees and other parties to the VIE transfer documents executed the VIE transfer documents.

On May 13, 2013, prior to the opening of the U.S. financial markets, the Company issued a press release announcing the execution of the Merger Agreement and the limited guarantees.

Purposes and Reasons of Our Board of Directors and Special Committee for the Merger

The special committee and our board of directors believe that, as a privately-held entity, the Company's management may have greater flexibility to focus on improving the Company's financial performance without the constraints caused by the public equity market's valuation of the Company and emphasis on short-term period-to-period performance. As a publicly traded entity, the Company faces pressure from public stockholders and investment analysts to make decisions that might produce better short-term results, but over the long term lead to a reduction in the per share price of the Company's publicly traded common stock.

The special committee and our board of directors also believe that it is appropriate for the Company to undertake the merger and terminate the registration of Company common stock at this time due to the high costs of remaining a public company, including the cost of complying with the Sarbanes-Oxley Act of 2002 and other U.S. federal securities laws. We estimate such costs to be, on an annualized basis, approximately US\$2.0 million for service fees and expenses of public accountants (excluding fees and expenses relating to the merger), approximately US\$0.5 million for fees and expenses of U.S. securities counsel (excluding fees and expenses relating to the merger) and US\$0.09 million for fees and expenses of the Company's investor relations firm (excluding fees and expenses relating to the merger). These costs are ongoing, comprise a significant element of our corporate overhead expense, and are difficult to reduce. In addition to the direct out-of-pocket costs associated with SEC reporting and compliance, the Company's management and accounting staff, which comprises a handful of individuals, need to devote significant time to these matters.

Table of Contents

Furthermore, as an SEC-reporting company, the Company is required to disclose a considerable amount of business information to the public, some of which would be considered proprietary and would not be disclosed by a non-reporting company. As a result, our actual or potential competitors, customers, lenders and vendors all have ready access to this information which potentially may help them compete against us or make it more difficult for us to negotiate favorable terms with them, as the case may be.

The special committee and our board of directors also believe that it is appropriate for the Company to undertake the merger and terminate the registration at this time because the merger consideration of US\$12.00 represents a premium over recent market prices of shares of Company common stock.

Based on the foregoing considerations, each of the special committee and our board of directors has concluded that it is more beneficial to the Company to undertake the proposed merger and become a private company than to remain a public company.

Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger

At a meeting on May 12, 2013, the special committee unanimously recommended that our board of directors adopt resolutions that:

determine that the merger is fair and advisable to, and in the best interests of, the Company and the unaffiliated stockholders;

approve the merger agreement and declare its advisability;

recommend that the stockholders of the Company adopt the merger agreement;

direct that the merger agreement be submitted to the stockholders of the Company for their adoption at a special meeting of the stockholders of the Company; and

approve the merger agreement, the rollover agreements, the voting agreement, the consortium agreement and any additional rollover agreements and the transactions contemplated thereby for purposes of Section 203 of the DGCL.

On May 12, 2013, our board of directors adopted resolutions as recommended by the special committee. In reaching these determinations, our board of directors considered the special committee's unanimous recommendation and adopted resolutions that:

determine that the merger is fair and advisable to, and in the best interests of, the Company and the unaffiliated stockholders;

approve the merger agreement and declare its advisability;

recommend that the stockholders of the Company adopt the merger agreement;

direct that the merger agreement be submitted to the stockholders of the Company for their adoption at a special meeting of the stockholders of the Company; and

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approve the merger agreement, the rollover agreements, the voting agreement, the consortium agreement and any additional rollover agreements and the transactions contemplated thereby for purposes of Section 203 of the DGCL.

Table of Contents

Please note that one of our directors, Mr. Libin Sun, voted against the foregoing recommendations and one of our directors was absent from the meeting at which our board of directors approved these recommendations.

In the course of reaching their respective determinations, the special committee and our board of directors considered the following substantive factors and potential benefits of the merger, each of which the special committee and our board of directors believed supported their respective decisions, but which are not listed in any order of importance:

the fact that the form of consideration provides certainty of value, and the US\$12.00 merger consideration represents a premium of (i) approximately 21.0% over the closing price on January 19, 2012, the last trading day before the January 20 press release and 50.8% over the volume-weighted average closing price for the previous 30-trading day period ended January 19, 2012 and (ii) approximately 2.7% over the closing price on May 10, 2013, the last trading day before the announcement of the merger agreement and 4.6% over the volume-weighted average closing price for the previous 30-trading day period ended May 10, 2013;

the belief, after a review of strategic alternatives with the assistance of Goldman Sachs, including the possibility of remaining independent either with or without a leveraged recapitalization, and combinations with other merger partners, that other alternatives were less favorable to the unaffiliated stockholders than the merger agreement given the potential risks, rewards and uncertainties associated with those alternatives;

the financial analyses presented by Goldman Sachs as well as the opinion of Goldman Sachs that, as of May 12, 2013, and based upon and subject to the limitations and assumptions set forth in Goldman Sachs' written opinion, the consideration of US\$12.00 in cash to be paid for each share of Company common stock pursuant to the merger agreement was fair from a financial point of view to the holders (other than Parent, the Rollover Stockholders, the sponsors and their respective affiliates) of shares of Company common stock;

the likelihood that the merger would be completed based on, among other things (not in any order of importance):

the fact that Parent and Merger Sub had obtained equity and debt commitments for the transaction in the forms provided to the special committee, the limited number and nature of conditions to the equity and debt financing, the reputation of the financing sources and the obligation of Parent to use its reasonable best efforts to obtain the financing, and the receipt of limited guarantees and/or the payment agreement, each of which, in the reasonable judgment of the special committee, increases the likelihood of such financings being completed;

the likelihood and anticipated timing of completing the merger in light of the scope of the conditions to completion; and

the fact that the merger agreement provides that, in the event of a failure of the merger to be consummated under certain circumstances, Parent will pay the Company a termination fee in the amount of US\$18 million or US\$36 million, as applicable, without the Company having to establish any damages, plus up to US\$5 million in expenses, and the guarantee of such payment obligation by the guarantors pursuant to the limited guarantees and/or the payment agreement; and

Table of Contents

the other terms of the merger agreement and related agreements, including:

the ability of the Company to grant a waiver, amendment or release under any standstill agreement for the purpose of allowing an acquisition proposal;

the ability of the Company to furnish information to and engage in discussions or negotiations with a third party under certain circumstances permitted under the merger agreement;

the ability, under certain circumstances, to withdraw or modify the recommendation regarding the merger;

the Company's ability, under certain circumstances, to terminate the merger agreement to enter into an agreement providing for a superior proposal; provided, that the Company complies with its obligations to pay to Parent a US\$18 million termination fee, plus up to US\$5 million in expenses; and

the termination fee and expenses payable to Parent under certain circumstances, including as described above, in connection with the termination of the merger agreement, which the special committee concluded were reasonable in the context of termination fees and expenses payable in comparable transactions and in light of the overall terms of the merger agreement.

Neither the special committee nor our board of directors considered the Company's net book value, which is defined as total assets minus total liabilities, attributable to the stockholders of the Company as a factor because they believed that net book value is not a material indicator of the value of the Company as a going concern but rather is indicative of historical costs. The Company's net book value per share as of December 31, 2012 was US\$13.99, based on the weighted average number of outstanding shares of Company common stock during the fiscal year 2012. Net book value does not take into account the future prospects of the Company, market conditions, trends in the industry in which the Company conducts its business or the business risks inherent in competing with other companies in the same industry.

Neither the special committee nor our board of directors considered the liquidation value of the Company's assets because each considers the Company to be a viable going concern business where value is derived from cash flows generated from its continuing operations. In addition, the special committee and our board of directors believe that the value of the Company's assets that might be realized in a liquidation would be significantly less than its going concern value. Each of the special committee and our board of directors believes the analyses and additional factors it reviewed provided an indication of our going concern value. The special committee and our board of directors also considered the historical market prices of our shares as described under the caption *Market Price and Dividend Information* beginning on page 120.

In addition, the special committee and our board of directors believe that sufficient procedural safeguards were and are present to ensure that the merger, based upon the terms of the merger agreement, was procedurally fair to the unaffiliated stockholders and to permit the special committee and our board of directors to represent effectively the interests of such unaffiliated stockholders. These procedural safeguards, which are not listed in any order of importance, are discussed below:

the fact that the special committee is comprised of three independent directors who (i) are not employees or officers of the Company, (ii) are not affiliates of any member of the buyer consortium and (iii) do not have a material financial interest in the merger;

the fact that the determination to engage in discussions related to the merger and the consideration and negotiation of the price and other terms of the merger and alternatives thereto (including remaining a standalone entity either alone or in combination with a leveraged recapitalization) was conducted under the oversight of the special committee; and the special committee was given authority to, among other things, recommend to our board of directors what action should be taken by the Company, including not to engage in the merger;

Table of Contents

the fact that the special committee and our board of directors had no obligation to recommend the adoption of the merger agreement or any other transaction;

the fact that the Company publicly announced the receipt of a non-binding proposal from Power Joy in January 2012 in the press release dated January 20, 2012, and issued other press releases as to the special committee process;

the fact that the special committee and Goldman Sachs oversaw a process to identify and seek offers from interested third parties, during which, in addition to Power Joy, (i) Goldman Sachs contacted 48 potential acquirors regarding their potential interest in the Company (including 19 potential strategic acquirors and 29 potential financial acquirors), (ii) the Company entered into confidentiality agreements with, and provided nonpublic information to, 15 potential acquirors and (iii) 5 potential acquirors (including Power Joy) received detailed management presentations;

the fact that the special committee was advised by its legal counsel and its financial advisor and the fact that the special committee requested and received from Goldman Sachs an opinion that, as of May 12, 2013, and based upon and subject to the limitations and assumptions set forth in Goldman Sachs' written opinion, the consideration of US\$12.00 in cash to be paid for each share of Company common stock pursuant to the merger agreement was fair from a financial point of view to the holders (other than Parent, the Rollover Stockholders, the sponsors and their respective affiliates) of shares of Company common stock;

the fact that the special committee engaged in active negotiations with CITIC Capital China Partners II, L.P. regarding the merger consideration and the other terms of the merger, the merger agreement and related documents;

the recognition by the special committee that, given the relatively low percentage of outstanding shares of Company common stock beneficially owned by the buyer consortium, because the adoption of the merger agreement requires the approval of the affirmative vote of the holders of a majority of the outstanding shares of Company common stock, a substantial vote of the unaffiliated stockholders will still be required to adopt the merger agreement even without the express condition that the merger must be approved by a majority of the unaffiliated stockholders;

the ability of stockholders who comply with all of the required procedures within the applicable time periods under Delaware law to seek appraisal of the fair value of their shares of Company common stock; and

the fact that while, pursuant to the voting agreement, the parties to the voting agreement have committed to vote in favor of adopting the merger agreement and approving the merger, such commitments terminate automatically upon termination of the merger agreement in accordance with its terms, including termination by the Company to accept a superior proposal and in other circumstances specified in the voting agreement.

The special committee and our board of directors also considered a variety of potentially negative factors discussed below concerning the merger agreement and the merger, which are not listed in any order of importance:

the risk that the merger might not be completed in a timely manner or at all, including the risk that the merger will not occur if the equity financing or debt financing is not obtained;

the risks and costs to the Company if the merger does not close, including the diversion of management and employee attention, potential employee attrition and the potential disruptive effect on the Company's various business relationships;

the fact that following the completion of the merger, the unaffiliated stockholders would not be able to participate in the future growth or earnings of the Company;

Table of Contents

the restrictions on the Company's operations prior to completion of the merger, which may delay or prevent the Company from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of the Company pending the completion of the merger;

the possibility that the US\$18 million termination fee, plus up to US\$5 million in expenses, payable by the Company upon the termination of the merger agreement under certain circumstances may discourage other potential acquirors from making an acquisition proposal for the Company;

the risk that the voting agreement and certain of management's participation in the merger may deter third parties from submitting competing proposals;

the fact that if the merger is not completed, the Company will be required to pay its own expenses associated with the negotiation of the merger agreement, and the transactions contemplated thereby, as well as, under certain circumstances, to pay Parent a US\$18 million termination fee, plus up to US\$5 million in expenses in connection with the termination of the merger agreement;

the fact that Parent and Merger Sub are newly formed entities with essentially no assets other than the equity commitments of the sponsors, and that the Company's remedy in the event of breach of the merger agreement by Parent or Merger Sub may be limited to receipt of the US\$18 million or US\$36 million, as applicable, reverse termination fee, plus up to US\$5 million in expenses, and that under certain circumstances the Company may not be entitled to a termination fee at all;

the fact that an all cash transaction would be taxable to the Company's stockholders that are U.S. holders for U.S. federal income tax purposes; and

the terms of the Rollover Stockholders' and any Additional Rollover Stockholders' participation in the merger and the fact that certain of the Company's executive officers and directors may have interests in the transaction that are different from, or in addition to, those of the unaffiliated stockholders.

The foregoing discussion of information and factors considered by the special committee and our board of directors is not intended to be exhaustive, but includes all of the material factors considered by the special committee and our board of directors. In view of the wide variety of factors considered by the special committee and our board of directors, neither the special committee nor our board of directors found it practicable to, and neither did quantify or otherwise assign relative weights to the foregoing factors in reaching its conclusion. In addition, individual members of the special committee and our board of directors may have given different weights to different factors and may have viewed some factors more positively or negatively than others. The special committee recommended that our board of directors approve, and our board of directors approved, the merger agreement based upon the totality of the information presented to and considered by it.

The special committee expressly adopted the analyses and the opinion of Goldman Sachs, among other factors considered, in reaching its determination as to the fairness of the transactions contemplated by the merger agreement.

In reaching its determination that the merger is fair and advisable to, and in the best interests of, the Company and the unaffiliated stockholders, and its decision to approve the merger agreement and declare its advisability, to recommend that the stockholders of the Company adopt the merger agreement, to direct that the merger agreement be submitted to the stockholders of the Company for their adoption at a special meeting of the stockholders of the Company, and to approve the merger agreement, the rollover agreements, the voting agreement, the consortium agreement and any additional rollover agreements and the transactions contemplated thereby for purposes of Section 203 of the DGCL, our board of directors considered the analysis and recommendation of the special committee and the factors examined by the special committee as described above under the captions *Special Factors Relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* and *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger*, and adopted such recommendations and analysis. For the foregoing reasons, our board of directors, on behalf of the Company, believes that the merger agreement and the transactions contemplated thereby are fair to the unaffiliated stockholders.

Table of Contents

Our board of directors recommends that you vote FOR the proposal to adopt the merger agreement, FOR the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and FOR the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.

Opinion of Goldman Sachs, Financial Advisor to the Special Committee

On May 12, 2013, at a meeting of the special committee, Goldman Sachs rendered to the special committee its oral opinion, subsequently confirmed in writing, that, as of May 12, 2013, and based upon and subject to the limitations and assumptions set forth therein, the consideration of US\$12.00 in cash to be paid for each share of Company common stock pursuant to the merger agreement was fair from a financial point of view to the holders (other than Parent, the Rollover Stockholders, the sponsors and their respective affiliates) of shares of Company common stock.

The full text of the written opinion of Goldman Sachs, dated May 12, 2013, which sets forth the assumptions made, procedures followed, matters considered, qualifications and limitations on the review undertaken in connection with the opinion, is attached to this proxy statement as Annex H. The summary of the Goldman Sachs opinion provided in this proxy statement is qualified in its entirety by reference to the full text of the written opinion. Goldman Sachs advisory services and opinion were provided for the information and assistance of the special committee in connection with its consideration of the proposed merger and the opinion does not constitute a recommendation as to how any holder of shares of Company common stock should vote with respect to the proposed merger or any other matter.

In connection with rendering the opinion described above and performing its related financial analyses, Goldman Sachs reviewed, among other things:

the merger agreement;

annual reports to stockholders and Annual Reports on Form 10-K of the Company for the five fiscal years ended December 31, 2011;

certain interim reports to stockholders and Quarterly Reports on Form 10-Q of the Company;

certain other communications from the Company to its stockholders;

certain publicly available research analyst reports for the Company; and

certain internal financial analyses and forecasts for the Company prepared by its management as approved for Goldman Sachs use by the special committee (the Management Forecasts).

Goldman Sachs also held discussions with members of the senior management of the Company regarding their assessment of the past and current business operations, financial condition and future prospects of the Company; reviewed the reported price and trading activity for shares of Company common stock; compared certain financial and stock market information for the Company with similar information for certain other companies of which the securities are publicly traded; reviewed the financial terms of certain recent business combinations in the Chinese telecom service industry and in other industries; and performed such other studies and analyses, and considered such other factors, as it deemed appropriate.

Table of Contents

For purposes of rendering its opinion, Goldman Sachs, with the consent of the special committee, relied upon and assumed the accuracy and completeness of all of the financial, legal, regulatory, tax, accounting and other information provided to, discussed with or reviewed by, it, without assuming any responsibility for independent verification thereof. In that regard, Goldman Sachs assumed, with the special committee's consent, that the Management Forecasts had been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company. Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or other off-balance-sheet assets and liabilities) of the Company or any of its subsidiaries and Goldman Sachs was not furnished with any such evaluation or appraisal. Goldman Sachs assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the proposed transaction would be obtained without any adverse effect on the Company or on the expected benefits of the proposed transaction in any way meaningful to its analysis. Goldman Sachs assumed that the proposed transaction would be consummated on the terms set forth in the merger agreement, without the waiver or modification of any term or condition the effect of which would be in any way meaningful to its analysis.

Goldman Sachs' opinion did not address the underlying business decision of the Company to engage in the proposed transaction, or the relative merits of the proposed transaction as compared to any strategic alternatives that may be available to the Company; nor does it address any legal, regulatory, tax or accounting matters. Goldman Sachs' opinion addressed only the fairness from a financial point of view to the holders (other than Parent, the Rollover Stockholders, the sponsors and their respective affiliates) of shares of Company common stock, as of the date of the opinion, of the US\$12.00 per share to be paid to such holders pursuant to the merger agreement. Goldman Sachs did not express any view on, and its opinion did not address, any other term or aspect of the merger agreement or the proposed transaction or any term or aspect of any other agreement or instrument contemplated by the merger agreement or entered into or amended in connection with the proposed transaction, including, the fairness of the proposed transaction to, or any consideration received in connection therewith by, the holders of any other class of securities, creditors, or other constituencies of the Company; nor as to the fairness of the amount or nature of any compensation to be paid or payable to any of the officers, directors or employees of the Company, or class of such persons, in connection with the proposed transaction, whether relative to the US\$12.00 per share to be paid to the holders of shares of Company common stock pursuant to the merger agreement or otherwise. Goldman Sachs did not express any opinion as to the impact of the proposed transaction on the solvency or viability of the Company or Parent or the ability of the Company or Parent to pay their respective obligations when they come due. Goldman Sachs' opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Goldman Sachs as of, May 12, 2013 and Goldman Sachs assumed no responsibility for updating, revising or reaffirming its opinion based on circumstances, developments or events occurring after such date. Goldman Sachs' advisory services and its opinion were provided for the information and assistance of the special committee in connection with its consideration of the proposed transaction and such opinion does not constitute a recommendation as to how any holder of shares of Company common stock should vote with respect to the proposed transaction or any other matter. Goldman Sachs' opinion was approved by a fairness committee of Goldman Sachs.

The following is a summary of the material financial analyses presented by Goldman Sachs to the special committee on May 12, 2013 in connection with rendering the opinion described above. Goldman Sachs' analyses and the summary below must be considered as a whole and selecting portions of its analyses and factors could create a misleading or incomplete view of Goldman Sachs' analyses and opinion. The following summary, however, does not purport to be a complete description of the financial analyses performed by Goldman Sachs, nor does the order of analyses described represent relative importance or weight given to those analyses by Goldman Sachs. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of Goldman Sachs' financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before May 8, 2013 and is not necessarily indicative of current market conditions.

Table of Contents

Implied Premia and Multiples Analysis

Goldman Sachs calculated the premium or discount represented by the merger consideration of US\$12.00 per share of Company common stock to the following reference share prices of Company common stock:

the closing price of Company common stock on May 8, 2013;

the closing price of Company common stock on January 19, 2012, the last trading day before the Company publicly announced its receipt of a proposal to acquire 100% of the Company's equity;

the closing price of Company common stock on January 11, 2012, the last trading day prior to the day the Company received a going private proposal from CITIC Capital Partners;

the highest and lowest closing price of Company common stock during the 52-week and 2-year periods ended May 8, 2013, respectively; and

the volume weighted average trading price of Company common stock during the 1-month and 3-month periods ended May 8, 2013, respectively.

By multiplying the merger consideration of US\$12.00 by the total number of fully diluted outstanding shares of Company common stock calculated using the treasury method, Goldman Sachs derived an implied equity value of the Company of approximately US\$896.7 million. Goldman Sachs then subtracted from this implied equity value the sum of the Company's cash and short-term investments of approximately US\$292.4 million and the aggregate loss of approximately US\$4.6 million associated with minority interests in other businesses held by the Company as reflected in the Company's publicly filed financial statements for the period ended March 31, 2013 and derived an implied enterprise value of the Company of approximately US\$599.7 million.

Using the results of the calculations described above, the Company's actual financial results for 2012 reflected in its publicly filed financial statements, Management Forecasts for 2013 and 2014 and the selected estimates for the Company's 2013 and 2014 financial results published by Institutional Brokers' Estimate System, or IBES, Goldman Sachs calculated the following multiples:

the implied enterprise value as a multiple of the Company's earnings before interest, taxes, depreciation and amortization, or EBITDA, for 2012;

the implied enterprise value as a multiple of the Company's estimated EBITDA for 2013 published by IBES and the Company's estimated EBITDA for 2013 and 2014 contained in the Management Forecasts;

the merger consideration as a multiple of the Company's earnings per share, or EPS, for 2012; and

the merger consideration as a multiple of the Company's estimated EPS for 2013 and 2014 published by IBES or contained in the Management Forecasts, as applicable.

The results of these analyses are summarized as follows:

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Premium/Discount to	
5/8/2013 Close	2.7%
1/19/2012 Close	21.0%
1/11/2012 Close	52.3%
52-Week High	(6.2)%
52-Week Low	26.1%
2-Year High	(40.6)%
2-Year Low	87.5%
1-Month Volume Weighted Average Price	5.4%
3-Month Volume Weighted Average Price	5.4%
Enterprise Value / EBITDA	
2012A	7.6x
2013E - IBES	9.6x
2013E - Management	6.8x
2014E - Management	4.9x
Merger Consideration/EPS	
2012A	10.4x
2013E - IBES	10.3x
2014E - IBES	9.7x
2013E - Management	10.2x
2014E - Management	8.2x

Table of Contents*Selected Public Companies Analysis*

Goldman Sachs calculated and compared certain financial information and multiples for the Company to corresponding financial information and multiples for the following selected companies in the Chinese telecom IT service industry:

Pactera Technology International Ltd. (Pactera)

iSoftStone Holdings Limited (iSoftStone)

Although neither of the selected companies is directly comparable to the Company, the companies were chosen because they are U.S. publicly traded companies in the Chinese telecom IT service industry with operations that, for purposes of analysis, may be considered similar to certain operations of the Company.

With respect to the Company and each of the selected companies, Goldman Sachs calculated:

enterprise value as a multiple of estimated EBITDA for 2013 and 2014;

closing share price on May 8, 2013, as a multiple of estimated EPS for 2013 and 2014.

For purposes of these calculations, Goldman Sachs calculated an implied equity value for each company derived by multiplying the number of fully diluted outstanding shares of that company as reported in its most recent public filings by the company's closing share price on May 8, 2013. By adding the net debt amount of each company as reported in its most recent public filings to the equity value of such company derived from the foregoing calculations, Goldman Sachs determined an implied enterprise value for each company. The multiples for the Company were calculated using both the Management Forecasts and the most recent median estimates for the Company published by IBES or other Wall Street research analysts. The multiples for each of the selected companies were calculated using the most recent median estimates for each company published by IBES or other Wall Street research analysts. The following table presents the results of these calculations:

	Company		Selected Companies		
	IBES	Management	Pactera	iSoftStone	Mean
Enterprise Value/Estimated EBITDA					
2013E	9.2x	6.5x	3.8x	3.7x	3.8x
2014E	N/A	4.7x	2.8x	N/A	2.8x
Price/Estimated EPS					
2013E	10.1x	9.9x	6.8x	6.2x	6.5x
2014E	9.4x	8.0x	5.4x	5.2x	5.3x

Table of Contents

Based on its review of the foregoing calculations and applying its professional judgment:

Goldman Sachs applied illustrative price/EPS multiples ranging from 5.5x to 7.5x to the Company's estimated EPS for 2013 contained in the Management Forecasts to derive illustrative implied values per share of Company common stock ranging from US\$6.51 to US\$8.88.

Goldman Sachs applied illustrative price/EPS multiples ranging from 4.5x to 6.0x to the Company's estimated EPS for 2014 contained in the Management Forecasts to derive illustrative implied values per share of Company common stock ranging from US\$6.56 to US\$8.75.

Historical Trading Multiples Analyses

Goldman Sachs calculated the historical price/EPS multiples for each of the Company and the selected companies above based on the closing prices for the shares of their respective common stock during the period from May 6, 2011 through May 8, 2013 and the estimated 1-year forward EPS for each company published by Bloomberg, Capital IQ or IBES during the same period. Using the methodologies described above, Goldman Sachs derived implied enterprise values of each company using their respective closing share prices during the period from May 6, 2011 through May 8, 2013 and calculated the historical enterprise value/EBITDA multiples based on the estimated 1-year forward EBITDA for each company published by Bloomberg, Capital IQ or IBES during the same period. This analysis did not include the enterprise value/EBITDA multiples for Pactera over the period from November 13, 2012 through March 13, 2013 as the predecessor of Pactera merged with another company in November 2012 and IBES did not publish estimated EBITDA for Pactera on a consolidated basis during that period. The following table presents the results of this analysis:

	High	Low	Median	Mean
Historical 1-Year Forward Price/EPS				
Company	12.6x	3.9x	9.4x	8.8x
Selected Companies	31.3x	6.4x	11.3x	12.3x
Historical 1-Year Forward EV/EBITDA				
Company	9.0x	1.8x	6.1x	5.8x
Selected Companies	21.3x	3.0x	7.7x	8.3x

Illustrative Present Value of Future Stock Price Analysis

Goldman Sachs calculated an illustrative range of implied present values per share of Company common stock as of the beginning of 2013 based on illustrative share prices for Company common stock as of the end of 2015. For purposes of this analysis, Goldman Sachs derived these illustrative future share prices for Company common stock as of the end of 2015 by applying an illustrative range of one-year forward price/EPS multiples of 5.5x to 7.5x to the Company's estimated EPS for 2016 as reflected in the Management Forecasts. By applying discount rates ranging from 13.0% to 15.0%, reflecting an estimate of Company's cost of equity, to these hypothetical future share prices, Goldman Sachs derived an illustrative range of present values per share of Company common stock of US\$7.22 to US\$10.38.

Illustrative Discounted Cash Flow Analysis

Goldman Sachs performed an illustrative discounted cash flow analysis to determine the present value per share of Company common stock as of the beginning of 2013. For purpose of this analysis, Goldman Sachs applied discount rates ranging from 16.3% to 18.3%, reflecting an estimate of the Company's weighted average cost of capital, to (a) the Company's estimated unlevered free cash flow for the years 2013 through 2016, and (b) illustrative terminal values for the Company at the end of 2016. The illustrative terminal values were derived by applying perpetuity growth rates ranging from 0.0% to 4.0% to the Company's estimated unlevered free cash flow for 2016. Goldman Sachs added the net cash amount of the Company as of March 31, 2013 as reflected in the Company's most recent public filings to the sum of the present values of unlevered future free cash flows and terminal values to derive an illustrative range of present equity value of the Company. By dividing this range of present equity values of the Company by the total number of fully diluted shares outstanding, Goldman Sachs derived illustrative present values per share of Company common stock as of the beginning of 2013 ranging from US\$10.61 to US\$12.91.

Table of Contents*Illustrative Leveraged Buyout Analysis*

Goldman Sachs performed an illustrative leveraged buyout analysis to determine the range of prices per share of Company common stock a financial buyer would be willing to pay to acquire the Company on a stand-alone basis. For purpose of this analysis, Goldman Sachs assumed a target exit date of December 31, 2015, an internal rate of return ranging from 20.0% to 25.0% to be realized upon exit, and an exit one-year forward price/EPS multiple ranging from 5.5x to 7.5x. Based upon the Company's estimated EPS for 2016 reflected in the Management Forecasts, a hypothetical bank loan of US\$330 million (which is the amount of the debt financing available for the proposed merger) at an interest rate of LIBOR plus 3.25% per annum, and estimated transaction expenses of US\$18 million, Goldman Sachs derived illustrative per share purchase prices for Company common stock ranging from US\$8.87 to US\$11.79.

Selected Precedent Transactions Analysis

Goldman Sachs analyzed certain publicly available information relating to the following transactions involving an acquisition of 100% of the equity interest in a target company in the information technology service industry for cash:

Date Announced	Acquiror	Target
July 2012	SAIC Inc.	MaxIT Healthcare LLC
May 2012	CGI Holdings Europe Ltd.	Logica plc.
March 2012	NEC Corp.	Information management business of Convergys Corp
April 2011	Apax Partners LP	Activant Solutions Inc.
January 2011	Pan-Asia iGate Solutions and iGATE Global Solutions Limited	Patni Computer Systems Ltd.
September 2009	Adobe Systems Inc	Omniture Inc
July 2008	BAE Systems (Holdings) Ltd.	Detica Group PLC
July 2007	Steria SA	Xansa PLC
July 2007	Court Square Capital Partners	CompuCom Systems Inc.
April 2007	Computer Sciences Corp.	Covansys Corp.
February 2007	Caritor, Inc.	Keane, Inc.

Although none of the selected transactions is directly comparable to the proposed merger, the target companies in the selected transactions are such that, for purposes of analysis, the selected transactions may be considered similar to the proposed merger.

With respect to each of the selected transactions for which relevant information was publicly available, Goldman Sachs calculated the implied enterprise value of the target company based on the announced transaction price, as a multiple of the target company's EBITDA for the last twelve-month period prior to the announcement of the transaction, or the LTM EBITDA. The following presents the results of these calculations relating to selected transactions announced after July 1, 2010, the date on which the Company completed the merger with Linkage Technologies International Holdings Limited.

	Selected Transactions since 7/1/2010		
	High	Low	Median
Enterprise value/LTM EBITDA	8.2x	7.0x	7.9x

Table of Contents

Based on its review of the foregoing calculations and applying its professional judgment, Goldman Sachs applied enterprise value/LTM EBITDA multiples ranging from 7.0x to 8.2x to the Company's actual non-GAAP EBITDA for 2012 to derive a range of illustrative enterprise values of the Company. By adding the Company's net cash amount to these illustrative enterprise values and dividing the results by the total number of fully diluted shares of the Company, Goldman Sachs derived illustrative implied values per share of Company common stock ranging from US\$11.28 to US\$12.54.

General

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs' opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Goldman Sachs made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. No company or transaction used in the above analyses as a comparison is directly comparable to the Company or the proposed transaction.

Goldman Sachs prepared these analyses for purposes of providing its opinion to the special committee as to the fairness from a financial point of view to the holders (other than Parent, the Rollover Stockholders, the sponsors and their respective affiliates) of Company common stock, as of May 12, 2013, of the US\$12.00 per share to be paid to such holders pursuant to the merger agreement. These analyses do not purport to be appraisals nor do they necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon projections of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of the Company, the special committee, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast.

The merger consideration was determined through arm's-length negotiations between the special committee and Parent and was approved by our board of directors. Goldman Sachs provided advice to the special committee during these negotiations. Goldman Sachs did not, however, recommend any specific amount of consideration to the Company or the special committee or that any specific amount of consideration constituted the only appropriate consideration for the proposed merger.

As described above, Goldman Sachs' opinion was one of many factors taken into consideration by the special committee in making its recommendation to our board of directors to approve the merger agreement. The foregoing summary does not purport to be a complete description of the analyses performed by Goldman Sachs in connection with the delivery of its fairness opinion to the special committee and is qualified in its entirety by reference to the written opinion of Goldman Sachs attached as Annex H to this proxy statement.

Table of Contents

Goldman Sachs and its affiliates are engaged in advisory, underwriting and financing, principal investing, sales and trading, research, investment management and other financial and non-financial activities and services for various persons and entities. Goldman Sachs and its affiliates and employees, and funds or other entities in which they invest or with which they co-invest, may at any time purchase, sell, hold or vote long or short positions and investments in securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments of the Company, Parent, any of their respective affiliates or any of the respective affiliates and portfolio companies of the Sponsors, or any currency or commodity that may be involved in the transaction contemplated by the merger agreement for the accounts of Goldman Sachs (Asia) L.L.C. and its affiliates and employees and their customers. Goldman Sachs acted as financial advisor to the special committee in connection with, and has participated in certain of the negotiations leading to, the proposed transaction. In addition, Goldman Sachs disclosed in its fairness opinion that Goldman Sachs provided certain investment banking services to Ellington and its affiliates and portfolio companies from time to time for which its Investment Banking Division has received, and may receive, compensation, including having acted as joint bookrunning manager with respect to a public offering of 538,962,054 shares of CitySpring Infrastructure Trust, a portfolio company of affiliates of Ellington, pursuant to a rights issuance in September 2011; as financial advisor to Global Crossing Limited, which at the time was a portfolio company of an affiliate of Ellington, in connection with its sale in October 2011; and as joint bookrunning manager with respect to the public offering of 2.375% Notes due 2023 (aggregate principal amount of US\$1,200,000,000) and 3.375% Notes due 2042 (aggregate principal amount of US\$500,000,000) by Temasek Financial (I) Limited and guaranteed by Ellington in July 2012. Goldman Sachs disclosed in its fairness opinion that Goldman Sachs also provided certain investment banking services to the AlpInvest Entities and their affiliates and portfolio companies from time to time for which its Investment Banking Division has received, and may receive, compensation, including having acted as joint bookrunning manager with respect to a public offering of 34,500,000 shares of common stock of Nielsen Holdings N.V., a portfolio company of the AlpInvest Entities, in March 2012. The AlpInvest Entities have not had, and do not have, a controlling interest in Nielsen Holdings N.V. Goldman Sachs disclosed in its fairness opinion that Goldman Sachs also provided certain investment banking services to affiliates of Al Gharrafa and their portfolio companies from time to time for which its Investment Banking Division has received, and may receive, compensation. Based on a review of financial advisory and underwriting services provided by the Investment Banking Division of Goldman Sachs to entities confirmed to Goldman Sachs by Ellington, the AlpInvest Entities and Al Gharrafa as being their respective affiliates, during the two year period ended May 12, 2013, the Investment Banking Division of Goldman Sachs had received compensation of approximately US\$900,000 for such services provided to an affiliate of Ellington and had not otherwise been engaged to provide such services to Ellington, AlpInvest Entities, Al Gharrafa or any of such affiliates for which the Investment Banking Division of Goldman Sachs had received compensation. During the two year period ended May 12, 2013, Goldman Sachs had not been engaged to provide financial advisory or underwriting services to any other sponsors or their affiliates for which the Investment Banking Division of Goldman Sachs had received compensation. Goldman Sachs may in the future provide investment banking services to the Company, Parent, the sponsors and their respective affiliates and portfolio companies for which its Investment Banking Division may receive compensation. Affiliates of Goldman Sachs also may have co-invested with certain of the sponsors and their respective affiliates from time to time and may have invested in limited partnership units of affiliates of certain of the sponsors from time to time and may do so in the future.

The special committee selected Goldman Sachs as its financial advisor because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the proposed transaction. Pursuant to a letter agreement, dated February 7, 2012, the special committee engaged Goldman Sachs to act as its financial advisor in connection with the transaction. Pursuant to the terms of this engagement letter, the Company has agreed to pay Goldman Sachs fees of approximately US\$8 million in the aggregate, approximately US\$6 million of which is contingent upon the consummation of the proposed merger. In addition, the Company has agreed to reimburse Goldman Sachs for its expenses, including attorneys' fees and disbursements, and to indemnify Goldman Sachs and related persons against certain liabilities that may arise out of its engagement.

Copies of Goldman Sachs' written opinion and presentation to the special committee on May 12, 2013 have been attached as exhibits to the Transaction Statement on Schedule 13E-3 filed with the SEC in connection with the proposed transaction. These materials will be available for any interested stockholder of the Company (or any representative of a stockholder who has been so designated in writing) to inspect and copy at the Company's principal executive offices during regular business hours.

Other Written Presentations by Goldman Sachs

In addition to the presentation made to the special committee described above, Goldman Sachs also made written and oral presentations to the special committee in March, July, and November of 2012 and March 2013. Copies of these other written presentations by Goldman Sachs to the special committee have been attached as exhibits to the Transaction Statement on Schedule 13E-3 filed with the SEC in connection with the proposed transaction. These written presentations will be available for any interested stockholder of the Company (or any representative of a stockholder who has been so designated in writing) to inspect and copy at the Company's principal executive offices during regular business hours.

Table of Contents

None of these other written and oral presentations by Goldman Sachs, alone or together, constitutes an opinion of Goldman Sachs with respect to the consideration to be paid in the proposed transaction. Information contained in these other written and oral presentations is substantially similar to the information provided in Goldman Sachs' written presentation to the special committee on May 12, 2013, as described above. The March 2012 materials contained a review of CITIC's initial non-binding offer, an overview of the Company's historical trading performance, a discussion of the Company's strategic alternatives, selected financial analyses and initial process considerations. The July 2012 materials contained an updated review of the Company's historical trading performance and selected financial analyses. The November 2012 materials contained a review of CITIC's final offer, an updated overview of the Company's historical trading performance and selected financial analyses. The March 2013 materials contained an updated overview of the Company's historical trading performance and selected financial analyses. These other written and oral presentations made by Goldman Sachs contained, among other things, the following types of financial analyses:

implied transaction premia multiples analysis;

selected public companies analysis;

illustrative present value of future stock prices analysis;

illustrative discounted cash flow analysis;

illustrative leveraged buyout analysis; and

selected precedent transactions analysis.

Not all of the other written and oral presentations contained all of the financial analyses listed above. The financial analyses in these other written and oral presentations were based on market, economic and other conditions as they existed as of the dates of the respective presentations as well as other information that was available at those times. Accordingly, the results of the financial analyses differed due to changes in those conditions. Among other things, multiples attributable to selected companies changed as those companies' stock prices changed, and implied transaction multiples, illustrative discounted cash flow analyses and illustrative leveraged buyout analyses changed as the Company's financial results (as well as projections made by management of the Company) changed. Finally, Goldman Sachs continued to refine various aspects of its financial analyses with respect to the Company over time.

Purposes and Reasons of the Buyer Consortium for the Merger

Under SEC rules governing going-private transactions, each member of the buyer consortium may be deemed to be an affiliate of the Company and required to express its reasons for the merger to the unaffiliated stockholders. Each member of the buyer consortium is making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

For the buyer consortium, the primary purpose of the merger is to enable Parent to acquire 100% control of the Company and to benefit from and bear 100% of the rewards and risks, respectively, of ownership of the Company, in a transaction in which the unaffiliated stockholders will receive US\$12.00 per share of Company common stock. In addition, the merger will allow the Rollover Stockholders and any Additional Rollover Stockholders to maintain their investment in the Company through their respective commitments to subscribe for equity investments in Holdco as described in this proxy statement under the section captioned *Special Factors Relating to the Merger Financing of the Merger Rollover Financing*.

The buyer consortium believes that, after the Company becomes a privately held entity, the Company's management will have greater flexibility to focus on improving the Company's long-term profitability without the constraints caused by the public equity market's valuation of the Company and emphasis on short-term period-to-period performance. As a privately held entity, the Company will have greater flexibility to make decisions that might negatively affect short-term results but that could increase the Company's value over the long term. In contrast, as a

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publicly traded entity, the Company faces pressure from public stockholders and investment analysts to make decisions that might produce improved short-term results, but which are not necessarily beneficial in the long term.

As a privately held entity, the Company will be relieved of many other expenses, burdens and constraints imposed on companies that are subject to the public reporting requirements under the federal securities laws of the United States, including the Exchange Act and Sarbanes-Oxley Act of 2002. The need for the management of the Company to be responsive to the concerns of the unaffiliated stockholders and to engage in dialogue with the unaffiliated stockholders can also at times distract the management's time and attention from the effective operation and improvement of the business. See *Special Factors Relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* and *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger*.

Table of Contents

The buyer consortium decided to undertake the going-private transaction at this time because it wants to take advantage of the benefits of the Company being a privately held company as described above.

Positions of the Buyer Consortium Regarding the Fairness of the Merger

Under SEC rules governing going-private transactions, each member of the buyer consortium may be deemed to be an affiliate of the Company and required to express its beliefs as to the fairness of the proposed merger to the unaffiliated stockholders. The buyer consortium is making the statements included in this section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. The views of the buyer consortium as to the fairness of the proposed merger are not intended and should not be construed as a recommendation to any stockholder of the Company as to how to vote on the proposal to adopt the merger agreement. The buyer consortium has interests in the merger that are different from those of the other stockholders of the Company by virtue of their continuing interests in the surviving corporation after the consummation of the merger. These interests are described under *Special Factors Relating to the Merger Interests of the Company's Directors and Officers in the Merger* of this proxy statement.

The buyer consortium believes the interests of the unaffiliated stockholders were represented by the special committee, which negotiated the terms and conditions of the merger agreement with the assistance of its independent legal and financial advisors. The buyer consortium attempted to negotiate a transaction that would be most favorable to them, and not to the unaffiliated stockholders and, accordingly, did not negotiate the merger agreement with a goal of obtaining terms that were substantively and procedurally fair to such unaffiliated stockholders. The buyer consortium did not participate in the deliberations of the special committee regarding, and did not receive any advice from the special committee's independent legal or financial advisors as to, the fairness of the proposed merger to the unaffiliated stockholders. The buyer consortium did not perform, or engage a financial advisor to perform, any independent valuation or other analysis for the buyer consortium to assist them in assessing the substantive and procedural fairness of the proposed merger to the unaffiliated stockholders.

