

ASIAINFO HOLDINGS INC
Form 10-Q
August 06, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

or

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

For the transition period from _____ to _____

Commission File Number 001-15713

ASIAINFO HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE **752506390**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
4TH FLOOR, ZHONGDIAN INFORMATION TOWER

6 ZHONGGUANCUN SOUTH STREET, HAIDIAN DISTRICT

BEIJING 100086, CHINA

(Address of principal executive offices, including zip code)

+8610 8216 6688

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

The number of shares outstanding of the Registrant's common stock as of August 5, 2008 was 46,159,480.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ASIAINFO HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)****(In thousands, except share and per share amounts)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues:				
Software products and solutions	\$ 30,013	\$ 22,406	\$ 57,152	\$ 42,006
Service	4,209	4,011	7,550	7,580
Third-party hardware	7,836	3,153	12,362	10,039
Total revenues	42,058	29,570	77,064	59,625
Cost of revenues:				
Software products and solutions (including cost of purchases from related parties of \$nil and \$nil, amortization of other acquired intangible assets of \$152 and \$163 for the three months ended June 30, 2008 and 2007, respectively; cost of purchases from related parties of \$nil and \$1, amortization of other acquired intangible assets of \$300 and \$358 for the six months ended June 30, 2008 and 2007, respectively)	13,660	10,116	24,816	19,089
Service	1,704	1,980	3,418	3,676
Third-party hardware (including cost of purchases from related parties of \$nil and \$583 for the three months ended June 30, 2008 and 2007, respectively; including cost of purchases from related parties of \$nil and \$583 for the six months ended June 30, 2008 and 2007, respectively)	7,644	2,995	11,940	9,537
Total cost of revenues	23,008	15,091	40,174	32,302
Gross profit	19,050	14,479	36,890	27,323
Sales and marketing (including sales and marketing expenses incurred from transactions with related parties of \$16 and \$18 , amortization of other acquired intangible assets of \$246 and \$360 for the three months ended June 30, 2008 and 2007, respectively; sales and marketing expenses incurred from transactions with related parties of \$35 and \$43, amortization of acquired intangible assets of \$545 and \$717 for the six months ended June 30, 2008 and 2007, respectively)	8,212	6,653	16,107	12,723
General and administrative	2,248	2,470	4,857	4,418
Research and development (including research and development expenses incurred from transactions with related parties of \$1 and \$1 for the three months ended June 30, 2008 and 2007, respectively; research and development expenses incurred from transactions with related parties of \$2 and \$2 for the six months ended June 30, 2008 and 2007, respectively)	5,029	4,161	9,687	8,247
Total operating expenses	15,489	13,284	30,651	25,388

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Gain on settlement of escrow				2,734
Income from operations	3,561	1,195	6,239	4,669
Other income				
Interest income	1,067	1,156	2,282	2,278
Dividend	84	93	303	528
Gain from sales of short-term investments	2,359	556	3,533	581
Other (expenses) income, net	(256)	52	(530)	(20)
Total other income, net	3,254	1,857	5,588	3,367
Income before provisions for income taxes and discontinued operations	6,815	3,052	11,827	8,036
Provisions for income taxes	1,594	554	2,327	587
Income from continuing operations	5,221	2,498	9,500	7,449
Income from discontinued operations, net of taxes			980	1,445
Net income	5,221	2,498	10,480	8,894
Income from continuing operations per share:				
Basic	\$ 0.12	\$ 0.06	\$ 0.21	\$ 0.17
Diluted	\$ 0.11	\$ 0.06	\$ 0.20	\$ 0.17
Income from discontinued operations per share:				
Basic	\$	\$	\$ 0.02	\$ 0.04
Diluted	\$	\$	\$ 0.02	\$ 0.03
Net income per share				
Basic	\$ 0.12	\$ 0.06	\$ 0.23	\$ 0.21
Diluted	\$ 0.11	\$ 0.06	\$ 0.22	\$ 0.20
Weighted average shares used in computation:				
Basic	45,094,860	43,231,164	44,944,271	43,191,216
Diluted	47,044,412	45,050,920	46,715,304	44,869,741

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ASIAINFO HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

