Array Inc. and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2012 and 2011 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders
Array Inc.

We have reviewed the accompanying consolidated balance sheets of Array Inc. (the "Corporation") and subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Standards for Review of Financial Statements" of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements of Array Inc. and its subsidiaries referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

August 30, 2012

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and consolidated financial statements shall prevail.

ARRAY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2012 AND 2011
(In Thousands of United States Dollars, Except Par Value)
(Reviewed, Not Audited)

	2012		2011	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Note 4)	$ 12,502	24	$ 22,649	44
Available-for-sale financial assets - current (Notes 2 and 5)	7,667	15	-	-
Notes receivable	317	1	74	-
Accounts receivable, net (Notes 2, 3 and 6)	16,887	32	15,160	30
Inventories (Notes 2 and 7)	3,107	6	3,604	7
Prepayment and other current assets (Notes 2 and 13)	1,583	3	747	1
Total current assets	42,063	81	42,234	82
PROPERTY AND EQUIPMENT (Notes 2 and 8)				
Cost				
Machinery and equipment	2,746	5	2,978	6
Office equipment	1,000	2	2,119	4
Leasehold improvements	415	1	405	1
Other equipment	1,272	3	1,074	2
Total cost	5,433	11	6,576	13
Less: Accumulated depreciation	3,410	7	4,727	9
Net property and equipment	2,023	4	1,849	4
INTANGIBLE ASSETS (Notes 2 and 9)				
Computer software	625	1	162	-
Goodwill	5,594	11	5,594	11
Brand	952	2	952	2
Core technology	-	-	74	-
Total intangible assets	7,171	14	6,782	13
OTHER ASSETS				
Refundable deposits	466	1	292	1
Deferred income tax assets - noncurrent (Notes 2 and 13)	47	-	1	-
Restricted assets (Note 18)	32	-	32	-
Total other assets	545	1	325	1
TOTAL	$ 51,802	100	$ 51,190	100

	2012		2011	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Accounts payable (Note 17)	$ 1,376	3	$ 1,800	4
Income taxes payable (Notes 2 and 13)	11	-	-	-
Accrued expenses (Note 10)	2,577	5	1,369	3
Dividends payable (Note 11)	1,130	2	-	-
Other payables	907	2	739	1
Deferred revenues (Note 2)	5,976	11	4,547	9
Others	297	1	136	-
Total current liabilities	12,274	24	8,591	17
OTHER LIABILITIES	51	-	43	-
Total liabilities	12,325	24	8,634	17
SHAREHOLDERS' EQUITY (Notes 2, 11 and 12)				
Common share, at NT$10 par value; authorized - 105,000 thousand shares; issued and outstanding - 2012: 70,117 thousand shares; 2011: 69,336 thousand shares	21,401	41	21,143	41
Capital surplus				
Additional paid-in capital - common share	12,387	24	12,403	24
Treasury stock transactions	32	-	-	-
Stock options	272	1	713	2
Expired warrants	11	-	11	-
Retained earnings	5,122	10	6,666	13
Cumulative translation adjustments	1,933	4	1,620	3
Unrealized loss on financial instruments	(302)	(1)	-	-
Treasury stock	(1,379)	(3)	-	-
Total shareholders' equity	39,477	76	42,556	83
TOTAL	$ 51,802	100	$ 51,190	100

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche review report dated August 30, 2012)

ARRAY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of United States Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2012		2011	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES	$ 14,119	100	$ 15,155	100
SALES RETURNS AND ALLOWANCES	113	1	81	1
OPERATING REVENUES, NET (Note 2)	14,006	99	15,074	99
OPERATING COSTS (Notes 2, 7 and 14)	2,595	18	3,062	20
GROSS PROFIT	11,411	81	12,012	79
OPERATING EXPENSES (Notes 12 and 14)				
Marketing expenses	7,641	54	7,176	47
General and administrative expenses	3,103	22	1,788	12
Research and development expenses	4,298	31	2,997	20
Total operating expenses	15,042	107	11,961	79
OPERATING (LOSS) INCOME	(3,631)	(26)	51	-
NON-OPERATING INCOME AND GAINS				
Interest income	52	1	145	1
Exchange gain, net (Note 2)	17	-	-	-
Others	166	1	237	2
Total non-operating income and gains	235	2	382	3
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	107	1	20	-
Exchange loss, net (Note 2)	-	-	86	1
Others (Note 2)	44	-	-	-
Total non-operating expenses and losses	151	1	106	1
(LOSS) INCOME BEFORE INCOME TAX	(3,547)	(25)	327	2
INCOME TAX EXPENSE (Notes 2 and 13)	111	1	44	-
CONSOLIDATED NET (LOSS) INCOME	$ (3,658)	(26)	$ 283	2

(Continued)

ARRAY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of United States Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED (LOSS) EARNINGS PER SHARE (Note 15)				
Basic	$ (0.05)	$ (0.05)	$ -	$ -
Diluted	$ (0.05)	$ (0.05)	$ -	$ -