Based on their knowledge and analysis of available information regarding the Company, as well as discussions with the Company's senior management regarding the Company and its business and the factors considered by, and findings of, the special committee and our board of directors discussed in *Special Factors Relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* and *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger* of this proxy statement (which considerations and findings are adopted by the buyer consortium solely for the purposes of making the statements in this section), the buyer consortium believes the proposed merger is substantively and procedurally fair to the unaffiliated stockholders based upon the following factors:

the fact that the special committee and, acting upon the unanimous recommendation of the special committee, our board of directors determined that the merger agreement and the transactions contemplated thereby, including the merger, are in the best interests of the Company's unaffiliated stockholders;

the fact that the special committee, consisting entirely of directors who are not officers or employees of the Company and who are not affiliated with any member of the buyer consortium, was established and given authority to, among other things, review, evaluate and negotiate the terms of the merger and to recommend to our board of directors what action should be taken by the Company, including not to engage in the merger;

the fact that the members of the special committee do not have any interests in the merger different from, or in addition to, those of the Company's unaffiliated stockholders, other than (i) the directors' receipt of board compensation in the ordinary course, (ii) special committee members' compensation in connection with its evaluation of the merger (which is not contingent upon the completion of the merger or the special committee's or board's recommendation of the merger), (iii) the cancellation of any options (whether vested or unvested) or restricted stock units held by a director of the Company (including members of the special committee) who is not a buyer group party in exchange for the right to receive cash amounts equal to, in the case of options, the excess of the merger consideration over the per share exercise price of such option, and in the case of restricted stock units, the merger consideration, and (iv) the directors' indemnification and liability insurance rights under the merger agreement;

Table of Contents

the fact that the special committee retained and was advised by independent legal and financial advisors who are experienced in advising committees such as the special committee in similar transactions;

the fact that the special committee and our board of directors had no obligation to recommend the authorization, approval or adoption of the merger agreement and the transactions contemplated thereby, including the merger, or any other transaction;

the historical market price of the Company's shares of common stock and the fact that the merger consideration represents a (a) 52% premium over the Company's shares' closing price on January 11, 2012, the last trading day prior to the Company's receipt of a going private proposal, and (b) 53% premium over the Company's shares' 30-trading day volume weighted average price as of the same date;

given the adoption of the merger agreement is subject to the affirmative vote of the holders of a majority of the outstanding shares of Company common stock and even assuming that the Voting Stockholders comply with their obligations under the voting agreement, the buyer consortium, as a group, does not have sufficient votes to constitute a quorum for the special meeting and unilaterally adopt the merger agreement at the special meeting and a substantial vote of the unaffiliated stockholders will still be required to adopt the merger agreement at the special meeting;

the fact that the merger consideration is all cash, which provides certainty of value and liquidity to unaffiliated stockholders and allows the unaffiliated stockholders not to be exposed to risks and uncertainties relating to the prospects of the Company;

the fact that the merger consideration, other terms and conditions of the merger agreement and the transactions contemplated thereby were the result of extensive negotiations over an extended period of time between the special committee, its advisors and the buyer consortium;

the fact that Parent and Merger Sub obtained debt and equity financing commitments for the transaction, the limited number and nature of the conditions to the debt and equity financing, and the obligation of Parent to use its reasonable best efforts to obtain the debt financing;

the fact that the guarantors have agreed to guarantee collectively 100% of the obligations of Parent and Merger Sub under the merger agreement to pay, under certain circumstances, certain expenses payable by them thereunder, including any termination fee payable to the Company;

notwithstanding that the opinion of Goldman Sachs was provided solely for the information and assistance of the special committee and members of the buyer consortium are not entitled to, and did not, rely on such opinion, the fact that the special committee received from Goldman Sachs an opinion that as of May 12, 2013, and based upon and subject to the limitations and assumptions set forth in Goldman Sachs' written opinion, the consideration of US\$12.00 in cash to be paid for each share of Company common stock pursuant to the merger agreement was fair from a financial point of view to the holders (other than Parent, the Rollover Stockholders, the sponsors and their respective affiliates) of shares of Company common stock;

the fact that in certain circumstances under the terms of the merger agreement, the special committee and our board of directors are able to change, withhold, withdraw, qualify or modify their recommendation of the merger, including in response to intervening events that are not acquisition proposals;

Table of Contents

the fact that the Company is able to, subject to compliance with the terms and conditions of the merger agreement, terminate the merger agreement prior to the completion of the merger in order to accept an alternative transaction proposed by a third party that is a superior proposal;

the fact that the fee payable by the Company to Parent if the merger agreement is terminated under certain circumstances will not exceed US\$18 million;

the availability of dissenter rights to the Company's stockholders;

that our board of directors was fully informed about the extent to which the interests of the Rollover Stockholders in the merger differed from those of the Company's other stockholders; and

the fact that no member of the buyer consortium nor any of their advisors participated in or sought to influence the deliberative process of the special committee.

The buyer consortium did not consider the Company's net book value, which is defined as total assets minus total liabilities, as a factor. The buyer consortium believes that net book value, which is an accounting concept based on historical costs, is not a material indicator of the value of the Company as a going concern because it does not take into account the future prospects of the Company, market conditions, trends in the industry in which the Company conducts its business or the business risks inherent in competing with other companies in the same industry.

The buyer consortium did not consider the Company's liquidation value to be a relevant valuation method because they consider the Company to be a viable, going concern and because the Company will continue to operate its business following the merger.

The buyer consortium did not establish, and did not consider, a going concern value for Company common stock as a public company to determine the fairness of the proposed merger consideration to the unaffiliated stockholders. However, to the extent the pre-merger going concern value was reflected in the pre-announcement price of Company common stock, the merger consideration of US\$12.00 per share represented a premium to the per share going concern value of the Company.

The buyer consortium is not aware of, and thus did not consider in its fairness determination, any offers or proposals made by any unaffiliated third parties with respect to a merger or consolidation of the Company with or into another company, a sale of all or a substantial part of the Company's assets, or the purchase of the Company voting securities that would enable the holder to exercise control over the Company.

The buyer consortium did not receive any independent reports, opinions or appraisals from any outside party related to the proposed merger, and thus did not consider any such reports, opinions or appraisals in determining the substantive and procedural fairness of the merger to the unaffiliated stockholders.

The foregoing discussion of the information and factors considered and given weight by the buyer consortium in connection with their evaluation of the substantive and procedural fairness to the unaffiliated stockholders of the merger agreement and the transactions contemplated by the merger agreement, including the proposed merger, is not intended to be exhaustive, but is believed by the buyer consortium to include all material factors considered by them. The buyer consortium did not find it practicable to and did not quantify or otherwise attach relative weights to the foregoing factors in reaching their position as to the substantive and procedural fairness of the merger agreement and the proposed merger to the unaffiliated stockholders. Rather, the buyer consortium made the fairness determinations after considering all of the foregoing as a whole. In addition, the buyer consortium considered and recognized the negative factors considered by the special committee and our board of directors described under *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger*, the consideration of which is adopted by the buyer consortium.

Table of Contents

The buyer consortium believes these factors provide a reasonable basis for its belief that the proposed merger is both substantively and procedurally fair to the unaffiliated stockholders. This belief, however, is not intended to be and should not be construed as a recommendation by the buyer consortium to any stockholder of the Company as to how such stockholder should vote with respect to the adoption of the merger agreement.

Certain Effects of the Merger

If the merger is completed, all of our equity interests will be owned by Parent. Except for the Rollover Stockholders, any Additional Rollover Stockholders and Power Joy, none of our current stockholders will have any ownership interest in, or be a stockholder of, the Company after the completion of the merger. As a result, our unaffiliated stockholders will no longer benefit from any increase in our value, nor will they bear the risk of any decrease in our value. Following the merger, Parent will benefit from any increase in our value and also will bear the risk of any decrease in our value.

At the effective time of the merger, each share of Company common stock issued and outstanding immediately prior to the effective time of the merger (other than the excluded shares and the dissenting shares) will be converted into the right to receive the merger consideration in cash without interest.

At the effective time of the merger, (i) each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier I employee, and (ii) 73.3% of each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier II employee, will be converted into an option to purchase a number of shares of Holdco equal to the number of shares subject to such options to purchase shares of Company common stock (or such applicable portion thereof in the case of a tier II employee). The exercise price of the option to purchase a share of Holdco will be equal to the excess of (x) the fair market value of a share of Holdco immediately following the effective time of the merger as determined by Parent in good faith over (y) the excess of the merger consideration over the per share exercise price of such existing options to purchase shares of Company common stock. The other terms and conditions of such options to purchase shares of Company common stock will continue to apply to the options to purchase shares of Holdco.

At the effective time of the merger, (i) 26.7% of each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier II employee, and (ii) each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by an employee of the Company who is neither a tier I employee nor a tier II employee, will be canceled in consideration of an award of restricted stock units (or in the case of a U.S. taxpayer, restricted stock) that provides for the issuance of a number of shares of Holdco. Such number of shares of Holdco will have an aggregate fair market value as of immediately after the effective time of the merger as determined by Parent in good faith equal to the excess of the merger consideration over the per share exercise price of such options to purchase shares of Company common stock, multiplied by the number of shares of Company common stock subject to such options. The awards of restricted stock units and restricted stock will have the same vesting and forfeiture provisions as applied to such options to purchase shares of Company common stock.

At the effective time of the merger, (x) each outstanding and vested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan, and (y) each outstanding option, whether vested or unvested, to purchase shares of Company common stock that was granted under a stock plan of the Company other than the Company's 2011 Stock Incentive Plan, will be canceled in consideration of, as soon as practicable after the effective time of the merger, (i) the right to receive a cash payment in an amount equal to the excess of the merger consideration over the per share exercise price of such options, or (ii) at the election of the holder of such options, the right to receive a number of shares of Holdco with an aggregate fair market value as of immediately following the effective time of the merger as determined by Parent in good faith equal to the excess of the merger consideration over the per share exercise price of such options, multiplied by the number of shares of Company common stock subject to such options, which will not be subject to any forfeiture restriction (but may be subject to a transfer restriction).

At the effective time of the merger, each outstanding restricted stock unit relating to a share of Company common stock that was granted under a stock plan of the Company will be converted into a restricted stock unit that provides for the issuance of a share of Holdco, which restricted stock unit shall be subject to the same vesting and forfeiture provisions as applied to such restricted stock unit relating to a share of Company common stock.

Table of Contents

The treatment of Company options and Company restricted stock units described in the four immediately preceding paragraphs does not apply to any Company options or Company restricted stock units held by any director of the Company who is not a buyer group party. At the effective time of the merger, each outstanding option to purchase shares of Company common stock held by a director of the Company who is not a buyer group party, whether vested or unvested, will be canceled in consideration of the right to receive a cash payment in an amount equal to the excess of the merger consideration over the per share exercise price of such option, multiplied by the number of shares of Company common stock subject to such option. At the effective time of the merger, each outstanding restricted stock unit relating to a share of Company common stock held by a director of the Company who is not a buyer group party will be converted into the right to receive the merger consideration.

Following the merger, shares of Company common stock will no longer be traded on the NASDAQ Global Market or any other public market. Our common stock is registered as a class of equity security under the Exchange Act. Registration of our common stock under the Exchange Act may be terminated upon the Company's application to the SEC if our common stock is not listed on a national securities exchange. Termination of registration of our common stock under the Exchange Act will substantially reduce the information required to be furnished by the Company to our stockholders and the SEC, and would make certain provisions of the Exchange Act, such as the short-swing trading provisions of Section 16(b) of the Exchange Act and the requirement of furnishing a proxy statement in connection with stockholders' meetings pursuant to Section 14(a) of the Exchange Act, no longer applicable to the Company.

Following consummation of the merger, Parent will directly or indirectly own 100% of our outstanding common stock and will have a corresponding interest in our net book value and net earnings. The table below sets forth the direct and indirect beneficial interest in our net book value and net earnings for the buyer group parties before and after the merger in proportion to each such person's direct and indirect beneficial ownership in the Company before and after the merger, based on our net earnings for the fiscal year ended December 31, 2012 of approximately US\$30.0 million and our net book value as of December 31, 2012 of approximately US\$1.0 billion.

All dollar figures in the chart immediately below are in the thousands and rounded to the nearest dollar amount, and ownership percentages of the Company after the merger are estimates only.

	Beneficial Ownership of the Company Prior to the Merger			Beneficial Ownership of the Company After the Merger		
	Net book value as of December 31, 2012	% Ownership	Net earnings for the fiscal year ended December 31, 2012	Net book value as of December 31, 2012	% Ownership	Net earnings for the fiscal year ended December 31, 2012
Edward Tian	US\$ 93,366,384	9.2%	US\$ 2,755,676	US\$ 147,153,540	14.5%	US\$ 4,343,185
Jian (James) Ding	US\$ 14,207,928	1.4%	US\$ 419,342	US\$ 22,326,744	2.2%	US\$ 658,966
Steve Zhang	US\$ 1,461,098	0.1%	US\$ 43,124	US\$ 2,029,704	0.2%	US\$ 59,906
Power Joy	US\$ 45,668,340	4.5%	US\$ 1,347,885	US\$ 239,505,072	23.6%	US\$ 7,068,908
Sponsors other than Power Joy	US\$ 0	0.0%	US\$ 0	US\$ 592,673,568	58.4%	US\$ 17,492,552

Effects on the Company if Merger is not Completed

If our stockholders do not adopt the merger agreement or if the merger is not completed for any other reason, our stockholders will not receive any payment for their shares of Company common stock provided by the merger agreement. Instead, unless the Company is sold to a third party, we will remain an independent publicly traded company, the management expects to operate the business in a manner similar to that in which it is being operated today, and our stockholders will continue to be subject to similar risks and opportunities as they currently are with respect to their ownership of our common stock. If the merger is not completed, there is no assurance as to the effect of these risks and opportunities on the future value of your shares of Company common stock, including the risk that the market price of our common stock may decline to the extent that the current market price of our stock reflects a market assumption that the merger will be completed. From time to time, our board of directors will evaluate and review the business operations, properties and capitalization of the Company and, among other things, make such changes as are deemed appropriate and continue to seek to maximize stockholder value. If our stockholders do not adopt the merger agreement or the merger is not completed for any other reason, there is no assurance that any other transaction acceptable to the Company will be offered or that the business, prospects or results of operations of the Company will not be adversely impacted. Pursuant to the merger agreement, under certain circumstances the Company is permitted to terminate the merger agreement and recommend an alternative transaction. Also under other circumstances, if the merger is not completed, the Company may be obligated to pay to Parent a termination fee and reimburse certain of Parent's expenses. See *The Merger Agreement Termination Fees and Reimbursement of Expenses* for additional information.

Table of Contents

Plans for the Company

After the effective time of the merger, Parent anticipates that the Company will continue its current operations, except that it will (i) cease to be an independent publicly traded company and will instead be a wholly owned subsidiary of Parent and (ii) have substantially more debt than it currently has. There are no current plans to repay the debt taken out to finance the merger. After the effective time of the merger, the directors of Merger Sub immediately prior to the effective time of the merger will become the directors of the Company, and the officers of the Company immediately prior to the effective time of the merger will remain the officers of the Company, in each case until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be.

Parent has informed us that it has no current plans or proposals or negotiations which relate to or would result in an extraordinary corporate transaction involving our corporate structure, business or management, such as a merger, reorganization, liquidation, relocation of any operations, or sale or transfer of a material amount of assets except as described in this proxy statement. Parent may initiate from time to time reviews of the Company and our assets, corporate structure, capitalization, operations, properties, management and personnel to determine what changes, if any, would be desirable following the merger, and expressly reserves the right to make any changes that it deems necessary or appropriate in light of its review or in light of future developments.

Prospective Financial Information

The Company's management does not, as a matter of course, make public projections as to future performance or earnings. However, our management provided financial projections to the buyer consortium, the special committee and their respective financial advisors in connection with their consideration of the proposed merger. The projections were prepared by the Company's management in March 2012 and last updated in March 2013. As confirmed with the Company's management, there have been no material changes to the financial position, results of operations, business and prospects of the Company and the industry in which the Company operates between the date the projections were last updated and May 12, 2013. Our board of directors and the special committee held the view that the 2013 projections and the resulting financial analysis provided a reliable estimate of the Company's value as of May 12, 2013.

2012 Projections

In March 2012, the Company's management prepared and provided the special committee and Goldman Sachs with a projected financial model of the Company. In May 2012, key projections were provided to the First Round Bidders including CITIC and its financial advisor, Morgan Stanley. For summarized projections, referred to herein as the 2012 Projections, including their assumptions, please refer to exhibit (c)(2) to the Transaction Statement on Schedule 13E-3 filed with the SEC in connection with the proposed transaction.

Table of Contents**2013 Projections**

In February and March 2013, the Company's management prepared in the normal course of business and provided the special committee and Goldman Sachs with updated financial projections of the Company. The primary difference between the 2013 Projections and the 2012 Projections were mainly caused by volatility in the Company's international business. In March 2013, the same projections were provided to CITIC and its financial advisor, Morgan Stanley. These projections, referred to herein as the 2013 Projections, are summarized below:

2013 Management projections ⁽¹⁾

(USD, in millions)	2013E	2014E	2015E	2016E
Non-GAAP Net Revenue	595.2	662.5	741.7	815.9
<i>% growth</i>	<i>12.3%</i>	<i>11.3%</i>	<i>12.0%</i>	<i>10.0%</i>
Non-GAAP Gross Profit	262.8	310.1	348.4	383.9
<i>% net revenue</i>	<i>44.2%</i>	<i>46.8%</i>	<i>47.0%</i>	<i>47.1%</i>
Non-GAAP EBIT	83.2	114.4	141.1	159.9
<i>% net revenue</i>	<i>14.0%</i>	<i>17.3%</i>	<i>19.0%</i>	<i>19.6%</i>
Non-GAAP Net Income	88.3	108.8	133.5	149.0
<i>% net revenue</i>	<i>14.8%</i>	<i>16.4%</i>	<i>18.0%</i>	<i>18.3%</i>
Non-GAAP EBITDA	88.5	122.1	149.9	169.8
<i>% net revenue</i>	<i>14.9%</i>	<i>18.4%</i>	<i>20.2%</i>	<i>20.8%</i>

These metrics are non-GAAP measures that are used by management as supplemental financial measures to evaluate the Company's performance.

Assumptions to the 2013 Projections

The main assumptions underlying 2013 Projections include:

Domestic revenue growing at approximately the China IT telecom industry growth rate;

The Company's international strategy is to proactively expand overseas by penetrating into EMEA and acquire new customers with high business potentials; and

Gradual improvement of gross margins reflecting positive impacts from R&D standardization, less negative impact on wage inflation and higher gross margins from the Company's international business as it matures.

The above prospective financial information is included solely to give stockholders access to the information that was made available to the buyer consortium, the special committee and their respective financial advisors and is not included in this proxy statement in order to influence any stockholder to make any investment decision with respect to the merger.

The above prospective financial information was based on the Company's management's projection of the Company's future financial performance as of the date provided, was prepared for internal use and to assist Goldman Sachs with its financial analysis, and was not prepared with a view toward public disclosure or compliance with published guidelines of the SEC or the American Institute of Certified Public Accountants for preparation and presentation of financial projections, or GAAP. Neither the Company's independent registered public accounting firm, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the prospective financial information included above, or expressed any opinion or any other form of assurance on such information or its achievability.

Table of Contents

The prospective financial information reflects numerous estimates and assumptions made by the Company with respect to industry performance, general business, economic, regulatory, market and financial conditions and other future events, as well as matters specific to the Company's business, all of which are difficult to predict and many of which are beyond the Company's control.

The prospective financial information reflects subjective judgment in many respects and thus is susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. As such, the prospective financial information constitutes forward-looking information and is subject to risks and uncertainties that could cause actual results to differ materially from the results forecasted in such prospective financial information, including, but not limited to, the Company's performance, industry performance, general business and economic conditions, customer requirements, competition, adverse changes in applicable laws, regulations or rules, the factors described under the caption "Cautionary Statement Regarding Forward-Looking Statements," and the various risks set forth in the Company's reports filed with the SEC. There can be no assurance that the prospective results will be realized or that actual results will not be significantly higher or lower than projected. The prospective financial information covers multiple years and such information by its nature becomes less reliable with each successive year. In addition, the prospective financial information will be affected by the Company's ability to achieve strategic goals, objectives and targets over the applicable periods. The assumptions upon which the prospective financial information was based necessarily involve judgments with respect to, among other things, future economic, competitive and regulatory conditions and financial market conditions, all of which are difficult or impossible to predict accurately and many of which are beyond the Company's control. The prospective financial information also reflects assumptions as to certain business decisions that are subject to change. Such prospective financial information cannot, therefore, be considered a guaranty of future operating results, and this information should not be relied on as such. The inclusion of this information should not be regarded as an indication that the Company, the buyer consortium, the special committee, any of their respective financial advisors or anyone who received this information then considered, or now considers, it a reliable prediction of future events, and this information should not be relied upon as such. None of the Company, the buyer consortium, the special committee or any of their financial advisors or any of their affiliates intends to, and each of them disclaims any obligation to, update, revise or correct such prospective financial information if they are or become inaccurate (even in the short term).

The prospective financial information does not take into account any circumstances or events occurring after the date it was prepared, including the transactions contemplated by the merger agreement. Further, the prospective financial information does not take into account the effect of any failure of the merger to occur and should not be viewed as accurate or continuing in that context.

The inclusion of the prospective financial information herein should not be deemed an admission or representation by the Company, the buyer consortium or the special committee that they are viewed by the Company or the buyer consortium or the special committee as material information of the Company, and in fact the Company, the buyer consortium, and the special committee view the prospective financial information as non-material because of the inherent risks and uncertainties associated with such long range projections. The prospective financial information should be evaluated, if at all, in conjunction with the historical financial statements and other information regarding the Company contained in the Company's public filings with the SEC. None of the Company, the buyer consortium or the special committee has made or makes any representation to any stockholder or other person regarding the ultimate performance of the Company compare to the prospective financial information or that the results reflected in the prospective financial information will be achieved. In light of the foregoing factors and the uncertainties inherent in the Company's prospective financial information, stockholders are cautioned not to place undue, if any, reliance on the prospective financial information included in this proxy statement.

Certain of the prospective financial information prepared by the Company may be considered non-GAAP financial measures. With respect to the prospective financial information of the Company set forth above, these non-GAAP financial measures include non-GAAP net revenue, non-GAAP gross profit, non-GAAP EBIT, non-GAAP EBITDA and non-GAAP net income, which for these purposes are presented net of, among other things, third party hardware costs, share-based compensation and amortization of acquired intangible assets. The Company provided this information to Goldman Sachs and the buyer consortium because the Company believed it could be useful in evaluating, on a prospective basis, the Company's potential operating performance and cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-GAAP financial measures as used by the Company may not be comparable to similarly titled amounts used by other companies.

Table of Contents

Financing of the Merger

The buyer consortium estimates that the total amount of funds required to consummate the merger and related transactions will be approximately US\$887 million. The buyer consortium expects to fund this amount through a combination of (i) the contribution of approximately 11,126,567 shares of Company common stock from the Rollover Stockholders and Power Joy to Parent (valued at approximately US\$134 million based on the merger consideration), (ii) equity financing from each sponsor to purchase or cause the purchase of shares of Holdco up to an aggregate amount of approximately US\$415 million in cash, (iii) debt financing of up to US\$330 million from a syndicate of Nomura International (Hong Kong) Limited, Bank of Taiwan, Cathay United Bank, Co., LTD., ICBC International Capital Limited and Maybank Investment Bank Berhad and (iv) the contribution of certain shares of Company common stock underlying restricted stock units pursuant to the merger agreement. As of the date of this proxy statement, neither Parent nor Merger Sub has entered into any alternative financing arrangements or alternative financing plans.

Debt Financing

On May 12, 2013, Holdco, Power Joy, Parent and Merger Sub (as the borrower) entered into a debt commitment letter with Nomura International (Hong Kong) Limited, Bank of Taiwan, Cathay United Bank, Co., LTD., ICBC International Capital Limited and Maybank Investment Bank Berhad, pursuant and subject to which the lenders have agreed to provide a senior secured debt facility (the **facility**) in the aggregate principal amount of up to US\$330 million, to fund the merger and pay certain fees and expenses contemplated by the debt commitment letter and the merger agreement.

Conditions to Financing. The funding of the facility is subject to the satisfaction or waiver of the following conditions:

the execution and delivery of a credit agreement with respect to the facility, containing terms consistent with the term sheet;

since December 31, 2012 (except as disclosed in the disclosure schedule), there has not been any change in the financial condition, business or results of their operations or any circumstance, occurrence or development which constitutes a company material adverse effect (as defined in the merger agreement) that would result in the failure of a condition precedent to the obligations to consummate the acquisition under the merger agreement;

the accuracy of the representations set forth in the merger agreement and the representations set forth in the finance documents in all material respects (without giving effect to any limitation as to materiality set forth therein); and

the other conditions set forth in the term sheet to the commitment letter.

Interest Rate.

The interest rate of the facility will be the aggregate of the applicable margin and LIBOR.

The applicable margin for tranche A and tranche B of the facility is:

For tranche A (60 month term loan facility of US\$250.0 million), the applicable margin is 4.75% p.a., subject to adjustment in accordance with the following pricing grid:

Leverage	Margin (p.a.)
$\geq 4x$	4.75%
$< 4x$ but $\geq 3x$	4.25%
$< 3x$ but $\geq 1.5x$	3.75%

< 1.5x

3.25%

For tranche B (6 month bridge loan facility of US\$80.0 million), the applicable margin is 4.75% p.a.

Table of Contents

Prepayments and Amortization.

The facility may be prepaid after the first three months following the utilization date.

Security. The obligations of Parent under the facility agreement will be secured by:

Closing date security Share pledges over all the present and future share capital of Parent and the Merger Sub;
and
Security over certain assets of the Merger Sub, Parent and Holdco

Post-closing security Share pledges over certain non-PRC subsidiaries of the Company

Other Terms. The facility agreement will contain customary representations and warranties and customary affirmative and negative covenants, including, among others, restrictions on indebtedness, disposal of assets, declaration of dividends and mergers and consolidations. The facility agreement will also include customary events of default.

Equity Financing

Prior to the execution of the merger agreement, the sponsors entered into equity commitment letters pursuant to which they committed to purchase, or cause the purchase of, for cash, subject to the terms and conditions therein, equity securities of Holdco for an aggregate amount equal to approximately US\$415 million. Pursuant to the equity commitment letter entered into by Power Joy, Power Joy has agreed to contribute its 3,282,800 shares of Company common stock, representing an aggregate value of US\$39.4 million, to Parent prior to the consummation of the merger in exchange for certain equity securities of Holdco. The obligation of Power Joy to contribute its shares is subject to the same conditions as its obligation to fund its equity commitment.

Each sponsor's equity commitment is conditioned upon (i) the satisfaction, or waiver by Parent, of each of the conditions to Parent's and Merger Sub's obligations to effect the merger set forth in the merger agreement (other than those conditions that by their nature are only capable of being satisfied at the closing, but subject to the satisfaction or waiver of such conditions), (ii) the debt financing and/or any alternative debt financing (if applicable) having been funded or going to be funded at the closing if the equity financing is funded at the closing, (iii) the substantially contemporaneous funding of all the equity commitments by the sponsors, (iv) the substantially contemporaneous contribution of the Rollover Shares and Additional Rollover Shares (if any) by the Rollover Stockholders and Additional Rollover Stockholders (if any), respectively and (v) the substantially contemporaneous consummation of the closing of the merger.

The obligation of each sponsor to fund its equity commitment will terminate automatically upon the earliest to occur of (i) valid termination of the merger agreement in accordance with its terms, (ii) the effective time following the consummation of the merger in accordance with the terms of the merger agreement, subject to the performance of the obligation to purchase the equity securities of Holdco by such sponsor only and (iii) the date twelve (12) months after the date of signing such sponsor's equity commitment letters.

Table of Contents

The Company is not entitled to seek specific performance by the sponsors of any of their equity commitments.

Rollover Financing

Concurrently with the execution of the merger agreement, the Rollover Stockholders entered into rollover agreements, which were amended on June 17, 2013, pursuant to which they agreed to contribute, subject to the terms and conditions immediately prior to the consummation of the merger, an aggregate amount of 7,843,767 shares of Company common stock to Parent, representing an aggregate value of US\$94.1 million, in exchange for certain newly issued shares of Holdco.

The Rollover Stockholders' commitment to contribute their shares of Company common stock are conditioned on (i) the satisfaction (or waiver by Parent or the Company, as applicable) of all of the conditions to the consummation of the merger contained in the merger agreement (other than those conditions that by their nature are to be satisfied at the closing, but subject to the satisfaction of such conditions at the closing), (ii) the requirement that no applicable law prohibit the consummation of the transactions contemplated by the rollover agreements, (iii) the representations and warranties of Parent and Holdco contained in the rollover agreements being true in all material respects at and as of the closing as if made at and as of such date and (iv) Parent and Holdco having performed in all material respects all of the obligations required to be performed by it under the rollover agreements prior to the closing.

In addition, pursuant to the merger agreement, Parent may enter into additional rollover agreements with Additional Rollover Stockholders prior to the closing for the contribution of up to 800,000 shares of Company common stock to Parent in exchange for shares of Holdco.

Limited Guarantees

On May 12, 2013, the guarantors entered into limited guarantees or, in the case of Ellington, a payment agreement, pursuant to which each agreed to guarantee or pay (as the case may be) a percentage of the obligations of Parent and Merger Sub to pay certain fees and reimburse certain expenses, including the termination fee that may become payable to the Company by Parent under certain circumstances set forth in the merger agreement; in no event will the aggregate liability of any guarantor exceed such guarantor's percentage of such fees and expenses.

Each of the limited guarantees and the payment agreement will terminate as of the earliest of (i) the closing of the merger, (ii) the termination of the merger agreement by mutual consent of Parent and the Company or under circumstances where Parent and Merger Sub have no unpaid obligations that are guaranteed thereunder, (iii) the first anniversary of the date of the limited guarantee, and (iv) 30 days after the termination of the merger agreement in accordance with its terms under circumstances where Parent or Merger Sub have any unpaid obligations that are guaranteed thereunder if the Company has not presented a claim for payment by such 30th day.

Voting Agreement

Concurrently with the execution of the merger agreement, Holdco, Parent and the Voting Stockholders entered into a voting agreement pursuant to which the Voting Stockholders agreed, until the earlier of the effective time or the termination of the merger agreement pursuant to its terms, to, among other things, (i) vote (or cause to be voted) all of their shares of Company common stock to approve and adopt the merger agreement and any transactions or agreements related thereto at the special meeting, (ii) vote against any acquisition proposal or other extraordinary transaction or other corporate action made in opposition to or in competition with the merger, (iii) irrevocably grant a proxy appointing Parent or its designee, as the Voting Stockholder's proxy and attorney-in-fact, to vote or cause to be voted all of the shares owned by them, constituting approximately 15.3% of the outstanding shares of Company common stock as of the record date for the special meeting, and (iv), not take any actions to solicit or encourage, or take certain other actions relating to, an acquisition proposal, except under certain circumstances. The voting agreement terminates upon the earlier of (i) the closing of the merger and (ii) termination of the merger agreement in accordance with its terms. Additionally, the Voting Stockholders have entered into the voting agreement solely in their capacities as stockholders of the Company, and nothing in the voting agreement will restrict or limit any fiduciary duties owed to the Company.

Table of Contents

On June 17, 2013, Holdco, Parent and the Voting Stockholders amended the voting agreement to correct the beneficial ownership of Jian (James) Ding and to provide consent to Guoxiang Liu to sell certain of his shares on the open market.

Consortium Agreement

Concurrently with the execution and delivery of the merger agreement, Holdco, the sponsors and certain affiliates of the sponsors entered into a consortium agreement that governs the relationship among the buyer consortium with respect to the merger agreement and matters relating thereto until the consummation of the merger. The consortium agreement provides for, among other things and, subject to certain limitations or exceptions therein, (i) the mechanism for making decisions relating to the merger agreement and the ancillary agreements pending consummation of the merger, (ii) the entry into, concurrent with the consummation of the merger, a shareholders agreement by certain of the sponsors and/or the Rollover Stockholders and any additional Rollover Stockholders, (iii) the right of Parent to enforce (including by specific performance) the provisions of each equity commitment letter, and (iv) the payment or reimbursement of certain expenses incurred in connection with the merger agreement and the transactions contemplated thereby if the merger is consummated.

Limitation on Remedies

The Company's right to terminate the merger agreement and receive payment of (i) a termination fee of US\$18 million or US\$36 million from Parent, (ii) any reimbursement of costs and expenses pursuant to the merger agreement, and (iii) any amount in respect of which it is indemnified by Parent pursuant to the merger agreement under certain circumstances is the sole and exclusive remedy of the Company against Parent, Merger Sub, their respective affiliates or any financing source for any loss or damage suffered as a result of any such breach or failure to perform under the merger agreement or other failure of the merger to be consummated.

Subject to any equitable remedies Parent may be entitled to, Parent's right to receive payment of (i) a termination fee of US\$18 million and (ii) any reimbursement of costs and expenses pursuant to the merger agreement, is the sole and exclusive remedy of Parent and Merger Sub against the Company for any loss or damage suffered as a result of any such breach or failure to perform under the merger agreement or other failure of the merger to be consummated.

Parent and Merger Sub are entitled to specific performance of the terms under the merger agreement, including an injunction or injunctions to prevent breaches of the merger agreement and to enforce specifically the terms and provisions of the merger agreement. The Company is not entitled to an injunction or injunctions to prevent breaches of the merger agreement by Parent or Merger Sub or any remedy to enforce specifically the terms and provisions of the merger agreement.

Interests of the Company's Directors and Officers in the Merger

Interests of Continuing Stockholders

As a result of the merger, (i) Mr. Suning (Edward) Tian (one of our directors), Ms. Jean Qin Kong (Mr. Suning (Edward) Tian's spouse), and PacificInfo Limited (one of our stockholders which is wholly owned by Mr. Suning (Edward) Tian), (ii) Mr. Jian (James) Ding (our co-chairman), and New Media China Investment I, Ltd. (one of our stockholders which is wholly owned by Mr. Jian (James) Ding), and (iii) Mr. Steve Zhang (one of our directors and our chief executive officer) will indirectly hold 14.5%, 2.2% and 0.2%, respectively, of the fully diluted equity interest of Parent, which will indirectly own 100% of the Company immediately following the completion of the merger. Power Joy will indirectly hold 23.6% of the fully diluted equity interest of Parent immediately following the completion of the merger.

Because of the indirect equity ownership of these continuing stockholders in Parent, each of them will enjoy the benefits from any future earnings and growth of the Company after the merger which, if the Company is successfully managed, could exceed the value of their original investments in the Company, including the amount paid by Parent as merger consideration to the unaffiliated stockholders. These continuing stockholders will also bear the corresponding risks of any possible decreases in the future earnings, growth or value of the Company and they will have no certainty of any future opportunity to sell their shares in Parent at an attractive price, or that any dividends paid by Parent will be sufficient to recover their investment.

Table of Contents

The merger may provide additional means to enhance stockholder value for the continuing stockholders, including improved profitability due to the elimination of the expenses associated with public company reporting and compliance, increased flexibility and responsiveness in management of the business to achieve growth and respond to competition without the restrictions of short-term earnings comparisons, and additional means for making liquidity available to them, such as through dividends or other distributions.

Special Committee Compensation

In consideration of the expected time and effort that would be required of the members of the special committee in evaluating the proposed merger, including negotiating the terms and conditions of the merger agreement, our board of directors determined that the chairman of the special committee would receive a retainer of US\$5,000 per month and that each other member of the special committee would receive a retainer of US\$4,000 per month for the duration of their service on the special committee. Such fees are payable whether or not the merger is completed and were approved by our board of directors at the time the special committee was designated. No other meeting fees or other compensation (other than reimbursement for out-of-pocket expenses in connection with attending special committee meetings) will be paid to the members of the special committee in connection with their service on the special committee.

Indemnification and Insurance

The surviving corporation and its subsidiaries will honor and fulfill the obligations of the Company and its subsidiaries under (i) any indemnification, advancement of expenses and exculpation provision set forth in any certificate of incorporation or bylaws or comparable organizational documents of the Company or any of its subsidiaries as in effect on the date of the merger agreement and (ii) all indemnification agreements between the Company or any of its subsidiaries and any of their respective current or former directors and officers and any person who becomes a director or officer of the Company or any of its subsidiaries prior to the effective time of the merger (the **indemnified parties**). The certificate of incorporation and bylaws (and other similar organizational documents) of the surviving corporation and its subsidiaries will contain provisions with respect to exculpation, advancement of expenses and indemnification that are at least as favorable to the indemnified parties as those contained in the certificate of incorporation and bylaws (or other similar organizational documents) of the Company and its subsidiaries as in effect on the date of the merger agreement, and during such six year period, such provisions will not be amended, repealed, or otherwise modified in any manner except as required by applicable law.

From the effective time of the merger until the sixth anniversary of the effective time of the merger, to the fullest extent the Company would have been permitted to do so under applicable law (for the avoidance of doubt, subject to the limitations on the Company's ability to indemnify its directors and officers under Section 145 of the DGCL) Parent will indemnify and hold harmless each indemnified party from and against any and all costs or expenses (including reasonable attorneys' fees and expenses), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any actual or threatened claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of, relating to or in connection with (i) the fact that an indemnified party is or was a director or officer of the Company or any of its subsidiaries, (ii) any acts or omissions occurring or alleged to occur prior to or at the effective time of the merger in such indemnified party's capacity as a director, officer, employee or agent of the Company or any of its subsidiaries or other affiliates, or (iii) the merger, the merger agreement or any of the transactions contemplated by the merger agreement.

Prior to the effective time of the merger, the Company may purchase a six year tail prepaid policy on the directors' and officers' liability insurance. In the event that the Company elects to purchase such a tail policy prior to the effective time of the merger, the surviving corporation will maintain such tail policy in full force and effect and continue to honor their respective obligations thereunder for so long as such tail policy shall be maintained in full force and effect. In the event that the Company does not elect to purchase such a tail policy prior to the effective time of the merger, during the period commencing at the effective time of the merger and ending on the sixth anniversary of the effective time of the merger, the surviving corporation will maintain in effect the Company's current directors' and officers' liability insurance in respect of acts or omissions occurring at or prior to the effective time of the merger, covering each person covered by the directors' and officers' liability insurance, on terms with respect to the coverage and amounts that are equivalent to those of the directors' and officers' liability insurance.

Table of Contents

Position with the Surviving Corporation

Pursuant to the respective letter agreements and the employment contract amendment agreement, it is anticipated that certain executive officers with the Company, namely, Steve Zhang, Jun (Michael) Wu, Guoxiang Liu and Yadong Jin, will continue holding positions with the surviving corporation until the fifth anniversary of the closing date of the merger.

Common Stock, Company Options and Company Restricted Stock Units

At the effective time of the merger, (i) each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier I employee, and (ii) 73.3% of each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier II employee, will be converted into an option to purchase a number of shares of Holdco equal to the number of shares subject to such options to purchase shares of Company common stock (or such applicable portion thereof in the case of a tier II employee). The exercise price of the option to purchase a share of Holdco will be equal to the excess of (x) the fair market value of a share of Holdco immediately following the effective time of the merger as determined by Parent in good faith over (y) the excess of the merger consideration over the per share exercise price of such existing options to purchase shares of Company common stock. The other terms and conditions of such options to purchase shares of Company common stock will continue to apply to the options to purchase shares of Holdco.

At the effective time of the merger, (i) 26.7% of each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier II employee, and (ii) each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by an employee of the Company who is neither a tier I employee nor a tier II employee, will be canceled in consideration of an award of restricted stock units (or in the case of a U.S. taxpayer, restricted stock) that provides for the issuance of a number of shares of Holdco. Such number of shares of Holdco will have an aggregate fair market value as of immediately after the effective time of the merger as determined by Parent in good faith equal to the excess of the merger consideration over the per share exercise price of such options to purchase shares of Company common stock, multiplied by the number of shares of Company common stock subject to such options. The awards of restricted stock units and restricted stock will have the same vesting and forfeiture provisions as applied to such options to purchase shares of Company common stock.

At the effective time of the merger, (x) each outstanding and vested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan, and (y) each outstanding option, whether vested or unvested, to purchase shares of Company common stock that was granted under a stock plan of the Company other than the Company's 2011 Stock Incentive Plan, will be canceled in consideration of, as soon as practicable after the effective time of the merger, (i) the right to receive a cash payment in an amount equal to the excess of the merger consideration over the per share exercise price of such options, or (ii) at the election of the holder of such options, the right to receive a number of shares of Holdco with an aggregate fair market value as of immediately following the effective time of the merger as determined by Parent in good faith equal to the excess of the merger consideration over the per share exercise price of such options, multiplied by the number of shares of Company common stock subject to such options, which will not be subject to any forfeiture restriction (but may be subject to a transfer restriction).

At the effective time of the merger, each outstanding restricted stock unit relating to a share of Company common stock that was granted under a stock plan of the Company will be converted into a restricted stock unit that provides for the issuance of a share of Holdco, which restricted stock unit shall be subject to the same vesting and forfeiture provisions as applied to such restricted stock unit relating to a share of Company common stock.

Table of Contents

The treatment of Company options and Company restricted stock units described in the four immediately preceding paragraphs does not apply to any Company options or Company restricted stock units held by any director of the Company who is not a buyer group party. At the effective time of the merger, each outstanding option to purchase shares of Company common stock held by a director of the Company who is not a buyer group party, whether vested or unvested, will be canceled in consideration of the right to receive a cash payment in an amount equal to the excess of the merger consideration over the per share exercise price of such option, multiplied by the number of shares of Company common stock subject to such option. At the effective time of the merger, each outstanding restricted stock unit relating to a share of Company common stock held by a director of the Company who is not a buyer group party will be converted into the right to receive the merger consideration.

The following table sets forth the cash amounts to be received by each director and executive officer of the Company is entitled to receive as a result of the merger calculated based on his securities ownership as of the date of this proxy statement.

Name	Position	Stock (#)	Options (Vested) (#)	Options (Unvested) (#)	Restricted Stock Units (#)	Cash Received from Common Stock (U.S.\$)	Cash Received from Vested Options (U.S.\$)	Cash Received from Unvested Options (U.S.\$)	Cash Received from Restricted Stock Units (U.S.\$)
Jian (James) Ding	Co-Chairman of the Board	999,187	0	0	6,697	0	0	0	0
Libin Sun	Executive Co-Chairman of the Board	12,555,625	0	0	0	US\$ 150,667,500	0	0	0
Steve Zhang	Director, President and Chief Executive Officer	104,904	750,000 ⁽¹⁾	0 ⁽¹⁾	0	0	US\$ 2,452,500*	0	0
Sean Shao	Director	19,645	0	0	6,697	US\$ 235,740	0	0	US\$ 80,364
Yungang Lu	Director	28,758	20,000	0	6,697	US\$ 345,096	US\$ 161,000	0	US\$ 80,364
Davin A. Mackenzie	Director	40,658	0	0	6,697	US\$ 487,896	0	0	US\$ 80,364
Thomas J. Manning	Director	25,658	0	0	6,697	US\$ 307,896	0	0	US\$ 80,364
Suning (Edward) Tian	Director	6,739,676	0	0	6,697	0	0	0	0
Xiwei Huang	Director	314,327	0	0	6,697	US\$ 3,771,924	0	0	US\$ 80,364
Jun (Michael) Wu	Executive Vice President and Chief Financial Officer	35,000	66,000 ⁽²⁾	44,000 ⁽²⁾	225,000 ⁽²⁾	US\$ 420,000	US\$ 215,820*	0	0
Yadong Jin	Executive Vice President, Chief Technology Officer and General Manager of Marketing	53,334	22,000	88,000	5,000	US\$ 640,008	US\$ 71,940*	0	0
Guoxiang Liu	Executive Vice President	506,274	22,000	88,000	0	US\$ 6,075,288	US\$ 71,940*	0	0
Total:						US\$ 162,951,340	US\$ 806,007.5	0	US\$ 401,820

Table of Contents

- * assuming the relevant directors or executive officers elect to receive cash payments according to the merger agreement.
- (1) Pursuant to the employment agreement amendment and extension letter agreement dated May 12, 2013 among the Company, Holdco and Steve Zhang, as of the effective time of the merger, all outstanding, unvested Company options then held by Steve Zhang will immediately vest and will be treated as vested for purposes of the merger agreement.
 - (2) Pursuant to the employment agreement amendment and extension letter agreement dated May 12, 2013 among the Company, Holdco and Jun (Michael) Wu, as of the effective time of the merger, 50% of all outstanding, unvested Company options and Company restricted stock units then held by Jun (Michael) Wu will immediately vest and will be treated as vested for purposes of the merger agreement.

Employment and Change-in-Control Agreements

Agreement with our President and Chief Executive Officer

In July 2010, we entered into an executive employment agreement, an employment contract and a confidentiality and non-competition agreement, which we collectively refer to as the **employment agreements**, with our current President and Chief Executive Officer, Steve Zhang. Pursuant to the employment agreements, upon a change of control of the Company, regardless of whether Mr. Zhang is terminated, he will be entitled to immediate vesting of 100% of any outstanding unvested equity incentive awards. If Mr. Zhang's employment terminates for any reason, he will be entitled to certain severance payments as described below under the heading *Merger-Related Compensation for the Company's Named Executive Officers*.

In connection with the merger, we, Holdco and Mr. Zhang have entered into a letter agreement (the operative effect of which is conditioned on the consummation of the merger and Mr. Zhang remaining employed by us through the closing date of the merger), pursuant to which (i) the term of Mr. Zhang's employment with us shall be extended until the fifth anniversary of the consummation of the merger, (ii) the term of Mr. Zhang's post-employment non-competition period shall be extended until 12 months following the termination of his employment, (iii) the amount of Mr. Zhang's non-competition payments shall be increased to 12 months' base salary and (iv) all of Mr. Zhang's outstanding equity awards shall immediately vest and be treated as vested for purposes of the merger agreement.

Table of Contents

Agreements with our Other Executive Officers

Jun (Michael) Wu. In August 2010, we entered into an offer letter (supplemented in December 2012 as to the allocation of certain allowances), a three-year employment contract, a confidentiality and non-competition agreement, a master executive employment agreement and a change-of-control severance agreement with our Executive Vice President and CFO, Jun (Michael) Wu. Pursuant to the change-of-control severance agreement with Mr. Wu, if Mr. Wu's employment is terminated without cause or he resigns for good reason within the one-year period immediately following a change of control, he is entitled to severance payments as described below under the heading *Merger-Related Compensation for the Company's Named Executive Officers*.