(In thousands, except share and per share amounts)

	June 30, 2008	December 31, 2007(1)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 163,276	\$ 148,834
Restricted cash	17,202	16,026
Short-term investments available for sale securities	37,313	48,194
Short-term investments held to maturity securities		1,541
Accounts receivable (net of allowances of \$2,590 and \$2,427 as of June 30, 2008 and December 31, 2007, respectively)	46,219	45,233
Inventories	11,801	8,023
Other receivables (including other receivables of \$232 and \$214 due from related parties as of June 30, 2008 and December 31, 2007, respectively)	3,888	3,426
Income tax receivable	342	
Deferred income tax assets current	2,224	1,693
Prepaid expenses and other current assets	6,717	6,526
Total current assets	288,982	279,496
Long-term investment	2,035	1,911
Property and equipment, net	2,498	2,344
Other acquired intangible assets, net	3,740	3,979
Deferred income tax assets, noncurrent	1,032	1,032
Goodwill	20,698	19,707
Total Assets	\$ 318,985	\$ 308,469
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 24,346	\$ 23,095
Accrued expenses	12,884	12,671
Deferred revenue (including deferred revenue of \$386 and \$437 from related parties as of June 30, 2008 and December 31, 2007, respectively)	35,802	29,093
Accrued employee benefits	16,284	20,724
Other payables (including other payables of \$779 and \$732 due to related parties as of June 30, 2008 and December 31, 2007, respectively)	5,136	5,651
Income taxes payable		2,310
Other taxes payable	4,668	4,218
Deferred income tax liabilities		1,976
Total current liabilities	99,120	99,738
Unrecognized tax benefits	1,271	834
Other long term liabilities	114	109

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Total liabilities	100,505		100,681
Commitments and contingencies (Note 18)			
Stockholders' Equity:			
Common stock (100,000,000 shares authorized; \$0.01 par value; 46,109,970 shares and 45,026,203 shares issued as of June 30, 2008 and December 31, 2007, respectively; 45,699,270 shares and 44,781,903 shares outstanding as of June 30, 2008 and December 31, 2007, respectively)			
	461		450
Additional paid-in capital	212,598		207,865
Treasury stock, at cost (410,700 shares and 244,300 shares as of June 30, 2008 and December 31, 2007, respectively)	(3,617)		(1,953)
Statutory reserve	14,820		13,874
Accumulated deficit	(21,484)		(31,018)
Accumulated other comprehensive income	15,702		18,570
Total stockholders' equity	218,480		207,788
			(8,761,430)
Net Investment in Real Estate	160,920,494	39,315,000	200,235,494
Cash and cash equivalents	8,456,888	(4,998,229)(a)	3,458,659
Escrow deposits	3,312,773	730,695(b)	4,043,468
Investment in unconsolidated affiliate	1,395,071		1,395,071
Due from related party	3,371,526		3,371,526
Due from unconsolidated affiliate	165,056		165,056
Accounts receivable	292,298		292,298
Deferred rent receivable	970,034		970,034
Deferred financing costs, net	1,340,972	280,500(c)	1,621,472
Prepaid expenses, escrows and other assets	992,760		992,760
Total Assets	\$ 181,217,872	\$ 35,327,966	\$ 216,545,838
LIABILITIES			
Mortgage loans and notes payable	\$ 97,891,676	\$ 34,750,000(c)	\$ 132,641,676
Accounts payable and accrued expenses	2,232,470		2,232,470
Accrued real estate taxes	1,667,951	389,091(b)	2,057,042
Prepaid rents and security deposits	1,681,981	188,875(b)	1,870,856
Dividends payable	2,255,247		2,255,247
Total Liabilities	105,729,325	35,327,966	141,057,291
STOCKHOLDERS' EQUITY			
Common stock	17,348		17,348
Capital in excess of par value	91,294,828		91,294,828
Distributions in excess of accumulated earnings	(15,823,629)		(15,823,629)
Total Stockholders' Equity	75,488,547		75,488,547
Total Liabilities and Stockholders' Equity	\$ 181,217,872	\$ 35,327,966	\$ 216,545,838

See notes to the pro forma consolidated financial statements.