In connection with the merger, we, Holdco and Mr. Wu have entered into a letter agreement (the operative effect of which is conditioned on the consummation of the merger and Mr. Wu remaining employed by us through the closing date of the merger), pursuant to which (i) the term of Mr. Wu's employment with us shall be extended until the fifth anniversary of the merger's consummation, (ii) the term of Mr. Wu's post-employment non-competition period shall be extended until 12 months following the termination of his employment, (iii) 50% of Mr. Wu's outstanding, unvested equity awards as of the effective time of the merger shall immediately vest and be treated as vested for purposes of the merger agreement and (iv) all of Mr. Wu's outstanding, unvested equity awards as of the effective time of the merger shall be cancelled in consideration of a cash payment or converted into equivalent equity awards in Holdco, in each case as set forth in the merger agreement.

Yadong Jin. In November 2011, we entered into a three-year employment contract and a confidentiality and non-competition agreement with our Executive Vice President, Chief Technology Officer and General Manager of Marketing, Yadong Jin.

In connection with the merger, we, Holdco and Mr. Jin have entered into an employment contract amendment agreement (the operative effect of which is conditioned on the consummation of the merger and Mr. Jin remaining employed by us through the closing date of the merger), pursuant to which the term of Mr. Jin's employment with us shall be extended until the fifth anniversary of the consummation of the merger.

Guoxiang Liu. In June 2010, we entered into a master executive employment agreement, a confidentiality and non-competition agreement, a PRC employment contract and a change-of-control severance agreement with our Executive Vice President, Guoxiang Liu. Pursuant to the change-of-control severance agreement with Mr. Liu, if Mr. Liu's employment is terminated without cause or he resigns for good reason within the one-year period immediately following a change of control, he is entitled to severance payments as described below under the heading *Merger-Related Compensation for the Company's Named Executive Officers*.

In connection with the merger, we, Holdco and Mr. Liu have entered into a letter agreement (the operative effect of which is conditioned on the consummation of the merger and Mr. Liu remaining employed by us through the closing date of the merger), pursuant to which (i) the term of Mr. Liu's employment with us shall be extended until the fifth anniversary of the consummation of the merger, and (ii) the term of Mr. Liu's post-employment non-competition period shall be extended until 12 months following the termination of his employment.

Libin Sun. In June 2010, we entered into a master executive employment agreement, a confidentiality and non-competition agreement, a PRC employment contract and a change-of-control severance agreement with our Executive Co-Chairman, Libin Sun. Pursuant to the change-of-control severance agreement with Mr. Sun, if Mr. Sun's employment is terminated without cause or he resigns for good reason within the one-year period immediately following a change of control, he is entitled to severance payments as described below under the heading *Merger-Related Compensation for the Company's Named Executive Officers*.

Table of Contents**Merger-Related Compensation for the Company's Named Executive Officers**

This section sets forth the information required by Item 402(t) of Regulation S-K regarding the compensation for each named executive officer that is payable upon, or may become payable in connection with, the consummation of the merger. This compensation is commonly referred to as golden parachute compensation. The golden parachute compensation payable to our named executive officers is subject to a non-binding advisory vote, as further described in *PROPOSAL TWO MERGER-RELATED COMPENSATION* beginning on page 121.

Name	Cash (\$) ⁽¹⁾	Equity (\$) ⁽²⁾	Perquisites/Benefits (\$) ⁽³⁾	Total (\$) ⁽⁴⁾
Steve Zhang	2,794,304.87	2,452,500	139,278.27	5,386,083.14
Jun (Michael) Wu	502,359.39	359,700	7,042.01	862,059.39
Yadong Jin	330,745.76	71,940	0	402,685.76
Guoxiang Liu	444,215.18	71,940	4,106.33	516,155.18
Libin Sun	348,534.20	0	4,106.33	348,534.20

- (1) In the case of Mr. Zhang, represents RMB2,150,004.00 in the prorated amount of annual bonus for the prior year, RMB12,857,023.92 in severance payments (2.99 times his base salary for 2013 and his 2012 annual bonus), in each case payable only upon our termination of Mr. Zhang's employment or his resignation within one year of the merger, and RMB2,150,004.00 (12 months' base salary) payable for his agreement not to compete with the Company for a period of 12 months following the termination of his employment with the Company. In the case of Mr. Wu, Mr. Jin, Mr. Liu or Mr. Sun, represents RMB2,428,486.64, RMB1,560,317.48, RMB2,245,832.18, and RMB1,780,000.00, respectively, in severance payments consisting of, for each of Mr. Wu, Mr. Liu and Mr. Sun, one year of the executive's annual base salary for 2013, the executive's target annual bonus for 2013 and a pro-rated portion of the executive's target annual bonus for 2013, assuming a termination date of December 31, 2013, and, for Mr. Jin, his annual base salary for 2013 and target annual bonus for 2013, in each case payable only upon our termination of the executive without cause or his resignation for good reason within one year following the merger, and RMB656,000.00, RMB470,461.50, RMB481,649.00, and RMB360,000.00 (six months' base salary) payable for his agreement not to compete with the Company for a period of 12 months following the termination of his employment with the Company. All RMB amount are converted into US amounts at the exchange rate of 6.14.
- (2) Represents US\$2,452,500 for Mr. Zhang, US\$359,700 for Mr. Wu, US\$71,940 for Mr. Jin, and US\$71,940 for Mr. Liu in the value of equity awards (based on the US\$12.00 merger consideration, less any exercise price payable) the vesting of which will accelerate as of the effective time.
- (3) In the case of Mr. Zhang, represents RMB29,672.60 for one year of continued medical benefits, RMB360,000.00 for one year of continued housing entitlement, and RMB465,496.00 for one year of continued education reimbursement, in each case payable only upon our termination of Mr. Zhang's employment or his resignation within one year of the merger. In the case of Mr. Wu, Mr. Liu or Mr. Sun, represents RMB22,434.96, RMB16,504.69, and RMB16,504.69, respectively, for one year of continued medical benefits and RMB20,802.98, RMB8,708.16, and RMB8,708.16, respectively, for six months of continued housing entitlement, in each case payable only upon our termination of Mr. Wu, Mr. Liu or Mr. Sun, respectively, without cause or his resignation for good reason within one year following the merger. All amounts are estimates based on the amounts paid to provide such benefits in 2012 and 2013 and 2013 trends with respect to the costs for such benefits. All RMB amounts are converted into US amounts at the exchange rate of 6.14.
- (4) Represents the sum of all compensation reflected in the preceding columns.

Table of Contents

Potential Payments to Mr. Zhang

Pursuant to Mr. Zhang's employment agreements, upon a change of control of the Company, Mr. Zhang is entitled to immediate vesting of 100% of his outstanding unvested equity incentive awards. If Mr. Zhang's employment is terminated or he resigns from the Company within one year after a change in control, Mr. Zhang also will be entitled to receive:

payment of all accrued and unpaid salary, bonus, reimbursable expenses, vacation and employee benefits;

the prorated amount of his annual bonus for the prior year (or, if higher for the year of termination assuming performance targets are met at 100%);

a severance amount equal to 2.99 times his base salary for the year of the termination and annual bonus for the prior year (or, if higher for the year of termination assuming performance targets are met at 100%);

one year of continued medical benefits;

one year of continued education reimbursement for his children's primary and secondary education; and

one year of continued housing entitlement.

If the payments to Mr. Zhang result in Mr. Zhang being subject to an excise tax pursuant to Section 4999 of the United States Internal Revenue Code of 1986, as amended, then Mr. Zhang is entitled to a gross up payment from the Company in an amount that would leave him in the same position he would otherwise be in had such tax not been applied to his payments. The merger constitutes a change of control for purposes of Mr. Zhang's employment agreement.

Pursuant to the letter agreement entered into between the Company, Holdco and Mr. Zhang effective upon the consummation of the merger, Mr. Zhang will also be eligible to receive up to 12 months' base salary, payable at his election as a lump sum or as 12 monthly installments, as consideration for his agreement not to compete with the Company for a period of 12 months following the termination of his employment with the Company.

Potential Payments to our Other Named Executive Officers

In addition to the equity treatment specified under *Employment and Change-in-Control Agreements*, each of Messrs. Wu, Liu and Sun is party to a change-of-control severance agreement with us pursuant to which, if his employment is terminated without cause or he resigns for good reason within one-year immediately following a change of control, he would be entitled to:

payment of all accrued and unpaid salary and bonus;

payment of a portion of his target annual bonus for the year of termination, pro-rated for the number of days that have elapsed in the then-current fiscal year as of the date of termination;

severance payments equal to the sum of (i) his base salary for the year in which the date of termination occurred (or, if higher, as in effect at the time of the change of control) and (ii) his target annual bonus for the year in which the date of termination occurs (or, if

higher, as in effect at the time of the change of control);

immediate vesting of 50% of any outstanding unvested stock options held by him as of the date of such termination;

exercise all vested stock options (including the options that become vested upon termination) for a period of 18 months after the date of termination; and

medical benefits for one year and housing entitlement (including any housing allowance and any contribution made by us toward any government or company housing scheme) for six months following termination.

Table of Contents

In the event of a change of control and regardless of whether or not a covered termination occurs, if the change of control is not effected by a business combination whereby the successor corporation assumes all of the executive's outstanding stock options or replaces such stock options with options or similar incentives with a substantially equivalent economic value, each of Messrs. Wu, Liu and Sun would be entitled to immediate vesting of 50% of any outstanding unvested stock options held by him as of the date of such change of control. Such newly vested stock options would become exercisable on the date of such change of control and would remain exercisable thereafter in accordance with their respective terms. If all or any portion of the payments and benefits owed under their change-of-control severance agreements to any of Messrs. Wu, Liu and Sun in connection with a change of control of the Company cause an excise tax pursuant to Section 4999 of the United States Internal Revenue Code of 1986, as amended, to be imposed upon the executive, then such payments shall be subject to reduction by the Company to the extent necessary to prevent any part of such payments from being subject to such excise tax. The merger will constitute a change of control of the Company for purposes of the change-of-control severance agreements.

For purposes of the change-of-control severance agreements, *cause* means (a) the executive's willful and continued failure to substantially perform his duties (other than any actual or anticipated failure after the issuance of a notice of termination for good reason) or (b) his willful engagement in conduct which is demonstrably and materially injurious to us. *Good reason* means, without the express written consent of the executive and except as a result of the executive's failure to satisfy applicable performance criteria, (x) the assignment to the executive of any duties inconsistent in any materially adverse or diminutive respect with his position, authority, duties or responsibilities from those in effect immediately prior to the change of control, (y) a reduction in the executive's base salary as in effect immediately before the change of control, except for a reduction that applies in equal proportion to all of our employees or (z) a material reduction in the executive's aggregate compensation opportunity, including the executive's base salary, bonus opportunity, if any, and long-term or other incentive compensation opportunity, if any.

Each of Messrs. Wu, Jin, Liu and Sun has entered into a confidentiality and non-competition agreement with us. Under the terms of these agreements, if the executive's employment is terminated for any reason, we may elect to enforce a one-year non-competition provision by agreeing to pay 50% of such individual's then-current annual base salary, payable in a lump sum or in monthly installments over the one-year period.

Relationship Between Us and Buyer Consortium

Relationship with Rollover Stockholders

All Rollover Stockholders are parties to the rollover agreements (as amended) and have agreed with Parent to contribute to Parent shares of Company common stock owned by them in exchange for newly issued shares of Holdco. In addition, pursuant to the merger agreement, Parent may enter into additional rollover agreements with Additional Rollover Stockholders prior to the closing for the contribution of up to 800,000 shares of Company common stock to Parent in exchange for shares of Holdco. As such, Rollover Stockholders and any Additional Rollover Stockholders may have indirect interests in the Company after the merger.

All Voting Stockholders are parties to the voting agreement (as amended) and have agreed, pursuant to the terms and conditions of the voting agreement, to vote all of their shares in favor of adoption of the merger agreement at the special meeting, and to vote against any (i) acquisition proposal, (ii) reorganization, recapitalization, dissolution, liquidation or winding-up of the Company or any other extraordinary transaction involving the Company, (iii) proposal or corporate action that is made in opposition to or in competition with, or would otherwise frustrate the purposes of, or prevent or delay the consummation of, the transactions contemplated by the merger agreement, including the merger, or (iv) other matter relating to, or in connection with, any of the foregoing matters.

Except as set forth above and elsewhere in this proxy statement, none of the buyer consortium, nor any of their respective directors, executive officers or other affiliates engaged in any transactions with us or any of our directors, officers or other affiliates that would require disclosure under the rules and regulations of the SEC applicable to this proxy statement.

Table of Contents**Dividends**

Pursuant to the merger agreement, we are prohibited from declaring, setting aside, making or paying any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of our capital stock, except for dividends by any of the Company's direct or indirect wholly owned subsidiaries to the Company or any of our other wholly owned subsidiaries, in the ordinary course of business consistent with past practice between the date of the merger agreement and the effective time of the merger.

Determination of the Merger Consideration

The merger consideration was determined as a result of extensive negotiations over an extended period of time between Parent, Merger Sub and their advisors, on the one hand, and the special committee, comprised solely of the independent directors, and its legal and financial advisors, on the other hand.

Regulatory Matters

In connection with the merger, we are required to make certain filings with, and comply with certain laws of, various federal and state governmental agencies, including:

filing the certificate of merger with the Secretary of State of the State of Delaware in accordance with the DGCL after the adoption of the merger agreement by our stockholders;

complying with U.S. federal securities laws; and

making filings under the PRC Anti-Monopoly Law and receipt of clearance thereunder approving the merger.

Fees and Expenses

Fees and expenses incurred or to be incurred by the Company and the buyer consortium in connection with proposed merger are estimated at the date of this proxy statement to be as follows:

Description	Amount
Financing fees and expenses and related professional fees	US\$ 7,425,000
Financial advisory fees and expenses	US\$ 15,538,000
Legal and accounting fees and expenses	US\$ 7,811,000
Miscellaneous (including printing, proxy solicitation, filing fees, mailing costs, etc.)	US\$ 3,119,000
Total	US\$ 33,893,000

For information on fees payable to the special committee, see *Special Factors Relating to the Merger Interests of the Company's Directors and Officers in the Merger Special Committee Compensation*.

These expenses will not reduce the merger consideration to be received by the Company's unaffiliated stockholders. The party incurring any costs and expenses in connection with the proposed merger and the merger agreement will pay such costs and expenses.

Table of Contents**Material United States Federal Income Tax Consequences**

The following is a discussion of the material U.S. federal income tax consequences to holders of shares of Company common stock upon the exchange of shares of Company common stock for cash pursuant to the merger. This discussion does not purport to be a comprehensive description of all of the tax consequences that may be relevant to a decision by an unaffiliated stockholder to dispose of shares of Company common stock in the merger, including tax considerations that arise from rules of general application to all taxpayers or to certain classes of investors. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations, administrative rulings and court decisions, all as in effect as of the date hereof and all of which are subject to differing interpretations and/or change at any time (possibly with retroactive effect). In addition, this discussion is not a complete description of all the tax consequences of the merger and, in particular, does not address U.S. federal income tax considerations for holders of shares of Company common stock received in connection with the exercise of employee stock options or otherwise as compensation, or holders subject to special treatment under U.S. federal income tax law (such as insurance companies, banks and certain other financial institutions, tax-exempt entities, broker-dealers, mutual funds, traders in securities who elect the mark-to-market method of accounting, tax-deferred or other retirement accounts, holders subject to the alternative minimum tax, U.S. persons that have a functional currency other than the U.S. dollar, certain former citizens or residents of the United States or persons that hold shares of Company common stock as part of a hedge, straddle, integration, constructive sale or conversion transaction). This discussion only addresses the U.S. federal income tax consequences of the merger and does not address any tax consequences of transactions effected prior to, concurrently with, or after the merger (whether or not any such transactions are undertaken in connection with the merger), including without limitation the acquisition by Parent of the Rollover Shares from the Rollover Stockholders. In addition, this discussion does not discuss any consequences to stockholders of the Company that will directly or indirectly hold an ownership interest in Holdco, Parent or the Company after the merger, or to holders of options or warrants to purchase shares of Company common stock, any aspect of state, local or foreign tax law that may be applicable to any holder of shares of Company common stock, or any U.S. federal tax considerations other than U.S. federal income tax considerations. This discussion assumes that holders own shares of Company common stock as capital assets.

We urge holders of shares of Company common stock to consult their own tax advisors with respect to the specific tax consequences to them in connection with the offer and the merger in light of their own particular circumstances, including the tax consequences under state, local, foreign and other tax laws.

(a) U.S. Holders

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of shares of Company common stock that is: (a) a citizen or resident of the United States for U.S. federal income tax purposes; (b) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (c) estate the income of which is subject to U.S. federal income tax regardless of the source of its income; or (d) a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) it has a valid election in place to be treated as a domestic trust for U.S. federal income tax purposes.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds shares of Company common stock, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Such partners should consult their own tax advisors regarding the tax consequences of the partnership exchanging shares of Company common stock pursuant to the merger.

Payments with Respect to Shares of Company Common Stock

The receipt of cash in exchange for shares of Company common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. Holder who exchanges shares of Company common stock for cash in the merger will recognize gain or loss in an amount equal to the difference, if any, between the amount of cash received in exchange for such shares and the U.S. Holder's adjusted tax basis in such shares. If a U.S. Holder acquired different blocks of shares of Company common stock at different times or different prices, the U.S. Holder must determine its tax basis and holding period separately with respect to each block of shares of Company common stock. Such gain or loss will be capital gain or loss, and will be long term capital gain or loss if such U.S. Holder's holding period for its shares of Company common stock is more than one year at the time of completion of the merger. Long term capital gains recognized by a non-corporate U.S. Holder (including an individual) are generally eligible for a reduced rate of U.S. federal income tax. There are limitations on the deductibility of capital losses. U.S. Holders of Company common stock should consult their tax advisors regarding the determination and allocation of their tax basis in their stock surrendered in the merger.

Table of Contents

Information Reporting and Backup Withholding

Payments made with respect to shares of Company common stock exchanged for cash in the merger may be subject to information reporting, and such payments will be subject to U.S. federal backup withholding unless the U.S. Holder (i) furnishes an accurate tax identification number or otherwise complies with applicable U.S. information reporting or certification requirements (typically, by completing and signing an Internal Revenue Service (**IRS**) Form W-9) or (ii) is an exempt recipient and, when required, demonstrates such fact. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a U.S. Holder's U.S. federal income tax liability, if any, provided that such U.S. Holder furnishes the required information to the IRS in a timely manner.

(b) Non-U.S. Holders

The following is a discussion of certain U.S. federal income tax consequences that will apply to a Non-U.S. Holder of shares of Company common stock. The term "Non-U.S. Holder" means a beneficial owner of shares of Company common stock that, for U.S. federal income tax purposes, is not a U.S. Holder and is not a partnership or other entity classified as a partnership.

Payments with Respect to Shares of Company Common Stock

Payments made to a Non-U.S. Holder with respect to shares of Company common stock exchanged for cash pursuant to the merger generally will be exempt from U.S. federal income tax, unless:

the gain on shares of Company common stock, if any, is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States (and, if required by an applicable U.S. income tax treaty, is attributable to the Non-U.S. Holder's permanent establishment in the United States);

the Non-U.S. Holder is an individual who was present in the United States for 183 days or more in the taxable year in which the merger occurs and certain other conditions are met; or

the Non-U.S. Holder owned (actually or constructively) more than five percent of the Company's common stock at any time during the five years preceding the merger, and the Company is or has been a United States real property holding corporation for U.S. federal income tax purposes during such time.

A Non-U.S. Holder whose gain is described in the first bullet point above will generally be subject to tax on its net gain in the same manner as if it were a U.S. Holder. In addition, such a Non-U.S. Holder that is a corporation may be subject to a branch profits tax equal to 30% of its effectively connected earnings and profits (including such gain) or such lower rate as may be specified by an applicable income tax treaty. An individual Non-U.S. Holder described in the second bullet point above will be required to pay a flat 30% tax on the gain derived from the sale, which gain may be offset by U.S. source capital losses (even though such Non-U.S. Holder is not considered a resident of the United States). The Company does not believe that it currently is a United States real property holding corporation or that it has been a United States real property holding corporation during the past five years.

Information Reporting and Backup Withholding

In general, a Non-U.S. Holder will not be subject to backup withholding and information reporting with respect to a payment made with respect to shares of Company common stock exchanged for cash in the merger if the Non-U.S. Holder has provided an IRS Form W-8BEN (or an IRS Form W-8ECI if the Non-U.S. Holder's gain is effectively connected with the conduct of a U.S. trade or business). If shares are held through a foreign partnership or other flow-through entity, certain documentation requirements also apply to the partnership or other flow-through entity. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a Non-U.S. Holder's U.S. federal income tax liability, if any, provided that such Non-U.S. Holder furnishes the required information to the IRS in a timely manner.

Table of Contents

Material PRC Tax Consequences

Under the EIT Law, enterprises established outside of China whose de facto management bodies are located in the PRC are considered resident enterprises. The implementation rules for the EIT Law define the de facto management body as an establishment that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties of an enterprise. On April 22, 2009, the State Administration of Taxation issued the Notice Concerning Relevant Issues Regarding Cognizance of Chinese Investment Controlled Enterprises Incorporated Offshore as Resident Enterprises pursuant to Criteria of de facto Management Bodies (the **Notice**). Pursuant to the Notice, an enterprise incorporated in an offshore jurisdiction and controlled by a PRC enterprise or group of PRC enterprises will be classified as a resident enterprise if (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) its substantial assets and properties, accounting books, corporate chops, board and shareholder minutes are kept in China; and (iv) at least half of its directors with voting rights or senior management are often resident in China.

However, as the Notice only applies to enterprises established outside of China that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the PRC tax authorities will determine the location of de facto management bodies for overseas incorporated enterprises that are managed and controlled by individual PRC residents like us. Therefore, although substantially all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. We do not currently consider our company to be a PRC resident enterprise under the EIT Law. Any gain recognized on the receipt of cash for Company common stock should not be subject to PRC tax to holders of such common stock that are not PRC residents. If, however, the PRC tax authorities were to determine that the Company should be considered a resident enterprise or that the receipt of cash for these common stocks should otherwise be subject to PRC tax, then gain recognized on the receipt of cash for Company common stock pursuant to the merger (or through the exercise of dissenter's rights) by holders of such common stock who are not PRC residents could be treated as PRC-source income that would be subject to PRC tax at a rate of 20% in the case of individuals or 10% in the case of enterprises (subject to any applicable treaty relief). You should consult your own tax advisor for a full understanding of the tax consequences of the merger to you, including any PRC tax consequences.

Delisting and Deregistration of Company Common Stock

If the merger is completed, shares of Company common stock will be delisted from the NASDAQ Global Market and will be deregistered under the Exchange Act, and shares of Company common stock will no longer be publicly traded.

Litigation Relating to the Merger

Since our announcement that we entered into the merger agreement, certain alleged Company stockholders have filed three putative class actions against us, the members of our board of directors and Merger Sub in the Delaware Court of Chancery, under the captions *Guanghui Cai v. AsiaInfo-Linkage, Inc., et al.*, C.A. No. 8583-VCP, *Dawan Liu v. AsiaInfo-Linkage, Inc., et al.*, C.A. No. 8634-VCP, and *Loren Lowry v. AsiaInfo-Linkage, Inc., et al.*, C.A. No. 8695-VCP. Plaintiffs allege that our board of directors breached their fiduciary duties to our stockholders by favoring Parent over other potential purchasers, favoring their own interests over the interests of our stockholders, failing to take appropriate steps to maximize the value of the Company to our stockholders, agreeing to preclusive deal protection devices and otherwise agreeing to sell the Company for an unfairly low price. Plaintiffs further allege that the Company and Merger Sub aided and abetted those alleged breaches of fiduciary duty. Plaintiffs have requested an injunction, rescission of the merger to the extent consummated, money damages if the merger is consummated, certain other equitable relief, and an award of plaintiffs' costs, including legal fees. Plaintiffs in the Liu action have also requested a declaration that the merger is unfair, unjust and inequitable.

Table of Contents

One of the conditions to the closing of the merger is that no governmental authority shall have enacted, issued, promulgated, enforced or entered any law or order (whether temporary, preliminary or permanent) which is in effect at the closing and has the effect of enjoining, restraining, prohibiting or otherwise making illegal the consummation of the merger and the other transactions contemplated by this merger agreement. Accordingly, if the plaintiffs are successful in obtaining an injunction prohibiting consummation of the merger on the agreed-upon terms, such injunction may prevent the merger from becoming effective, or from becoming effective within the expected timeframe.

Table of Contents

THE SPECIAL MEETING

We are furnishing this proxy statement to the Company's stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting.

Date, Time and Place

We will hold the special meeting at _____, Beijing time, on _____, at _____. Seating will be limited to stockholders. Admission to the special meeting will be on a first-come, first-served basis. If you plan to attend the special meeting, please note that you may be asked to present valid photo identification, such as a driver's license or passport. Stockholders owning stock in brokerage accounts must bring a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Purpose of the Special Meeting

The special meeting is being held for the following purposes:

to adopt the merger agreement (see *The Merger Agreement* beginning on page 93); and

to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger; and

to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.

A copy of the merger agreement is attached as Annex A to this proxy statement.

Recommendation of Our Board of Directors and Special Committee

Our board of directors, after careful consideration and acting on the unanimous recommendation of the special committee composed entirely of independent directors, determined that the merger is fair and advisable to, and in the best interests of, the Company and the unaffiliated stockholders, approved the merger agreement and declared its advisability, recommended that the stockholders of the Company adopt the merger agreement, directed that the merger agreement be submitted to the stockholders of the Company for their adoption at a special meeting of the stockholders of the Company, and approved the merger agreement, the rollover agreements, the voting agreement, the consortium agreement and any additional rollover agreements and the transactions contemplated thereby for purposes of Section 203 of the DGCL. Our board of directors recommends that you vote **FOR** the proposal to adopt the merger agreement.

Our board of directors also recommends that you vote **FOR** the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and **FOR** the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.

Record Date; Stockholders Entitled to Vote; Quorum

Only holders of record of Company common stock at the close of business, New York time, on _____, the record date, are entitled to notice of and to vote at the special meeting. On the record date, _____ shares of Company common stock were issued and outstanding and held by _____ holders of record. Holders of record of shares of Company common stock on the record date are entitled to one vote per share of Company common stock at the special meeting on each proposal. For ten days prior to the meeting, a complete list of stockholders entitled to vote at the meeting will be available for examination by any stockholder, for any purpose relating to the meeting, during ordinary business hours at our offices located at 4th Floor, Zhongdian Information Tower, 6 Zhongguancun South Street, Haidian District, Beijing 100086, China.

Table of Contents

Shares of Company common stock represented by proxies reflecting abstentions and properly executed broker non-votes will be counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a broker, dealer, commercial bank, trust company or other nominee does not vote on a particular matter because such broker, dealer, commercial bank, trust company or other nominee does not have the discretionary voting power with respect to that proposal and has not received voting instructions from the beneficial owner. Brokers, dealers, commercial banks, trust companies and other nominees will not have discretionary voting power with respect to the proposal to adopt the merger agreement, the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, or the adjournment proposal. The presence at the special meeting in person or by proxy of the holders of a majority of shares of the Company's capital stock issued and outstanding and entitled to vote at the special meeting as of the record date will constitute a quorum for purposes of the special meeting. In the event that a quorum is not present, or if there are insufficient votes to adopt the merger agreement at the time of the special meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies.

Vote Required

Proposal No. 1

The adoption of the merger agreement by our stockholders requires the affirmative vote of the holders of a majority of the outstanding shares of Company common stock.

A failure to vote your shares of Company common stock, an abstention from voting and broker non-votes, if any, will have the same effect as a vote **AGAINST** the proposal to adopt the merger agreement.

Proposal No. 2

The approval, on an advisory, non-binding basis, of the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger requires the affirmative vote of the holders of a majority of shares of Company common stock present in person or represented by proxy at the special meeting and entitled to vote.

A failure to vote your shares of Company common stock and broker non-votes will have no effect on the outcome of the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger. An abstention from voting will have the same effect as a vote **AGAINST** the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger.

Proposal No. 3

The approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement requires the affirmative vote of the holders of a majority of the shares of Company common stock present in person or represented by proxy at the special meeting and entitled to vote thereat, whether or not a quorum is present.

A failure to vote your shares of Company common stock and broker non-votes will have no effect on the outcome of the proposal to adjourn the special meeting. An abstention from voting will have the same effect as a vote **AGAINST** the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

Table of Contents

Stock Ownership and Interests of Certain Persons

As of _____, the record date for the special meeting, our directors and current executive officers beneficially owned, in the aggregate, shares of Company common stock, or collectively approximately _____% of the outstanding shares of Company common stock. See *Common Stock Ownership of Management and Certain Beneficial Owners* beginning on page 112 for additional information.

Certain members of our management and our board of directors have interests that may be different from, or in addition to, those of our stockholders generally. See *Special Factors Relating to the Merger Interests of the Company's Directors and Officers in the Merger* beginning on page 74 for additional information.

Concurrently with the execution of the merger agreement, Parent and the Voting Stockholders entered into a voting agreement, which was subsequently amended, pursuant to which the Voting Stockholders agreed to irrevocably grant a proxy appointing Parent or its designee, as the Voting Stockholder's proxy and attorney-in-fact, to vote or cause to be voted all of the shares owned by them, constituting approximately 11.6% of the outstanding shares of Company common stock as of the record date for the special meeting.

Voting Procedures

Ensure that your shares of Company common stock can be voted at the special meeting by submitting your proxy or contacting your broker, dealer, commercial bank, trust company or other nominee.

If your shares of Company common stock are registered in the name of a broker, dealer, commercial bank, trust company or other nominee: check the voting instruction card forwarded by your broker, dealer, commercial bank, trust company or other nominee to see which voting options are available or contact your broker, dealer, commercial bank, trust company or other nominee in order to obtain directions as to how to ensure that your shares of Company common stock are voted at the special meeting.

If your shares of Company common stock are registered in your name: submit your proxy as soon as possible by telephone, via the Internet or by signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope, so that your shares of Company common stock can be voted at the special meeting.

Instructions regarding telephone and Internet voting are included on the enclosed proxy card.

The failure to vote will have the same effect as a vote against the proposal to adopt the merger agreement. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be voted **FOR** the proposal to adopt the merger agreement, **FOR** the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and **FOR** the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of the special meeting to adopt the merger agreement.

The failure to instruct your broker, dealer, commercial bank, trust company or other nominee to vote your shares of our common stock **FOR** the proposal to adopt merger agreement will have the same effect as a vote **AGAINST** the proposal to adopt the merger agreement.

For additional questions about the merger, assistance in submitting proxies or voting shares of Company common stock, or to request additional copies of the proxy statement or the enclosed proxy card, please contact D.F. King & Co., Inc., toll free at 1-800-758-5880, collect at 212-269-5550 or by email at asiainfo@dfking.com.

Voting by Proxy or in Person at the Special Meeting

Holders of record can ensure that their shares of Company common stock are voted at the special meeting by completing, signing, dating and delivering the enclosed proxy card in the enclosed postage-paid envelope. Submitting by this method or voting by telephone or the Internet as described below will not affect your right to attend the special meeting and to vote in person. If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares of Company common stock are held in street name by a broker, dealer, commercial bank, trust company or other nominee and you wish to vote at the special meeting, you must bring to the special meeting a proxy from the record holder of those shares of Company common stock authorizing you to vote at the special meeting.

Table of Contents

If you vote your shares of Company common stock by submitting a proxy, your shares will be voted at the special meeting as you indicated on your proxy card or Internet or telephone proxy. If no instructions are indicated on your signed proxy card, all of your shares of Company common stock will be voted **FOR** the proposal to adopt the merger agreement, **FOR** the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and **FOR** the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement. You should return a proxy by mail, by telephone or via the Internet even if you plan to attend the special meeting in person.

Electronic Voting

Our holders of record and many stockholders who hold their shares of Company common stock through a broker, dealer, commercial bank, trust company or other nominee will have the option to submit their proxy cards or voting instruction cards electronically by telephone or the Internet. Please note that there are separate arrangements for voting by telephone and Internet depending on whether your shares of Company common stock are registered in our records in your name or in the name of a broker, dealer, commercial bank, trust company or other nominee. If you hold your shares of Company common stock through a broker, bank or other nominee, you should check your voting instruction card forwarded by your broker, dealer, commercial bank, trust company or other nominee to see which options are available.

Please read and follow the instructions on your proxy card or voting instruction card carefully.

Other Business

We do not expect that any matter will be brought before the special meeting other than (i) the proposal to adopt the merger agreement, (ii) the proposal to approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, and (iii) the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement. If, however, other matters are properly presented at the special meeting, the persons named as proxies will vote the shares of Company common stock represented by the proxy in their discretion with respect to those matters.

Adjournments and Postponements

The approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement requires the affirmative vote of the holders of a majority of the shares of Company common stock present in person or represented by proxy at the meeting and entitled to vote thereat, whether or not a quorum is present.

Under the terms of the merger agreement, the Company is permitted to delay, postpone, or cancel the special meeting if in the good faith judgment of our board of directors, acting upon a recommendation of the special committee, a failure to do so would be inconsistent with their respective fiduciary duty obligations. Under the terms of the merger agreement, the Company is permitted to delay the meeting in order to allow for completion of the proxy solicitation process.

Revocation of Proxies

Submitting a proxy on the enclosed form does not preclude a stockholder from voting in person at the special meeting. A stockholder of record may revoke a proxy at any time before it is voted by filing with our Corporate Secretary a duly executed revocation of proxy, by properly submitting a proxy by mail, the Internet or telephone with a later date or by appearing at the special meeting and voting in person. A stockholder of record may revoke a proxy by any of these methods, regardless of the method used to deliver the stockholder's previous proxy. Attendance at the special meeting without voting will not itself revoke a proxy. If your shares of Company common stock are held in street name, you must contact your broker, dealer, commercial bank, trust company or other nominee to revoke your proxy.

Table of Contents

Rights of Stockholders Who Object to the Merger

Stockholders who object to the merger and who comply with the provisions of Section 262 of the DGCL are entitled to have the fair value of their shares of Company common stock determined by the Court of Chancery of the State of Delaware, and to receive payment of that fair value instead of receiving the merger consideration. The ultimate amount you would receive in an appraisal proceeding may be more than, the same as or less than the amount you would have received under the merger agreement.

To exercise your appraisal rights, among other things, you must submit a written demand for appraisal to us before the vote is taken on the merger agreement and you must NOT vote in favor of the adoption of the merger agreement. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. See *Appraisal Rights* beginning on page 115 and the text of the Delaware appraisal rights statute, Section 262 of the DGCL, which is reproduced in its entirety as Annex I to this proxy statement.

Solicitation of Proxies

This proxy solicitation is being made by the Company on behalf of our board of directors and will be paid for by the Company. In addition, we have engaged D.F. King & Co., Inc. to assist in the solicitation of proxies for the special meeting and we estimate that we will pay D.F. King & Co., Inc. a fee of US\$15,000 excluding certain out-of-pocket expenses. The Company's directors, officers and employees may also solicit proxies by personal interview, mail, e-mail, telephone, facsimile or other means of communication. These persons will not be paid additional remuneration for their efforts. The Company will also request brokers, dealers, commercial banks, trust companies and other nominees to forward proxy solicitation material to the beneficial owners of shares of Company common stock that the brokers, dealers, commercial banks, trust companies and other nominees hold of record. Upon request, the Company will reimburse them for their reasonable out-of-pocket expenses.

Assistance

If you need assistance in completing your proxy card or have questions regarding the special meeting, please contact D.F. King & Co., Inc., toll free at 1-800-758-5880, collect at 212-269-5550 or by email at asiainfo@dfking.com.

Table of Contents

PROPOSAL ONE ADOPTION OF THE MERGER AGREEMENT

THE MERGER AGREEMENT

The following is a summary of the material terms and conditions of the merger agreement. The description in this section and elsewhere in this proxy statement is qualified in its entirety by reference to the complete text of the merger agreement, dated as of May 12, 2013, a copy of which is attached as Annex A, and is incorporated by reference into this proxy statement. This summary does not purport to be complete and may not contain all of the information about the merger agreement that is important to you. We encourage you to read the merger agreement carefully and in its entirety because it is the legal document that governs this merger.

Explanatory Note Regarding the Merger Agreement

The merger agreement and this summary of its terms have been included to provide you with information regarding the terms of the merger agreement. Factual disclosures about the Company contained in this proxy statement or in the Company's public reports filed with the SEC may supplement, update or modify the factual disclosures about the Company contained in the merger agreement and described in this summary. The representations, warranties and covenants made in the merger agreement by the Company, Parent and Merger Sub were qualified and subject to important limitations agreed to by the Company, Parent and Merger Sub in connection with negotiating the terms of the merger agreement. In particular, in your review of the representations and warranties contained in the merger agreement and described in this summary, it is important to bear in mind that the representations and warranties were negotiated with the principal purposes of establishing the circumstances in which a party to the merger agreement may have the right not to close the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to the merger agreement, rather than establishing matters as facts. The representations and warranties may also be subject to a contractual standard of materiality different from those generally applicable to stockholders and reports and documents filed with the SEC and in some cases were qualified by disclosures that were made by each party to the other, which disclosures are not reflected in the merger agreement. Moreover, information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this proxy statement, may have changed since the date of the merger agreement and subsequent developments or new information qualifying a representation or warranty may have been included in this proxy statement.

Effects of the Merger; Directors and Officers; Certificate of Incorporation; Bylaws

The merger agreement provides for the merger of Merger Sub with and into the Company upon the terms, and subject to the conditions, set forth in the merger agreement. As the surviving corporation, the Company will continue to exist following the merger. The surviving corporation will be a privately held corporation and the unaffiliated stockholders will cease to have any ownership interest in the surviving corporation or rights as our stockholders. Therefore, such current stockholders will not participate in any future earnings or growth of the surviving corporation and will not benefit from any appreciation in value of the surviving corporation.

The board of directors of the surviving corporation will, from and after the effective time of the merger, consist of the directors of Merger Sub until the earlier of their death, resignation or removal or until their respective successors are duly elected and qualified. The officers of the surviving corporation will, from and after the effective time of the merger, be the officers of the Company until their respective successors are duly elected and qualified or until their earlier death, resignation or removal.

At the effective time of the merger, the certificate of incorporation of the surviving corporation will be amended in its entirety to read as the certificate of incorporation in a form agreed upon by the Company, Parent and Merger Sub, until thereafter amended as provided therein and by applicable law.

At the effective time of the merger, the bylaws of the surviving corporation will be amended in its entirety to read as the bylaws, respectively, of Merger Sub as in effect immediately prior to the effective time of the merger, until thereafter amended as provided therein and by applicable law.

Table of Contents

Closing and Effective Time of the Merger

The closing of the merger will take place on the fifteenth business day after the satisfaction or, to the extent permitted by applicable law, written waiver by the party or parties entitled to the benefits of the conditions to closing (described under *The Merger Agreement Conditions to the Merger*) (other than those conditions that by their terms are to be satisfied at the closing, but subject to the satisfaction or, to the extent permitted by law, written waiver of those conditions).

The effective time will occur on the date and time of the filing of a certificate of merger with the Secretary of State of the State of Delaware (or at such later time as the Company, Parent and Merger Sub may agree and specify in the certificate of merger).

Treatment of Common Stock, Company Options and Company Restricted Stock Units

At the effective time of the merger, each share of Company common stock issued and outstanding immediately prior to the effective time of the merger (other than the excluded shares and the dissenting shares) will be converted into the right to receive the merger consideration in cash without interest.

At the effective time of the merger, (i) each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier I employee, and (ii) 73.3% of each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier II employee, will be converted into an option to purchase a number of shares of Holdco equal to the number of shares subject to such options to purchase shares of Company common stock (or such applicable portion thereof in the case of a tier II employee). The exercise price of the option to purchase a share of Holdco will be equal to the excess of (x) the fair market value of a share of Holdco immediately following the effective time of the merger as determined by Parent in good faith over (y) the excess of the merger consideration over the per share exercise price of such existing options to purchase shares of Company common stock. The other terms and conditions of such options to purchase shares of Company common stock will continue to apply to the options to purchase shares of Holdco.

At the effective time of the merger, (i) 26.7% of each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by a tier II employee, and (ii) each outstanding and unvested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan and held by an employee of the Company who is neither a tier I employee nor a tier II employee, will be canceled in consideration of an award of restricted stock units (or in the case of a U.S. taxpayer, restricted stock) that provides for the issuance of a number of shares of Holdco. Such number of shares of Holdco will have an aggregate fair market value as of immediately after the effective time of the merger as determined by Parent in good faith equal to the excess of the merger consideration over the per share exercise price of such options to purchase shares of Company common stock, multiplied by the number of shares of Company common stock subject to such options. The awards of restricted stock units and restricted stock will have the same vesting and forfeiture provisions as applied to such options to purchase shares of Company common stock.

At the effective time of the merger, (x) each outstanding and vested option to purchase shares of Company common stock that was granted under the Company's 2011 Stock Incentive Plan, and (y) each outstanding option, whether vested or unvested, to purchase shares of Company common stock that was granted under a stock plan of the Company other than the Company's 2011 Stock Incentive Plan, will be canceled in consideration of, as soon as practicable after the effective time of the merger, (i) the right to receive a cash payment in an amount equal to the excess of the merger consideration over the per share exercise price of such options, or (ii) at the election of the holder of such options, the right to receive a number of shares of Holdco with an aggregate fair market value as of immediately following the effective time of the merger as determined by Parent in good faith equal to the excess of the merger consideration over the per share exercise price of such options, multiplied by the number of shares of Company common stock subject to such options, which will not be subject to any forfeiture restriction (but may be subject to a transfer restriction).

At the effective time of the merger, each outstanding restricted stock unit relating to a share of Company common stock that was granted under a stock plan of the Company will be converted into a restricted stock unit that provides for the issuance of a share of Holdco, which restricted stock unit shall be subject to the same vesting and forfeiture provisions as applied to such restricted stock unit relating to a share of Company common stock.

Table of Contents

The treatment of Company options and Company restricted stock units described in the four immediately preceding paragraphs does not apply to any Company options or Company restricted stock units held by any director of the Company who is not a buyer group party. At the effective time of the merger, each outstanding option to purchase shares of Company common stock held by a director of the Company who is not a buyer group party, whether vested or unvested, will be canceled in consideration of the right to receive a cash payment in an amount equal to the excess of the merger consideration over the per share exercise price of such option, multiplied by the number of shares of Company common stock subject to such options. At the effective time of the merger, each outstanding restricted stock unit relating to a share of Company common stock held by a director of the Company who is not a buyer group party will be converted into the right to receive the merger consideration.

Exchange and Payment Procedures

Prior to the effective time of the merger, Parent will designate a commercial bank or trust company reasonably satisfactory to the Company to act as the paying agent. At the effective time of the merger, Parent will deposit, or will cause to be deposited, with the paying agent an amount in cash sufficient for the paying agent to make payments to the holders of shares of Company common stock and the holders of options and restricted stock units that were granted under the stock plans of the Company pursuant to the merger agreement (the **exchange fund**).

Promptly after the effective time of the merger (but in any event no later than three business days), each record holder of shares of Company common stock will be sent (i) a letter of transmittal describing how it may exchange its shares of Company common stock for the merger consideration and (ii) instructions for effecting the surrender of share certificates in exchange for its merger consideration.

You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.

You will not be entitled to receive the merger consideration until you surrender your stock certificate or certificates along with a properly completed and validly executed letter of transmittal to the paying agent or until the paying agent receives an agent's message in the case of shares held in book-entry form, and, in each case, such other documents as may be required by the paying agent and approved by Parent and us. In the event of a transfer of ownership of shares of Company common stock which is not registered in the transfer records of the Company, an amount of cash equal to the aggregate merger consideration for such shares of Company common stock may be issued to a transferee if the stock certificates or shares held in book-entry form representing such shares of Company common stock are presented to the paying agent, accompanied by all documents required to evidence and effect such transfer and by evidence reasonably satisfactory to the paying agent that any applicable stock transfer taxes have been paid.