AMERIVEST PROPERTIES INC.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2003

(unaudited)

AmeriVest	Historical Financial Plaza	Pro Forma Adjustments	Pro Forma Combined
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REAL ESTATE OPERATING REVENUE								
Rental revenue	\$	13,762,245	\$	2,938,815	\$	16,701,060		
REAL ESTATE OPERATING EXPENSES								
Property Operating Expenses								
Operating expenses		3,397,293		912,481		4,309,774		
Real estate taxes		1,555,403		389,091		1,944,494		
Management fees		86,374		91,862	(91,862)(d)	86,374		
General and administrative expenses		1,579,853				1,579,853		
Impairment of investment in real estate		1,465,932				1,465,932		
Interest expense		3,568,177			654,020(e)	4,222,197		
Depreciation and amortization expense		2,808,139			1,309,252(f)	4,117,391		
		14,461,171		1,393,434	1,871,410	17,726,015		
OTHER INCOME/LOSS								
Interest income		17,753				17,753		
Equity in loss of unconsolidated affiliate		(23,914)				(23,914)		
		(6,161)				(6,161)		
NET (LOSS)/INCOME	\$	(705,087)	\$	1,545,381	\$	(1,871,410)	\$	(1,031,116)
LOSS PER SHARE								
Basic	\$	(0.06)				\$	(0.09)	
Diluted	\$	(0.06)				\$	(0.09)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING								
Basic		11,958,053				11,958,053		
Diluted		11,958,053				11,958,053		

See notes to the pro forma consolidated financial statements.

AMERIVEST PROPERTIES INC.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2002

(unaudited)

AmeriVest	Historical Financial Plaza	Pro Forma Adjustments	Pro Forma Combined
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REAL ESTATE OPERATING REVENUE								
Rental revenue	\$	16,385,965	\$	5,841,315	\$		\$	22,227,280
REAL ESTATE OPERATING EXPENSES								
Property Operating Expenses								
Operating expenses		3,935,774		1,773,362				5,709,136
Real estate taxes		1,628,455		770,201				2,398,656
Management fees		173,011		152,835		(152,835)(d)		173,011
General and administrative expenses		1,755,104						1,755,104
Advisory and capital project fees		1,367,380						1,367,380
Impairment of investment in real estate		275,000						275,000
Interest expense		4,144,231				1,327,717(e)		5,471,948
Depreciation and amortization expense		3,362,508				2,618,504(f)		5,981,012
		16,641,463		2,696,398		3,793,386		23,131,247
OTHER INCOME/(LOSS)								
Interest income		164,519						164,519
Equity in loss of unconsolidated affiliate		(66,295)						(66,295)
		98,224						98,224
NET (LOSS)/INCOME	\$	(157,274)	\$	3,144,917	\$	(3,793,386)	\$	(805,743)
LOSS PER SHARE								
Basic	\$	(0.02)					\$	(0.09)
Diluted	\$	(0.02)					\$	(0.09)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING								
Basic		9,341,608						9,341,608
Diluted		9,341,608						9,341,608

See notes to the pro forma consolidated financial statements.

AMERIVEST PROPERTIES INC.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited pro forma consolidated financial statements are presented to reflect the acquisition of Financial Plaza by AmeriVest.

The accompanying unaudited pro forma consolidated balance sheet presents the historical financial information of AmeriVest as of June 30, 2003 as adjusted for the acquisition of Financial Plaza as if the transaction had occurred on June 30, 2003.

The accompanying unaudited pro forma consolidated statements of operations for the six months ended June 30, 2003 and the year ended December 31, 2002 combine the historical operations of AmeriVest with the historical operations of Financial Plaza as if the transaction had occurred on January 1, 2002.

These pro forma statements may not be indicative of the results that actually would have occurred if the combination had been in effect on the dates indicated or which may be obtained in the future.