No interest will be paid or accrued on the cash payable as the merger consideration as provided above.

At the effective time of the merger, the stock transfer books of the Company will be closed and there will be no further registration of transfers of shares of Company common stock thereafter on the records of the Company. From and after the effective time of the merger, the holders of stock certificates or shares held in book-entry form that evidenced ownership of shares of Company common stock outstanding immediately prior to the effective time of the merger will cease to have any rights with respect to such shares of Company common stock, except as otherwise provided for by the merger agreement or by applicable law. If, on or after the effective time of the merger, any person presents to the paying agent or Parent, any certificates relating to shares canceled in the merger, such person will be given a copy of the letter of transmittal and told to comply with the instructions in that letter of transmittal in order to receive the cash to which such person is entitled.

Any portion of the merger consideration deposited with the paying agent that remains undistributed to holders of Company common stock for one year after the effective time of the merger will be delivered to Parent upon demand. Any holders of Company common stock who have not complied with the above-described exchange and payment procedures will thereafter look only to Parent or the surviving corporation for payment of the merger consideration. None of the surviving corporation, Parent or the paying agent will be liable to any holders of shares of Company common stock for any merger consideration or other cash properly delivered to a public official pursuant to any abandoned property, escheat or similar laws.

Table of Contents

If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the merger consideration, you will have to make an affidavit of the loss, theft or destruction, and if required by the surviving corporation or the paying agent, post a bond in a reasonable amount as indemnity against any claim that may be made against it with respect to such certificate. These procedures will be described in the letter of transmittal that you will receive, which you should read carefully in its entirety.

Representations and Warranties

The merger agreement contains representations and warranties made by the Company to Parent and Merger Sub and representations and warranties made by Parent and Merger Sub to the Company, in each case, as of specific dates. The statements embodied in those representations and warranties were made for purposes of the merger agreement and are subject to important qualifications and limitations agreed by the parties in connection with negotiating the terms of the merger agreement, including the disclosure schedule delivered by the Company and the disclosure schedule delivered by Parent in connection therewith. In addition, some of those representations and warranties may be subject to a contractual standard of materiality different from that generally applicable to stockholders, may have been made for the principal purposes of establishing the circumstances in which a party to the merger agreement may have the right not to close the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to the merger agreement rather than establishing matters as facts. Moreover, information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this proxy statement, may have changed since the date of the merger agreement and subsequent developments or new information qualifying a representation or warranty may have been included in this proxy statement.

The representations and warranties made by the Company to Parent and Merger Sub include representations and warranties relating to, among other things:

due organization, valid existence, good standing and the requisite corporate or similar power and authority and all necessary governmental approvals to own, lease and operate its properties and assets and to carry on its business as it is now being conducted;

the absence of encumbrances on the Company's ownership of the equity interests of its subsidiaries;

the Company's capitalization, the absence of preemptive or other similar rights or any debt securities that give its holders the right to vote with the Company's stockholders;

the Company's corporate power and authority to execute, deliver and perform its obligations under and to consummate the transactions contemplated by the merger agreement, and the enforceability of the merger agreement against the Company;

the declaration of advisability of the merger agreement and the merger by the special committee and by our board of directors, the adoption of the merger agreement and the merger by our board of directors and our board of directors' submission of the merger agreement to a vote by the stockholders of the Company;

the required vote of the Company's stockholders to adopt the merger agreement;

the absence of conflicts with, or violates or default under, organizational documents, contracts and applicable law;

Table of Contents

governmental consents and approvals;

possession of all material regulatory permits;

compliance with applicable laws, licenses and permits;

the Company's SEC filings since December 31, 2009 and the financial statements included therein;

the absence of a Company Material Adverse Effect (as defined below) and the absence of certain other changes or events since June 30, 2012;

the absence of legal proceedings against the Company or its subsidiaries;

labor and employment matters;

title to real properties and assets and absence of encumbrances on real properties and assets (other than certain permitted encumbrances);

intellectual property;

tax matters;

environmental matters;

material contracts and the absence of any material default under, or termination of, any material contract;

insurance;

the opinion from Goldman Sachs;

the absence of any undisclosed brokers' or finders' fees;

customers;

compliance with anti-corruption and trade sanction laws;

compliance with applicable privacy and security laws; and

acknowledgment as to absence of any other representations and warranties.

Many of the representations and warranties in the merger agreement made by the Company are qualified as to materiality or Company Material Adverse Effect. For purposes of the merger agreement, a Company Material Adverse Effect means any circumstance, event, change, effect or development that, individually or in the aggregate together with all other circumstance, event, change, effect or development, has had or would reasonably be expected to have a material adverse effect on the financial condition, results of operations, business, assets (tangible or intangible), properties or liabilities (including contingent liabilities) of the Company and its subsidiaries, taken as a whole. However, a Company Material Adverse Effect does not include the effects directly or indirectly arising out of or resulting from any of the following:

changes or modifications in GAAP or regulatory accounting requirements or changes in laws (or interpretations thereof) applicable to the Company or any of its subsidiaries;

changes in the industries or markets in which the Company or any of its subsidiaries operates;

changes in general business, economic, political or financial market conditions;

Table of Contents

changes in the financial, credit or securities markets in the U.S., the PRC or any other country or region in which the Company or any of its subsidiaries has material business operations;

the public disclosure of the merger agreement or the transactions contemplated by the merger agreement or the consummation of the transactions contemplated by the merger agreement or the announcement of the execution of the merger agreement, including, without limitation, any stockholder litigation relating to the merger agreement;

any change in the price of shares of Company common stock or trading volume as quoted on NASDAQ;

any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism, acts of God or natural disasters;

actions or omissions taken with the prior written consent of or at the written request of the other parties hereto or expressly permitted or required to be taken by the merger agreement;

the failure by the Company or any of its subsidiaries to meet any internal or industry estimates, expectations, forecasts, projections or budgets for any period; and

any loss of, or change in, the relationship of the Company or any of its subsidiaries, contractual or otherwise, with its brokers, customers, suppliers, vendors, lenders, employees, investors, or joint venture partners arising out of the execution, delivery or performance of the merger agreement, the consummation of the transactions contemplated by the merger agreement or the announcement of any of the foregoing.

The representations and warranties made by Parent and Merger Sub to the Company include representations and warranties relating to, among other things:

their due organization, valid existence and good standing and each has the requisite corporate or similar power and authority and all necessary governmental approvals to own, lease and operate its properties and assets and to carry on its business as it is now being conducted;

certificate of incorporation and bylaws;

their capitalization, the absence of preemptive or other similar rights or encumbrances on Parent's ownership of the equity interests of Merger Sub;

their corporate power and authority to execute, deliver and perform their obligations under and to consummate the transactions contemplated by the merger agreement, and the enforceability of the merger agreement against them;

the absence of conflicts with, or violates or defaults under, organizational documents, contracts and applicable law;

governmental consents and approvals;

operations of Merger Sub;

the absence of legal proceedings against Parent or any of its subsidiaries;

sufficiency of funds in the financing to pay the aggregate merger consideration and other amounts required to be paid in connection with the consummation of the transactions contemplated by the merger agreement;

delivery of the equity commitment letters, the debt commitment letter, and the rollover agreements and the absence of any default thereunder;

Table of Contents

the absence of conditions precedent to the funding of the full amount of the debt financing and the equity financing other than as expressly set forth in or contemplated by the financing documents;

the absence of any side letters or other agreements to which Parent or its affiliates are a party relating to the financing;

delivery of the limited guarantees and the absence of any default thereunder;

the absence of any undisclosed brokers or finders fees;

solvency of Parent, Merger Sub and the surviving corporation immediately following consummation of the merger;

ownership of shares of Company common stock by Parent and Merger Sub;

independent investigation conducted by Parent and Merger Sub and non-reliance on the Company's estimates, projections, forecasts, plans or budgets;

the absence of any undisclosed side letters or other agreements among Parent, Merger Sub or any of their affiliates (excluding the Company and its subsidiaries), on the one hand, and any of the Company's or its subsidiaries' directors, officers, employees or stockholders relating to the transactions contemplated by the merger agreement; and

acknowledgement as to the absence of any other representations and warranties.

Conduct of Business Pending the Merger

Under the merger agreement, the Company has agreed that, subject to certain exceptions set forth in the merger agreement and the disclosure schedule the Company delivered in connection with the merger agreement, or as required by applicable law or with the prior written consent of Parent, from the date of the merger agreement until the effective time of the merger, the Company will use its reasonable best efforts to carry on the businesses of the Company and its subsidiaries in the ordinary course and in a manner consistent with past practice in all material respects and the Company and each of its subsidiaries will use their reasonable best efforts, consistent with past practice, to preserve substantially intact their business organization, keep available the services of their directors, officers and tier I employees and maintain their current relationships and goodwill with customers, lenders, suppliers, and distributors with which the Company or any of its subsidiaries has material business relations.

Subject to certain exceptions set forth in the merger agreement and the disclosure schedule the Company delivered in connection with the merger agreement or as required by applicable law, unless Parent consents in writing, neither the Company nor any of its subsidiaries will, directly or indirectly, do any of the following:

amend or otherwise change its certificate of incorporation or bylaws or equivalent organizational documents;

issue, sell, pledge, dispose of, grant, encumber, or authorize the issuance, sale, pledge, disposition, grant, or encumbrance of, or redeem, purchase or otherwise acquire, any capital stock of the Company or any of its subsidiaries, or securities convertible or exchangeable into or exercisable for such capital stock, or any options, warrants or other rights of any kind to acquire any capital stock or such convertible or exchangeable securities, subject to certain exceptions;

sell, lease, pledge, transfer or otherwise dispose of, grant an encumbrance on or permit an encumbrance to exist on, or authorize the sale, lease, pledge, transfer or other disposition of, or granting or placing of an encumbrance on, any material assets of the Company or any of its subsidiaries having a value in excess of US\$3 million in the aggregate, subject to certain exceptions;

Table of Contents

declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its capital stock, except for dividends by any of the Company's direct or indirect wholly owned subsidiaries to the Company or any of its other wholly owned subsidiaries, in the ordinary course of business consistent with past practice;

reclassify, combine, split or subdivide any of its capital stock;

adopt a plan or agreement of, or resolutions providing for or authorizing, complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization, each with respect to the Company or any of its subsidiaries;

acquire any corporation, partnership, other business organization or any division thereof or any assets, subject to certain exceptions;

repurchase, prepay or incur any indebtedness or issue any debt securities or assume, guarantee or endorse, or otherwise become responsible for, the obligations of any third party, or make any loans or advances or capital contributions to, or investments in, any third party, subject to certain exceptions;

authorize, or make any commitment with respect to, any single capital expenditure which is in excess of US\$0.5 million or capital expenditures which are, in the aggregate, in excess of US\$8 million, subject to certain exceptions;

except as required under applicable law or the terms of any benefit plan as in effect or the merger agreement, (A) increase the compensation payable or to become payable or the benefits provided to any officers, employees, directors and independent contractors of the Company and each of its subsidiaries (except for increases in base salaries or wages in the ordinary course of business consistent with past practice for officers, employees, directors and independent contractors of the Company and each of its subsidiaries who are not certain senior employees); (B) grant (or increase the amount of) any severance, equity or equity based awards, retention or termination pay to, or enter into any employment, bonus, change in control or severance agreement with, any officers, employees, directors and independent contractors of the Company and each of its subsidiaries; (C) establish, adopt, enter into or amend any collective bargaining agreement or benefit plan; (D) hire any officers, employees, directors and independent contractors of the Company and each of its subsidiaries to whom a written offer of employment has not previously been made and accepted prior to the date of the merger agreement who, upon such hire, would be a certain senior employee or, after the date of the merger agreement, extend any new offers of employment with the Company or any of its subsidiaries to any individual who would be a certain senior employee; or (E) take any action to amend or waive any performance or vesting criteria or accelerate any rights or benefits or take any action to fund or in any other way secure the payment of compensation or benefits under any benefit plan, including as a consequence of consummation of the transactions contemplated by the merger agreement or termination of employment;

make any changes with respect to accounting policies or procedures materially affecting the reported consolidated assets, liabilities or results of operations of the Company and its subsidiaries, except as required by changes in applicable GAAP or applicable law;

make or change any material tax election, materially amend any tax return (except as required by applicable law), enter into any material closing agreement with respect to taxes, surrender any right to claim a material refund of taxes, settle or finally resolve any material controversy with respect to material taxes or materially change any method of tax accounting or take any action outside the ordinary course of business that could reasonably be expected to result in the Company or a subsidiary being required to include a material item of income in, or exclude a material deduction from, a tax return for a period beginning after the closing date;

Table of Contents

enter into, amend or modify, in any material respect, or terminate, or waive any material rights under, any material contract, subject to certain exceptions;

enter into any contract that contains any provisions restricting the Company or any of its affiliates from competing or engaging in any material respect in any activity or line of business or with any third party or in any area or pursuant to which any material benefit or right is required to be given or lost as a result of so competing or engaging, except in the ordinary course of business consistent with past practice, or which, pursuant to its terms, could have such effect after the closing solely as a result of the consummation of the transactions contemplated by the merger agreement;

fail to make in a timely manner any filings with the SEC required under the Securities Act or the Exchange Act or the rules and regulations promulgated thereunder;

pay, discharge or satisfy any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise), or settle any action before a governmental authority by or against the Company or any of its subsidiaries or relating to any of their business, properties or assets, subject to certain exceptions;

sell, assign, license, sublicense, abandon, allow to lapse, transfer or otherwise dispose of, or create or incur any encumbrance (other than permitted encumbrances) on, any material Company owned intellectual property rights, other than in the ordinary course of business or for the purpose of disposing of obsolete or worthless assets; or

agree, resolve or commit to do any of the foregoing.

Between the date of the merger agreement and the effective time of the merger, the Company and its subsidiaries will (i) prepare and timely file all tax returns required to be filed, (ii) timely pay all taxes shown to be due and payable on such tax returns, and (iii) promptly notify Parent of any notice of any suit, claim, action, investigation, audit or proceeding in respect of any tax matters.

Parent Forbearance

From the date of the merger agreement to the effective time of the merger, each of Parent and Merger Sub will not take any action or fail to take any action, the taking or failure to take, as applicable, would, or would be reasonably likely to, individually or in the aggregate, prevent, materially delay or materially impede the ability of Parent or Merger Sub to consummate the merger or the other transactions contemplated by the merger agreement.

Access to Information

Except as otherwise prohibited by applicable law or the terms of any contract or agreement to which the Company or any of its subsidiaries is subject, from the date of the merger agreement until the earlier of the date on which the merger agreement is terminated in accordance with its terms or the effective time of the merger, the Company will, and will cause its subsidiaries to, (i) provide to Parent and Parent's representatives reasonable access, during normal business hours and upon prior reasonable notice, to the officers, employees, agents, properties, offices and other facilities of the Company and its subsidiaries and to the books and records thereof; and (ii) furnish Parent and its representatives with such information concerning its business, properties, contracts, assets, liabilities, personnel and other information as Parent or its representatives may reasonably request in writing.

Alternative Takeover Proposals

Until the effective time of the merger or, if earlier, the termination of the merger agreement, the Company and its subsidiaries will not, nor will they authorize or direct any of their respective representatives to, directly or indirectly:

solicit, initiate or take any other action knowingly to facilitate or encourage any acquisition proposal;

Table of Contents

engage in, continue or otherwise participate in any discussions or negotiations regarding, or provide any non-public information or data concerning, the Company or any of its subsidiaries to any third party (other than Parent, Merger Sub or any designees of Parent or Merger Sub) with the intent to induce the making, submission or announcement of, or the intent to encourage, facilitate or assist an acquisition proposal; or

approve, endorse, recommend, execute or enter into any letter of intent, agreement in principle, merger agreement, acquisition agreement or other similar agreement (other than an acceptable confidentiality agreement) relating to any acquisition proposal.

However, any proposal or suggestion, formal or informal, made by a director of the Company at any meeting of our board of directors or any of its committees, which was not solicited by our board of directors or any of its committees, to take any action described in sub-clause (e) in the definition of acquisition proposal and any discussion of such proposal solely for the purpose of informing such director of the Company's obligations will not (in themselves) be prohibited.

At any time prior to the receipt of the Company's stockholders' adoption of the merger agreement, the Company, its subsidiaries and the Company's and its subsidiaries' representatives may:

grant a waiver, amendment or release under any standstill agreement for the purpose of allowing any third party to make an acquisition proposal;

following the receipt of an unsolicited acquisition proposal, contact the third party who has made such acquisition proposal to clarify and understand the terms and conditions thereof;

following the receipt of an unsolicited acquisition proposal and the determination in good faith by our board of directors that such acquisition proposal either constitutes a superior proposal or could reasonably be expected to result in a superior proposal, provide information (including any non-public information or data concerning the Company or any of its subsidiaries) in response to the request of the third party who has made such acquisition proposal; and/or

following the receipt of an unsolicited acquisition proposal and the determination in good faith by our board of directors that such acquisition proposal either constitutes a superior proposal or could reasonably be expected to result in a superior proposal, engage or participate in any discussions or negotiations with the third party who has made such acquisition proposal.

The merger agreement provides that our board of directors (or any committee thereof composed solely of independent directors, including the special committee) can only (i) withhold, withdraw, amend or modify in a manner adverse to Parent, or publicly propose to withhold, withdraw, amend or modify in a manner adverse to Parent, the recommendation of our board of directors that the stockholders of the Company adopt the merger agreement (a **change in the Company recommendation**) in response to an intervening event or a superior proposal and/or (ii) authorize the Company to terminate the merger agreement to enter into an alternative acquisition agreement, if (x) with respect to a change in the Company recommendation, our board of directors (or any committee thereof composed solely of independent directors, including the special committee) determines in good faith, after consultation with its outside legal counsel, that failure to do so would reasonably be expected to be inconsistent with the directors' fiduciary duties under applicable law or (y) with respect to a termination of the merger agreement to enter into an alternative acquisition agreement with respect to a bona fide, written acquisition proposal, our board of directors (or any committee thereof composed solely of independent directors, including the special committee) determines in good faith, based on information then available and after consultation with its independent financial advisor and outside legal counsel, that such acquisition proposal constitutes a superior proposal.

Table of Contents

The Company is not entitled to effect a change in the Company recommendation or terminate the merger agreement to enter into an alternative acquisition agreement unless (i) the Company has provided prior written notice (the **change or termination notice**) to Parent that our board of directors (or any committee thereof composed solely of independent directors, including the special committee) has resolved to effect a change in the Company recommendation or to terminate the merger agreement to enter into an alternative acquisition agreement, describing in reasonable detail the reasons for such change in the Company recommendation or termination (which notice will specify, if related to an acquisition proposal, the identity of the party making the Acquisition Proposal and the material terms thereof and copies of all relevant documents (other than redacted terms of financing documents) relating to such acquisition proposal), and (ii) the Company shall cause its financial and legal advisors to, during the period beginning at 5:00 p.m. Hong Kong time on the day of delivery by the Company to Parent of such change or termination notice (or, if delivered after 5:00 p.m. Hong Kong time or any day other than a business day, beginning at 5:00 p.m. Hong Kong time on the next business day) and ending five business days later at 5:00 p.m. Hong Kong time negotiate with Parent and its representatives in good faith (to the extent Parent desires to negotiate) any proposed modifications to the terms and conditions of the merger agreement and/or the financing documents so that such acquisition proposal ceases to constitute a superior proposal or so that the failure to effect a change in the Company recommendation would no longer reasonably be expected to be inconsistent with the directors' fiduciary duties under applicable law, provided that, with respect to a change in the Company recommendation made in connection with an acquisition proposal or a termination of the merger agreement to enter into an alternative acquisition agreement, in the event of any material revisions to the acquisition proposal, the Company shall deliver a new written notice to Parent with respect to which the notice period shall be deemed to be a three business-day period rather than the five business-day period as described above, and (iii) following the end of such negotiation period(s), our board of directors (or any committee thereof composed solely of independent directors, including the special committee) will have determined in good faith (after consultation with its independent financial advisor and outside legal counsel), after considering the terms of any proposed amendment or modification to the merger agreement and/or the financing documents, that (A) with respect to a change in the Company recommendation, the failure to effect a change in the Company recommendation would still reasonably be expected to be inconsistent with the directors' fiduciary duties under applicable law or (B) with respect to a termination of the merger agreement to enter into an alternative acquisition agreement with respect to an acquisition proposal, such acquisition proposal continues to constitute a superior proposal.

The Company is not restricted from issuing a stop, look and listen communication pursuant to Rule 14d-9(f) of the Exchange Act or taking or disclosing to its stockholders a position contemplated by Rule 14e-2(a), Rule 14d-9 or Item 1012(a) of Regulation M-A promulgated under the Exchange Act (or any similar communication to stockholders in connection with the making or amendment of a tender offer or exchange offer);.

The Company agrees that it will promptly (and, in any event, within 48 hours) notify Parent if it or any of its representatives becomes aware that any acquisition proposals are received by, any non-public information is requested from, or any discussions or negotiations are sought to be initiated or continued with, the Company, our board of directors (or any committee thereof composed solely of independent directors, including the special committee) or any representative of the foregoing, indicating, in connection with such notice, the identity of the third party making such acquisition proposal and the material terms and conditions of any acquisition proposals and thereafter will keep Parent reasonably informed of the status and terms of any such acquisition proposals (including any amendments thereto that are material in any respect) and the status of any such discussions or negotiations. None of the Company, our board of directors or any committee thereof will enter into any binding agreement or contract with any person to limit the Company's ability to give prior notice to Parent of its intention to effect a change in the Company recommendation or to terminate the merger agreement in light of a superior proposal.

As used in this proxy statement, the following terms shall have the following meanings:

The term **alternative acquisition agreement** means a letter of intent, agreement in principle, term sheet, merger agreement, acquisition agreement, option agreement or other contract, commitment or agreement relating to any acquisition proposal (other than an acceptable confidentiality agreement).

The term **acquisition proposal** means any offer or proposal (other than an offer or proposal by Parent or Merger Sub) relating to (a) any merger, consolidation, business combination, reorganization, recapitalization or other similar transaction involving the Company pursuant to which the stockholders of the Company immediately preceding such transaction would hold less than 90% of the voting equity interests in the surviving or resulting entity of such transaction or the parent of such surviving or resulting entity; (b) any direct or indirect sale, lease, license, exchange, transfer or other disposition of assets or businesses (including by sale, lease, license, exchange, transfer or other disposition of any equity securities of any subsidiary of the Company) that constitute or represent more than 10% of the fair market value of the assets of the Company and its subsidiaries, taken as a whole, or to which more than 10% of the revenues of the Company and its subsidiaries, taken as a whole, are attributable; (c) any sale, exchange, transfer or other disposition of more than 10% of any class of equity securities, or securities convertible into or exchangeable for equity securities, of the Company; (d) any tender offer (including a self-tender offer) or exchange offer that, if consummated, would result in any third party becoming the beneficial owner of more than 10% of the outstanding shares of Company common stock; (e) any liquidation, dissolution, recapitalization, extraordinary dividend or other significant corporate reorganization of the Company or any of its subsidiaries that constitutes or represents more than 10% of the fair market value of the assets of the Company and its subsidiaries, taken as a whole, or to which more than 10% of the revenues of the Company and its subsidiaries, taken as a whole, are attributable; or (f) any

combination of the foregoing types of transactions that would result in any third party beneficially owning assets that constitute or represent more than 10% of the fair market value of the assets of the Company and its subsidiaries, taken as a whole, or to which more than 10% of the revenues of the Company and its subsidiaries, taken as a whole, are attributable.

Table of Contents

The term **superior proposal** means written bona fide unsolicited acquisition proposal on terms that our board of directors (or any committee thereof composed solely of independent directors, including the special committee) determines, in its good faith judgment, after having received the advice of its independent financial advisor of nationally (in the U.S.) recognized reputation and outside U.S. legal counsel, and taking into account all the terms and conditions of the acquisition proposal, including any financing (if a cash transaction), break-up fees, expense reimbursement provisions and conditions and timing to, and likelihood of, consummation, are more favorable in the aggregate to the stockholders of the Company than as provided under the merger agreement, taking into account any written proposal by Parent to amend the terms of the merger agreement. For purposes of the definition of superior proposal, each reference to 10% and 90% in the definition of acquisition proposal will be replaced with 80% and 20%, respectively; provided, however, that such replacement will not apply in relation to an acquisition proposal, made by any stockholder of the Company or any of such stockholder's affiliates, in respect of an offer by such stockholder to acquire at least 75% of the voting equity interests in the Company.

Indemnification; Directors and Officers Insurance

The surviving corporation and its subsidiaries will honor and fulfill the obligations of the Company and its subsidiaries under (i) any indemnification, advancement of expenses and exculpation provision set forth in any certificate of incorporation or bylaws or comparable organizational documents of the Company or any of its subsidiaries as in effect on the date of the merger agreement and (ii) all indemnification agreements between the Company or any of its subsidiaries and any of their respective current or former directors and officers and any person who becomes a director or officer of the Company or any of its subsidiaries prior to the effective time of the merger (the **indemnified parties**). The certificate of incorporation and bylaws (and other similar organizational documents) of the surviving corporation and its subsidiaries will contain provisions with respect to exculpation, advancement of expenses and indemnification that are at least as favorable to the indemnified parties as those contained in the certificate of incorporation and bylaws (or other similar organizational documents) of the Company and its subsidiaries as in effect on the date of the merger agreement, and during such six year period, such provisions will not be amended, repealed, or otherwise modified in any manner except as required by applicable law.

From the effective time of the merger until the sixth anniversary of the effective time of the merger, to the fullest extent the Company would have been permitted to do so under applicable law (for the avoidance of doubt, subject to the limitations on the Company's ability to indemnify its directors and officers under Section 145 of the DGCL) Parent will indemnify and hold harmless each indemnified party from and against any and all costs or expenses (including reasonable attorneys' fees and expenses), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any actual or threatened claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of, relating to or in connection with (i) the fact that an indemnified party is or was a director or officer of the Company or any of its subsidiaries, (ii) any acts or omissions occurring or alleged to occur prior to or at the effective time of the merger in such indemnified party's capacity as a director, officer, employee or agent of the Company or any of its subsidiaries or other affiliates, or (iii) the merger, the merger agreement or any of the transactions contemplated by the merger agreement. In addition, during the period commencing at the effective time of the merger and ending on the sixth anniversary of the effective time of the merger, to the fullest extent the Company would have been permitted to do so under applicable law (for the avoidance of doubt, subject to the limitations on the Company's ability to advance expenses to its directors and officers under Section 145 of the DGCL), Parent will advance, prior to the final disposition of any claim, proceeding, investigation or inquiry for which indemnification may be sought under the merger agreement, promptly following request by an indemnified party therefor, all costs, fees and expenses (including reasonable attorneys' fees and investigation expenses) incurred by such indemnified party in connection with any such claim, proceeding, investigation or inquiry, provided that if, at any time prior to the sixth anniversary of the effective time of the merger, any indemnified party delivers to Parent a written notice asserting a claim for advancement, then the right to advancement asserted in such notice will survive the sixth anniversary of the effective time of the merger until such time as such claim is fully and finally resolved.

Table of Contents

Prior to the effective time of the merger, the Company may purchase a six year tail prepaid policy on the directors and officers liability insurance. In the event that the Company elects to purchase such a tail policy prior to the effective time of the merger, the surviving corporation will maintain such tail policy in full force and effect and continue to honor their respective obligations thereunder for so long as such tail policy shall be maintained in full force and effect. In the event that the Company does not elect to purchase such a tail policy prior to the effective time of the merger, during the period commencing at the effective time of the merger and ending on the sixth anniversary of the effective time of the merger, the surviving corporation will maintain in effect the Company's current directors and officers liability insurance in respect of acts or omissions occurring at or prior to the effective time of the merger, covering each person covered by the directors and officers liability insurance, on terms with respect to the coverage and amounts that are equivalent to those of the directors and officers liability insurance. However, the total amount payable for such tail insurance policy will not exceed 250% of the premium amount per annum the Company paid in its last full fiscal year as set forth under the merger agreement.

Financing

On or before the date of the merger agreement, Parent has delivered to the Company copies of (i) an executed equity commitment letter from each sponsor, pursuant to which each sponsor has committed to purchase or cause the purchase of equity securities of Parent up to the aggregate amount set forth therein for cash, (ii) an executed debt commitment letter pursuant to which Nomura International (Hong Kong) Limited, Bank of Taiwan, Cathay United Bank, Co., LTD., ICBC International Capital Limited and Maybank Investment Bank Berhad have committed to provide debt financing to Merger Sub in the aggregate amount set forth therein, and (iii) the rollover agreements.

Parent and Merger Sub will use their reasonable best efforts to arrange the financing in a timely manner, including to, subject to the terms and conditions of the financing documents, (i) maintain in effect the financing documents, (ii) negotiate and enter into a definitive facility agreement prior to the closing with respect to the debt financing on the terms and conditions contained in the debt commitment letter or on other terms no less favorable to Parent and Merger Sub, (iii) satisfy on a timely basis all conditions in the financing documents and the facility agreement that are within its control, (iv) cause the providers of the debt financing to fund the debt financing at or prior to the closing, (v) cause the sponsors to fund the equity financing at or prior to the closing, and (vi) draw upon and consummate the financing at or prior to the closing.

If any portion of the debt financing becomes unavailable on the terms and conditions contemplated in the debt commitment letter or the facility agreement, Parent will promptly so notify the Company, and each of Parent and Merger Sub will use its reasonable best efforts to arrange to obtain alternative debt financing from the same or alternate sources, as promptly as practicable following the occurrence of such event, on terms and conditions not materially less favorable, in the aggregate, to Parent and Merger Sub than those contained in the debt commitment letter or the facility agreement and any related fee letter, in an amount sufficient to consummate the merger and other transactions contemplated under the merger agreement, and to enter into new definitive agreements with respect to such alternative debt financing and Parent will deliver to the Company as promptly as practicable after such execution, a true and complete copy of each such alternative debt financing document.

Parent and Merger Sub will not agree to any amendments or modifications to, or grant any waivers of, any condition or other provision under the financing documents, the facility agreement or the alternative debt financing documents, as applicable, without the prior written consent of the Company if such amendments, modifications or waivers would (i) reduce the aggregate amount of the financing or the alternative debt financing, as applicable, or (ii) impose new or additional conditions that would reasonably be expected to (A) prevent or materially delay the ability of Parent or Merger Sub to consummate the merger and the other transactions contemplated by the merger agreement or (B) adversely impact in any material respect the ability of Parent or Merger Sub to enforce its rights against the other parties to the financing documents, the facility agreement or the alternative debt financing documents, as applicable.

Table of Contents

The Company will, and will cause its subsidiaries to, and will use its reasonable best efforts to cause its representatives to use their reasonable best efforts to, provide (each at Parent's sole expense) such reasonable cooperation as may be requested by Parent in connection with the financing, provided that such requested cooperation is consistent with applicable law, does not unreasonably interfere with the operations of the Company and its subsidiaries and is customary in connection with the arrangement of the financing. Parent will, promptly upon request by the Company, reimburse the Company for all reasonable and documented out-of-pocket costs incurred by the Company or any of its subsidiaries in connection with such cooperation requested by Parent.

Parent will indemnify and hold harmless the Company, its subsidiaries and their respective representatives for and against any and all losses suffered or incurred by them in connection with the arrangement of the debt financing and any information utilized in connection therewith (other than information provided in writing by the Company or its subsidiaries specifically for use in connection therewith).

Obligation of Parent

At the special meeting of the Company's stockholders (including any adjournments or postponements thereof) to be held to consider adoption of the merger agreement and any other meeting of the stockholders of the Company called to seek the stockholder approvals or in any other circumstances upon which a vote, consent or other approval (including by written consent) with respect to the merger agreement, the merger or any other transactions contemplated is sought, Parent will, and will cause its direct or indirect stockholders and their respective affiliates, to vote their beneficially owned shares in favor of granting the stockholder approvals.

Conditions to the Merger

The consummation of the merger is subject to the satisfaction or written waiver by Parent, Merger Sub and the Company at or prior to the effective time of the merger of the following conditions:

the requisite stockholder approval of the merger have been obtained;

no governmental authority have enacted, issued, promulgated, enforced or entered any law or order which is then in effect and has the effect of enjoining, restraining, prohibiting or otherwise making illegal the consummation of the transactions contemplated by the merger agreement; and

the parties have made all necessary filings under the PRC Anti-Monopoly Law and have received, if necessary, clearance under the PRC Anti-Monopoly Law approving the merger.

The obligations of Parent and Merger Sub to consummate the merger are also subject to the satisfaction or written waiver at or prior to the effective time of the merger of the following conditions:

(i) the representations and warranties of the Company relating to capitalization (subject to *de minimis* exception that do not, individually or in the aggregate, increase the aggregate amount of the merger consideration by more than US\$250,000), (ii) the representations and warranties of the Company relating to organization and qualification, authority relative to the merger agreement, requisite stockholder approval, opinion of financial advisor, brokers and compliance with anti-corruption and trade sanction laws, and (iii) the other representations and warranties of the Company contained in the merger agreement being true and correct (without giving effect to any materiality or material adverse effect qualifications therein) as of the date of the merger agreement and as of the closing date (except that representations and warranties that are expressly made as of a specific date shall be true and correct as of such specific date), except in the case of clause (iii) above only, where the failure to be true and correct does not constitute a material adverse effect, and Parent will have received a certificate signed by an executive officer of the Company to such effect;

Table of Contents

the Company having performed in all material respects all obligations required by the merger agreement to be performed by it at or before the effective time of the merger, and Parent will have received a certificate signed by an executive officer of the Company to such effect; and

since the date of the merger agreement, no Company Material Adverse Effect having occurred.

The obligations of the Company to consummate the merger are subject to the satisfaction, or waiver by the Company at or prior to the effective time of the merger of the following conditions:

the representations and warranties of Parent and Merger Sub contained in the merger agreement being true and correct (without giving effect to any materiality qualifications therein) as of the date of the merger agreement and as of the closing date (except that representations and warranties that are expressly made as of a specific date shall be true and correct as of such specific date), except where the failure to be true and correct does not, individually or in the aggregate, prevent or materially adversely affect the ability of Parent or Merger Sub to consummate the transactions contemplated by the merger agreement, and the Company will have received a certificate signed by an executive officer of Parent to such effect; and

Parent and Merger Sub having performed in all material respects all obligations required by the merger agreement to be performed by them at or before the effective time of the merger, and the Company will have received a certificate signed by an executive officer of Parent to such effect.

Termination

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after receipt of the requisite stockholder approval of the merger (except for termination in connection with the entry into an alternative acquisition agreement with respect to a superior proposal which must occur prior to receipt of the requisite stockholder approval):

by mutual written consent of the Company and Parent;

by either of the Company or Parent, if:

the merger is not consummated by the end date; provided that this termination right is not available to a party if the failure of such party to fulfill any of its obligations under the merger agreement or other intentional breach is the material cause or contributing factor to the failure of the closing to occur by that date;

any law or order which has the effect of enjoining, restraining, prohibiting or otherwise making illegal the consummation of the transactions contemplated by the merger agreement becomes final and nonappealable; provided, that this termination right is not available to a party if the failure of such party to fulfill any of its obligations under the merger agreement or other intentional breach is the material cause or contributing factor to the issuance of such final, nonappealable law or order; or

our stockholders do not adopt the merger agreement at the special meeting or any adjournment or postponement thereof.

by the Company:

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upon a breach by Parent or Merger Sub of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of Parent and Merger Sub becomes untrue, in either case such that the conditions to the obligations of the Company would not be satisfied and such breach cannot be cured by Parent or Merger Sub by the end date or, if capable of being cured, has not been cured within ten business days following receipt by Parent of written notice from the Company of such breach or before the end date; provided that this termination right is not available to the Company if a material breach of the merger agreement by the Company is the material cause or contributing factor to the failure of such condition to be satisfied;

Table of Contents

prior to the receipt of the requisite stockholder approval of the merger, in order to enter into an alternative acquisition agreement with respect to a superior proposal; or

if (i) all the closing conditions to the obligations of Parent and Merger Sub have been satisfied or waived by Parent, (ii) Parent fails to fund the exchange fund within three business days following the date on which the closing was required to have occurred pursuant to the merger agreement, and (iii) the Company has irrevocably notified Parent in writing that all the closing conditions to the obligations of the Company have been satisfied at the closing or waived by the Company and it stands ready, willing and able to consummate the merger during such period.

by Parent, if:

upon a breach by the Company of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of the Company becomes untrue, in either case such that the conditions to the obligations of Parent and Merger Sub would not be satisfied and such breach cannot be cured by the Company by the end date or, if capable of being cured, has not been cured within ten business days following receipt by the Company of written notice from Parent of such breach or before the end date; provided that this termination right is not available to Parent if a material breach of the merger agreement by Parent is the material cause or contributing factor to the failure of such condition to be satisfied;

if (i) prior to the receipt of the requisite stockholder approval of the merger, there has been a change of recommendation, (ii) a tender or exchange offer for the common stock of the Company that constitutes an acquisition proposal (whether or not a superior proposal) is commenced by a person unaffiliated with Parent or any Rollover Stockholder and, within five business days after the public announcement of the commencement of such acquisition proposal, the Company has not filed a Schedule 14D-9 pursuant to Rule 14e-2 and Rule 14d-9 promulgated under the Exchange Act recommending that the stockholders of the Company reject such acquisition proposal and not tender any shares of Company common stock into such tender or exchange offer, or (iii) at any time after receipt or public announcement of an acquisition proposal, our board of directors fails to reaffirm its recommendation that the stockholders of the Company adopt the merger agreement within five business days after receipt of any written request to do so from Parent; or

there is an intentional and material breach by the Company of its covenants relating to holding the stockholders' meeting and submitting the merger agreement to the stockholders for approval at such meeting, non-solicitation of acquisition proposals and making and changing its recommendation to stockholders under certain conditions.

As used in this proxy statement, the term **end date** means February 12, 2014, which date will be automatically extended to the date that is three months after such date, to the extent necessary to satisfy the condition relating to the antitrust approval and so long as all other conditions have been satisfied or will be capable of being satisfied.

Termination Fees and Reimbursement of Expenses

The Company is required to pay Parent a termination fee of US\$18 million in the event the merger agreement is terminated:

by Parent, upon a breach by the Company of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of the Company becomes untrue, in either case such that the conditions to the obligations of Parent and Merger Sub would not be satisfied and such breach cannot be cured by the Company by the end date or, if capable of being cured, has not been cured within ten business days following receipt by the Company of written notice from Parent of such breach or before the end date;

Table of Contents

by Parent, if (i) prior to the receipt of the requisite stockholder approval of the merger, there has been a change of recommendation, (ii) a tender or exchange offer for the common stock of the Company that constitutes an acquisition proposal (whether or not a superior proposal) is commenced by a person unaffiliated with Parent or any Rollover Stockholder and, within five business days after the public announcement of the commencement of such acquisition proposal, the Company has not filed a Schedule 14D-9 pursuant to Rule 14e-2 and Rule 14d-9 promulgated under the Exchange Act recommending that the stockholders of the Company reject such acquisition proposal and not tender any shares of Company common stock into such tender or exchange offer, or (iii) at any time after receipt or public announcement of an acquisition proposal, our board of directors fails to reaffirm its recommendation that the stockholders of the Company adopt the merger agreement within five business days after receipt of any written request to do so from Parent;

by Parent, there is an intentional and material breach on the part of the Company of covenants relating to the stockholders' meeting of the Company, no solicitation of transactions and change of recommendation;

by the Company, if our stockholders do not adopt the merger agreement at the special meeting or any adjournment or postponement thereof, but only if at the time of such termination, Parent has the right to terminate the merger agreement pursuant to the above three items;

by the Company, prior to the receipt of the requisite stockholder approval of the merger, in order to enter into an alternative acquisition agreement with respect to a superior proposal; or

by Parent or the Company, (i) due to the fact that (x) the merger is not consummated by the end date, or (y) our stockholders do not adopt the merger agreement at the special meeting or any adjournment or postponement thereof, (ii) at any time between the date of the merger agreement and such termination a third party has publicly disclosed (or solely in the case of termination due to sub-clause (i)(x) above, otherwise communicated to our board of directors (or any committee thereof composed solely of independent directors, including the special committee)) a *bona fide* acquisition proposal, and (iii) within nine months following such termination, the Company enters into a definitive agreement with respect to, recommends to its stockholders, or consummates, any acquisition proposal.

Parent is required to pay the Company a termination fee in the event the merger agreement is terminated by the Company:

upon a breach by Parent or Merger Sub of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of Parent and Merger Sub becomes untrue, in either case such that the conditions to the obligations of the Company would not be satisfied and such breach cannot be cured by Parent or Merger Sub by the end date or, if capable of being cured, has not been cured within ten business days following receipt by Parent of written notice from the Company of such breach or before the end date, with the termination fee being in the amount of:

US\$36 million, if such breach by Parent or Merger Sub is a willful breach (as defined below under *The Merger Agreement Termination Fees and Reimbursement of Expenses*); or

US\$18 million, in any other circumstance giving rise to the termination mentioned above; or

Table of Contents

if (i) all the closing conditions to the obligations of Parent and Merger Sub have been satisfied or waived by Parent, (ii) Parent fails to fund the exchange fund within three business days following the date on which the closing was required to have occurred pursuant to the merger agreement, and (iii) the Company has irrevocably notified Parent in writing that all the closing conditions to the obligations of the Company have been satisfied at the closing or waived by the Company and it stands ready, willing and able to consummate the merger during such period, with the termination fee being in the amount of:

US\$36 million, if (i) Parent's failure to fund the exchange fund is due to the proceeds of the debt financing not being available, where such unavailability is a result of (x) any willful breach by Parent or Merger Sub of the representations, warranties, covenants or agreements contained in the merger agreement, or (y) any breach by the buyer group parties or any of their respective affiliates (other than the Company and its subsidiaries) of any of the rollover agreements, additional rollover agreements, the voting agreement, the consortium agreement, the debt commitment letter and the equity commitment letters, or (ii) Parent fails to fund the exchange fund when and if the proceeds of the debt financing are available to be drawn down; or

US\$18 million, in any other circumstance giving rise to the termination mentioned above.

The Company is required to reimburse Parent and its affiliates for 100% of their documented out-of-pocket expenses up to US\$5 million actually incurred by any of them in connection with the merger agreement and the transactions contemplated thereunder, in the event the merger agreement is terminated:

by Parent, upon a breach by the Company of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of the Company becomes untrue, in either case such that the conditions to the obligations of Parent and Merger Sub would not be satisfied and such breach cannot be cured by the Company by the end date or, if capable of being cured, has not been cured within ten business days following receipt by the Company of written notice from Parent of such breach or before the end date;

by Parent, if (i) prior to the receipt of the requisite stockholder approval of the merger, there has been a change of recommendation, (ii) a tender or exchange offer for the common stock of the Company that constitutes an acquisition proposal (whether or not a superior proposal) is commenced by a person unaffiliated with Parent or any Rollover Stockholder and, within five business days after the public announcement of the commencement of such acquisition proposal, the Company has not filed a Schedule 14D-9 pursuant to Rule 14e-2 and Rule 14d-9 promulgated under the Exchange Act recommending that the stockholders of the Company reject such acquisition proposal and not tender any shares of Company common stock into such tender or exchange offer, or (iii) at any time after receipt or public announcement of an acquisition proposal, our board of directors fails to reaffirm its recommendation that the stockholders of the Company adopt the merger agreement within five business days after receipt of any written request to do so from Parent;

by Parent, there has been an intentional and material breach on the part of the Company of covenants relating to the stockholders meeting of the Company, no solicitation of transactions and change of recommendation;

by the Company under any of the circumstances in which Parent solely has a right to terminate the merger agreement;

by the Company, prior to the receipt of the requisite stockholder approval of the merger, in order to enter into an alternative acquisition agreement with respect to a superior proposal.

Parent is required to reimburse the Company and its affiliates for 100% of their documented out-of-pocket expenses up to US\$5 million actually incurred by any of them in connection with the merger agreement and the transactions contemplated thereunder, in the event the merger agreement is terminated:

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by the Company, upon a breach by Parent or Merger Sub of any representation, warranty, covenant or agreement under the merger agreement, or if any representation or warranty of Parent and Merger Sub becomes untrue, in either case such that the conditions to the obligations of the Company would not be satisfied and such breach cannot be cured by Parent or Merger Sub by the end date or, if capable of being cured, has not been cured within ten business days following receipt by Parent of written notice from the Company of such breach or before the end date; or

Table of Contents

by the Company, if (i) all the closing conditions to the obligations of Parent and Merger Sub have been satisfied or waived by Parent, (ii) Parent fails to fund the exchange fund within three business days following the date on which the closing was required to have occurred pursuant to the merger agreement, and (iii) the Company has irrevocably notified Parent in writing that all the closing conditions to the obligations of the Company have been satisfied at the closing or waived by the Company and it stands ready, willing and able to consummate the merger during such period; or

by Parent, at the time of such termination, the Company had the right to terminate the merger agreement pursuant to any of the above two items.

Fees and Expenses

All fees and expenses incurred in connection with the merger agreement, the merger and the other transactions contemplated thereby, other than fees and expenses described under the section entitled *The Merger Agreement Termination Fees and Reimbursement of Expenses* above, will be paid by the party incurring such fees and expenses, whether or not the merger or any of the transactions contemplated by the merger agreement are consummated.

Remedies

The Company's right to terminate the merger agreement and receive payment of (i) a termination fee of either US\$18 million or US\$36 million from Parent, (ii) any reimbursement of costs and expenses pursuant to the merger agreement, and/or (iii) any amount in respect of which it is indemnified by Parent in connection with financing assistance provided by it pursuant to the merger agreement, as may be applicable, is the sole and exclusive remedy of the Company against Parent, Merger Sub, their respective affiliates or financing sources for any loss or damage suffered as a result of any such breach or failure to perform under the merger agreement or other failure of the merger to be consummated.

Subject to any equitable remedies Parent may be entitled to, Parent's right to receive payment of (i) a termination fee of US\$18 million, and/or (ii) any reimbursement of costs and expenses pursuant to the merger agreement, as may be applicable, is the sole and exclusive remedy of Parent and Merger Sub against the Company for any loss or damage suffered as a result of any such breach or failure to perform under the merger agreement or other failure of the merger to be consummated.

Parent and Merger Sub are entitled to specific performance of the terms under the merger agreement, including an injunction or injunctions to prevent breaches of the merger agreement and to enforce specifically the terms and provisions of the merger agreement. The Company is not entitled to an injunction or injunctions to prevent breaches of the merger agreement by Parent or Merger Sub or any remedy to enforce specifically the terms and provisions of the merger agreement.

Amendment; Waiver of Conditions

The merger agreement may be amended with the approval of the respective boards of directors of the parties at any time before the effective time of the merger. After receipt of the requisite stockholder approval, no amendment that requires further approval by the stockholders of the Company will be made if such approval has not been obtained. In addition, any amendment, waiver or other modification that is adverse to the financing sources will require the prior written consent of the financing sources for the debt financing.

Table of Contents

At any time before the consummation of the merger, each of the parties to the merger agreement may waive compliance with any of the agreements or conditions contained in the merger agreement to the extent permitted by applicable law.

COMMON STOCK OWNERSHIP OF MANAGEMENT AND CERTAIN**BENEFICIAL OWNERS**

The following table sets forth information regarding beneficial ownership of Company common stock, as of , 2013, the record date for the special meeting, (i) by each person, or group of affiliated persons, known by us to be the beneficial owner of more than 5% of our common stock; (ii) by each of our current directors; (iii) by each of our named executive officers and (iv) by all of our executive officers and directors as a group. Information concerning beneficial ownership was obtained from publicly available filings.

Beneficial ownership is determined according to the rules of the SEC. Beneficial ownership means that a person has or shares voting or investment power of a security. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of our common stock underlying options, warrants or other securities held by that person that are currently exercisable or convertible or that are exercisable or convertible within 60 days after the measurement date are deemed beneficially owned and outstanding, but such shares are not deemed outstanding for purposes of computing percentage ownership of any other person. The following table is based on information supplied by officers, directors and principal stockholders and on Schedules 13D and 13G filed with the SEC. Except as otherwise indicated, we believe that the beneficial owners of our common stock listed below have sole investment and voting power with respect to their shares, subject to community property laws or similar principles. Unless otherwise specified, the address of each of the persons set forth below is in care of AsiaInfo-Linkage, Inc., 4th Floor, Zhongdian Information Tower, 6 Zhongguancun South Street, Haidian District, Beijing 100086, China.

Name & Address of Beneficial Owner	Office, if Any	Amount & Nature of Beneficial Ownership	Percent of Class⁽¹⁾
Jian (James) Ding	Co-Chairman of the Board	1,005,884 ⁽²⁾	1.4%
Suning (Edward) Tian	Director	6,746,373 ⁽³⁾	9.3%
Yungang Lu	Director	55,455 ⁽⁴⁾	*
Davin A. Mackenzie	Director	47,355 ⁽⁵⁾	*
Thomas J. Manning	Director	32,355 ⁽⁶⁾	*
Steve Zhang	Director, President and Chief Executive Officer	236,154 ⁽⁷⁾	*
Libin Sun	Executive Co-Chairman of the Board	12,555,625 ⁽⁸⁾	17.3%
Xiwei Huang	Director	321,024 ⁽⁹⁾	*
Sean Shao	Director	26,342 ⁽¹⁰⁾	*
Jun (Michael) Wu	Executive Vice President and Chief Financial Officer	64,500 ⁽¹¹⁾	*
Yadong Jin	Executive Vice President, Chief Technology Officer and General Manager of Marketing	75,334 ⁽¹²⁾	*
Guoxiang Liu	Executive Vice President	528,374 ⁽¹³⁾	*
All officers and directors as a group (12 persons named above)		21,694,775	29.8%
FMR LLC			
Edward C. Johnson 3d			
82 Devonshire Street, Boston, MA, 02109		7,989,274 ⁽¹⁴⁾	11.0%

Table of Contents

* Less than 1%.

- (1) Calculated based on _____ shares of Company common stock as of the record date that are considered to be outstanding pursuant to SEC Rule 13d-3(d)(1). For each beneficial owner above, any options exercisable within 60 days and any restricted stock units vested within 60 days have been included in the denominator.
- (2) Includes 903,187 shares of Company common stock held directly by Mr. Jian (James) Ding, 96,000 shares held in New Media China Investment I, Ltd., which is wholly owned by Mr. Ding and 6,697 shares underlying restricted stock units that will vest on August 7, 2013.
- (3) Includes 3,154,029 shares of Company common stock held directly by Dr. Suning (Edward) Tian, 4,000 shares held in a revocable trust for the benefit of Dr. Tian's daughter, Stephanie Tian, 1,493,943 shares held by PacificInfo Limited, which is wholly owned by Dr. Tian, 6,697 shares underlying restricted stock units that will vest on August 7, 2013 and 2,087,704 shares held by Dr. Tian's wife, Jean Qin Kong.
- (4) Includes 28,758 shares of Company common stock held directly by Mr. Yungang Lu, 20,000 shares issuable upon exercise of options held by Mr. Lu, and 6,697 shares underlying restricted stock units that will vest on August 7, 2013.
- (5) Includes 40,658 shares of Company common stock held directly by Mr. Davin Mackenzie, and 6,697 shares underlying restricted stock units that will vest on August 7, 2013.
- (6) Includes 25,658 shares of Company common stock held directly by Mr. Thomas J. Manning, and 6,697 shares underlying restricted stock units that will vest on August 7, 2013.
- (7) Includes 104,904 shares of Company common stock held directly by Mr. Steve Zhang, and 131,250 shares issuable upon the exercise of vested options held by Mr. Zhang.
- (8) Includes 12,555,625 shares of Company common stock held directly by LT International Limited, which is wholly owned by Mr. Libin Sun, and 2,000,000 shares of Company common stock are pledged to financial institutions as security for loans to Mr. Sun.
- (9) Includes 314,327 shares of Company common stock held directly by Dr. Xiwei Huang, and 6,697 shares underlying restricted stock units that will vest on August 7, 2013.

Table of Contents

- (10) Includes 19,645 shares of Company common stock held directly by Mr. Sean Shao, and 6,697 shares underlying restricted stock units that will vest on August 7, 2013.
- (11) Includes 35,000 shares of Company common stock held directly by Mr. Jun (Michael) Wu, 22,000 shares issuable upon exercise of options held by Mr. Wu, and 7,500 shares underlying restricted stock units that will vest on August 7, 2013.
- (12) Includes 53,334 shares of Company common stock held by directly Mr. Yadong Jin, and 22,000 shares issuable upon exercise of options held by Mr. Jin.
- (13) Includes 506,374 shares of Company common stock held by directly Mr. Guoxiang Liu, and 22,000 shares issuable upon exercise of options held by Mr. Liu.
- (14) Includes 2,264,705 shares of Company common stock owned by Fidelity Management & Research Company (Fidelity), 496,811 shares of our common stock owned by Impresa Fund III Limited Partnership (Impresa), and 5,227,758 shares owned by FIL Limited (FIL). Edward C. Johnson 3d and FMR LLC, through control of Fidelity, each has sole power to dispose the 2,264,705 shares owned by Fidelity. Northern Neck Investors LLC, a registered investment adviser, is the general partner of Impresa and is owned, directly or indirectly, by various shareholders and employees of Fidelity, including certain members of the family of Edward C. Johnson 3d. Partnerships controlled predominantly by members of the family of Edward C. Johnson 3d, Chairman of FMR LLC and FIL, or trusts for their benefit, own shares of FIL voting stock normally representing more than 25% and less than 50% of the total votes which may be cast by all holders of FIL voting stock. FMR LLC and FIL are separate and independent corporate entities, and their boards of directors are generally composed of different individuals.

Changes in Control

Except for the proposed merger, there are currently no other arrangements known to us, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of the Company.

COMMON STOCK TRANSACTION INFORMATION

The Company has not made any underwritten public offering of Company common stock for cash during the past three years that was registered under the Securities Act or exempt from registration under Regulation A of the Securities Act.

On January 30, 2011, the Company announced the authorization of a stock repurchase program, under which the Company may, from time to time for a period of twelve months, depending on market conditions, share price and other factors, make one or more purchases, on the open market or in privately negotiated transactions, of up to US\$60.0 million in the aggregate value of the Company's outstanding common stock. As of June 30, 2011, the Company repurchased 3,166,500 shares of its common stock at a total cost of approximately US\$60.0 million pursuant to this repurchase program. The Company has determined that it has completed the repurchases pursuant to the program. No stock was repurchased by the Company during 2012 and 2013. All common stock repurchased by the Company has become part of its treasury stock. The table below is a summary of Company common stock repurchased by us during the year ended December 31, 2011.

Table of Contents

Period	Total Number of Average Price Paid		Maximum Dollar	
	Shares Purchased	per Share	Total Dollar Value of Shares Purchased as Part of Publicly Announced Plans or Programs (in thousands)	Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
January 1, 2011 to January 31, 2011				\$ 60,000
February 1, 2011 to February 28, 2011				\$ 60,000
March 1, 2011 to March 31, 2011	248,900	\$ 19.9123	\$ 4,956	\$ 55,044
April 1, 2011 to April 30, 2011	773,200	\$ 19.4529	\$ 15,041	\$ 40,003
May 1, 2011 to May 31, 2011	1,284,200	\$ 19.4674	\$ 25,000	\$ 15,003
June 1, 2011 to June 30, 2011	860,200	\$ 17.4378	\$ 15,000	\$ 3

The following table shows purchases of Company common stock during the past two years effected by the members of the buyer group parties, showing the number of shares of Company common stock purchased, the range of prices paid for those shares and the average price paid per quarter:

Buyer Group Party	Quarter	Total Number	Price Range of	Average Price
		of Shares Purchased	Prices Paid (US\$)	Paid per Share (US\$)
Jian (James) Ding	3 rd , 2011	27,300	10.9529	10.9529
Suning (Edward) Tian	3 rd , 2011	97,000	8.9885-10.96	9.9743
Power Joy	4 th , 2011	3,282,800	6.9867-11.1198	8.3391

Other than the transactions listed above in this section and Company common stock acquired pursuant to options to purchase shares of Company common stock and restricted stock units, there have been no prior stock purchases of Company common stock by any member of the buyer group parties during the past two years.

APPRAISAL RIGHTS

Under the DGCL, holders of shares of Company common stock who follow the procedures set forth in Section 262 of the DGCL will be entitled to have their shares appraised by the Delaware Court of Chancery and to receive payment in cash of the fair value of those shares, exclusive of any element of value arising from the accomplishment or expectation of the merger. In order to exercise and perfect appraisal rights, a record holder of shares of Company common stock must comply with the conditions established by Section 262 of the DGCL, which are summarized below, properly and in a timely manner.

Section 262 of the DGCL is reprinted in its entirety as Annex I to this proxy statement. Set forth below is a summary description of Section 262 of the DGCL. The following summary describes certain aspects of Section 262 of the DGCL, and the law relating to appraisal rights, but it is not a complete statement of the law relating to appraisal rights and is qualified in its entirety by reference to Annex I. Except as otherwise noted, all references in Section 262 of the DGCL and this summary to stockholder are to the record holder of shares of Company common stock. Failure to comply strictly with the procedures set forth in Section 262 of the DGCL will result in the loss of appraisal rights.

Under Section 262 of the DGCL, when a merger agreement relating to a proposed merger is to be submitted for adoption at a meeting of stockholders, as in the case of the special meeting, the corporation, not less than 20 days prior to such meeting, must notify each of its stockholders who was a stockholder on the record date for notice of such meeting with respect to such shares for which appraisal rights are available, that appraisal rights are so available, and must include in each such notice a copy of Section 262 of the DGCL. This proxy statement constitutes such notice to the holders of Company common stock and Section 262 of the DGCL is attached to this proxy statement as Annex I and incorporated herein by reference. Any stockholder who wishes to exercise such appraisal rights or who wishes to preserve his or her right to do so should review the following discussion and Annex I carefully, because failure to timely and properly comply with the procedures specified will result in the loss of appraisal rights under the DGCL.

Table of Contents

If you wish to exercise appraisal rights you must not vote for the adoption of the merger agreement and must deliver to the Company, before the vote on the proposal to adopt the merger agreement, a written demand for appraisal of your shares of Company common stock. If you sign and return a proxy card or vote by submitting a proxy by telephone or the Internet, without abstaining or expressly directing that your shares of Company common stock be voted against the adoption of the merger agreement, you will effectively waive your appraisal rights because such shares represented by the proxy will be voted for the adoption of the merger agreement. Accordingly, if you desire to exercise and perfect appraisal rights with respect to any of your shares of Company common stock, among other things, you must either refrain from executing and returning the enclosed proxy card and from voting in person, or submitting a proxy by telephone or the Internet, in favor of the proposal to adopt the merger agreement or check either the against or the abstain box next to the proposal on such card or vote in person or by submitting a proxy by telephone or the Internet, against the proposal or register in person an abstention with respect thereto. A vote or proxy against the adoption of the merger agreement will not, in and of itself, constitute a demand for appraisal.

A demand for appraisal will be sufficient if it reasonably informs the Company of the identity of the stockholder and that such stockholder intends thereby to demand appraisal of such stockholder's shares of Company common stock. This written demand for appraisal must be separate from any proxy or vote abstaining from or voting against the adoption of the merger agreement. If you wish to exercise your appraisal rights you must be the record holder of such shares of Company common stock on the date the written demand for appraisal is made and you must continue to hold such shares through the effective time of the merger. Accordingly, a stockholder who is the record holder of shares of Company common stock on the date the written demand for appraisal is made, but who thereafter transfers such shares prior to the effective time of the merger, will lose any right to appraisal in respect of such shares.

Only a holder of record of Company common stock is entitled to assert appraisal rights for such shares of Company common stock registered in that holder's name. A demand for appraisal should be executed by or on behalf of the holder of record, fully and correctly, as the holder's name appears on the stock certificates or in the case of uncertificated shares, as the holder's name appears on the stock ledger, and must state that such person intends thereby to demand appraisal of his, her or its shares. If the shares are owned of record in a fiduciary capacity, such as by a broker, dealer, commercial bank, trust company or other nominee, execution of the demand for appraisal should be made in that capacity, and if the shares are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all joint owners. An authorized agent, including one for two or more joint owners, may execute the demand for appraisal on behalf of a holder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, it, he or she is acting as agent for such owner or owners.

A record holder such as a broker, dealer, commercial bank, trust company or other nominee who holds shares as nominee for several beneficial owners may exercise appraisal rights with respect to the shares of Company common stock held for one or more beneficial owners while not exercising such rights with respect to the shares held for other beneficial owners; in such case, the written demand should set forth the number of shares as to which appraisal is sought. If the number of shares of Company common stock is not expressly stated, the demand will be presumed to cover all shares held in the name of the record owner. If a beneficial owner holds shares in an account with a broker, dealer, commercial bank, trust company or other nominee and wishes to exercise appraisal rights, the beneficial owner is urged to consult with the broker, dealer, commercial bank, trust company or other nominee to determine the appropriate procedures for the making of a demand for appraisal and must act promptly to cause the record holder to follow the required steps promptly and in a timely manner to perfect appraisal rights.

All written demands for appraisal of shares of Company common stock must be mailed or delivered to: AsiaInfo-Linkage, Inc., 4th Floor, Zhongdian Information Tower, 6 Zhongguancun South Street, Haidian District, Beijing 100086, PRC, Attn: Corporate Secretary.

Within ten days after the effective time of the merger, we will notify each stockholder who properly perfected appraisal rights under Section 262(d)(1) of the DGCL and has not voted for the adoption of the merger agreement of the effective time of the merger. Within 120 days after the effective time of the merger, but not thereafter, we or any stockholder who has complied with the required conditions of Section 262 of the DGCL may commence an appraisal proceeding by filing a petition in the Court of Chancery, with a copy served on the Company in the case of a petition filed by a stockholder, demanding a determination of the fair value of the shares of Company common stock of all dissenting stockholders. If no such petition is filed, appraisal rights will be lost for all stockholders who had previously demanded appraisal of their shares. We are not under any obligation, and we have no present intention, to file a petition with respect to appraisal of the fair value of the shares. Accordingly, if you wish to exercise your appraisal rights, you should regard it as your obligation to take all steps and initiate any petitions necessary to perfect your appraisal rights within the time periods and in the manner prescribed in Section 262 of the DGCL.

Table of Contents

Within 120 days after the effective time of the merger, any stockholder who has complied with the provisions of Section 262 of the DGCL will be entitled, upon written request, to receive from us a statement setting forth the aggregate number of shares of Company common stock not voted in favor of the adoption of the merger agreement and with respect to which demands for appraisal were received by us, and the number of holders of such shares. Such statement must be mailed within ten days after the written request therefor has been received by us or within ten days after expiration of the period for delivery of appraisal demands, whichever is later. A person who is the beneficial owner of Company common stock held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file an appraisal petition or request from us the statement described in this paragraph.

If a petition for an appraisal is timely filed by a stockholder and a copy thereof served upon us, we will then be obligated, within 20 days after such service, to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of the stockholders who have demanded appraisal of their shares and with whom agreements as to the value of their shares have not been reached. After notice to the stockholders as required by the Court of Chancery, the Court of Chancery is empowered to conduct a hearing on such petition to determine those stockholders who have complied with Section 262 of the DGCL and who have become entitled to appraisal rights thereunder. The Court of Chancery may require the stockholders who demanded appraisal rights of their shares of Company common stock and who hold stock represented by certificates to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceeding; and if any stockholder fails to comply with such direction, the Court of Chancery may dismiss the proceedings as to such stockholder.

After the Court of Chancery determines which stockholders are entitled to appraisal, the appraisal proceeding shall be conducted in accordance with the rules of the Court of Chancery, including any rules specifically governing appraisal proceedings. Through such proceeding, the Court of Chancery shall determine the fair value of the shares exclusive of any element of value arising from the accomplishment or expectation of the merger, together with interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court of Chancery shall take into account all relevant factors. Unless the Court of Chancery in its discretion determines otherwise for good cause shown, interest from the effective time of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective time of the merger and the date of payment of the judgment. If you are considering seeking appraisal, you should be aware that the fair value of your shares as determined under Section 262 of the DGCL could be more than, the same as or less than the merger consideration you would otherwise be entitled to receive pursuant to the merger agreement if you did not seek appraisal of your shares and that investment banking opinions as to the fairness from a financial point of view of the merger consideration payable in the merger are not necessarily opinions as to fair value under Section 262 of the DGCL. Moreover, we do not anticipate offering more than the merger consideration to any stockholder exercising appraisal rights, and we reserve the right to assert, in any appraisal proceeding, that, for purposes of Section 262 of the DGCL, the fair value of a share of Company common stock is less than the merger consideration. In determining fair value of shares, the Court of Chancery will take into account all relevant factors. In Weinberger v. UOP, Inc., the Delaware Supreme Court has stated that such factors could include market value, asset value, dividends, earning prospects, the nature of the enterprise and any other facts which were known or which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. In Weinberger, the Delaware Supreme Court stated, among other things, that proof of value by any techniques or methods generally considered acceptable in the financial community and otherwise admissible in court should be considered in an appraisal proceeding.

The costs of the appraisal proceeding (which do not include attorneys' fees or expert fees or expenses) may be determined by the Court of Chancery and taxed upon the parties as the Court of Chancery deems equitable. Each dissenting stockholder is responsible for his or her attorneys' and expert witness fees and expenses, although, upon application of a dissenting stockholder, the Court of Chancery may also order that all or a portion of the expenses incurred by any stockholder in connection with an appraisal, including without limitation reasonable attorneys' fees and the fees and expenses of experts utilized in the appraisal proceeding, be charged pro rata against the value of all of the shares entitled to appraisal.

Table of Contents

Any stockholder who has duly demanded and perfected an appraisal in compliance with Section 262 of the DGCL will not, after the effective time of the merger, be entitled to vote his or her shares for any purpose or be entitled to the payment of dividends or other distributions thereon, except dividends or other distributions payable to holders of record of shares of Company common stock as of a date prior to the effective time of the merger.

At any time within 60 days after the effective time of the merger, any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party will have the right to withdraw his or her demand for appraisal and to accept the cash payment for his or her shares pursuant to the merger agreement. After this period, a stockholder may withdraw his or her demand for appraisal only with our written consent. If no petition for appraisal is filed with the Court of Chancery within 120 days after the effective time of the merger, stockholders' rights to appraisal will cease and all holders of shares of Company common stock will be entitled to receive the consideration offered pursuant to the merger agreement. No petition timely filed in the Court of Chancery demanding appraisal will be dismissed as to any stockholder without the approval of the Court of Chancery and such approval may be conditioned on such terms as the Court of Chancery deems just; provided, however, that any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party may withdraw his, her or its demand for appraisal and accept the merger consideration offered pursuant to the merger agreement within 60 days after the effective time of the merger.

If you properly demand appraisal of your shares of Company common stock under Section 262 of the DGCL and you fail to perfect, or effectively withdraw or lose, your right to appraisal, as provided in the DGCL, your shares of Company common stock will be converted into the right to receive the merger consideration.

If you desire to exercise your appraisal rights, you must not vote for adoption of the merger agreement and must strictly comply with the procedures set forth in Section 262 of the DGCL.

Failure to take any required step in connection with the exercise of appraisal rights will result in the termination or waiver of such rights.

In view of the complexity of Section 262 of the DGCL, stockholders who may wish to dissent from the merger and pursue appraisal rights should consult their legal advisors.

Table of Contents**SELECTED FINANCIAL INFORMATION****Selected Historical Financial Information**

Set forth below is certain selected historical consolidated financial data relating to the Company. The financial data has been derived from the audited financial statements filed as part of our Annual Report on Form 10-K for the year ended December 31, 2012 and the unaudited financial statements filed as part of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013. The information set forth below is not necessarily indicative of future results and should be read in conjunction with the financial statements and the related notes and other financial information contained in such Form 10-K and Form 10-Q. See *Where You Can Find More Information*.

	Three Months Ended March 31,		Year Ended December 31,	
	2013	2012	2012	2011
<i>(U.S. dollars in thousands, except per share amounts)</i>				
Statement of Operations Data:				
Total revenues	\$ 143,025	\$ 123,697	\$ 547,872	\$ 480,984
Gross profit	49,636	48,434	214,108	207,889
Income from continuing operations	11,522	5,426	29,724	72,896
Net income	12,675	5,419	29,953	72,986
Earnings per share from continuing operations (basic)	\$ 0.18	\$ 0.09	\$ 0.45	\$ 1.02
Earnings per share from continuing operations (diluted)	0.18	0.09	0.45	1.01
Net income per share (basic)	0.19	0.09	0.45	1.02
Net income per share (diluted)	0.19	0.09	0.45	1.01
Balance Sheet Data (at period end):				
Total current assets	\$ 700,744	\$ 680,713	\$ 683,991	\$ 643,673
Total non-current assets	594,154	620,571	598,332	626,488
Total assets	1,294,898	1,301,284	1,282,323	1,270,161
Total current liabilities	242,403	288,536	247,453	264,488
Total long term liabilities	20,798	28,472	20,018	28,375
Redeemable noncontrolling interest	(4,342)	(299)	(3,488)	385
Total equity	1,036,039	984,575	1,018,340	976,913

Ratio of Earnings to Fixed Charges

	March 31,		
	2013	December 31, 2012	December 31, 2011
Ratio of Earnings to Fixed Charges ⁽¹⁾	N/A	1582.21	N/A

(1) In calculating the ratio of earnings to fixed charges, the Company used the following definitions:

The term *fixed charges* means the sum of the following: (a) interest expense and capitalized; (b) amortized premiums, discounts, and capitalized expenses related to indebtedness; (c) an estimate of the interest within rental expense; and (d) preference security dividend requirements of consolidated subsidiaries.

The term *earnings* is the amount resulting from adding the following items: (a) pre-tax income from continuing operations before adjustment for income or loss from equity investees; (b) fixed charges; (c) amortization of capitalized interest, (d) distributed income of equity investees; and (e) the Company's share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges, and subtracting the following items: (i) interest capitalized; (ii) preference security dividend requirements of consolidated subsidiaries; and (iii) the minority interest in pre-tax income of subsidiaries that have not incurred fixed charges.

Table of Contents

The Ratio of Earnings to Fixed Charges should be read in conjunction with the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations filed with the Company's Annual Report on Form 10-K and Quarterly Report on Form 10-Q for the relevant periods.

Net Book Value per Share of Company Common Stock

The net book value per diluted share of Company common stock as of March 31, 2013 and December 31, 2012 was US\$14.22 and US\$13.99, respectively, computed by dividing stockholders' equity at the end of such period by the weighted average number of shares of Company common stock outstanding.

No separate financial information is provided for Parent because Parent is a newly formed entity formed in connection with the merger and has no independent operations. No pro forma data giving effect to the merger has been provided. The Company does not believe that such information is material to stockholders in evaluating the proposed merger and merger agreement because (i) the proposed merger consideration is all-cash, and (ii) if the merger is completed, Company common stock will cease to be publicly traded.

MARKET PRICE AND DIVIDEND INFORMATION

The Company common stock is listed for trading on the NASDAQ Global Market under the symbol ASIA. The following table sets forth the quarterly high and low sales prices of a share of Company common stock as reported by the NASDAQ Global Market for the periods indicated. The quotations listed below reflect inter-dealer prices, without retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

	Closing Bid Prices	
	High	Low
<i>Year Ended December 31, 2011</i>		
1st Quarter	US\$ 21.92	US\$ 17.00
2nd Quarter	22.91	13.49
3rd Quarter	17.65	7.10
4th Quarter	11.70	6.21
<i>Year Ended December 31, 2012</i>		
1st Quarter	US\$ 13.85	US\$ 7.53
2nd Quarter	12.90	9.52
3rd Quarter	12.64	10.09
4th Quarter	11.66	9.92
<i>Year Ended December 31, 2013</i>		
1st Quarter	US\$ 12.03	US\$ 10.68
2 nd Quarter	11.81	11.34
3 rd Quarter (through July 22, 2013)	11.69	11.59

If the merger is closed, there will be no further market for shares of Company common stock and shares of Company common stock will be delisted from the NASDAQ Global Market and deregistered under the Exchange Act.

The Company has never paid dividends. **Accordingly, we do not expect to declare or pay any further dividends prior to the merger, and under the terms of the merger agreement, are prohibited from doing so.**

On May 10, 2013, the last full trading day prior to the public announcement of the terms of the offer and the merger, the reported closing sales price per share on the NASDAQ Global Market was US\$11.68. On the record date, the closing price per share was US\$. You are encouraged to obtain current market quotations for shares of Company common stock in connection with voting your shares of Company common stock.

As of the record date, there were approximately record holders of shares of Company common stock.

Table of Contents

PROPOSAL TWO MERGER-RELATED COMPENSATION

Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Rule 14a-21(c) under the Exchange Act require that the Company seek an advisory, non-binding vote from its stockholders to approve certain compensation and benefits that its named executive officers are entitled to receive based on or otherwise related to the merger. This vote is commonly referred to as a say on golden parachute vote. In this case, potential compensation includes the value of benefits that would result from (i) the consummation of the merger or (ii) as a consequence of the named executive officer's termination of employment on or before the one year anniversary of the merger, as described above and in *Merger-Related Compensation for the Company's Named Executive Officers* beginning on page 80. Approval, on an advisory, non-binding basis, of the proposal requires the affirmative vote of the holders of a majority of shares of Company common stock present in person or represented by proxy and entitled to vote on the matter. Accordingly, the Company is asking you to approve the following resolution:

RESOLVED, that the stockholders approve, on an advisory, non-binding basis, the agreements or understandings with and items of compensation payable to, or which may become payable to, the named executive officers of the Company that are based on or otherwise relate to the merger, as disclosed in the section of this proxy statement entitled *Merger-Related Compensation for the Company's Named Executive Officers*.

The vote on the payment of merger-related compensation is a vote separate and apart from the vote to adopt the merger agreement. Accordingly, you may vote in favor of the adoption of the merger agreement and not in favor the merger-related compensation proposal, or vice versa. Approval of this proposal is not a condition to completion of the merger, and the vote with respect to this proposal is advisory only and will not be binding on the Company, Parent or Merger Sub. Furthermore, because this advisory vote primarily relates to compensation that has already been paid or contractually committed to our named executive officers, there is generally no opportunity for us to revisit these decisions. If the merger agreement is adopted and the merger is completed, the named executive officers will become entitled to the compensation and benefits described herein regardless of the outcome of this advisory vote.

Our board of directors recommends that you approve the compensation and benefit arrangements described in this section of the proxy statement by voting FOR the above proposal.

PROPOSAL THREE ADJOURNMENT OF THE SPECIAL MEETING

If there are insufficient votes at the time of the special meeting to adopt the merger agreement, we may propose to adjourn the special meeting for the purpose of soliciting additional proxies to adopt the merger agreement. We currently do not intend to propose adjournment at the special meeting if there are sufficient votes to adopt the merger agreement. If approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement is submitted to our stockholders for approval, such approval requires the affirmative vote of the holders of a majority of the shares of Company common stock present in person or represented by proxy and entitled to vote at the special meeting as of the record date, whether or not a quorum is present.

Our board of directors recommends that you vote FOR the proposal to adjourn or postpone the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the merger agreement.

OTHER MATTERS

Other Matters for Action at the Special Meeting

As of the date of this proxy statement, our board of directors knows of no other matters which may be presented for consideration at the special meeting. However, if any other matter is presented properly for consideration and action at the meeting or any adjournment or postponement thereof, it is intended that the proxies will be voted with respect thereto in accordance with the best judgment and in the discretion of the proxy holders.

Table of Contents

Submission of Stockholder Proposals

If the merger is completed, we will cease to have public stockholders and there will be no public participation in any future meeting of stockholders. However, if the merger is not completed, we expect to hold our 2014 annual meeting of stockholders. If you wish to have a proposal included in our proxy statement for a 2014 annual meeting (assuming that the merger is not completed) in accordance with Rule 14a-8 under the Exchange Act, your proposal must have been received by our Corporate Secretary at 4th Floor, Zhongdian Information Tower, 6 Zhongguancun South Street, Haidian District, Beijing 100086, China, no later than 120 calendar days in advance of the one year anniversary of the release of the proxy statement of the Company dated February 28, 2013 to the stockholders. A proposal which is received after that date or which otherwise fails to meet the requirements for stockholder proposals established by the SEC will not be included. Holders of proxies for our 2014 annual meeting of stockholders may exercise discretionary authority on any matter for which we do not receive notice prior to 45 calendar days in advance of the one year anniversary of the date the proxy statement of the Company dated February 28, 2013 to the stockholders was first sent to stockholders.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement contains forward-looking statements that involve risks, uncertainties and assumptions. If such risks or uncertainties materialize or such assumptions prove incorrect, the results of the Company and its consolidated subsidiaries and actual results of matters related to the merger could differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. In many cases you can identify forward-looking statements by the use of words such as believe, anticipate, intend, plan, estimate, may, could, predict, project, expect and similar expressions, although the absence of such words does not necessarily mean that a statement is not forward-looking.

You should be aware that forward-looking statements involve known and unknown risks and uncertainties. We cannot assure you that the actual results or developments reflected in these forward-looking statements will be realized or, even if they are realized, that they will have the expected effects on the merger or on our business or operations. These forward-looking statements speak only as of the date on which the statements were made, and we assume no obligation and do not intend to update these forward-looking statements, except as required by law.

Risks, uncertainties and assumptions include the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement; the possibility that various closing conditions for the merger (including the requisite stockholder approval of the merger) may not be satisfied or waived; the possibility that alternative acquisition proposals will or will not be made; the failure to obtain sufficient funds to close the merger; the failure of the merger to close for any other reason; the amount of fees and expenses related to the merger; the diversion of management's attention from ongoing business concerns; the effect of the announcement of the merger on our business relationships, operating results and business generally, including our ability to retain key employees; the merger agreement's contractual restrictions on the conduct of our business prior to the completion of the merger; the possible adverse effect on our business and the price of our common stock if the merger is not completed in a timely matter or at all; the outcome of any legal proceedings, regulatory proceedings or enforcement matters that have been or may be instituted against us; the clearance under the PRC Anti-Monopoly Law in respect of the merger may not be obtained; and others relating to the merger and other risks that are set forth in the Company's filings with the SEC, which are available without charge at www.sec.gov.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act, as amended. We file reports, proxy statements and other information with the SEC. You may read and print these reports, proxy statements and other information at www.sec.gov, an Internet website maintained by the SEC that contains reports, proxy statements and other information regarding companies and individuals that file electronically with the SEC.

You also may obtain free copies of the documents the Company files with the SEC by going to the Investor Relations section of our website at www.asiainfo-linkage.com. Our website address is provided as an inactive textual reference only. The information provided on our website is not part of this proxy statement, and therefore is not incorporated by reference.

The information contained in this proxy statement speaks only as of the date indicated on the cover of this proxy statement unless the information specifically indicates that another date applies.

Statements contained in this proxy statement, or in any document incorporated in this proxy statement by reference, regarding the contents of any contract or other document, are not necessarily complete and each such statement is qualified in its entirety by reference to that contract or other document filed as an exhibit with the SEC. The SEC allows us to incorporate by reference information into this proxy statement. This means that we can disclose important information by referring to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this proxy statement. This proxy statement and the information that we later file with the SEC may update and supersede the information incorporated by reference. Similarly, the information that we later file with the SEC may update and supersede the information in this proxy statement. We also incorporate by reference into this proxy statement the following documents filed by us with the SEC under the Exchange Act:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2012;

Table of Contents

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013; and

our Current Reports on Form 8-K filed on March 25, 2013, March 28, 2013, April 29, 2013, May 13, 2013, May 21, 2013 and May 24, 2013.

Notwithstanding the foregoing, information furnished under Items 2.02 and 7.01 of any Current Report on Form 8-K, including the related exhibits, is not incorporated by reference in this proxy statement.

We undertake to provide without charge to each person to whom a copy of this proxy statement has been delivered, upon request, by first class mail or other equally prompt means, within one business day of receipt of the request, a copy of any or all of the documents incorporated by reference into this proxy statement, other than the exhibits to these documents, unless the exhibits are specifically incorporated by reference into the information that this proxy statement incorporates.

Requests for copies of our filings should be directed to AsiaInfo-Linkage, Inc., 4th Floor, Zhongdian Information Tower, 6 Zhongguancun South Street, Haidian District, Beijing 100086, China, Attention: Corporate Secretary, and should be made at least five business days before the date of the special meeting in order to receive them before the special meeting.

The proxy statement does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is not lawful to make any offer or solicitation in that jurisdiction. The delivery of this proxy statement should not create an implication that there has been no change in our affairs since the date of this proxy statement or that the information herein is correct as of any later date.

You should rely only on the information contained in this proxy statement. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this proxy statement does not extend to you. You should not assume that the information contained in this proxy statement is accurate as of any date other than the date of this proxy statement, unless the information specifically indicates that another date applies. The mailing of this proxy statement to our stockholders does not create any implication to the contrary.

Table of Contents

Annex A

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER
among
SKIPPER LIMITED,
SKIPPER ACQUISITION CORPORATION
and
ASIAINFO-LINKAGE, INC.
Dated as of May 12, 2013

A-1

Table of Contents

TABLE OF CONTENTS

	Page
ARTICLE I	
DEFINED TERMS	
Section 1.01	A-7
Section 1.02	A-18
Section 1.03	A-19
ARTICLE II	
THE MERGER	
Section 2.01	A-20
Section 2.02	A-20
Section 2.03	A-20
Section 2.04	A-20
Section 2.05	A-21
ARTICLE III	
CONVERSION OF SECURITIES; MERGER CONSIDERATION	
Section 3.01	A-21
Section 3.02	A-22
Section 3.03	A-25
Section 3.04	A-25
Section 3.05	A-28
ARTICLE IV	
REPRESENTATIONS AND WARRANTIES OF THE COMPANY	
Section 4.01	A-29
Section 4.02	A-29
Section 4.03	A-29
Section 4.04	A-31
Section 4.05	A-32
Section 4.06	A-32
Section 4.07	A-33
Section 4.08	A-35
Section 4.09	A-35
Section 4.10	A-35
Section 4.11	A-39
Section 4.12	A-39
Section 4.13	A-41

Table of Contents

Section 4.14	Environmental Matters	A-42
Section 4.15	Material Contracts	A-43
Section 4.16	Insurance	A-45
Section 4.17	Opinion of Financial Advisor	A-46
Section 4.18	Brokers	A-46
Section 4.19	Customers	A-46
Section 4.20	Compliance with Anti-Corruption and Trade Sanction Laws	A-47
Section 4.21	Privacy	A-47
Section 4.22	No Additional Representations	A-47

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Section 5.01	Corporate Organization	A-48
Section 5.02	Certificate of Incorporation and Bylaws	A-48
Section 5.03	Capitalization	A-48
Section 5.04	Authority Relative to This Agreement	A-49
Section 5.05	No Conflict; Required Filings and Consents	A-49
Section 5.06	Operations of Merger Sub	A-50
Section 5.07	Absence of Litigation	A-50
Section 5.08	Available Funds and Financing	A-50
Section 5.09	Limited Guarantees	A-52
Section 5.10	Brokers	A-52
Section 5.11	Solvency	A-52
Section 5.12	Ownership of Company Shares	A-52
Section 5.13	Independent Investigation	A-53
Section 5.14	Buyer Group Contracts	A-53
Section 5.15	Non-Reliance on Company Estimates	A-53
Section 5.16	No Other Representations or Warranties	A-54

ARTICLE VI

CONDUCT OF BUSINESS PENDING THE MERGER

Section 6.01	Conduct of Business by the Company Pending the Merger	A-54
Section 6.02	Conduct of Business by Parent and Merger Sub Pending the Merger	A-58
Section 6.03	No Control of Other Party's Business	A-58

ARTICLE VII

ADDITIONAL AGREEMENTS

Section 7.01	Proxy Statement and Schedule 13E-3	A-58
Section 7.02	Company Stockholders' Meeting	A-60
Section 7.03	No Solicitation of Transactions; Company Board Recommendation; Alternative Acquisition Agreement	A-60
Section 7.04	Access to Information; Confidentiality	A-64
Section 7.05	Employee Benefits Matters	A-65

Table of Contents

Section 7.06	Directors and Officers Indemnification and Insurance	A-66
Section 7.07	Notification of Certain Matters	A-68
Section 7.08	Reasonable Best Efforts; Further Action	A-68
Section 7.09	Obligations of Merger Sub	A-70
Section 7.10	Public Announcements	A-70
Section 7.11	Stock Exchange Delisting	A-70
Section 7.12	Section 16 Matters	A-70
Section 7.13	Takeover Statute	A-71
Section 7.14	Resignations	A-71
Section 7.15	Participation in Litigation	A-71
Section 7.16	Financing	A-71
Section 7.17	Financing Assistance	A-73
Section 7.18	Bank Consent	A-74
Section 7.19	No Amendment to Buyer Group Contracts	A-74

ARTICLE VIII

CONDITIONS TO THE MERGER

Section 8.01	Conditions to the Obligations of Each Party	A-75
Section 8.02	Conditions to the Obligations of Parent and Merger Sub	A-75
Section 8.03	Conditions to the Obligations of the Company	A-76

ARTICLE IX

TERMINATION, AMENDMENT AND WAIVER

Section 9.01	Termination	A-76
Section 9.02	Effect of Termination	A-79
Section 9.03	Fees and Expenses	A-79
Section 9.04	Amendment	A-82
Section 9.05	Waiver	A-82

ARTICLE X

GENERAL PROVISIONS

Section 10.01	Non-Survival of Representations, Warranties, Covenants and Agreements	A-82
Section 10.02	Notices	A-83
Section 10.03	Severability	A-84
Section 10.04	Entire Agreement; Assignment	A-84
Section 10.05	Parties in Interest	A-85
Section 10.06	Specific Performance	A-85
Section 10.07	Governing Law	A-85
Section 10.08	Counterparts	A-85
Section 10.09	Waiver of Jury Trial	A-86

Table of Contents

Exhibits

Exhibit A Certificate of Incorporation

Company Disclosure Schedule

Parent Disclosure Schedule

A-5

Table of Contents

AGREEMENT AND PLAN OF MERGER, dated as of May 12, 2013 (this **Agreement**), among Skipper Limited, a Cayman Islands exempted company with limited liability (**Parent**), Skipper Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Parent (**Merger Sub**), and AsiaInfo-Linkage, Inc., a Delaware corporation (the **Company**).

WHEREAS, upon the terms and subject to the conditions of this Agreement and in accordance with the DGCL, Parent, Merger Sub and the Company have agreed to enter into a business combination transaction pursuant to which Merger Sub will merge with and into the Company, with the Company continuing as the Surviving Corporation (the **Merger**);

WHEREAS, the Company Board, acting upon the recommendation of the Special Committee, has (a) determined that the Merger is advisable and fair to, and in the best interests of, the Company and its stockholders (other than the holders of the Excluded Shares), (b) approved this Agreement and declared its advisability and (c) resolved to recommend the adoption of this Agreement by the stockholders of the Company and directed that this Agreement be submitted for consideration by the stockholders of the Company at the Company Stockholders Meeting;

WHEREAS, the board of directors of each of Parent and Merger Sub has (a) approved the execution, delivery and performance by Parent and Merger Sub, as the case may be, of this Agreement and consummation of the Transactions, including the Merger and (b) declared it advisable for Parent and Merger Sub, as the case may be, to enter into this Agreement;

WHEREAS, concurrently with the execution and delivery of this Agreement, and as a condition and inducement to Parent's and Merger Sub's willingness to enter into this Agreement, (a) the Rollover Stockholders have executed and delivered to Parent a rollover agreement, dated as of the date hereof, among the Rollover Stockholders, HoldCo, Parent and Merger Sub (together with the schedules and exhibits attached thereto, the **Rollover Agreement**), pursuant to which the Rollover Stockholders will contribute to Parent, subject to the terms and conditions therein, the Rollover Shares, and (b) the Voting Stockholders have executed and delivered to Parent a voting agreement, dated as of the date hereof, among such Voting Stockholders, HoldCo, Parent and Merger Sub, pursuant to which such Voting Stockholders agreed to vote their shares of the Company Common Stock in favor of the adoption of this Agreement (the **Voting Agreement**); and

WHEREAS, concurrently with the execution and delivery of this Agreement, and as a condition to the Company's willingness to enter into this Agreement, Parent has delivered to the Company a limited guarantee or a similar agreement executed by the Sponsors or Affiliates thereof identified on Schedule A of the Parent Disclosure Schedule (**Guarantors**), dated as of the date hereof, in favor of the Company with respect to certain obligations of Parent and Merger Sub under this Agreement (collectively, the **Limited Guarantees**).