NOTE 2 - PRO FORMA ADJUSTMENTS

The unaudited pro forma consolidated financial statements reflect the following pro forma adjustments:

(a) The net cash paid for Financial Plaza consists of the following:

Purchase price	\$	39,000,000
Estimated acquisition costs		315,000
Escrow deposits		730,695
Loan origination fees		280,500
Less: Allstate loan		(24,750,000)
Less: Fleet loan		(10,000,000)

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Less: credit for accrued real estate taxes	(389,091)
Less: credit for security deposits	(188,875)
Cash paid	\$ 4,998,229

(b) The purchase price of the property was allocated to land, building and improvements and other intangible assets and associated liabilities in accordance with Statement of Financial Accounting Standards No. 141 Business Combinations.

(c) The loan in the amount of \$24,750,000 from Allstate Life Insurance Company bears interest at 5.25%, due in monthly installments of principal and interest of \$148,314, with the outstanding principal and accrued interest due on October 5, 2010. This loan may be prepaid after March 5, 2007 subject to a prepayment penalty as defined in the mortgage note. AmeriVest paid a 1.00% loan origination fee, plus additional loan costs, which have been capitalized and are being amortized over the life of the loan, which approximates the effective interest method.

The Fleet loan, in the amount of \$10,000,000, represents a draw on a \$42,000,000 revolving credit facility from Fleet National Bank. During June 2003, the Company used \$24,957,660 of the proceeds from its June 2003 common stock offering to repay a portion of the outstanding balance on this revolving line of credit. This left an outstanding balance of \$15,400,000 at June 30, 2003 with \$26,600,000 of availability. Outstanding balances on this facility bear interest at LIBOR plus 275 basis points, due in

monthly installments of interest only, with the principal and accrued interest due on November 12, 2005. This loan may be prepaid at any time without penalty.

(d) Due to the Company being internally managed, there would be no management fee expense.

(e) Interest expense to be recognized related to the mortgage loan. Includes loan interest at 5.25% and the amortization of the loan origination fee.

(f) Depreciation and amortization expense calculated assuming a 40-year useful life for the building, a 20-year useful life for the parking garage and land improvements and a 43-month useful life for the other intangible assets.

NOTE 3 - LOSS PER SHARE

Pro forma loss per share for the six months ended June 30, 2003 and the year ended December 31, 2002 is computed based on the weighted average number of common shares outstanding during the periods presented. For the six months ended June 30, 2003 and the year ended December 31, 2002, 581,650 and 1,039,650, respectively, of our stock options and warrants were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive.

AMERIVEST PROPERTIES INC.

STATEMENT OF ESTIMATED TAXABLE OPERATING RESULTS

AND CASH TO BE MADE AVAILABLE BY OPERATIONS

BASED UPON THE YEAR ENDED DECEMBER 31, 2002

(unaudited)

The following represents an estimate of the taxable operating results and cash to be made available by operations expected to be generated by AmeriVest (including the operations of Financial Plaza) based upon the pro forma consolidated statement of operations for the year ended December 31, 2002. These estimated results do not purport to represent results of operations for these properties in the future and were prepared on the basis described in the accompanying notes, which should be read in conjunction herewith.

Revenue	\$	21,419,286
Expenses		
Operating expenses		5,709,136
Real estate taxes		2,398,656
Management fees		173,011
General and administrative expenses		1,755,104
Advisory and capital project fees		1,367,380
Interest expense		5,471,948
Depreciation and amortization expense		3,078,876
Total expenses		19,954,111
Estimated Taxable Operating Income		1,465,175
Add: Depreciation and amortization expense		3,078,876
Estimated Cash to be Made Available by Operations	\$	4,544,051

AMERIVEST PROPERTIES INC.

NOTE TO STATEMENT OF ESTIMATED TAXABLE OPERATING RESULTS

AND CASH TO BE MADE AVAILABLE BY OPERATIONS

(unaudited)

NOTE 1 - BASIS OF PRESENTATION

Depreciation has been estimated based upon an allocation of the purchase price of Financial Plaza to land (7%) and building (93%) and assuming (for tax purposes) a 39-year useful life applied on a straight-line method.

No income taxes have been provided because the Company is organized and operates in such a manner so as to qualify as a Real Estate Investment Trust (REIT) under the provisions of the Internal Revenue Code (the Code). Accordingly, the Company generally will not pay Federal income taxes provided that distributions to its stockholders equal at least the amount of its REIT taxable income as defined under the Code.