Table of Contents

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound hereby, Parent, Merger Sub and the Company hereby agree as follows:

ARTICLE I

DEFINED TERMS

Section 1.01 Certain Defined Terms. For purposes of this Agreement:

2012 Balance Sheet means the audited consolidated balance sheet of the Company and its consolidated Subsidiaries as at December 31, 2012, including the notes thereto.

Acceptable Confidentiality Agreement means an executed confidentiality agreement on terms no less favorable to the Company than those contained in the Confidentiality Agreement.

Acquisition Proposal means any offer or proposal (other than an offer or proposal by Parent or Merger Sub) relating to (a) any merger, consolidation, business combination, reorganization, recapitalization or other similar transaction involving the Company pursuant to which the stockholders of the Company immediately preceding such transaction would hold less than 90% of the voting equity interests in the surviving or resulting entity of such transaction or the parent of such surviving or resulting entity; (b) any direct or indirect sale, lease, license, exchange, transfer or other disposition of assets or businesses (including by sale, lease, license, exchange, transfer or other disposition of any equity securities of any Subsidiary of the Company) that constitute or represent more than 10% of the fair market value of the assets of the Company and its Subsidiaries, taken as a whole, or to which more than 10% of the revenues of the Company and its Subsidiaries, taken as a whole, are attributable; (c) any sale, exchange, transfer or other disposition of more than 10% of any class of equity securities, or securities convertible into or exchangeable for equity securities, of the Company; (d) any tender offer (including a self-tender offer) or exchange offer that, if consummated, would result in any Person or group of Persons becoming the beneficial owner of more than 10% of the Shares; (e) any liquidation, dissolution, recapitalization, extraordinary dividend or other significant corporate reorganization of the Company or any of its Subsidiaries that constitutes or represents more than 10% of the fair market value of the assets of the Company and its Subsidiaries, taken as a whole, or to which more than 10% of the revenues of the Company and its Subsidiaries, taken as a whole, are attributable; or (f) any combination of the foregoing types of transactions that would result in any Person or group of Persons beneficially owning assets that constitute or represent more than 10% of the fair market value of the assets of the Company and its Subsidiaries, taken as a whole, or to which more than 10% of the revenues of the Company and its Subsidiaries, taken as a whole, are attributable.

Action means any litigation, suit, claim, action, proceeding or investigation.

Table of Contents

Affiliate of a Person means a Person who, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, such Person.

Alternative Acquisition Agreement means a letter of intent, agreement in principle, term sheet, merger agreement, acquisition agreement, option agreement or other contract, commitment or agreement relating to any Acquisition Proposal (other than an Acceptable Confidentiality Agreement).

beneficial owner , with respect to any Shares, has the meaning ascribed to such term under Rule 13d-3 of the Exchange Act.

Business Day means any day other than a Saturday or Sunday and other than a day on which banks are not required or authorized to close in Beijing, Hong Kong or the City of New York.

Buyer Group Contracts means (a) the Rollover Agreement and the Additional Rollover Agreements (if any), (b) the Voting Agreement and (c) the Consortium Agreement, including all amendments thereto or modifications thereof.

Buyer Group Parties means, collectively, the parties to any of the Buyer Group Contracts, other than Parent and Merger Sub or any of their respective Affiliates.

Closing Date means the date on which the Closing occurs.

Code means the U.S. Internal Revenue Code of 1986, as amended.

Company Board means the board of directors of the Company.

Company Common Stock means the common stock, par value US\$0.01 per share, of the Company.

Company Disclosure Schedule means the disclosure schedule dated as of the date of this Agreement and delivered by the Company to Parent and Merger Sub simultaneously with the signing of this Agreement.

Company Financial Advisor means Goldman Sachs (Asia) L.L.C., which, for purposes of this Agreement, the parties agree is an independent financial advisor of nationally recognized reputation.

Company IT Assets means all IT Assets owned, leased or licensed by the Company or any of its Subsidiaries.

Table of Contents

Company Material Adverse Effect means any Effect that, individually or in the aggregate together with all other Effects, (a) has had or would reasonably be expected to have a material adverse effect on the financial condition, results of operations, business, assets (tangible or intangible), properties or liabilities (including contingent liabilities) of the Company and its Subsidiaries, taken as a whole; provided, however, that no Effect (by itself or when aggregated or taken together with any and all other Effects) directly or indirectly arising out of or resulting from any of the following shall be (x) deemed to be or constitute a Company Material Adverse Effect, or (y) taken into account in determining whether a

Company Material Adverse Effect has occurred or may, would or could occur: (i) changes or modifications in GAAP or regulatory accounting requirements or changes in Laws (or interpretations thereof) applicable to the Company or any of its Subsidiaries; (ii) changes in the industries or markets in which the Company or any of its Subsidiaries operates; (iii) changes in general business, economic, political or financial market conditions; (iv) changes in the financial, credit or securities markets in the U.S., the PRC or any other country or region in which the Company or any of its Subsidiaries has material business operations, including changes in interest rates, foreign exchange rates and sovereign credit ratings; (v) the public disclosure of this Agreement or the Transactions or the consummation of the Transactions or the announcement of the execution of this Agreement, including, without limitation, any stockholder litigation relating to this Agreement; (vi) any change in the price of the Shares or trading volume as quoted on NASDAQ (it being understood that the underlying cause of such change in stock price or trading volume may, except as otherwise provided in the other clauses of this proviso, be taken into account in determining whether a Company Material Adverse Effect has occurred or is reasonably expected to occur); (vii) any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism, acts of God or natural disasters; (viii) actions or omissions taken with the prior written consent of or at the written request of the other parties hereto or expressly permitted or required to be taken by this Agreement; (ix) the failure by the Company or any of its Subsidiaries to meet any internal or industry estimates, expectations, forecasts, projections or budgets for any period (it being understood that the underlying cause of such failure may, except as otherwise provided in the other clauses of this proviso, be taken into account in determining whether a Company Material Adverse Effect has occurred or is reasonably expected to occur); (x) any loss of, or change in, the relationship of the Company or any of its Subsidiaries, contractual or otherwise, with its brokers, customers, suppliers, vendors, lenders, employees, investors, or joint venture partners arising out of the execution, delivery or performance of this Agreement, the consummation of the Transactions or the announcement of any of the foregoing; except, in the case of the foregoing clauses (ii), (iii) and (iv), to the extent the impact of such Effect is disproportionately adverse to the Company and its Subsidiaries, taken as a whole, as compared to other companies in the industries in which the Company and its Subsidiaries operate, or (b) would reasonably be expected to prevent the consummation of the Transactions, other than any Effect solely arising out of or resulting from any action or omission taken by Parent, Merger Sub, any Buyer Group Party or any of their respective Affiliates (other than the Company and its Subsidiaries).

Company Option means an option to purchase Shares granted on a particular date at a specified exercise price and outstanding under a Company Stock Plan.

Company Owned Intellectual Property Rights means all Intellectual Property Rights owned or purported to be owned, either exclusively or jointly, by the Company or any of its Subsidiaries.

Table of Contents

Company Permits means franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, concessions, registrations, filings, clearances, exemptions, certificates, approvals and orders of any Governmental Authority necessary for each of the Company and its Subsidiaries to own, lease and operate their respective properties and assets or to carry on their respective businesses as they are now being conducted.

Company Recommendation means the recommendation of the Company Board that the stockholders of the Company adopt this Agreement.

Company Restricted Stock Unit means a restricted stock unit granted and outstanding under a Company Stock Plan.

Company Stock Awards means Company Options, Company Restricted Stock Units and other stock rights granted pursuant to the Company Stock Plans.

Company Stockholder Approval means the adoption of this Agreement at the Company Stockholders Meeting by the affirmative vote of the holders of a majority of the outstanding Shares.

Company Stockholders Meeting means the extraordinary meeting of the Company's stockholders (including any adjournments or postponements thereof) to be held to consider adoption of this Agreement.

Company Stock Plans means the Company's 2011 Stock Incentive Plan, 2008 Stock Incentive Plan, 2005 Stock Incentive Plan, 2002 Stock Option Plan and 2000 Stock Option Plan, each as amended and supplemented as of the date hereof.

Confidentiality Agreement means the amended and restated confidentiality agreement, dated May 21, 2012, between Power Joy (Cayman) Limited, an Affiliate of Parent, and the Company.

Consortium Agreement means the consortium agreement by and among the Sponsors and the other parties named therein, dated as of the date hereof.

Contract shall mean any note, bond, mortgage, indenture, Lease, license, permit, concession, franchise, contract, agreement, arrangement, plan or other instrument, right or obligation.

control (including the terms ***controlled by*** and ***under common control with***) means the possession, directly or indirectly, or as trustee or executor, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, as trustee or executor, by Contract or credit arrangement or otherwise.

DGCL means the General Corporation Law of the State of Delaware, as amended.

Table of Contents

Effect means any circumstance, event, change, effect or development.

Encumbrances means mortgages, pledges, liens, licenses, security interests, conditional and installment sale agreements, encumbrances, charges or other claims of third parties or restrictions of any kind, including any easement, reversion interest, right of way or other encumbrance to title, limitations on voting rights, or any option, right of first refusal or right of first offer.

End Date means February 12, 2014, which date shall be automatically extended to the date that is three months after such date, to the extent necessary to satisfy the condition set forth in Section 8.01(c) and so long as all other conditions have been satisfied or shall be capable of being satisfied.

Environmental Laws means any applicable Law or any Contract with any Governmental Authority relating to: (a) the protection of health, safety or the environment or (b) the handling, use, transportation, disposal, release or threatened release of any Hazardous Substance.

ERISA means the U.S. Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations thereunder.

ERISA Affiliate with respect to an entity means any other entity that, together with such first entity, would be treated as a single employer under Section 414(b), (c), (m) or (o) of the Code.

Exchange Act means the U.S. Securities Exchange Act of 1934, as amended.

Expenses means, with respect to any party hereto, all out-of-pocket fees and expenses (including all fees and expenses of counsel, accountants, investment banking firms and other financial institutions, experts and consultants to a party hereto and its Affiliates) actually incurred or accrued by such party or its Affiliates or on its or their behalf or for which it or they are liable in connection with or related to the authorization, preparation, negotiation, execution and performance of the Transactions, the preparation, printing, filing and mailing of the Schedule 13E-3 and the Proxy Statement, the solicitation of stockholder approvals, the filing of any required notices under applicable Law and all other matters related to the closing of the Merger and the other Transactions.

Financing Sources means the entities that have committed to provide or arrange or otherwise entered into agreements in connection with all or any portion of the Financing, the Financing Documents, the Facility Agreement or other financings in connection with the Transactions, including the parties named in Section 5.08, and the parties to any joinder agreements, indentures or credit agreements entered pursuant thereto or relating thereto, together with their respective Affiliates, and their and their respective Affiliates' officers, directors, employees, agents and representatives and their respective successors and assigns.

GAAP means U.S. generally accepted accounting principles.

Table of Contents

Governmental Authority means any federal, national, foreign, supranational, state, provincial, county, local or other government, governmental, regulatory or administrative authority, agency, instrumentality or commission or any court, tribunal, or judicial or arbitral body of competent jurisdiction.

Hazardous Substances means any chemical, pollutant, waste or substance that is (a) listed, classified or regulated under any Environmental Law as hazardous substance, toxic substance, pollutant, contaminant or oil or (b) any petroleum product or by-product, asbestos containing material, polychlorinated biphenyls or radioactive materials.

HoldCo means Skipper Holdings Limited, a Cayman limited company and the direct holder of all outstanding and issued share capital of Parent.

HoldCo Share means an ordinary share of Holdco.

Indebtedness means, with respect to any Person, without duplication: (a) all indebtedness of such Person, whether or not contingent, for borrowed money, including all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments; (b) all obligations of such Person for the deferred purchase of property or services; (c) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even if the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property); (d) all obligations of such Person as lessee under Leases that have been or should be, in accordance with GAAP, recorded as capital leases; (e) all obligations, contingent or otherwise, of such Person under acceptance, letter of credit or similar facilities; (f) all Indebtedness of others referred to in clauses (a) through (e) above guaranteed (or in effect guaranteed) directly or indirectly in any manner by such Person, and (g) all Indebtedness of others referred to in clauses (a) through (f) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Encumbrance on property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness.

Intellectual Property Rights means any and all of the following, whether or not registered, and all rights therein, in all jurisdictions throughout the world: (a) inventions and improvements thereto, whether or not patentable, invention disclosures, patents and patent applications (including all reissues, divisions, continuations, continuations-in-part, extensions and reexaminations thereof) and industrial designs; (b) trademarks, service marks, trade dress, logos, domain names, rights of publicity, trade names, corporate names and all other source identifiers, and all goodwill associated therewith; (c) copyrights, including all derivative works, moral rights, renewals, extensions, reversions or restorations associated with such copyrights, now or hereafter provided by law, regardless of the medium of fixation or means of expression; (d) Software; (e) trade secrets and know-how; (f) databases and data collections; (g) any other type of intellectual property or intellectual property right; (h) registrations and applications for registration of any of the foregoing; and (i) rights to sue or recover and retain damages, costs and attorneys fees for past, present or future infringement, misappropriation or violation of any of the foregoing.

Table of Contents

Intervening Event means a material event, fact, circumstance, development or occurrence that is unknown to or by the Company Board as of the date of this Agreement (or if known, the magnitude or material consequences of which were not known or understood by the Company Board as of the date hereof), which event, fact, circumstance, development, occurrence, magnitude or material consequence becomes known to or by the Company Board prior to obtaining the Company Stockholder Approval.

Intrinsic Value means, with respect to a Company Option or an Option Tranche or a portion thereof, (A) the excess, if any, of the Merger Consideration over the per Share exercise price of such Company Option or Option Tranche or portion thereof, as applicable, multiplied by (B) the number of Shares subject to such Company Option or Option Tranche or portion thereof, as applicable.

IRS means the U.S. Internal Revenue Service.

IT Assets means Software, systems, servers, computers, hardware, firmware, middleware, networks, data communications lines, routers, hubs, switches and all other information technology equipment, and all associated documentation.

Knowledge of the Company or ***Company's Knowledge*** means the knowledge, after due inquiry, of Steven Zhang, Michael Wu, Yadong Jin, Shengxi Jin, Hao Zhang, Fan Zhang, Liu Gouxiang and Jie Li.

Knowledge of Parent or ***Parent's Knowledge*** means the knowledge, after due inquiry, of Bryan Doyle, Eric Xin and Zhen Ji.

Law means any federal, national, foreign, supranational, state, local, administrative or other law (including common law), treaty, convention, statute, ordinance, regulation, requirement, regulatory interpretation, rule, code or Order.

Lease means any and all leases, subleases, licenses or other occupancy agreements, sale/leaseback arrangements or similar arrangements.

Leased Real Property means the real property leased, subleased, licensed or otherwise occupied by the Company or any of its Subsidiaries as tenant, sublessee, licensee or occupier, together with, to the extent leased by the Company or any of its Subsidiaries, all buildings and other structures, facilities or improvements currently or hereafter located thereon, all fixtures, systems and equipment affixed thereto and all easements, licenses, rights, hereditaments and appurtenances relating to the foregoing.

NASDAQ means the NASDAQ Global Market.

Table of Contents

Open Source Software means any Software that contains, or is derived in any manner (in whole or in part) from, any Software that is distributed as free software or open source software or under any similar licensing or distribution model whereby such Software is distributed publicly in source code form under terms that permit modification and redistribution of such Software. For the avoidance of doubt, Open Source Software includes any Software that is licensed or distributed under any version of any of the following licenses or distribution models: the GNU General Public License (GPL), the GNU Lesser General Public License (LGPL), the Mozilla Public License, the Common Public License, the Apache License, the BSD License, the Artistic License (e.g., PERL), the Netscape Public License, the Sun Community Source License and the Sun Industry Standards License.

Option Tranche means the portion of a Company Option that was granted under the Company's 2011 Stock Incentive Plan and that, as of the Effective Time, is either vested or is scheduled to vest on a specified date.

Order means any order, judgment, injunction, award, decision, determination, stipulation, ruling, subpoena, writ, decree or verdict entered by or with any Governmental Authority.

Owned Real Property means the real property in which the Company or any of its Subsidiaries has fee title (or equivalent) interest, together with, to the extent owned by the Company or any of its Subsidiaries, all buildings and other structures, facilities or improvements currently or hereafter located thereon, all fixtures, systems and equipment affixed thereto and all easements, licenses, rights, hereditaments and appurtenances relating to the foregoing.

Parent Board means the board of directors of Parent.

Parent Disclosure Schedule means the disclosure schedule dated as of the date of this Agreement and delivered by Parent to the Company simultaneously with the signing of this Agreement.

Parent Permits means franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, concessions, registrations, clearances, exemptions, certificates, approvals and orders of any Governmental Authority necessary for Parent and each of its Subsidiaries to own, lease and operate their respective properties and assets or to carry on their respective businesses as they are now being conducted.

Permitted Encumbrances means: (a) liens for Taxes, assessments and charges or levies by Governmental Authorities not yet due and payable or that are being contested in good faith by appropriate proceedings and for which adequate reserves have been reflected on the books of the Company or a Subsidiary in accordance with GAAP; (b) materialmen's, mechanics', carriers', workmen's and repairmen's liens and other similar liens arising in the ordinary course of business relating to obligations as to which there is no default on the part of the Company or any of its Subsidiaries or that secure a liquidated amount, in each case, that are being contested in good faith by appropriate proceedings; (c) leases and subleases (other than capital leases and leases underlying sale and leaseback transactions);

Table of Contents

(d) Encumbrances imposed by applicable Law; (e) pledges or deposits to secure obligations under workers' compensation laws or similar legislation or to secure public or statutory obligations; (f) pledges or deposits to secure the performance of bids, trade contracts, leases, surety and appeal bonds, performance bonds and other obligations of a similar nature, in each case, in the ordinary course of business; (g) easements, covenants and rights of way (unrecorded and of record) and other similar restrictions of record, and zoning, building and other similar restrictions, in each case, that do not adversely affect in any material respect the current use of the applicable property owned, leased, used or held for use by the Company or any of its Subsidiaries; (h) Encumbrances securing indebtedness or liabilities that (i) are reflected in the Company SEC Reports filed or furnished prior to the date hereof or (ii) that are set forth in the Company Disclosure Schedule; (i) matters which would be disclosed by an accurate survey or inspection of the real property which do not, individually or in the aggregate, materially impair the occupancy or current use of such real property which they encumber; (j) outbound license agreements entered into in the ordinary course of business; and (k) standard survey and title exceptions.

Person means an individual, corporation, partnership, limited partnership, limited liability company, syndicate, person (as defined in Section 13(d)(3) of the Exchange Act), trust, association, entity or Governmental Authority.

PRC means the People's Republic of China, but solely for purposes of this Agreement excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

PRC Anti-Monopoly Law means the Anti-Monopoly Law of the PRC, effective as of August 1, 2008, as amended.

Real Property means the Leased Real Property and the Owned Real Property.

Representatives means a Person's officers, directors, employees, accountants, consultants, legal counsel, investment bankers, advisors, agents and other representatives.

Rollover Shares means the Shares set forth in the Rollover Agreement.

Rollover Stockholders means each of the Persons listed on Schedule B of the Parent Disclosure Schedule and each other Person who enters into an Additional Rollover Agreement with Parent and Holdco pursuant to Section 3.01(f).

Schedule 13E-3 means the transaction statement on Schedule 13E-3 under the Exchange Act to be filed pursuant to Section 13(e) of the Exchange Act relating to the adoption of this Agreement by the stockholders of the Company (together with any amendments thereof or supplements thereto and including any document incorporated by reference therein).

SEC means the U.S. Securities and Exchange Commission.

Securities Act means the U.S. Securities Act of 1933, as amended.

Table of Contents

Senior Employee means a Tier I Employee or a Tier II Employee.

Service Provider means each of the officers, employees, directors and independent contractors of the Company and each of its Subsidiaries.

Software means all (a) computer programs, applications, systems and code, including software implementations of algorithms, models and methodologies, program interfaces, and source code and object code, (b) Internet and intranet websites, databases and compilations, including data and collections of data, whether machine-readable or otherwise, (c) development and design tools, library functions and compilers, (d) technology supporting websites, and the contents and audiovisual displays of websites, and (e) media, documentation and other works of authorship, including user manuals and training materials, relating to or embodying any of the foregoing or on which any of the foregoing is recorded.

Special Committee means a committee of the Company Board consisting of directors of the Company that are not affiliated with Parent, Merger Sub or the Rollover Stockholders, and are not members of the Company's management.

Sponsor means each of the Persons listed on Schedule C of the Parent Disclosure Schedule.

Subsidiary or **Subsidiaries** of any specified Person means an Affiliate controlled by such Person, directly or indirectly, through one or more intermediaries.

Superior Proposal means a written *bona fide* unsolicited Acquisition Proposal on terms that the Company Board (or any committee thereof composed solely of independent directors, including the Special Committee) determines, in its good faith judgment, after having received the advice of its independent financial advisor of nationally (in the U.S.) recognized reputation and outside U.S. legal counsel, and taking into account all the terms and conditions of the Acquisition Proposal, including any financing (if a cash transaction), break-up fees, expense reimbursement provisions and conditions and timing to, and likelihood of, consummation, are more favorable in the aggregate to the stockholders of the Company than as provided under this Agreement, taking into account any written proposal by Parent to amend the terms of this Agreement pursuant to Section 7.03(d)(ii). For purposes of the definition of Superior Proposal, each reference to 10% and 90% in the definition of Acquisition Proposal shall be replaced with 80% and 20%, respectively; provided, however, that such replacement shall not apply in relation to an Acquisition Proposal, made by any stockholder of the Company or any of such stockholder's Affiliates, in respect of an offer by such stockholder to acquire at least 75% of the voting equity interests in the Company.

Taxes means (a) any and all taxes, fees, levies, duties, tariffs, imposts and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any Governmental Authority, including taxes or other charges on or with respect to income, franchise, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers' compensation, unemployment compensation or net worth;

Table of Contents

(b) taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value-added or gains taxes; (c) license, registration and documentation fees; (d) customs duties, tariffs and similar charges; and (e) in the case of the Company and its Subsidiaries, liability for the payment of any amount of the type described in any of (a) through (d) as a result of being or having been before the Effective Time a member of an affiliated, consolidated, combined or unitary group or as a result of being or having been a party to any Tax Sharing Agreement.

Tax Return shall mean any return, declaration, report, election, claim for refund or information return or other statement or form filed or required to be filed with any Governmental Authority relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

Tax Sharing Agreement means all existing agreements or arrangements (whether or not written) binding on the Company or any of its Subsidiaries that provide for the allocation, apportionment, sharing or assignment of any Tax liability or benefit, or the transfer or assignment of income, revenues, receipts, or gains for the purpose of determining any Person's Tax liability.

Taxing Authority means any Governmental Authority responsible for the imposition or collection of any Tax.

Tier I Employee means an employee of the Company with the title of Vice President () or a more senior title as of the date hereof.

Tier II Employee means an employee of the Company with the title of Director () as of the date hereof.

Transactions means the Merger and the other transactions contemplated by this Agreement.

U.S. means the United States of America.

U.S. Taxpayer means an individual who as of the Effective Time is a U.S. citizen or resident alien for U.S. federal income tax purposes.

Willful Breach means a material breach of representations, warranties, covenants or agreements that is a consequence of a deliberate act or omission knowingly undertaken by the breaching party with the actual knowledge of the breaching party that such act or omission would cause or constitute a breach of this Agreement; provided that a Willful Breach does not include any failure by the Parent to fund the Exchange Fund under the circumstances described in Section 9.01(d)(iii) (where such failure did not result from (1) any Willful Breach by Parent or Merger Sub of the representations, warranties, covenants or agreements contained herein or (2) any breach by the Buyer Group Parties or any of their respective Affiliates (other than the Company and its Subsidiaries) of the Buyer Group Contracts or any Financing Documents).

Table of Contents

Voting Stockholders means each of the Persons listed on Schedule D of the Parent Disclosure Schedule.

Section 1.02 Other Defined Terms. The following terms have the meanings set forth in the Sections set forth below:

Defined Termont-size: 10pt"> /s/ Robert A. Hermes

	/s/ Mindy K. West
Robert A. Hermes, Director	Mindy K. West, Executive Vice President, Treasurer, and Chief Financial Officer (Principal Financial Officer)
/s/ Fred L. Holliger Fred L. Holliger, Director	/s/ Donald R. Smith, Jr. Donald R. Smith, Jr. Vice President and Controller (Principal Accounting Officer)

REPORT OF MANAGEMENT- CONSOLIDATED FINANCIAL STATEMENTS

The management of Murphy USA Inc. is responsible for the preparation and integrity of the accompanying consolidated and combined financial statements and other financial data. The statements were prepared in conformity with U.S. generally accepted accounting principles appropriate in the circumstances and include some amounts based on informed estimates and judgments, with consideration given to materiality.

An independent, registered public accounting firm, KPMG LLP, has audited the Company's consolidated and combined financial statements in accordance with the standards of the Public Company Accounting Oversight Board and provides an objective, independent opinion about the Company's consolidated and combined financial statements. The Audit Committee of the Board of Directors appoints the independent registered public accounting firm; ratification of the appointment is solicited annually from the shareholders. KPMG LLP's opinion covering the Company's consolidated and combined financial statements can be found on page F-2.

The Board of Directors appoints an Audit Committee annually to implement and to support the Board's oversight function of the Company's financial reporting, accounting policies, internal controls and independent registered public accounting firm. This Committee is composed solely of directors who are not employees of the Company. The Committee meets routinely with representatives of management, the Company's audit staff and the independent registered public accounting firm to review and discuss the adequacy and effectiveness of the Company's internal controls, the quality and clarity of its financial reporting, the scope and results of independent and internal audits, and to fulfill other responsibilities included in the Committee's Charter. The independent registered public accounting firm and the Company's audit staff have unrestricted access to the Committee, without management presence, to discuss audit findings and other financial matters.

REPORT OF MANAGEMENT – INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). The Company's internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated and combined financial statements in accordance with U.S. generally accepted accounting principles. All internal control systems have inherent limitations, and therefore, can provide only reasonable assurance with respect to the reliability of financial reporting and preparation of consolidated and combined financial statements.

Management has conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on the results of this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

KPMG LLP has performed an audit of the Company's internal control over financial reporting and their opinion thereon can be found on page F-3.

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Murphy USA Inc.:

We have audited the accompanying consolidated balance sheets of Murphy USA Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated and combined income statements, statements of cash flows, and statements of changes in equity for each of the years in the three-year period ended December 31, 2014. In connection with our audits of the consolidated and combined financial statements, we also have audited financial statement Schedule II. These consolidated and combined financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated and combined financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Murphy USA Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated and combined financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) Murphy USA Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Houston, Texas

February 27, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Murphy USA Inc.:

We have audited Murphy USA Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Murphy USA Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management - Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Murphy USA Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Murphy USA Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated and combined income statements, statements of cash flows, and statements of changes in equity for each of the years in the three-year period ended December 31, 2014, and our report dated February 27, 2015 expressed an unqualified opinion on those consolidated and combined financial statements.

/s/ KPMG LLP

Houston, Texas

February 27, 2015

F-3

Murphy USA Inc.

Consolidated Balance Sheets

(Thousands of dollars)	December 31,	
	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 328,105	\$ 294,741
Accounts receivable—trade, less allowance for doubtful accounts of \$4,456 in 2014 and \$4,456 in 2013	140,091	193,181
Inventories, at lower of cost or market	182,914	179,055
Prepaid expenses and other current assets	14,772	15,439
Total current assets	665,882	682,416
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$730,202 in 2014 and \$655,360 in 2013	1,253,124	1,190,723
Other assets	15,251	8,103
Total assets	\$ 1,934,257	\$ 1,881,242
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$ —	\$ 14,000
Trade accounts payable and accrued liabilities	386,999	433,228
Income taxes payable	25,600	72,146
Deferred income taxes	481	7,143
Total current liabilities	413,080	526,517
Long-term debt	492,443	547,578
Deferred income taxes	118,609	114,932
Asset retirement obligations	22,245	17,130
Deferred credits and other liabilities	29,175	18,749
Total liabilities	1,075,552	1,224,906
Stockholders' Equity		
Preferred Stock, par \$0.01, (authorized 20,000,000 shares, none outstanding)	—	—
Common Stock, par \$0.01 (authorized 200,000,000 shares, 46,767,164 issued and 46,743,633 shares issued and outstanding at 2014 and 2013, respectively)	468	467
Treasury stock (1,056,689 shares held at December 31, 2014)	(51,073)	—
Additional paid in capital (APIC)	557,871	548,293
Retained earnings	351,439	107,576
Total stockholders' equity	858,705	656,336
Total liabilities and stockholders' equity	\$ 1,934,257	\$ 1,881,242

See accompanying notes to consolidated and combined financial statements.

Murphy USA Inc.

Consolidated and Combined Income Statements

(Thousands of dollars except per share amounts)	Years Ended December 31,		
	2014	2013	2012
Revenues			
Petroleum product sales (a)	\$ 14,728,527	\$ 15,560,317	\$ 16,854,985
Merchandise sales	2,161,378	2,159,466	2,144,347
Ethanol sales and other	320,014	363,552	301,976
Total revenues	17,209,919	18,083,335	19,301,308
Costs and operating expenses			
Petroleum product cost of goods sold (a)	14,074,579	15,009,955	16,298,316
Merchandise cost of goods sold	1,859,732	1,877,630	1,855,641
Ethanol cost of goods sold	158,276	228,899	269,168
Station and other operating expenses	521,526	493,703	480,109
Depreciation and amortization	79,234	74,130	71,740
Impairment of properties	—	—	60,988
Selling, general and administrative	120,901	132,999	113,122
Accretion of asset retirement obligations	1,200	1,096	980
Total costs and operating expenses	16,815,448	17,818,412	19,150,064
Income from operations	394,471	264,923	151,244
Other income (expense)			
Interest income	244	1,099	172
Interest expense	(36,646)	(14,509)	(384)
Gain (loss) on sale of assets	194	5,995	(1,005)
Other nonoperating income	11,160	169	92
Total other income (expense)	(25,048)	(7,246)	(1,125)
Income from continuing operations before income taxes	369,423	257,677	150,119
Income tax expense	126,341	101,351	63,705
Income from continuing operations	243,082	156,326	86,414
Income (loss) from discontinued operations, net of income taxes	781	78,707	(2,846)
Net Income	\$ 243,863	\$ 235,033	\$ 83,568
Earnings per share - basic:			
Income from continuing operations	\$ 5.27	\$ 3.34	\$ 1.85
Income (loss) from discontinued operations	0.02	1.68	(0.06)
Net Income - basic	\$ 5.29	\$ 5.03	\$ 1.79
Earnings per share - diluted:			
Income from continuing operations	\$ 5.24	\$ 3.34	\$ 1.85
Income (loss) from discontinued operations	0.02	1.68	(0.06)
Net Income - diluted	\$ 5.26	\$ 5.02	\$ 1.79
Weighted-average shares outstanding (in thousands):			
Basic	46,104	46,743	46,743
Diluted	46,417	46,858	46,743
Supplemental information:			
(a) Includes excise taxes of:	\$ 1,930,608	\$ 1,884,035	\$ 1,962,660

See accompanying notes to consolidated and combined financial statements.

F-5

Murphy USA Inc.

Consolidated and Combined Statements of Cash Flows

(Thousands of dollars)	Years Ended December 31,		
	2014	2013	2012
Operating Activities			
Net income	\$ 243,863	\$ 235,033	\$ 83,568
Adjustments to reconcile net income to net cash provided by operating activities			
(Income) loss from discontinued operations, net of taxes	(781)	(78,707)	2,846
Depreciation and amortization	79,234	74,130	71,740
Amortization of deferred major repair costs	1,093	575	163
Deferred and noncurrent income tax charges (credits)	(1,032)	(7,262)	(16,463)
Impairment of properties	—	—	60,988
Accretion on discounted liabilities	1,200	1,096	980
Pretax (gains) losses from sale of assets	(194)	(5,995)	1,005
Net decrease (increase) in noncash operating working capital	(32,466)	74,865	32,553
Other operating activities - net	14,531	13,215	(1,088)
Net cash provided by continuing operations	305,448	306,950	236,292
Net cash provided by discontinued operations	134	49,748	1,135
Net cash provided by operating activities	305,582	356,698	237,427
Investing Activities			
Property additions	(138,888)	(164,536)	(104,496)
Proceeds from sale of assets	376	6,113	364
Expenditures for major repairs	(1,369)	(726)	(250)
Other investing activities - net	(10,631)	52	—
Investing activities of discontinued operations			
Sales proceeds	1,097	173,118	—
Other	—	(1,129)	(7,706)
Net cash provided by (required by) investing activities	(149,415)	12,892	(112,088)
Financing Activities			
Purchase of treasury stock	(51,348)	—	—
Repayments of long-term debt	(70,000)	(81,170)	(42)
Additions to long-term debt	—	641,250	—
Cash dividend to former parent	—	(650,000)	—
Debt issuance costs	(875)	(6,693)	—
Amounts related to share-based compensation	(580)	—	—
Net distributions to former parent	—	(35,609)	(104,811)
Net cash required by financing activities	(122,803)	(132,222)	(104,853)
Net increase in cash and cash equivalents	33,364	237,368	20,486
Cash and cash equivalents at January 1	294,741	57,373	36,887
Cash and cash equivalents at December 31	\$ 328,105	\$ 294,741	\$ 57,373

See accompanying notes to consolidated and combined financial statements.

Murphy USA Inc.

Consolidated and Combined Statements of Changes in Equity

(Thousands of dollars, except share amounts)	Common Stock		Treasury Stock	APIC	Net Parent Investment	Retained Earnings	Total
	Shares	Par					
Balance as of December 31, 2011	—	\$ —	\$ —	\$ —	\$ 1,118,947	\$ —	\$ 1,118,947
Net income	—	—	—	—	83,568	—	83,568
Net transfers to/between former parent	—	—	—	—	(98,064)	—	(98,064)
Balance as of December 31, 2012	—	—	—	—	1,104,451	—	1,104,451
Net income	—	—	—	—	127,457	107,576	235,033
Dividend paid to former parent	—	—	—	—	(650,000)	—	(650,000)
Net transfers to/between former parent	—	—	—	—	(36,062)	—	(36,062)
Issuance of stock at the separation and distribution	46,743,316	467	—	(467)	—	—	—
Reclassification of net parent investment to APIC	—	—	—	545,846	(545,846)	—	—
Issuance of common stock	317	—	—	—	—	—	—
Share-based compensation expense	—	—	—	2,914	—	—	2,914
Balance as of December 31, 2013	46,743,633	467	—	548,293	—	107,576	656,336
Net income	—	—	—	—	—	243,863	243,863
Purchase of treasury stock	—	—	(51,348)	—	—	—	(51,348)
Issuance of common stock	23,531	1	—	—	—	—	1

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Issuance of treasury stock	—	—	275	(275)	—	—	—
Shares withheld to satisfy tax withholdings	—	—	—	(582)	—	—	(582)
Share-based compensation expense	—	—	—	10,435	—	—	10,435
Balance as of December 31, 2014	46,767,164	\$ 468	\$ (51,073)	\$ 557,871	\$ —	\$ 351,439	\$ 858,705

See accompanying notes to consolidated and combined financial statements.

F-7

Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Note 1 — Description of Business and Basis of Presentation

Description of business — The business of Murphy USA Inc. (“Murphy USA” or the “Company”) and its subsidiaries primarily consists of the U.S. retail marketing business that was separated from its former parent company, Murphy Oil Corporation (“Murphy Oil”), plus certain ethanol production facilities and other assets, liabilities and operating expenses of Murphy Oil that were associated with supporting the activities of the U.S. retail marketing operations. The separation was approved by the Murphy Oil board of directors on August 7, 2013, and was completed on August 30, 2013 through the distribution of 100% of the outstanding capital stock of Murphy USA to holders of Murphy Oil common stock on the record date of August 21, 2013. Murphy Oil stockholders of record received one share of Murphy USA common stock for every four shares of Murphy Oil common stock. The spin-off was completed in accordance with a separation and distribution agreement entered into between Murphy Oil and Murphy USA. Following the separation, Murphy USA is an independent, publicly traded company, and Murphy Oil retains no ownership interest in Murphy USA.

Murphy USA markets refined products through a network of retail gasoline stations and unbranded wholesale customers. Murphy USA’s owned retail stations are almost all located in close proximity to Walmart stores in 23 states and use the brand name Murphy USA®. Murphy USA also markets gasoline and other products at standalone stations under the Murphy Express brand. At December 31, 2014, Murphy USA had a total of 1,263 Company stations. In October 2009, Murphy USA acquired an ethanol production facility located in Hankinson, North Dakota. The facility was originally designed to produce 110 million gallons of corn-based ethanol per year. Expansion of the plant occurred during 2012, bringing the overall ethanol production capacity to 135 million gallons per year and the plant was sold in December 2013 with all its financial results now being presented as discontinued operations. The Company acquired a partially constructed ethanol production facility in Hereford, Texas, in late 2010. The Hereford facility is designed to produce 105 million gallons of corn-based ethanol per year, and it began operations near the end of the first quarter of 2011.

The contributed assets of Murphy Oil included in the Company’s financial statements also include buildings, real estate, an airplane and computer equipment and software that are used to support the operating activities of Murphy USA.

Basis of Presentation — Murphy USA was incorporated in March 2013 and, in connection with its incorporation, Murphy USA issued 100 shares of common stock, par value \$0.01 per share, to Murphy Oil for \$1.00. Murphy USA was formed solely in contemplation of the separation and until the separation was completed on August 30, 2013, it had not commenced operations and had no material assets, liabilities, or commitments. Accordingly the accompanying consolidated and combined financial statements reflect the combined historical results of operations,

financial position and cash flows of the Murphy Oil subsidiaries and certain assets, liabilities and operating expenses of Murphy Oil that comprise Murphy USA, as described above, as if such companies and accounts had been combined for all periods presented prior to August 30, 2013. All significant intercompany transactions and accounts within the combined financial statements have been eliminated.

The assets and liabilities in these consolidated and combined financial statements at December 31, 2012 have been reflected on a historical basis, as if all of the assets and liabilities presented were 100 percent owned by Murphy Oil at December 31, 2012 and represented operations of Murphy USA prior to the separation. For the period prior to separation, the consolidated and combined statements of income also include expense allocations for certain corporate functions historically performed by Murphy Oil, including allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, procurement and information technology. These allocations are based primarily on specific identification, headcount or computer utilization. Murphy USA's management believes the assumptions underlying the consolidated and combined financial statements, including the assumptions regarding the allocation of general corporate expenses from Murphy Oil, are reasonable. However, these consolidated and combined financial statements may not include all of the actual expenses that would have been incurred had the Company been a stand-alone company during the period prior to separation and may not reflect the combined results of operations, financial position and cash flows had the Company been a stand-alone company during the entirety of the periods presented.

Actual costs that would have been incurred if Murphy USA had been a stand-alone company for the period prior to separation would depend upon multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure. As a result, the consolidated and combined results of operations for the three years ended December 31, 2014, are not necessarily indicative of the results that may be experienced in the future.

Note 2 – Significant Accounting Policies

PRINCIPLES OF COMBINATION – These consolidated and combined financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of Murphy USA Inc. and selected subsidiaries, and certain assets, liabilities, and expenses of Murphy Oil Corporation for all periods prior to August 30, 2013. All significant intercompany accounts and transactions within the consolidated and combined entity have been eliminated.

REVENUE RECOGNITION – Revenues from sales of refined petroleum products are recorded when deliveries have occurred and legal ownership of the commodity transfers to the customer, which may include related party sales to other subsidiaries of Murphy USA. Title transfer for bulk refined products generally occur at pipeline custody points or upon truck loading at product terminals. Refined products sold at retail stations are recorded when the customer takes delivery at the pump. Merchandise revenues are recorded at the point of sale. Rebates from vendors are recognized as a reduction of cost of goods sold when the related inventory item is sold. Incentives that are derived from contractual provisions are accrued based on past experience, when estimable, and are recognized in cost of goods sold.

The Company enters into buy/sell and similar arrangements when petroleum products are held at one location but are needed at a different location. The Company often pays or receives funds related to the buy/sell arrangement based on location or quality differences. The Company accounts for such transactions on a net basis in its Consolidated and Combined Income Statements.

SHIPPING AND HANDLING COSTS – Costs incurred for the shipping and handling of motor fuel are included in Petroleum product cost of goods sold in the income statement. Costs incurred for the shipping and handling of convenience store merchandise are included in Merchandise cost of goods sold in the income statement.

TAXES COLLECTED FROM CUSTOMERS AND REMITTED TO GOVERNMENT AUTHORITIES – Excise and other taxes collected on sales of refined products and remitted to governmental agencies are included in revenues and costs and operating expenses in the Consolidated and Combined Income Statements. Excise taxes on petroleum products collected and remitted were \$1,930,608,000 in 2014, \$1,884,035,000 in 2013, and \$1,962,660,000 in 2012.

CASH EQUIVALENTS – Short-term investments, which include government securities, money market funds and other instruments with government securities as collateral, that have an original maturity of three months or less from the date of purchase are classified as cash equivalents.

ACCOUNTS RECEIVABLE – The Company’s accounts receivable are recorded at the invoiced amount and do not bear interest. The accounts receivable primarily consists of amounts owed to the Company from credit card companies

and by customers for wholesale sales of refined petroleum products and ethanol. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses on these receivables. The Company reviews this allowance for adequacy at least quarterly and bases its assessment on a combination of current information about its customers and historical write-off experience. Any trade accounts receivable balances written off are charged against the allowance for doubtful accounts. The Company has not experienced any significant credit-related losses in the past three years.

INVENTORIES – Inventories of most finished products are valued at the lower of cost, generally applied on a last-in, first-out (“LIFO”) basis, or market. Any increments to LIFO inventory volumes are valued based on the first purchase price for these volumes during the year. Merchandise inventories held for resale are carried at average cost. Materials and supplies are valued at the lower of average cost or estimated value. Wet distillers grain with solubles (“WDGS”) and corn inventories are valued at the lower of cost, applied on a first-in, first-out (“FIFO”) basis, or market.

VENDOR ALLOWANCES AND REBATES – Murphy USA receives payments for vendor allowances, volume rebates and other related payments from various suppliers of its convenience store merchandise. Vendor allowances for price markdowns are credited to merchandise cost of goods sold during the period the related markdown is recognized. Volume rebates of merchandise are recorded as reductions to merchandise cost of goods sold when the merchandise qualifying for the rebate is sold. Slotting and stocking allowances received from a vendor are recorded as a reduction to cost of sales over the period covered by the agreement.

PROPERTY, PLANT AND EQUIPMENT – Additions to property, plant and equipment, including renewals and betterments, are capitalized and recorded at cost. Certain marketing facilities are primarily depreciated using the composite straight-line method with depreciable lives ranging from 16 to 25 years. Ethanol plants, gasoline stations and other assets are depreciated over 3 to 50 years by individual unit on the straight-line method. Gains and losses on asset disposals or retirements are included in income as a separate component of other income.

F-9

IMPAIRMENT OF ASSETS – Long-lived assets, which include property and equipment and finite-lived intangible assets, are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. A long-lived asset is not recoverable if its carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If a long-lived asset is not recoverable, an impairment loss is recognized for the amount by which the carrying amount of the long-lived asset exceeds its fair value, with fair value determined based on discounted estimated net cash flows or other appropriate methods.

TURNAROUNDS – Primary processing units are scheduled for major maintenance activities known as turnarounds at periodic intervals at the Company’s ethanol plant. Turnaround work associated with various other less significant units at the Company’s facilities will vary depending on operating requirements and events. The Company defers turnaround costs incurred and amortizes such costs through Station and other operating expenses over the period until the next scheduled turnaround. All other maintenance and repairs are expensed as incurred.

ASSET RETIREMENT OBLIGATIONS – The Company records a liability for asset retirement obligations (“ARO”) equal to the fair value of the estimated cost to retire an asset. The ARO liability is initially recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed in service. The ARO liability is estimated using existing regulatory requirements and anticipated future inflation rates. When the liability is initially recorded, the Company increases the carrying amount of the related long-lived asset by an amount equal to the original liability. The liability is increased over time to reflect the change in its present value, and the capitalized cost is depreciated over the useful life of the related long-lived asset. The Company reevaluates the adequacy of its recorded ARO liability at least annually. Actual costs of asset retirements such as dismantling service stations and site restoration are charged against the related liability. Any difference between costs incurred upon settlement of an asset retirement obligation and the recorded liability is recognized as a gain or loss in the Company’s earnings.

ENVIRONMENTAL LIABILITIES – A liability for environmental matters is established when it is probable that an environmental obligation exists and the cost can be reasonably estimated. If there is a range of reasonably estimated costs, the most likely amount will be recorded, or if no amount is most likely, the minimum of the range is used. Related expenditures are charged against the liability. Environmental remediation liabilities have not been discounted for the time value of future expected payments. Environmental expenditures that have future economic benefit are capitalized.

INCOME TAXES – The Company accounts for income taxes using the asset and liability method. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred income taxes are measured using the enacted tax rates that are assumed will be in effect when the differences reverse. The Company routinely assesses the realizability of deferred tax assets based on available evidence including assumptions of future taxable income, tax planning strategies and other pertinent factors. A deferred tax asset valuation allowance is recorded when evidence indicates that it is more likely than not that all or a portion of these deferred tax assets will not be realized in a future period. The accounting rules for income tax uncertainties permit recognition of income tax benefits only when they are more likely than not to be realized. The Company includes potential penalties and interest for uncertain income tax positions in income tax expense.

The Company’s results of operations were included in the consolidated federal income tax return of Murphy Oil prior to the separation, while in most cases, these results have been included in the various state tax returns of Murphy USA historically. For these financial statements, federal and state income taxes have been computed and recorded as if the Company filed separate federal and state income tax returns. Federal and state income tax benefits of operating losses generated are recognized to the extent that they could be expected to reduce federal income tax expense for the

Company via a carryback to a previous year or carried forward for use in a subsequent year. The calculations of current and deferred income taxes, therefore, require use of certain assumptions, allocations and estimates that management believes are reasonable to reflect the Company's income taxes as a stand-alone taxpayer. The Company has elected to classify any interest expense and penalties related to the underpayment of income taxes in Income tax expense in the Consolidated and Combined Income Statements.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – The fair value of a derivative instrument is recognized as an asset or liability in the Company's Consolidated and Combined Balance Sheets. Upon entering into a derivative contract, the Company may designate the derivative as either a fair value hedge or a cash flow hedge, or decide that the contract is not a hedge, and therefore, recognize changes in the fair value of the contract in earnings. The Company documents the relationship between the derivative instrument designated as a hedge and the hedged items as well as its objective for risk management and strategy for use of the hedging instrument to manage the risk. Derivative instruments designated as fair value or cash flow hedges are linked to specific assets and liabilities or to specific firm commitments or forecasted transactions. The Company assesses at inception and on an ongoing basis whether a derivative instrument used as a hedge is highly effective in offsetting changes in the fair value or cash flows of the

F-10

hedged item. A derivative that is not a highly effective hedge does not qualify for hedge accounting. Changes in the fair value of a qualifying fair value hedge are recorded in earnings along with the gain or loss on the hedged item. Changes in the fair value of a qualifying cash flow hedge are recorded in other comprehensive income until the hedged item is recognized in earnings. When the income effect of the underlying cash flow hedged item is recognized in the Statement of Income, the fair value of the associated cash flow hedge is reclassified from other comprehensive income into earnings. Ineffective portions of a cash flow hedge derivative's change in fair value are recognized currently in earnings. If a derivative instrument no longer qualifies as a cash flow hedge and the underlying forecasted transaction is no longer probable of occurring, hedge accounting is discontinued and the gain or loss recorded in other comprehensive income is recognized immediately in earnings. See Note 13 and Note 16 for further information about the Company's derivatives.

STOCK-BASED COMPENSATION – The fair value of awarded stock options, restricted stock and restricted stock units is determined based on a combination of management assumptions for awards issued subsequent to the separation from Murphy Oil and the previously calculated fair market value of awards that were replaced with Murphy USA awards in connection with the separation. Murphy Oil used the Black-Scholes option pricing model for computing the fair value of stock options. The primary assumptions made by management included the expected life of the stock option award and the expected volatility of Murphy Oil's common stock prices. Murphy Oil used both historical data and current information to support its assumptions. Stock option expense is recognized on a straight-line basis over the respective vesting period of two or three years. Murphy Oil used a Monte Carlo valuation model to determine the fair value of performance-based restricted stock and restricted stock units and the related expense is recognized over the three-year vesting period. Management estimates the number of stock options and performance-based restricted stock and restricted stock units that will not vest and adjusts its compensation expense accordingly. Differences between estimated and actual vested amounts are accounted for as an adjustment to expense when known. See Note 11 for a discussion of the basis of allocation of such costs.

NET INVESTMENT BY FORMER PARENT– The Net investment by former parent represented a net balance reflecting Murphy Oil's initial investment in the Company and subsequent adjustments resulting from the operations of the Company and various transactions between the Company and Murphy Oil. The balance is the result of the Company's participation in Murphy Oil's centralized cash management program under which all the Company's cash receipts were remitted to Murphy Oil and all cash disbursements are funded by Murphy Oil. The net balance included amounts due from or owed to Murphy Oil. Other transactions affecting the Net investment by Murphy Oil included general and administrative expenses incurred by Murphy Oil and allocated to the Company. There were no terms of settlement or interest charges associated with the Net investment by Murphy Oil balance. Changes in amounts owed to or due from Murphy Oil were included in financing activities in the Statements of Cash Flows. All transactions affecting the balance of this account ceased at the separation.

USE OF ESTIMATES – In preparing the financial statements of the Company in conformity with U.S. GAAP, management has made a number of estimates and assumptions related to the reporting of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from the estimates. On an ongoing basis, we review our estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Note 3 — Related-Party Transactions

Related-party transactions of the Company include the allocation of certain general and administrative costs from Murphy Oil to the Company and payment of interest expense to or receipt of interest income from Murphy Oil for intercompany payables balances for periods prior to the separation.

General and administrative costs were charged by Murphy Oil to the Company based on management's determination of such costs attributable to the operations of the Company. However, such related-party transactions cannot be presumed to be carried out on an arm's length basis as the requisite conditions of competitive, free-market dealings may not exist.

Prior to the separation, Murphy Oil provided cash management services to the Company. As a result, the Company generally remitted funds received to Murphy Oil, and Murphy Oil paid all operating and capital expenditures on behalf of the Company. Such cash transactions were reflected in the change in the Net Investment by Parent.

The Consolidated and Combined Income Statements include expense allocations for certain functions provided to the Company by Murphy Oil prior to the separation. If possible, these allocations were made on a specific identification basis. Otherwise, the expenses related to services provided to the Company by Murphy Oil were allocated to Murphy

F-11

USA based on relative percentages of headcount or other appropriate methods depending on the nature of each type of cost to be allocated.

Charges for functions historically provided to the Company by Murphy Oil were primarily attributable to Murphy Oil's performance of many shared services that the Company benefitted from, such as treasury, tax, accounting, risk management, legal, internal audit, procurement, human resources, investor relations and information technology. Murphy USA also participated in certain Murphy Oil insurance, benefit and incentive plans. The Consolidated and Combined Income Statements reflect charges from Murphy Oil and its other subsidiaries for these services of \$0, \$53,161,000 and \$70,056,000 for the three years ended December 31, 2014, 2013 and 2012, respectively. Included in the charges above are amounts recognized for stock-based compensation expense (Note 11), as well as net periodic benefit expense associated with Murphy Oil's retirement plans (Note 12).

Included in Interest income in the Consolidated and Combined Income Statements for the three years ended December 31, 2014, 2013 and 2012 was interest income from affiliates of \$0, \$1,080,000 and \$156,000, respectively. These amounts were paid on balances that were previously intercompany prior to the separation from Murphy Oil and were settled in full at the separation date.

Transition Services Agreement

In conjunction with the separation, we entered into a Transition Services Agreement with Murphy Oil on August 30, 2013. This Transition Services Agreement sets forth the terms on which Murphy Oil provides to us, and we provide to Murphy Oil, on a temporary basis, certain services or functions that the companies have historically shared. Transition services include administrative, payroll, human resources, information technology and network transition services, tax, treasury and other support and corporate services. The Transition Services Agreement provides for the provision of specified transition services generally for a period of up to eighteen months, with a possible extension of six months, on a cost basis. We record the fee Murphy Oil charges us for these services as a component of general and administrative expenses.

We believe that the operating expenses and general and administrative expenses allocated to us and included in the accompanying consolidated and combined income statements were a reasonable approximation of the costs related to Murphy USA's operations. However, such related-party transactions cannot be presumed to be carried out on an arm's-length basis as the terms were negotiated while Murphy USA was still a subsidiary of Murphy Oil. At December 31, 2014 Murphy USA had a current receivable from Murphy Oil of \$1,737,000 and a payable to Murphy Oil of \$56,000 related to the Transition Services Agreement.

Note 4 – Discontinued Operations

In November 2013, the Company announced that it had entered into negotiations to sell its Hankinson, North Dakota ethanol production facility as part of management's strategic plan to exit non-core businesses. On December 19, 2013, the Company sold its wholly-owned subsidiary Hankinson Renewable Energy, LLC which owned and operated an ethanol manufacturing facility in Hankinson, North Dakota, and its related assets for \$170,000,000 plus working capital adjustments of approximately \$3,118,000. During January 2014, the final adjustments to working capital were made and the Company received an additional \$1.1 million in sales proceeds which has been included in discontinued operations for the period. The Company has accounted for all operations related to Hankinson Renewable, LLC as discontinued operations for all periods presented. The after-tax gain from disposal of the subsidiary (including associated inventories) was \$52,542,000 in 2013 with an additional \$781,000 in 2014 related to the final working capital adjustment.

The results of operations associated with the Hankinson discontinued operations are presented in the following table.

(Thousands of dollars)	2014	2013	2012
Revenues	\$ —	\$ 366,707	\$ 354,128
Income (loss) from operations before income taxes	—	40,130	(4,377)
Gain on sale before income taxes	1,202	80,834	—
Total income (loss) from discontinued operations before taxes	1,202	120,964	(4,377)
Provision for income taxes	421	42,257	(1,531)
Income (loss) from discontinued operations	\$ 781	\$ 78,707	\$ (2,846)

Note 5 — Inventories

Inventories consisted of the following:

(Thousands of dollars)	December 31,	
	2014	2013
Finished products - FIFO basis	\$ 205,213	\$ 372,531
Less LIFO - finished products	(144,283)	(307,706)
Finished products - LIFO basis	60,930	64,825
Store merchandise for resale	98,712	97,058
Corn based products	17,873	12,447
Materials and supplies	5,399	4,725
Total inventories	\$ 182,914	\$ 179,055

At December 31, 2014 and 2013, the replacement cost (market value) of last-in, first-out (LIFO) inventories exceeded the LIFO carrying value by \$144,283,000 and \$307,706,000, respectively. Corn based products consisted primarily of corn and wet distillers' grains with solubles (WDGS), and were all valued on a first-in, first-out (FIFO) basis.

In 2014, inventories valued at LIFO incurred a decrement that resulted in a benefit of \$19,512,000 on income from continuing operations before income tax. In 2013, inventories valued at LIFO incurred a decrement that resulted in a charge to earnings while 2012 had a decrement that led to a benefit. The total LIFO impact to income from continuing operations before income tax was a decrease of \$13,472,000 and an increase of \$2,526,000 at December 31, 2013 and 2012, respectively.

Note 6 – Property, Plant and Equipment

(Thousands of dollars)	Estimated Useful Life	December 31, 2014		December 31, 2013	
		Cost	Net	Cost	Net
Land		\$ 527,642	527,642	520,026	520,026
Ethanol facilities	20 years	70,802	4,481	67,284	1,082
Pipeline and terminal facilities	16 to 25 years	88,447	36,384	85,907	36,114
Retail gasoline stations	3 to 50 years	1,229,582	662,954	1,110,340	611,132
Buildings	20 to 45 years	18,160	8,328	17,829	8,608
Other	3 to 20 years	48,693	13,335	44,697	13,761
		\$ 1,983,326	1,253,124	1,846,083	1,190,723

At year-end 2012, the Company wrote down its net investment in the ethanol production facility in Hereford, Texas, taking a pre-tax impairment charge of \$60,988,000. The write down was required based on expected weak ethanol production margins at the plant in future periods. Fair value was determined using a discounted cash flow model for three years, plus an estimated terminal value based on a multiple of the last year's cash flow. Certain key assumptions used in the cash flow model included use of available futures prices for corn and ethanol products. Additional key assumptions included estimated future ethanol and distillers' grain production levels, estimated future operating expenses, and estimated sales prices for distillers' grain.

Note 7 – Accounts Payable and Accrued Liabilities

Trade accounts payable and accrued liabilities consisted of the following:

(Thousands of dollars)	December 31,	
	2014	2013
Trade accounts payable	\$ 230,919	311,397
Excise taxes/withholdings payable	71,273	55,882
Accrued insurance obligations	19,621	17,247
Other	65,186	48,702
Accounts payable and accrued liabilities	\$ 386,999	433,228

Note 8 — Long-Term Debt

Long-term debt consisted of the following:

(Thousands of dollars)	December 31,	
	2014	2013
6% senior notes due 2023 (net of unamortized discount of \$7,557 at 2014 and \$8,422 at 2013)	\$ 492,443	\$ 491,578
Term loan due 2016 (effective rate of 3.71% at December 31, 2013)	—	70,000
Less current maturities	—	(14,000)
Total long-term debt	\$ 492,443	\$ 547,578

Senior Notes

On August 14, 2013, Murphy Oil USA, Inc., our primary operating subsidiary, issued 6.00% Senior Notes due 2023 (the “Senior Notes”) in an aggregate principal amount of \$500 million. The Senior Notes are fully and unconditionally guaranteed by Murphy USA, and are guaranteed by certain 100% owned subsidiaries that guarantee our credit facilities. The indenture governing the Senior Notes contains restrictive covenants that limit, among other things, the ability of Murphy USA, Murphy Oil USA, Inc. and the restricted subsidiaries to incur additional indebtedness or liens, dispose of assets, make certain restricted payments or investments, enter into transactions with affiliates or merge with or into other entities.

The Senior Notes and the guarantees rank equally with all of our and the guarantors’ existing and future senior unsecured indebtedness and effectively junior to our and the guarantors’ existing and future secured indebtedness (including indebtedness with respect to the credit facilities) to the extent of the value of the assets securing such indebtedness. The Senior Notes are structurally subordinated to all of the existing and future third-party liabilities, including trade payables, of our existing and future subsidiaries that do not guarantee the notes.

We used the net proceeds of the Senior Notes, together with borrowings under the credit facilities, to finance a cash dividend of \$650 million from Murphy Oil USA, Inc. to Murphy Oil paid in connection with the Separation.

On June 17, 2014, we closed an exchange offer for our Senior Notes to make them eligible for public resale, as required by a registration rights agreement entered into in connection with the issuance of the Senior Notes. All of the Senior Notes were tendered for exchange.

Credit Facilities

On August 30, 2013, we entered into a credit agreement, which provides for a committed \$450 million asset-based loan (ABL) facility (with availability subject to the borrowing base described below) and a \$150 million term facility. It also provides for a \$200 million uncommitted incremental facility. On August 30, 2013, Murphy Oil USA, Inc. borrowed \$150 million under the term facility, the proceeds of which were used, together with the net proceeds of the offering of the Senior Notes, to finance the \$650 million cash dividend from Murphy USA Inc. to Murphy Oil. The term facility was repaid in full in May 2014. On September 2, 2014, we amended the credit agreement to extend the maturity date to September 2, 2019 and amend the terms of the various covenants.

The borrowing base is expected, at any time of determination, to be an amount (net of reserves) equal to the sum of:

- 100% of eligible cash at such time, plus
- 90% of eligible credit card receivables at such time, plus
- 90% of eligible investment grade accounts, plus
- 85% of eligible other accounts, plus
- 80% of eligible product supply/wholesale refined products inventory at such time, plus
- 75% of eligible retail refined products inventory at such time, plus

the lesser of (i) 70% of the average cost of eligible retail merchandise inventory at such time and (ii) 85% of the net orderly liquidation value of eligible retail merchandise inventory at such time.

The ABL facility includes a \$75 million sublimit on swingline loans and a \$200 million sublimit for the issuance of letters of credit. Swingline loans and letters of credit issued under the ABL facility reduce availability under the ABL facility.

Interest payable on the credit facilities is based on either:

- the London interbank offered rate, adjusted for statutory reserve requirements (the “Adjusted LIBO Rate”); or
- the Alternate Base Rate, which is defined as the highest of (a) the prime rate, (b) the federal funds effective rate from time to time plus 0.50% per annum and (c) the one-month Adjusted LIBO Rate plus 1.00% per annum,

plus, (A) in the case Adjusted LIBO Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 1.50% to 2.00% per annum depending on the average availability under the ABL facility or (ii) with respect to the term facility, spreads ranging from 2.75% to 3.00% per annum depending on a secured debt to EBITDA ratio and (B) in the case of Alternate Base Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 0.50% to 1.00% per annum depending on the average availability under the ABL facility or (ii) with respect to the term facility, spreads ranging from 1.75% to 2.00% per annum depending on a secured debt to EBITDA ratio.

The interest rate period with respect to the Adjusted LIBO Rate interest rate option can be set at one-, two-, three-, or six-months as selected by us in accordance with the terms of the credit agreement.

We were obligated to make quarterly principal payments on the outstanding principal amount of the term facility beginning on the first anniversary of the effective date of the credit agreement in amounts equal to 10% of the term loans made on such effective date, with the remaining balance payable on the scheduled maturity date of the term facility. Borrowings under the credit facilities are prepayable at our option without premium or penalty. We were also required to prepay the term facility with the net cash proceeds of certain asset sales or casualty events, subject to certain exceptions. The credit agreement also includes certain customary mandatory prepayment provisions with respect to the ABL facility.

The credit agreement contains certain covenants that limit, among other things, the ability of us and our subsidiaries to incur additional indebtedness or liens, to make certain investments, to enter into sale-leaseback transactions, to make certain restricted payments, to enter into consolidations, mergers or sales of material assets and other fundamental changes, to transact with affiliates, to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends, or to make certain accounting changes. In addition, the credit agreement requires us to maintain a fixed charge coverage ratio of a minimum of 1.0 to 1.0 when availability for at least three consecutive business days is less than the greater of (a) 17.5% of the lesser of the aggregate ABL facility commitments and the borrowing base and (b) \$70,000,000 (including as of the most recent fiscal quarter end on the first date when availability is less than such amount). As of December 31, 2014, our fixed charge coverage ratio was 1.30. Prior to the repayment of the term loan, we were also subject to a maximum secured debt to EBITDA ratio of 4.5 to 1.0 at any time when term facility commitments or term loans thereunder were outstanding.

After giving effect to the applicable restrictions on certain payments, which could include dividends under the credit agreement (which restrictions are only applicable when availability under the credit agreement does not exceed the greater of 25% of the lesser of the revolving commitments and the borrowing base and \$100 million (and if availability under the credit agreement does not exceed the greater of 40% of the lesser of the revolving commitments and the borrowing base and \$150 million, then our fixed charge coverage ratio must be at least 1.0 to 1.0)) and the indenture, and subject to compliance with applicable law. As of December 31, 2014, the Company had approximately \$107.5 million of its net income and retained earnings free of such restrictions.

All obligations under the credit agreement are guaranteed by Murphy USA and the subsidiary guarantors party thereto, and all obligations under the credit agreement, including the guarantees of those obligations, are secured by certain assets of Murphy USA, Murphy Oil USA, Inc. and the guarantors party thereto.

Note 9 — Asset Retirement Obligations (ARO)

The majority of the ARO recognized by the Company at December 31, 2014 and 2013 related to the estimated costs to dismantle and abandon certain of its retail gasoline stations. The Company has not recorded an ARO for certain of its marketing assets because sufficient information is presently not available to estimate a range of potential settlement dates for the obligation. These assets are consistently being upgraded and are expected to be operational into the foreseeable future. In these cases, the obligation will be initially recognized in the period in which sufficient information exists to estimate the obligation.

F-15

A reconciliation of the beginning and ending aggregate carrying amount of the ARO is shown in the following table.

(Thousands of dollars)	December 31,	
	2014	2013
Balance at beginning of period	\$ 17,130	15,401
Accretion expense	1,200	1,096
Liabilities incurred	3,915	633
Balance at end of period	\$ 22,245	17,130

The estimation of future ARO is based on a number of assumptions requiring professional judgment. The Company cannot predict the type of revisions to these assumptions that may be required in future periods due to the lack of availability of additional information.

Note 10 — Income Taxes

The components of income from continuing operations before income taxes for each of the three years ended December 31, 2014 and income tax expense (benefit) attributable thereto were as follows:

(Thousands of dollars)	Years Ended December 31,		
	2014	2013	2012
Income (loss) from continuing operations before income taxes	\$ 369,423	257,677	150,119
Income tax expense (benefit)			
Federal - Current	\$ 125,742	89,700	64,059
Federal - Deferred	2,989	(4,761)	(17,098)
State - Current and deferred	(2,390)	16,412	16,744
Total	\$ 126,341	101,351	63,705

The following table reconciles income taxes based on the U.S. statutory tax rate to the Company's income tax expense.

(Thousands of dollars)	Years Ended December 31,		
	2014	2013	2012
Income tax expense based on the U.S. statutory tax rate	\$ 129,298	90,187	52,542
State income taxes, net of federal benefit	(1,554)	10,668	10,884

Other, net	(1,403)	496	279
Total	\$ 126,341	101,351	63,705

An analysis of the Company's deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013 showing the tax effects of significant temporary differences follows:

(Thousands of dollars)	Years Ended December	
	2014	2013
Deferred tax assets		
Property costs	\$ 1,692	6,456
Asset retirement obligations	465	5,844
Employee benefits	9,712	3,090
Other deferred tax assets	8,995	6,389
Total gross deferred tax assets	20,864	21,779
Less valuation allowance	—	—
Net deferred tax assets	20,864	21,779
Deferred tax liabilities		
Accumulated depreciation and amortization	(114,262)	(115,737)
State deferred taxes	(16,855)	(16,423)
Other deferred tax liabilities	(8,837)	(11,694)
Total gross deferred tax liabilities	(139,954)	(143,854)
Net deferred tax liabilities	\$ (119,090)	(122,075)

F-16

In management's judgment, the net deferred tax assets in the preceding table will more likely than not be realized as reductions of future taxable income or by utilizing available tax planning strategies.

Murphy Oil's tax returns in multiple jurisdictions that include the Company are subject to audit by taxing authorities. These audits often take years to complete and settle. As of December 31, 2014, the earliest year remaining open for Federal audit and/or settlement is 2010 and for the states it ranges from 2008-2011. Although the Company believes that recorded liabilities for unsettled issues are adequate, additional gains or losses could occur in future periods from resolution of outstanding unsettled matters.

The FASB's rules for accounting for income tax uncertainties clarify the criteria for recognizing uncertain income tax benefits and require additional disclosures about uncertain tax positions. Under U.S. GAAP the financial statement recognition of the benefit for a tax position is dependent upon the benefit being more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. Liabilities associated with uncertain income tax positions are included in Deferred Credits and Other Liabilities in the Consolidated Balance Sheet. A reconciliation of the beginning and ending amount of the consolidated liability for unrecognized income tax benefits during the year ended December 31, 2014 is shown in the following table. No uncertain tax position liabilities were recognized for the two years ending December 31, 2013.

(Thousands of dollars)	Year Ended December 31, 2014
Balance at January 1	\$ —
Additions for tax positions related to prior year	10,086
Additions for tax positions related to current year	77
Settlements with taxing authorities	(1,563)
Expiration of statutes of limitation	(2,499)
Balance at December 31	\$ 6,101

All additions or reductions to the above liability affect the Company's effective tax rate in the respective period of change. The Company accounts for any applicable interest and penalties on uncertain tax positions as a component of income tax expense. Income tax expense for the years ended December 31, 2014, 2013 and 2012 included net benefits for interest and penalties of \$1,143,000, \$0 and \$0, respectively, associated with uncertain tax positions.

During the next twelve months, the Company currently expects to add immaterial amounts to the liability for uncertain taxes for 2015 events. Although existing liabilities could be reduced by settlement with taxing authorities or

lapse due to statute of limitations, the Company believes that the changes in its unrecognized tax benefits due to these events will not have a material impact on the Consolidated and Combined Income Statements during 2015.

Note 11 — Incentive Plans

Prior to the separation, our employees participated in the Murphy Oil 2007 Long-Term Incentive Plan (the “2007 Plan”) and the Murphy Oil 2012 Long-Term Incentive Plan (the “2012 Plan”) and received Murphy Oil restricted stock awards and options to purchase shares of Murphy Oil common stock. While participating in these two plans, costs resulting from share-based payment transactions were allocated and recognized as an expense in the financial statements using a fair value-based measurement method over the periods that the awards vested. Certain employees of the Company have received annual grants in the form of Murphy Oil stock options, restricted stock units and other forms of share-based payments prior to the separation. Accordingly, the Company has accounted for expense for these plans in accordance with SAB Topic 1-B for periods prior to the separation.

2013 Long-Term Incentive Plan

Effective August 30, 2013, certain of our employees began to participate in the Murphy USA 2013 Long-Term Incentive Plan, which was subsequently amended and restated effective as of February 12, 2014 (the “MUSA 2013 Plan”). The MUSA 2013 Plan authorizes the Executive Compensation Committee of our Board of Directors (“the Committee”) to grant non-qualified or incentive stock options, stock appreciation rights, stock awards (including restricted stock and restricted stock unit awards), cash awards, and performance awards to our employees. Prior to the amendment and restatement of the MUSA 2013 Plan on February 12, 2014, 10 million shares of MUSA common stock were authorized to be delivered under the MUSA 2013 Plan over the life of the plan. Pursuant to the amendment and restatement of the plan effective as of February 12, 2014, this was reduced to 5.5 million shares of common stock. No more than 1 million

F-17

shares of common stock may be awarded to any one employee, subject to adjustment for changes in capitalization. The maximum cash amount payable pursuant to any “performance-based” award to any participant in any calendar year is \$5 million.

In connection with the separation, stock compensation awards granted under the 2007 Plan and the 2012 Plan by Murphy Oil (pre-separation awards) were adjusted or substituted as follows:

- Vested stock options were equitably adjusted so that the grantee holds more options to purchase Murphy Oil common stock at a lower strike price.
- Unvested stock options and stock appreciation rights held by MUSA employees were replaced with substitute awards of options to purchase shares of MUSA common stock.
- Unvested restricted stock units will be replaced with adjusted, substitute awards for restricted stock units of MUSA common stock. The new awards of restricted stock are intended to generally preserve the intrinsic value of the original award determined as of the separation and distribution date.
- Vesting periods of awards were unaffected by the adjustment and substitution, except that for vested Murphy Oil stock options the MUSA employees have until the earlier of two years from the date of the separation or the stated expiration date of the option to exercise the award.

Awards granted in connection with the adjustment and substitution of awards originally issued under the 2007 Plan and the 2012 Plan are a part of the MUSA 2013 Plan and reduce the maximum number of shares of common stock available for delivery under the MUSA 2013 Plan. During the period from August 30 to December 31, 2014, the Company granted a total of 1,276,548 awards from the MUSA 2013 Plan which leaves 4,280,895 remaining shares to be granted in future years (after consideration of the amendments made to the MUSA 2013 Plan in February 2014 by the Board of Directors).

2013 Stock Plan for Non-employee Directors

Effective August 8, 2013, Murphy USA adopted the 2013 Murphy USA Stock Plan for Non-employee Directors (the “Directors Plan”). The directors for Murphy USA are compensated with a mixture of cash payments and equity-based awards. Awards under the Directors Plan may be in the form of restricted stock, restricted stock units, stock options, or a combination thereof. An aggregate of 500,000 shares of common stock shall be available for issuance of grants under the Directors Plan. Since 2013, 50,850 time-based restricted stock units have been granted under the terms of the Directors Plan which leaves 449,150 shares available to be granted in the future.

Amounts recognized in the financial statements by the Company with respect to all share-based plans are shown in the following table. All expense prior to August 30, 2013 was incurred under the 2007 Plan and the 2012 Plan while all amounts after August 30, 2013 were incurred in the MUSA 2013 Plan and the Directors Plan.

	Years Ended December 31,		
(Thousands of dollars)	2014	2013	2012

Compensation charged against income before income tax benefit	\$ 10,435	9,391	8,416
Related income tax benefit recognized in income	3,652	3,287	2,946

As of December 31, 2014, there was \$13,471,000 in compensation costs to be expensed over approximately the next 2.7 years related to unvested share-based compensation arrangements granted by the Company or its predecessor. Total income tax benefits realized by Murphy Oil from tax deductions related to stock option exercises under share-based payment arrangements previously issued by Murphy Oil Corporation were \$0, \$625,000, and \$1,851,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Cash received from options exercised under all share-based payment arrangements for the years ended December 31, 2014, 2013 and 2012 was \$581,000, \$0 and \$0 as no awards had vested prior to February 2014. Total income tax benefits realized from tax deductions related to stock option exercises under share-based payment arrangements were \$470,000 for the year ended December 31, 2014.

STOCK OPTIONS – The Committee fixes the option price of each option granted at no less than fair market value (FMV) on the date of the grant and fixes the option term at no more than seven years from such date. Each option granted through December 31, 2013 under the MUSA 2013 Plan was nonqualified and was issued to replace awards of Murphy Oil that were previously granted to employees of the Company prior to the separation from Murphy Oil. The remaining term of each option granted mirrored the remaining term of the original award that it replaced and the exercise price was adjusted based on the terms of the Employee Matters Agreement entered into between the

Company and Murphy Oil in connection with the separation. Post separation in 2013, the only awards issued were to replace the unvested awards of Murphy Oil that were forfeited in conjunction with the separation. Therefore, the accounting for those awards was a continuation of the Murphy Oil fair value that was previously calculated using the Black-Scholes pricing model and used the following original assumptions to calculate the fair value used for expense purposes. Following are the assumptions used originally by Murphy Oil to value the original awards.

	Years ended December 31, 2012 and 2011
Fair value per option grant	\$ 12.37 - 20.34
Assumptions	
Dividend yield	1.80% - 2.27%
Expected volatility	37.00% - 39.62%
Risk-free interest rate	0.55% - 2.10%
Expected life	4.00 yrs. - 5.20 yrs.

As a result of the separation from Murphy Oil, the unvested Murphy Oil options were replaced with an appropriate number of Company options bearing an exercise price that was adjusted to preserve the intrinsic value near the date of the separation in connection with the terms of the Employee Matters Agreement. The grant date fair values of the options replaced with MUSA 2013 Plan awards range from \$32.53 to \$40.25. Because of these adjustments, no further Black-Scholes fair values were required to be calculated for the post separation period. The adjustment and substitution of the stock compensation awards occurred in conjunction with the distribution of MUSA common stock to Murphy Oil stockholders. As a result, no grant, exercise, or cancellation activity occurred on MUSA stock compensation awards during the years ended December 31, 2012 or 2011. In February 2014, the Committee granted nonqualified stock options to certain employees of the Company. Following are the assumptions used by the Company to value the original awards:

	Year ended December 31, 2014
Fair value per option grant	\$ 11.44
Assumptions	
Dividend yield	—
Expected volatility	31.7%
Risk-free interest rate	1.37%
Expected life	4.6 years

Changes in options outstanding for Company employees during the period from August 30, 2013 to December 31, 2014 are presented in the following table:

Changes in options outstanding for Company employees during the period from August 30, 2013 to December 31, 2014 are presented in the following table:

	Number of Shares	Average Exercise Price
Outstanding at December 31, 2012	—	\$ —
Granted at FMV	625,101	35.12
Exercised	—	—
Forfeited	(3,952)	33.92
Outstanding at December 31, 2013	621,149	35.13
Granted at FMV	127,400	39.46
Exercised	(74,766)	34.21
Forfeited	(13,148)	38.36
Outstanding at December 31, 2014	660,635	36.00
Exercisable at December 31, 2013	—	\$ —
Exercisable at December 31, 2014	88,445	34.54

Additional information about stock options outstanding at December 31, 2014 is shown below:

Range of Exercise Prices per Option	Options Outstanding			Options Exercisable		
	No. of Options	Avg. Life Remaining in Years	Aggregate Intrinsic Value	No. of Options	Avg. Life Remaining in Years	Aggregate Intrinsic Value
\$32.53 to \$37.06	386,119	4.7	\$ 13,634,984	49,228	4.1	\$ 1,788,414
\$37.07 to \$39.45	39,217	3.1	1,246,599	39,217	3.1	1,246,599
\$39.46 to \$40.25	235,299	5.7	6,823,643	—	—	—
	660,635	5.0	\$ 21,705,226	88,445	3.6	\$ 3,035,013

RESTRICTED STOCK UNITS (MUSA 2013 Plan)– The Committee has granted time based restricted stock units (RSUs) as part of the replacement of previously unvested performance based RSUs, performance units, and time based RSU's previously issued to employees of Murphy Oil prior to August 30, 2013. In addition, certain other employees have also received grants of time based RSUs that will vest over various periods of time in the year ended December 31, 2014. In February and March 2014, the Committee granted time based restricted stock to certain employees. These awards were granted under the MUSA 2013 Plan and vest in 3 years.

(Number of units)	Employee RSU's
Outstanding at December 31, 2012	—
Granted	352,522
Vested and issued	(509)
Forfeited	(4,915)
Outstanding at December 31, 2013	347,098
Granted	93,025
Vested and issued	(20,680)
Forfeited	(22,428)
Outstanding at December 31, 2014	397,015

PERFORMANCE-BASED RESTRICTED STOCK UNITS (MUSA 2013 Plan) – In February 2014, the Committee awarded performance-based restricted stock units (performance units) to certain employees. Half of the performance units vest based on a 3-year return on average capital employed (ROACE) calculation and the other half vest based on a 3-year total shareholder return (TSR) calculation that compares MUSA to a group of 17 peer companies. The portion of the awards that vest based on TSR qualify as a market condition and must be valued using a Monte Carlo valuation model. For the TSR portion of the awards, the fair value was determined to be \$43.41 per unit. For the ROACE portion of the awards, the valuation was based on the grant date fair value of \$39.46 per unit and the number of awards will be periodically assessed to determine the probability of vesting.

(Number of units)	Employee PSU's
Outstanding at December 31, 2013	—
Granted	78,500
Vested and issued	—
Forfeited	(6,500)
Outstanding at December 31, 2014	72,000

F-20

RESTRICTED STOCK UNITS (Directors Plan) – The Committee has also granted time based RSUs to the non-employee directors of the Company as part of their overall compensation package for being a member of the Board of Directors. These awards typically vest at the end of three years.

(Number of units)	Director RSU's
Outstanding at December 31, 2012	—
Granted	28,413
Vested and issued	—
Forfeited	—
Outstanding at December 31, 2013	28,413
Granted	22,437
Vested and issued	—
Forfeited	—
Outstanding at December 31, 2014	50,850

Note 12 — Employee and Retiree Benefit Plans

PENSION AND POSTRETIREMENT PLANS — After separating from Murphy Oil, the Company no longer sponsors or participates in any defined benefit pension plan or post retirement benefit plan for its employees. Prior to the separation, Murphy Oil had defined benefit pension plans that were principally noncontributory and covered most full-time employees. Upon separation from Murphy Oil, all amounts for these plans that involved Murphy USA employees were frozen and retained by Murphy Oil. Therefore, the assets and liabilities related to Murphy USA employees in these plans are not included in these financial statements as Murphy USA was considered to be participating in multiple employer benefit plans due to co-mingling of various plan assets. However, the periodic benefit expense for each period prior to August 30, 2013 includes the expense of the U.S. benefit plans. All U.S. tax qualified plans meet the funding requirements of federal laws and regulations.

The table that follows provides the components of net periodic benefit expense associated with Company employees for the two years ended December 31, 2013. The net periodic benefit expense ended on the separation date of August 30, 2013 and therefore no further expense was recorded for these plans.

	Years ended December 31,			
	Pension Benefits		Other Postretirement Benefits	
(Thousands of dollars)	2013	2012	2013	2012
Service cost	\$ 3,401	\$ 4,227	\$ 1,447	\$ 1,770

Interest cost	2,717	4,252	983	1,454
Expected return on plan assets	(2,794)	(3,860)	—	—
Amortization of prior service cost (benefits)	53	90	(7)	(10)
Recognized actuarial loss	2,108	2,986	363	369
Termination benefits expense	—	—	—	—
Curtailment expense	—	—	—	—
Net periodic benefit expense	\$ 5,485	\$ 7,695	\$ 2,786	\$ 3,583

The following table provides the weighted-average assumptions used in the measurement of the net periodic benefit expense for the year ended December 31, 2012.

	Net Periodic Benefit Expenses	
	Pension Benefits	Postretirement Benefits
	2012	2012
Discount rate	4.87%	4.87%
Expected return on plan assets	6.50%	0%
Rate of compensation increase	4.20%	0%

F-21

The discount rates used for purposes of determining the expense are based on the universe of high-quality corporate bonds that are available. Cash flow analyses are performed in which a spot yield curve is used to discount projected benefit payment streams for the most significant plans. The discounted cash flows are used to determine an equivalent single rate which is the basis for selecting the discount rate. Expected plan asset returns are based on long-term expectations for asset portfolios with similar investment mix characteristics. Expected compensation increases were based on anticipated future averages for Murphy Oil.

U.S. Health Care Reform — In March 2010, the United States Congress enacted a health care reform law. Along with other provisions, the law (a) imposes a 40% excise tax on high-cost health plans as defined in the law beginning in 2018; (b) eliminated lifetime or annual coverage limits and required coverage for preventative health services beginning in September 2010; and (c) imposed a fee of \$2 (subsequently adjusted for inflation) for each person covered by a health insurance policy beginning in September 2010. The new law did not significantly affect the Company's consolidated and combined financial statements as of December 31, 2014 and 2013 and for the three years ended December 31, 2014. The Company continues to evaluate the various components of the law as guidance is issued and cannot predict with certainty all the ways it may impact the Company. However, based on the evaluation performed to date, the Company currently believes that the health care reform law will not have a material effect on its financial condition, results of operations, or cash flows in future periods.

THRIFT PLAN — At the time of the spin-off, Murphy USA set up a new qualified defined contribution plan for full-time employees with an asset transfer from the Murphy Oil defined contribution plan. Most full-time employees of the Company may participate in savings plans by contributing up to a specified percentage of their base pay. The Company matches contributions at 100% of each employee's contribution with a maximum match of 6%. In addition, the Company makes profit sharing contributions on an annual basis. Eligible employees receive a stated percentage of their base and incentive pay of 5%, 7%, or 9% determined on a formula that is based on a combination of age and years of service. The Company's expenses related to this plan were \$9,089,000 in 2014, \$4,678,000 in 2013 and \$2,460,000 in 2012.

PROFIT SHARING PLAN — Eligible part-time employees may participate in the Company's noncontributory profit sharing plan. Each year, the Company may make a discretionary employer contribution in an amount determined and authorized at the discretion of the Board of Directors. Eligible employees receive an allocation based on their compensation earned for the year the contribution is allocated. The Company's expenses related to this plan were \$1,848,000 in 2014, \$1,861,000 in 2013 and \$1,627,000 in 2012.

Note 13 — Financial Instruments and Risk Management

DERIVATIVE INSTRUMENTS — The Company makes limited use of derivative instruments to manage certain risks related to commodity prices. The use of derivative instruments for risk management is covered by operating policies and is closely monitored by the Company's senior management. The Company does not hold any derivatives for speculative purposes and it does not use derivatives with leveraged or complex features. Derivative instruments are traded primarily with creditworthy major financial institutions or over national exchanges such as the New York

Mercantile Exchange (“NYMEX”).

The Company is subject to commodity price risk related to corn that it will purchase in the future for feedstock and WDGS that it will sell in the future at its ethanol production facility. At December 31, 2014 and 2013, the Company had open physical delivery commitment contracts for purchase of approximately 13.4 million and 3.1 million bushels of corn, respectively, for processing at its ethanol plant. For the periods ended December 31, 2014 and 2013, the Company had open physical delivery commitment contracts for sale of approximately 0.5 million and 0.5 million equivalent bushels, respectively, of WDGS. To manage the price risk associated with certain of these physical delivery commitments which have fixed prices, at December 31, 2014 and 2013, the Company had outstanding derivative contracts with a net short volume of approximately 1.5 million bushels and 0.5 million bushels, respectively, that mature at future prices in effect on the expected date of delivery under the physical delivery commitment contracts. Additionally, at December 31, 2014 and 2013, the Company had outstanding derivative contracts with a net short volume of 3.2 and 2.0 million bushels, respectively, of corn to buy back when certain corn inventories are expected to be processed. The impact of marking to market these commodity derivative contracts decreased income before taxes by \$2.1 million, decreased income before taxes by \$0.1 million, and increased income before taxes by \$2.9 million for the three years ended December 31, 2014, 2013 and 2012, respectively.

At December 31, 2014 and 2013, the fair value of derivative instruments not designated as hedging instruments are presented in the following table.

F-22

	December 31, 2014				December 31, 2013			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value
(Thousands of dollars)	Location	Value	Location	Value	Location	Value	Location	Value
Commodity derivative contracts	Accounts Receivable	\$ 74	Accounts Payable	\$ 2,204	Accounts Receivable	\$ 224	Accounts Payable	\$ 291

For the years ended December 31, 2014 and 2013, the gains and losses recognized in the consolidated and combined Income Statements for derivative instruments not designated as hedging instruments are presented in the following table.

(Thousands of dollars)	Statement of Income Location	Amount of Gain (Loss) Recognized in Income on Derivative	
		2014	2013
Type of Derivative Contract	Fuel and ethanol costs of goods sold	\$ 921	\$ 8,516

The Company offsets certain assets and liabilities related to derivative contracts when the legal right of offset exists. Derivative assets and liabilities which have offsetting positions at December 31, 2014 and 2013 are presented in the following tables:

(Thousands of dollars)	Gross Amounts of Recognized Assets	Offset in the Combined	Net
			Amounts of Assets Presented in the Combined

		Balance Sheet	Balance Sheet
At December 31, 2014			
Commodity derivatives	\$ 93	\$ (19)	\$ 74
At December 31, 2013			
Commodity derivatives	\$ 233	\$ (9)	\$ 224

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet
(Thousands of dollars)			
At December 31, 2014			
Commodity derivatives	\$ 2,223	\$ (19)	\$ 2,204
At December 31, 2013			
Commodity derivatives	\$ 300	\$ (9)	\$ 291

All commodity derivatives above are corn-based contracts associated with the Company's Hereford ethanol plant as all positions related to Hankinson were assumed by the buyer in conjunction with the sale. Net derivative assets are included in Accounts Receivable presented in the table on the prior page and are included in Accounts Receivable on the Consolidated and Combined Balance Sheets; likewise, net derivative liabilities in the above table are included in Accounts Payable in the table above and are included in Accounts payable and accrued liabilities on the Consolidated and Combined Balance Sheets. These contracts permit net settlement and the Company generally avails itself of this right to settle net. At December 31, 2014 and 2013 cash deposits of \$2.8 million and \$2.9 million, respectively, related to commodity derivative contracts were reported in Prepaid expenses and other current assets in the Consolidated and Combined Balance Sheets. These cash deposits have not been used to reduce the reported net liabilities on the corn-based derivative contracts at December 31, 2014 and 2013.

Note 14 – Earnings Per Share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average of common shares outstanding during the period. Diluted earnings per common share adjusts basic

earnings per common share for the effects of stock options and restricted stock in the periods where such items are dilutive.

On August 30, 2013, 46,743,316 shares of our common stock were distributed to the shareholders of Murphy Oil in connection with the separation. For comparative purposes, we have assumed this amount to be outstanding as of the beginning of each prior period prior to the separation presented in the calculation of weighted average shares outstanding.

During May 2014, the Company executed a share repurchase program that was approved by the Board of Directors for approximately \$50 million worth of common stock of the Company. At the completion of this plan, the Company had acquired 1,040,636 shares of common stock for an average price of \$48.07 per share including brokerage fees.

The following table provides a reconciliation of basic and diluted earnings per share computations for the years ended December 31, 2014, 2013 and 2012 (in thousands, except per share amounts):

(Thousands of dollars except per share amounts)	Years ended December 31,		
	2014	2013	2012
Earnings per common share:			
Net income attributable to common stockholders	\$ 243,863	\$ 235,033	\$ 83,568
Weighted average common shares outstanding (in thousands)	46,104	46,743	46,743
Total earnings per share	\$ 5.29	\$ 5.03	\$ 1.79
Earnings per common share - assuming dilution:			
Net income attributable to common stockholders	\$ 243,863	\$ 235,033	\$ 83,568
Weighted average common shares outstanding (in thousands)	46,104	46,743	46,743
Common equivalent shares:			
Dilutive options	313	115	—
Weighted average common shares outstanding - assuming dilution (in thousands)	46,417	46,858	46,743
Earnings per share - assuming dilution	\$ 5.26	\$ 5.02	\$ 1.79

Note 15 — Other Financial Information

ETHANOL SALES AND OTHER – Ethanol sales and other revenue in the Consolidated and Combined Income Statements includes the following items:

(Thousands of dollars)	2014	2013	2012
Sales of ethanol and related plant products	\$ 223,831	\$ 269,254	\$ 290,158
Renewable Identification Numbers (RINs) sales	92,916	91,391	8,830
Other	3,267	2,907	2,988
Total ethanol sales and other revenue	\$ 320,014	\$ 363,552	\$ 301,976

CASH FLOW DISCLOSURES — Cash income taxes paid (collected), net of refunds, were \$158,063,000, \$47,757,000 and \$13,036,000 for the three years ended December 31, 2014, 2013 and 2012, respectively. Interest paid was \$34,019,000, \$1,647,000 and \$479,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

Noncash reductions (additions) to net parent investment related primarily to settlement of income taxes were \$453,000 and (\$6,747,000) for the years ended December 31, 2013 and 2012, respectively.

F-24

(Thousands of dollars)	2014	2013	2012
Accounts receivable	\$ 59,171	\$ 331,679	\$ (171,115)
Inventories	(3,858)	20,532	(29,784)
Prepaid expenses and other current assets	637	(6,623)	(3,187)
Deferred income tax assets	—	—	—
Accounts payable and accrued liabilities	(50,972)	(272,371)	230,704
Income taxes payable	(30,782)	7,276	4,396
Current deferred income tax liabilities	(6,662)	(5,628)	1,539
Net decrease (increase) in noncash operating working capital	\$ (32,466)	\$ 74,865	\$ 32,553

Note 16 — Assets and Liabilities Measured at Fair Value

The Company carries certain assets and liabilities at fair value in its Consolidated and Combined Balance Sheets. The fair value hierarchy is based on the quality of inputs used to measure fair value, with Level 1 being the highest quality and Level 3 being the lowest quality. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1. Level 3 inputs are unobservable inputs which reflect assumptions about pricing by market participants.

The Company carries certain assets and liabilities at fair value in its Consolidated and Combined Balance Sheets. The fair value measurements for these assets and liabilities at December 31, 2014 and 2013 are presented in the following table.

(Thousands of dollars)	Fair Value Measurements at Reporting Date Using			
	Fair Value December 31, 2014	Quoted Prices In Active Markets for Identical Assets/(Liabilities) (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Commodity derivative contracts	\$ 74	—	\$ 74	—

Liabilities

Commodity derivative contracts	\$ (2,204)	—	\$ (2,204)	—
	Fair Value Measurements at Reporting Date Using			
		Quoted Prices In Active Markets	Significant Other	Significant
	Fair Value December 31, 2013	for Identical Assets/(Liabilities) (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
(Thousands of dollars)				
Assets				
Commodity derivative contracts	\$ 224	—	\$ 224	—
Liabilities				
Commodity derivative contracts	\$ (291)	—	\$ (291)	—

At the balance sheet date the fair value of commodity derivatives contracts for corn was determined based on market quotes for No. 2 yellow corn. The change in fair value of commodity derivatives is recorded in Fuel and ethanol cost of goods sold. The carrying value of the Company's Cash and cash equivalents, Accounts receivable-trade and Trade accounts payable approximates fair value.

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at December 31, 2014 and 2013. The fair value of a financial instrument is the amount at which the

instrument could be exchanged in a current transaction between willing parties. The table excludes Cash and cash equivalents, Accounts receivable-trade, and Trade accounts payable and accrued liabilities, all of which had fair values approximating carrying amounts. The fair value of Current and Long-term debt was estimated based on rates offered to the Company at that time for debt of the same maturities. The Company has off-balance sheet exposures relating to certain financial guarantees and letters of credit. The fair value of these, which represents fees associated with obtaining the instruments, was nominal.

(Thousands of dollars)	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Current and long-term debt	\$ (492,443)	\$ (510,344)	\$ (561,578)	\$ (559,411)

Note 17 – Commitments

The Company leases land, gasoline stations, and other facilities under operating leases. During the next five years, expected future rental payments under all operating leases are approximately \$22,884,000 in 2015, \$22,059,000 in 2016, \$10,262,000 in 2017, \$9,311,000 in 2018, and \$9,031,000 in 2019. Rental expense for noncancelable operating leases, including contingent payments when applicable, was \$11,433,000 in 2014, \$9,691,000 in 2013 and \$6,093,000 in 2012. Operating lease expense related to discontinued operations was \$0, \$7,089,000, and \$3,380,000 in 2014, 2013, and 2012, respectively.

Commitments for capital expenditures were approximately \$169,797,000 at December 31, 2014, including \$159,778,000 for construction of future Murphy USA and Murphy Express gasoline stations (including land) in process at year-end, along with \$4,138,000 for improvements of existing stations, to be financed with our operating cash flow and/or incurrence of indebtedness.

Note 18 — Contingencies

The Company's operations and earnings have been and may be affected by various forms of governmental action. Examples of such governmental action include, but are by no means limited to: tax increases and retroactive tax claims; import and export controls; price controls; allocation of supplies of crude oil and petroleum products and other goods; laws and regulations intended for the promotion of safety and the protection and/or remediation of the environment; governmental support for other forms of energy; and laws and regulations affecting the Company's relationships with employees, suppliers, customers, stockholders and others. Because governmental actions are often motivated by political considerations, may be taken without full consideration of their consequences, and may be

taken in response to actions of other governments, it is not practical to attempt to predict the likelihood of such actions, the form the actions may take or the effect such actions may have on the Company.

ENVIRONMENTAL MATTERS AND LEGAL MATTERS — Murphy USA is subject to numerous federal, state and local laws and regulations dealing with the environment. Violation of such environmental laws, regulations and permits can result in the imposition of significant civil and criminal penalties, injunctions and other sanctions. A discharge of hazardous substances into the environment could, to the extent such event is not insured, subject the Company to substantial expense, including both the cost to comply with applicable regulations and claims by neighboring landowners and other third parties for any personal injury, property damage and other losses that might result.

The Company currently owns or leases, and has in the past owned or leased, properties at which hazardous substances have been or are being handled. Although the Company believes it has used operating and disposal practices that were standard in the industry at the time, hazardous substances may have been disposed of or released on or under the properties owned or leased by the Company or on or under other locations where they have been taken for disposal. In addition, many of these properties have been operated by third parties whose management of hazardous substances was not under the Company's control. Under existing laws the Company could be required to remediate contaminated property (including contaminated groundwater) or to perform remedial actions to prevent future contamination. Certain of these contaminated properties are in various stages of negotiation, investigation, and/or cleanup, and the Company is investigating the extent of any related liability and the availability of applicable defenses. With the sale of the U.S. refineries in 2011, Murphy Oil retained certain liabilities related to environmental matters. Murphy Oil also obtained insurance covering certain levels of environmental exposures. With respect to the previously owned refinery properties, Murphy Oil retained those liabilities in the Separation and Distribution agreement that was entered into related to the separation on August 30, 2013. With respect to any remaining potential liabilities, the

Company believes costs related to these sites will not have a material adverse effect on Murphy USA's net income, financial condition or liquidity in a future period.

Certain environmental expenditures are likely to be recovered by the Company from other sources, primarily environmental funds maintained by certain states. Since no assurance can be given that future recoveries from other sources will occur, the Company has not recorded a benefit for likely recoveries at December 31, 2014, however certain jurisdictions provide reimbursement for these expenses which have been considered in recording the net exposure. The U.S. Environmental Protection Agency (EPA) currently considers the Company a Potentially Responsible Party (PRP) at one Superfund site. As to the site, the potential total cost to all parties to perform necessary remedial work at this site may be substantial. However, based on current negotiations and available information, the Company believes that it is a de minimis party as to ultimate responsibility at the Superfund site. Accordingly, the Company has not recorded a liability for remedial costs at the Superfund site at December 31, 2014. The Company could be required to bear a pro rata share of costs attributable to nonparticipating PRPs or could be assigned additional responsibility for remediation at this site or other Superfund sites. The Company believes that its share of the ultimate costs to clean-up this site will be immaterial and will not have a material adverse effect on its net income, financial condition or liquidity in a future period.

Based on information currently available to the Company, the amount of future remediation costs to be incurred to address known contamination sites is not expected to have a material adverse effect on the Company's future net income, cash flows or liquidity. However, there is the possibility that additional environmental expenditures could be required to address contamination, including as a result of discovering additional contamination or the imposition of new or revised requirements applicable to known contamination.

In the case *Freeny v. Murphy Oil Corporation and Murphy Oil USA, Inc.*, the plaintiffs allege that the Company has infringed on their electronic pricing system patent. The Company's claim is that our pricing system can be differentiated and in fact we have our own patent for our pricing system. Murphy Oil USA, Inc. has agreed to defend and indemnify Murphy Oil Corporation in this matter as required by the terms of the Separation Agreement. We are unable to estimate potential damages at this point and we are defending the claim vigorously. Trial is currently set for June 2015. At this time, management believes the probability of loss in this case is remote. However, it is possible that an unfavorable outcome of this lawsuit or other contingency could have a material impact on the liquidity, results of operations, or financial condition of the Company in future periods.

Murphy USA is engaged in a number of other legal proceedings, all of which the Company considers routine and incidental to its business. Based on information currently available to the Company, the ultimate resolution of those other legal matters is not expected to have a material adverse effect on the Company's net income, financial condition or liquidity in a future period.

INSURANCE — The Company maintains insurance coverage at levels that are customary and consistent with industry standards for companies of similar size. Murphy USA maintains statutory workers compensation insurance with a deductible of \$0.5 million per occurrence. As of December 31, 2014, there were a number of outstanding claims that are of a routine nature. The estimated incurred but unpaid liabilities relating to these claims are included in Trade

account payables and accrued liabilities on the Consolidated and Combined Balance Sheets. While the ultimate outcome of these claims cannot presently be determined, management believes that the accrued liability of \$5.0 million will be sufficient to cover the related liability and that the ultimate disposition of these claims will have no material effect on the Company's financial position and results of operations.

The Company was insured under Murphy Oil's insurance policies for occurrences prior to the completion of the separation. The specifications and insured limits under those policies, however, were at a level consistent with Murphy Oil as a whole. Following the separation, the Company has obtained insurance coverage as appropriate for the business in which it is engaged, but may incur losses that are not covered by insurance or reserves, in whole or in part, and such losses could adversely affect our results of operations and financial position.

TAX MATTERS — Murphy USA is subject to extensive tax liabilities imposed by multiple jurisdictions, including income taxes, indirect taxes (excise/duty, sales/use and gross receipts taxes), payroll taxes, franchise taxes, withholding taxes and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted or proposed that could result in increased expenditures for tax liabilities in the future. Many of these liabilities are subject to periodic audits by the respective taxing authority. Subsequent changes to our tax liabilities because of these audits may subject us to interest and penalties.

OTHER MATTERS — In the normal course of its business, the Company is required under certain contracts with various governmental authorities and others to provide financial guarantees or letters of credit that may be drawn upon if the Company fails to perform under those contracts. At December 31, 2014, the Company had contingent liabilities of

\$16.2 million on outstanding letters of credit. The Company has not accrued a liability in its balance sheet related to these financial guarantees and letters of credit because it is believed that the likelihood of having these drawn is remote.

Note 19 — Recent Accounting and Reporting Rules

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which changes the requirements for reporting discontinued operations under Accounting Standards Codification Topic 205. Under ASU No. 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The standard states that a strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment or (iv) other major parts of an entity. ASU No. 2014-08 no longer precludes presentation as a discontinued operation if (i) there are operations and cash flows of the component that have not been eliminated from the reporting entity's ongoing operations or (ii) there is significant continuing involvement with a component after its disposal. Additional disclosures about discontinued operations will also be required. The guidance is effective for annual periods beginning on or after December 15, 2014, and is to be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The Company expects to adopt ASU No. 2014-08 on a prospective basis beginning January 1, 2015.

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in the Accounting Standards Codification ("Codification") Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the new ASU No. 2014-09 is for companies to recognize revenue from the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The guidance is effective for annual and interim periods beginning after December 15, 2016, with early adoption prohibited. The Company expects to adopt ASU No. 2014-09 beginning January 1, 2017 and is in the process of assessing the impact that the new guidance will have on the Company's results of operations, financial condition and disclosures.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which requires management to assess, at each interim and annual reporting period, whether substantial doubt exists about the Company's ability to continue as a going concern. The new standard substantially aligns the accounting requirements with current auditing requirements (except that the auditing standards require a one-year assessment from the balance sheet date rather than the financial statement issuance date). The new standard is effective for all entities for the first annual period ending after December 15, 2016, and interim periods thereafter, with early adoption permitted.

Note 20 — Business Segments

Segment Information		Corporate and Other Assets	Discontinued Operations	Consolidated
(Thousands of dollars)	Marketing			
Year ended December 31, 2014				
Segment income (loss)	\$ 242,434	648	781	\$ 243,863
Revenues from external customers	16,985,903	224,016	—	17,209,919
Interest income	—	244	—	244
Interest expense	—	(36,646)	—	(36,646)
Income tax expense (benefit)	127,657	(1,316)	—	126,341
Significant noncash charges (credits)				
Depreciation and amortization	74,906	4,328	—	79,234
Accretion of asset retirement obligations	1,200	—	—	1,200
Deferred and noncurrent income taxes (benefits)	368	(1,400)	—	(1,032)
Additions to property, plant and equipment	131,139	7,749	—	138,888
Total assets at year-end	\$ 1,544,018	390,239	—	\$ 1,934,257

Segment Information		Corporate and Other Assets	Discontinued Operations	Consolidated
(Thousands of dollars)	Marketing			
Year ended December 31, 2013				
Segment income (loss)	\$ 164,013	(7,687)	78,707	\$ 235,033
Revenues from external customers	17,814,081	269,254	—	18,083,335
Interest income	—	1,099	—	1,099
Interest expense	—	(14,509)	—	(14,509)
Income tax expense (benefit)	106,223	(4,872)	—	101,351
Significant noncash charges (credits)				
Depreciation and amortization	71,253	2,877	—	74,130
Accretion of asset retirement obligations	1,096	—	—	1,096
Deferred and noncurrent income taxes (benefits)	(9,796)	2,534	—	(7,262)
Additions to property, plant and equipment	162,051	9,402	519	171,972
Total assets at year-end	\$ 1,527,125	354,117	—	\$ 1,881,242
Year ended December 31, 2012				
Segment income (loss)	\$ 139,583	(53,169)	(2,846)	\$ 83,568
Revenues from external customers	19,011,040	290,268	—	19,301,308
Interest income	—	172	—	172
Interest expense	—	(384)	—	(384)
Income tax expense (benefit)	92,059	(28,354)	—	63,705
Significant noncash charges (credits)				
Depreciation and amortization	66,913	4,827	—	71,740
Accretion of asset retirement obligations	980	—	—	980
Impairment of properties	—	60,988	—	60,988
Deferred and noncurrent income taxes (benefits)	3,393	(19,856)	—	(16,463)
Additions to property, plant and equipment	103,096	1,400	7,097	111,593
Total assets at year-end	\$ 1,765,020	111,025	116,420	\$ 1,992,465

Note 21 – Guarantor Subsidiaries

Certain of the Company’s 100% owned, domestic subsidiaries (the “Guarantor Subsidiaries”) fully and unconditionally guarantee, on a joint and several basis, certain of the outstanding indebtedness of the Company, including the 6.00% senior notes due 2023. The following consolidating and/or combining schedules present financial information on a consolidated and combined basis in conformity with the SEC’s Regulation S-X Rule 3-10(d):

CONSOLIDATING BALANCE SHEET

(Thousands of dollars)	December 31, 2014		Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	Parent Company	Issuer				
Assets						
Current assets						
Cash and cash equivalents	\$ —	\$ 327,163	\$ —	\$ 942	\$ —	\$ 328,105
Accounts receivable—trade, less allowance for doubtful accounts of \$4,456 in 2014	—	138,466	—	1,625	—	140,091
Inventories, at lower of cost or market	—	157,046	—	25,868	—	182,914
Prepaid expenses and other current assets	—	11,710	—	3,062	—	14,772
Total current assets	—	634,385	—	31,497	—	665,882
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$730,202 in 2014	—	1,248,081	—	5,043	—	1,253,124
Investments in subsidiaries	1,580,277	177,263	—	—	(1,757,540)	—
Other assets	—	14,736	—	515	—	15,251
Deferred tax assets	—	—	—	19,273	(19,273)	—
Total assets	\$ 1,580,277	\$ 2,074,465	\$ —	\$ 56,328	\$ (1,776,813)	\$ 1,934,257
Liabilities and Stockholders’ Equity						
Current liabilities						
Current maturities of long-term debt	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Inter-company accounts payable	51,348	82,528	(52,077)	(81,799)	—	—
Trade accounts payable and accrued liabilities	—	381,271	—	5,728	—	386,999
Income taxes payable	—	18,348	14	7,238	—	25,600

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Deferred income taxes	—	522	—	(41)	—	481
Total current liabilities	51,348	482,669	(52,063)	(68,874)	—	413,080
Long-term debt	—	492,443	—	—	—	492,443
Deferred income taxes	—	137,882	—	—	(19,273)	118,609
Asset retirement obligations	—	22,245	—	—	—	22,245
Deferred credits and other liabilities	—	29,175	—	—	—	29,175
Total liabilities	51,348	1,164,414	(52,063)	(68,874)	(19,273)	1,075,552
Stockholders' Equity						
Preferred Stock, par \$0.01 (authorized 20,000,000 shares, none outstanding)	—	—	—	—	—	—
Common Stock, par \$0.01 (authorized 200,000,000 shares, 46,767,164 shares issued at December 31, 2014)	468	1	60	—	(61)	468
Treasury stock (1,056,689 shares held at December 31, 2014)	(51,073)	—	—	—	—	(51,073)
Additional paid in capital (APIC)	1,228,095	558,611	52,004	35,677	(1,316,516)	557,871
Retained earnings	351,439	351,439	(1)	89,525	(440,963)	351,439
Total stockholders' equity	1,528,929	910,051	52,063	125,202	(1,757,540)	858,705
Total liabilities and stockholders' equity	\$ 1,580,277	\$ 2,074,465	\$ —	\$ 56,328	\$ (1,776,813)	\$ 1,934,257

F-30

COMBINING BALANCE SHEET

(Thousands of dollars)	December 31, 2013					
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$ —	\$ 294,741	\$ —	\$ —	\$ —	\$ 294,741
Accounts receivable—trade, less allowance for doubtful accounts of \$4,456 in 2013	—	191,904	—	1,277	—	193,181
Inventories, at lower of cost or market	—	157,795	—	21,260	—	179,055
Prepaid expenses and other current assets	—	12,217	—	3,222	—	15,439
Total current assets	—	656,657	—	25,759	—	682,416
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$655,360 in 2013	—	1,189,082	—	1,641	—	1,190,723
Investments in subsidiaries	1,228,837	—	—	—	(1,228,837)	—
Other assets	—	95,604	—	239	(87,740)	8,103
Deferred tax assets	—	—	—	—	—	—
Total assets	\$ 1,228,837	\$ 1,941,343	\$ —	\$ 27,639	\$ (1,316,577)	\$ 1,881,242
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	\$ —	\$ 14,000	\$ —	\$ —	\$ —	\$ 14,000
Inter-company accounts payable	—	119,366	(52,107)	(67,259)	—	—
Trade accounts payable and accrued liabilities	—	429,763	—	3,465	—	433,228
Income taxes payable	—	71,450	43	653	—	72,146
Deferred income taxes	—	7,143	—	—	—	7,143
Total current liabilities	—	641,722	(52,064)	(63,141)	—	526,517
Long-term debt	—	547,578	—	—	—	547,578
Deferred income taxes	—	128,451	—	(13,519)	—	114,932
Asset retirement obligations	—	17,130	—	—	—	17,130
Deferred credits and other liabilities	—	18,749	—	—	—	18,749
Total liabilities	—	1,353,630	(52,064)	(76,660)	—	1,224,906
Stockholders' Equity						
Preferred Stock, par \$0.01 (authorized 20,000,000)	—	—	—	—	—	—

shares, none outstanding)						
Common Stock, par \$0.01 (authorized 200,000,000 shares, 46,746,633 shares issued and outstanding at December 31, 2013)	467	1	60	—	(61)	467
Treasury stock	—	—	—	—	—	—
Additional paid in capital (APIC)	1,228,370	548,758	52,004	35,677	(1,316,516)	548,293
Retained earnings	—	38,954	—	68,622	—	107,576
Total stockholders' equity	1,228,837	587,713	52,064	104,299	(1,316,577)	656,336
Total liabilities and stockholders' equity	\$ 1,228,837	\$ 1,941,343	\$ —	\$ 27,639	\$ (1,316,577)	\$ 1,881,242

F-31

CONSOLIDATING AND COMBINING INCOME STATEMENT

(Thousands of dollars)	Year ended December 31, 2014					Consolidated and Combined
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Revenues						
Petroleum product sales	\$ —	\$ 14,911,658	\$ —	\$ —	\$ (183,131)	\$ 14,728,527
Merchandise sales	—	2,161,378	—	—	—	2,161,378
Ethanol sales and other	—	96,109	—	223,905	—	320,014
Total revenues	—	17,169,145	—	223,905	(183,131)	17,209,919
Costs and operating expenses						
Petroleum product cost of goods sold	—	14,257,710	—	—	(183,131)	14,074,579
Merchandise cost of goods sold	—	1,859,732	—	—	—	1,859,732
Ethanol cost of goods sold	—	—	—	158,276	—	158,276
Station and other operating expenses	—	486,762	—	34,764	—	521,526
Depreciation and amortization	—	79,087	—	147	—	79,234
Impairment of properties	—	—	—	—	—	—
Selling, general and administrative	—	119,265	1	1,635	—	120,901
Accretion of asset retirement obligations	—	1,200	—	—	—	1,200
Total costs and operating expenses	—	16,803,756	1	194,822	(183,131)	16,815,448
Income from operations	—	365,389	(1)	29,083	—	394,471
Other income (expense)						
Interest income	—	244	—	—	—	244
Interest expense	—	(36,646)	—	—	—	(36,646)
Gain (loss) on sale of assets	—	194	—	—	—	194
Other nonoperating income	—	10,166	—	994	—	11,160
Total other income (expense)	—	(26,042)	—	994	—	(25,048)
Income from continuing operations before income taxes	—	339,347	(1)	30,077	—	369,423
Income tax expense	—	116,386	—	9,955	—	126,341
Income from continuing operations	—	222,961	(1)	20,122	—	243,082
Income (loss) from discontinued operations, net of income taxes	—	—	—	781	—	781
Equity earnings in affiliates, net of tax	351,439	89,524	—	—	(440,963)	—
Net Income	\$ 351,439	\$ 312,485	\$ (1)	\$ 20,903	\$ (440,963)	\$ 243,863

COMBINING INCOME STATEMENT

(Thousands of dollars)	Year ended December 31, 2013					Consolidated and Combined
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations		
Revenues						
Petroleum product sales	\$ —	\$ 15,766,752	\$ —	\$ —	\$ (206,435)	\$ 15,560,317
Merchandise sales	—	2,159,466	—	—	—	2,159,466
Ethanol sales and other	—	94,298	—	269,254	—	363,552
Total revenues	—	18,020,516	—	269,254	(206,435)	18,083,335
Costs and operating expenses						
Petroleum product cost of goods sold	—	15,216,390	—	—	(206,435)	15,009,955
Merchandise cost of goods sold	—	1,877,630	—	—	—	1,877,630
Ethanol cost of goods sold	—	—	—	228,899	—	228,899
Station and other operating expenses	—	460,476	—	33,227	—	493,703
Depreciation and amortization	—	74,053	—	77	—	74,130
Impairment of properties	—	—	—	—	—	—
Selling, general and administrative	—	129,430	1	3,568	—	132,999
Accretion of asset retirement obligations	—	1,096	—	—	—	1,096
Total costs and operating expenses	—	17,759,075	1	265,771	(206,435)	17,818,412
Income from operations	—	261,441	(1)	3,483	—	264,923
Other income (expense)						
Interest income	—	1,099	—	—	—	1,099
Interest expense	—	(14,509)	—	—	—	(14,509)
Gain (loss) on sale of assets	—	5,995	—	—	—	5,995
Other nonoperating income	—	169	—	—	—	169
Total other income (expense)	—	(7,246)	—	—	—	(7,246)
Income from continuing operations before income taxes	—	254,195	(1)	3,483	—	257,677
Income tax expense	—	100,059	—	1,292	—	101,351
Income from continuing operations	—	154,136	(1)	2,191	—	156,326
Income (loss) from discontinued operations, net of income taxes	—	—	—	78,707	—	78,707
Equity earnings in affiliates, net of tax	—	—	—	—	—	—
Net Income	\$ —	\$ 154,136	\$ (1)	\$ 80,898	\$ —	\$ 235,033

F-33

COMBINING INCOME STATEMENT

(Thousands of dollars)	Year ended December 31, 2012				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Combined
Revenues					
Petroleum product sales	\$ 17,071,126	\$ —	\$ —	\$ (216,141)	\$ 16,854,985
Merchandise sales	2,144,347	—	—	—	2,144,347
Ethanol sales and other	11,708	—	290,268	—	301,976
Total revenues	19,227,181	—	290,268	(216,141)	19,301,308
Costs and operating expenses					
Petroleum product cost of goods sold	16,514,457	—	—	(216,141)	16,298,316
Merchandise cost of goods sold	1,855,641	—	—	—	1,855,641
Ethanol cost of goods sold	—	—	269,168	—	269,168
Station and other operating expenses	447,103	—	33,006	—	480,109
Depreciation and amortization	68,299	—	3,441	—	71,740
Impairment of properties	—	—	60,988	—	60,988
Selling, general and administrative	109,634	2	3,486	—	113,122
Accretion of asset retirement obligations	980	—	—	—	980
Total costs and operating expenses	18,996,114	2	370,089	(216,141)	19,150,064
Income from operations	231,067	(2)	(79,821)	—	151,244
Other income (expense)					
Interest income	172	—	—	—	172
Interest expense	(384)	—	—	—	(384)
Gain (loss) on sale of assets	(1,005)	—	—	—	(1,005)
Other nonoperating income	92	—	—	—	92
Total other income (expense)	(1,125)	—	—	—	(1,125)
Income from continuing operations before income taxes	229,942	(2)	(79,821)	—	150,119
Income tax expense	91,525	—	(27,820)	—	63,705
Income from continuing operations	138,417	(2)	(52,001)	—	86,414
Income from discontinued operations, net of income taxes	—	—	(2,846)	—	(2,846)
Equity earnings in affiliates, net of tax	—	—	—	—	—
Net Income	\$ 138,417	\$ (2)	\$ (54,847)	\$ —	\$ 83,568

F-34

CONSOLIDATING AND COMBINING STATEMENT OF CASH FLOW

(Thousands of dollars)	Year ended December 31, 2014					Consolidated and Combined
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Operating Activities						
Net income	\$ 351,439	\$ 312,485	\$ (1)	\$ 20,903	\$ (440,963)	\$ 243,863
Adjustments to reconcile net income (loss) to net cash provided by operating activities						
Income from discontinued operations, net of tax	—	—	—	(781)	—	(781)
Depreciation and amortization	—	79,087	—	147	—	79,234
Amortization of deferred major repair costs	—	—	—	1,093	—	1,093
Deferred and noncurrent income tax charges (credits)	—	(4,403)	—	3,371	—	(1,032)
Impairment of properties	—	—	—	—	—	—
Accretion on discounted liabilities	—	1,200	—	—	—	1,200
Pretax gains from sale of assets	—	(194)	—	—	—	(194)
Net decrease (increase) in noncash operating working capital	—	(36,475)	—	4,009	—	(32,466)
Equity in earnings	(351,439)	(89,524)	—	—	440,963	—
Other operating activities - net	—	14,531	—	—	—	14,531
Net cash provided by (required by) continuing operations	—	276,707	(1)	28,742	—	305,448
Net cash provided by discontinued operations	—	—	—	134	—	134
Net cash provided by (required by) operating activities	—	276,707	(1)	28,876	—	305,582
Investing Activities						
Property additions	—	(135,339)	—	(3,549)	—	(138,888)
Proceeds from sale of assets	—	376	—	—	—	376
Expenditures for major repairs	—	—	—	(1,369)	—	(1,369)
Other investing activities - net	—	(10,631)	—	—	—	(10,631)
Sales proceeds	—	—	—	1,097	—	1,097
Other	—	—	—	—	—	—
Net cash required by investing activities	—	(145,594)	—	(3,821)	—	(149,415)
Financing Activities						
Purchase of treasury stock	(51,348)	—	—	—	—	(51,348)
Repayments of long-term debt	—	(70,000)	—	—	—	(70,000)
Additions to long-term debt	—	—	—	—	—	—
Cash dividend to former parent	—	—	—	—	—	—
Debt issuance costs	—	(875)	—	—	—	(875)

Amounts related to share-based compensation	—	(580)	—	—	—	(580)
Net distributions to parent	51,348	(27,236)	1	(24,113)	—	—
Net cash provided by (required by) financing activities	—	(98,691)	1	(24,113)	—	(122,803)
Net increase in cash and cash equivalents	—	32,422	—	942	—	33,364
Cash and cash equivalents at January 1	—	294,741	—	—	—	294,741
Cash and cash equivalents at December 31	\$ —	\$ 327,163	\$ —	\$ 942	\$ —	\$ 328,105

F-35

COMBINING STATEMENT OF CASH FLOW

(Thousands of dollars)	Year ended December 31, 2013					Consolidated and Combined
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations		
Operating Activities						
Net income (loss)	\$ —	\$ 154,136	\$ (1)	\$ 80,898	\$ —	\$ 235,033
Adjustments to reconcile net income (loss) to net cash provided by operating activities						
Income from discontinued operations, net of tax	—	—	—	(78,707)	—	(78,707)
Depreciation and amortization	—	74,053	—	77	—	74,130
Amortization of deferred major repair costs	—	—	—	575	—	575
Deferred and noncurrent income tax charges (credits)	—	(11,568)	—	4,306	—	(7,262)
Impairment of properties	—	—	—	—	—	—
Accretion on discounted liabilities	—	1,096	—	—	—	1,096
Pretax gains from sale of assets	—	(5,995)	—	—	—	(5,995)
Net decrease in noncash operating working capital	—	51,204	—	23,661	—	74,865
Equity in earnings	—	—	—	—	—	—
Other operating activities - net	—	13,215	—	—	—	13,215
Net cash provided by (required by) continuing operations	—	276,141	(1)	30,810	—	306,950
Net cash provided by discontinued operations	—	—	—	49,748	—	49,748
Net cash provided by (required by) operating activities	—	276,141	(1)	80,558	—	356,698
Investing Activities						
Property additions	—	(163,303)	—	(1,233)	—	(164,536)
Proceeds from sale of assets	—	6,113	—	—	—	6,113
Expenditures for major repairs	—	—	—	(726)	—	(726)
Other investing activities - net	—	52	—	—	—	52
Sales proceeds	—	—	—	173,118	—	173,118
Other	—	—	—	(1,129)	—	(1,129)
Net cash provided by (required by) investing activities	—	(157,138)	—	170,030	—	12,892
Financing Activities						
Purchase of treasury stock	—	—	—	—	—	—
Repayments of long-term debt	—	(80,000)	—	(1,170)	—	(81,170)
Additions to long-term debt	—	641,250	—	—	—	641,250
Cash dividend to former parent	—	(650,000)	—	—	—	(650,000)
Debt issuance costs	—	(6,693)	—	—	—	(6,693)
Amounts related to share-based compensation	—	—	—	—	—	—
Net distributions to parent	—	213,808	1	(249,418)	—	(35,609)

Net cash provided by (required by)					
financing activities	—	118,365	1	(250,588)	— (132,222)
Net increase in cash and cash equivalents	—	237,368	—	—	— 237,368
Cash and cash equivalents at January 1	—	57,373	—	—	— 57,373
Cash and cash equivalents at December 31	\$ —	\$ 294,741	\$ —	\$ —	\$ — \$ 294,741

F-36

COMBINING STATEMENT OF CASH FLOW

(Thousands of dollars)	Year ended December 31, 2012				
	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Combined
Operating Activities					
Net income (loss)	\$ 138,417	\$ (2)	\$ (54,847)	\$ —	\$ 83,568
Adjustments to reconcile net income to net cash provided by operating activities					
(Income) loss from discontinued operations, net of tax	—	—	2,846	—	2,846
Depreciation and amortization	68,299	—	3,441	—	71,740
Amortization of deferred major repair costs	—	—	163	—	163
Deferred and noncurrent income tax charges (credits)	1,957	—	(18,420)	—	(16,463)
Impairment of properties	—	—	60,988	—	60,988
Accretion on discounted liabilities	980	—	—	—	980
Pretax (gains) losses from sale of assets	1,005	—	—	—	1,005
Net decrease (increase) in noncash operating working capital	62,493	—	(29,940)	—	32,553
Equity in earnings	—	—	—	—	—
Other operating activities - net	(1,088)	—	—	—	(1,088)
Net cash provided by (required by) continuing operations	272,063	(2)	(35,769)	—	236,292
Net cash provided by discontinued operations	—	—	1,135	—	1,135
Net cash provided by (required by) operating activities	272,063	(2)	(34,634)	—	237,427
Investing Activities					
Property additions	(103,152)	—	(1,344)	—	(104,496)
Proceeds from sale of assets	364	—	—	—	364
Expenditures for major repairs	—	—	(250)	—	(250)
Other investing activities - net	—	—	—	—	—
Sales proceeds	—	—	—	—	—
Other	—	—	(7,706)	—	(7,706)
Net cash required by investing activities	(102,788)	—	(9,300)	—	(112,088)
Financing Activities					
Purchase of treasury stock	—	—	—	—	—
Repayments of long-term debt	—	—	(42)	—	(42)
Additions to long-term debt	—	—	—	—	—
Cash dividend to former parent	—	—	—	—	—
Debt issuance costs	—	—	—	—	—
Amounts related to share-based compensation	—	—	—	—	—
Net distributions to former parent	(148,789)	2	43,976	—	(104,811)
	(148,789)	2	43,934	—	(104,853)

Net cash provided by (required by) financing activities					
Net increase in cash and cash equivalents	20,486	—	—	—	20,486
Cash and cash equivalents at January 1	36,887	—	—	—	36,887
Cash and cash equivalents at December 31	\$ 57,373	\$ —	\$ —	\$ —	\$ 57,373

F-37

CONSOLIDATING AND COMBINING STATEMENT OF CHANGES IN EQUITY

(Thousands of dollars)	Year ended December 31, 2014					
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Combined
Statement of Stockholders' Equity/Net Parent Investment Common Stock						
Balance as of December 31, 2013	\$ 467	\$ 1	\$ 60	\$ —	\$ (61)	\$ 467
Issuance of common stock	1	—	—	—	—	1
Balance as of December 31, 2014	\$ 468	\$ 1	\$ 60	\$ —	\$ (61)	\$ 468
Treasury Stock						
Balance as of December 31, 2013	—	—	—	—	—	—
Issuance of common stock	275	—	—	—	—	275
Repurchase of common stock	(51,348)	—	—	—	—	(51,348)
Balance as of December 31, 2014	\$ (51,073)	\$ —	\$ —	\$ —	\$ —	\$ (51,073)
APIC						
Balance as of December 31, 2013	\$ 1,228,370	\$ 548,758	\$ 52,004	\$ 35,677	\$ (1,316,516)	\$ 548,293
Issuance of common stock	(275)	—	—	—	—	(275)
Shares withheld to satisfy tax withholdings	—	(582)	—	—	—	(582)
Reclassification of net parent investment to APIC	—	—	—	—	—	—
Share-based compensation expense	—	10,435	—	—	—	10,435
Balance as of December 31, 2014	\$ 1,228,095	\$ 558,611	\$ 52,004	\$ 35,677	\$ (1,316,516)	\$ 557,871
Net Parent Investment						
Balance as of December 31, 2013	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net income	—	—	—	—	—	—
Dividend paid to former parent	—	—	—	—	—	—
Net transfers to/between former parent	—	—	—	—	—	—
Reclassification of net parent investment to APIC	—	—	—	—	—	—
Balance as of December 31, 2014	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Retained Earnings						
Balance as of December 31, 2013	\$ —	\$ 38,954	\$ —	\$ 68,622	\$ —	\$ 107,576
Net income	351,439	312,485	(1)	20,903	(440,963)	243,863
	\$ 351,439	\$ 351,439	\$ (1)	\$ 89,525	\$ (440,963)	\$ 351,439

Balance as of December 31,
2014

F-38

COMBINING STATEMENTS OF CHANGES IN EQUITY

(Thousands of dollars) Statement of Stockholders' Equity/Net Parent Investment Common Stock	Year ended December 31, 2013					
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Combined
Balance as of December 31, 2012	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of stock at the separation and distribution	467	1	60	—	(61)	467
Balance as of December 31, 2013	\$ 467	\$ 1	\$ 60	\$ —	\$ (61)	\$ 467
Treasury Stock						
Balance as of December 31, 2012	—	—	—	—	—	—
Issuance of common stock	—	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—	—
Balance as of December 31, 2013	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
APIC						
Balance as of December 31, 2012	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of stock at the separation and distribution		(467)	—	—	—	(467)
Shares withheld to satisfy tax withholdings	—	—	—	—	—	—
Reclassification of net parent investment to APIC	1,228,370	546,311	52,004	35,677	(1,316,516)	545,846
Share-based compensation expense	—	2,914	—	—	—	2,914
Balance as of December 31, 2013	\$ 1,228,370	\$ 548,758	\$ 52,004	\$ 35,677	\$ (1,316,516)	\$ 548,293
Net Parent Investment						
Balance as of December 31, 2012	\$ —	\$ 1,123,467	\$ 53,895	\$ 117,550	\$ (190,461)	\$ 1,104,451
Net income	—	114,668	—	12,789	—	127,457
Dividend paid to former parent	—	(650,000)	—	—	—	(650,000)
Net transfers to/between former parent	—	(36,062)	—	—	—	(36,062)
Reclassification of net parent investment to APIC	—	(552,073)	(53,895)	(130,339)	190,461	(545,846)
Balance as of December 31, 2013	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Retained Earnings						
Balance as of December 31, 2012	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net income	—	38,954	—	68,622	—	107,576
Balance as of December 31, 2013	\$ —	\$ 38,954	\$ —	\$ 68,622	\$ —	\$ 107,576

F-39

COMBINING STATEMENTS OF CHANGES IN EQUITY

(Thousands of dollars)	Year ended December 31, 2012					Combined
	Parent	Guarantor	Non-Guarantor			
Statement of Stockholders' Equity/Net	Parent	Subsidiaries	Subsidiaries	Eliminations		
Parent Investment	Complex	Issuer				
Common Stock						
Balance as of December 31, 2011	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of stock at the separation and distribution	—	—	—	—	—	—
Balance as of December 31, 2012	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Treasury Stock						
Balance as of December 31, 2011	—	—	—	—	—	—
Issuance of common stock	—	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—	—
Balance as of December 31, 2012	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
APIC						
Balance as of December 31, 2011	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of stock at the separation and distribution	—	—	—	—	—	—
Shares withheld to satisfy tax withholdings	—	—	—	—	—	—
Reclassification of net parent investment to APIC	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	—	—
Balance as of December 31, 2012	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net Parent Investment						
Balance as of December 31, 2011	\$ —	\$ 1,043,914	\$ 2,166	\$ 263,328	\$ (190,461)	\$ 1,118,947
Net income	—	138,416	—	(54,848)	—	83,568
Dividend paid to former parent	—	—	—	—	—	—
Net transfers to/between former parent	—	(58,863)	51,729	(90,930)	—	(98,064)
Reclassification of net parent investment to APIC	—	—	—	—	—	—

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Balance as of December 31, 2012	\$ —	\$ 1,123,467	\$ 53,895	\$ 117,550	\$ (190,461)	\$ 1,104,451
Retained Earnings						
Balance as of December 31, 2011	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net income	—	—	—	—	—	—
Balance as of December 31, 2012	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

F-40

Murphy USA Inc. and Consolidated Subsidiaries

Supplemental Quarterly Information (Unaudited)

(Millions of dollars except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Year Ended December 31, 2014					
Sales and other operating revenues	\$ 4,164.3	\$ 4,757.9	\$ 4,678.8	\$ 3,608.9	\$ 17,209.9
Income from continuing operations before income taxes	\$ 14.5	\$ 107.6	\$ 100.3	\$ 147.0	\$ 369.4
Income from continuing operations	\$ 8.9	\$ 73.2	\$ 62.7	\$ 98.3	\$ 243.1
Net income	\$ 9.6	\$ 73.2	\$ 62.7	\$ 98.3	\$ 243.8
Income from continuing operations (per Common share)					
Basic	\$ 0.19	\$ 1.58	\$ 1.35	\$ 2.15	\$ 5.27
Diluted	\$ 0.19	\$ 1.57	\$ 1.35	\$ 2.13	\$ 5.24
Net income (per Common share)					
Basic	\$ 0.21	\$ 1.58	\$ 1.35	\$ 2.15	\$ 5.29
Diluted	\$ 0.21	\$ 1.57	\$ 1.35	\$ 2.13	\$ 5.26
Market price of Common stock 1					
High	\$ 43.25	\$ 52.34	\$ 55.64	\$ 69.37	\$ 69.37
Low	\$ 37.55	\$ 39.96	\$ 47.26	\$ 49.63	\$ 37.55
Year Ended December 31, 2013					
Sales and other operating revenues	\$ 4,358.0	\$ 4,843.4	\$ 4,686.9	\$ 4,195.0	\$ 18,083.3
Income (loss) from continuing operations before income taxes	\$ 34.5	\$ 114.9	\$ 59.3	\$ 49.0	\$ 257.7
Income (loss) from continuing operations	\$ 20.3	\$ 70.2	\$ 36.3	\$ 29.5	\$ 156.3
Net income (loss)	\$ 22.1	\$ 77.6	\$ 41.7	\$ 93.6	\$ 235.0
Income (Loss) from continuing operations (per Common share)					
Basic	\$ 0.43	\$ 1.50	\$ 0.78	\$ 0.63	\$ 3.34
Diluted	\$ 0.43	\$ 1.50	\$ 0.78	\$ 0.63	\$ 3.34
Net income (per Common share)					
Basic	\$ 0.47	\$ 1.66	\$ 0.89	\$ 2.00	\$ 5.03
Diluted	\$ 0.47	\$ 1.66	\$ 0.89	\$ 2.00	\$ 5.02
Market price of Common stock 1					
High	\$ —	\$ —	\$ 41.58	\$ 46.91	\$ 46.91
Low	\$ —	\$ —	\$ 36.12	\$ 39.27	\$ 36.12

1 Prices as quoted on the New York Stock Exchange. Stock first traded September 3, 2013.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS (CONSOLIDATED AND COMBINED)

Murphy USA Inc.

Valuation Accounts and Reserves

(Thousands of dollars)	Balance at January 1,	Charged (Credited) to Expense	Deductions	Balance at December 31,
2014				
Deducted from assets accounts				
Allowance for doubtful accounts	\$ 4,456	—	—	4,456
2013				
Deducted from assets accounts				
Allowance for doubtful accounts	\$ 4,576	—	(120)	4,456
2012				
Deducted from assets accounts				
Allowance for doubtful accounts	\$ 5,835	—	(1,259)	4,576

F-42