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche review report dated August 30, 2012) (Concluded)

ARRAY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of United States Dollars, Except Share Issuance Price)
(Reviewed, Not Audited)

		Capital Surplus								
	Common Share	**Additional Paid-in Capital - Common Share**	**Treasury Stock Transactions**	**Stock Options**	**Expired Warrants**	**Retained Earnings**	**Cumulative Translation Adjustments**	**Unrealized Gain (Loss) on Financial Instruments**	**Treasury Stock**	**Total Shareholders' Equity**
BALANCE, JANUARY 1, 2012	$ 21,196	$ 12,434	$ -	$ 313	$ 11	$ 9,910	$ 2,022	$ (467)	$ -	$ 45,419
Appropriation of the 2011 earnings Cash dividends - NT$0.5 per share	-	-	-	-	-	(1,130)	-	-	-	(1,130)
Exercise of stock options	205	(47)	-	(53)	-	-	-	-	-	105
Acquisition of treasury stock - 2,000 thousand shares	-	-	-	-	-	-	-	-	(1,381)	(1,381)
Treasury stock transferred to employees - 36 thousand shares	-	-	32	(9)	-	-	-	-	2	25
Stock-based compensation	-	-	-	21	-	-	-	-	-	21
Consolidated net loss for six months ended June 30, 2012	-	-	-	-	-	(3,658)	-	-	-	(3,658)
Unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	165	-	165
Changes in translation adjustments	-	-	-	-	-	-	(89)	-	-	(89)
BALANCE, JUNE 30, 2012	$ 21,401	$ 12,387	$ 32	$ 272	$ 11	$ 5,122	$ 1,933	$ (302)	$ (1,379)	$ 39,477
BALANCE, JANUARY 1, 2011	$ 20,596	$ 12,653	$ -	$ 1,170	$ 11	$ 6,383	$ 1,266	$ -	$ -	$ 42,079
Exercise of stock options	547	(250)	-	(97)	-	-	-	-	-	200
Stock-based compensation	-	-	-	(360)	-	-	-	-	-	(360)
Consolidated net income for the six months ended June 30, 2011	-	-	-	-	-	283	-	-	-	283
Changes in translation adjustments	-	-	-	-	-	-	354	-	-	354
BALANCE, JUNE 30, 2011	$ 21,143	$ 12,403	$ -	$ 713	$ 11	$ 6,666	$ 1,620	$ -	$ -	$ 42,556

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche review report dated August 30, 2012)

ARRAY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of United States Dollars)
(Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net (loss) income	$ (3,658)	$ 283
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for bad debts	1,352	187
Depreciation and amortization	625	488
Provision for (reversal of) provision for stock-based compensation	21	(360)
Loss on disposal of property, plant and equipment	9	-
Provision for loss on inventories	7	208
Deferred tax	2	(41)
Loss on sale of investments	1	-
Net changes in operating assets and liabilities:		
Notes and accounts receivable	(1,152)	(2,361)
Inventories	(70)	(1,680)
Other current assets	663	(199)
Accounts payable	(289)	(373)
Accrued expenses	(61)	(275)
Income taxes payable	11	(51)
Other current liabilities	(178)	(180)
Deferred revenues	824	332
Other liabilities	(24)	8
Net cash used in operating activities	(1,917)	(4,014)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	1,496	-
Acquisition of property and equipment	(318)	(434)
Acquisition of intangible assets	(268)	(145)
Increase in available-for-sale financial assets	(250)	-
(Increase) decrease in other assets	(78)	170
Net cash provided by (used in) investing activities	582	(409)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid for acquisition of treasury stock	(1,381)	-
Exercise of stock options	105	200
Transfer of treasury stock to employees	25	-
Net cash (used in) provided by financing activities	(1,251)	200
EFFECT OF EXCHANGE RATE CHANGES	(96)	368

(Continued)

ARRAY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of United States Dollars)
(Reviewed, Not Audited)

	2012	**2011**
NET DECREASE IN CASH	$ (2,682)	$ (3,855)
CASH, BEGINNING OF PERIOD	15,184	26,504
CASH, END OF PERIOD	$ 12,502	$ 22,649
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	$ 6	$ 20
Income taxes paid	$ 11	$ 60
NON-CASH FINANCING ACTIVITIES		
Cash dividends payable	$ 1,130	$ -

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche review report dated August 30, 2012) (Concluded)

1. ORGANIZATION AND OPERATIONS

Array Inc. (the "Corporation") was incorporated on December 19, 2008 in the Cayman Islands for the purpose of reorganizing Array Networks, Inc. ("Array Cayman") and its subsidiaries. The reorganization was completed on May 1, 2009 pursuant to a share swap agreement. Following the reorganization, Array Cayman became a wholly-owned subsidiary of the Corporation.

The Corporation and subsidiaries mainly research, manufacture and sell Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions, Application Acceleration and Public Key Infrastructure (PKI) solutions.

As of June 30, 2012 and 2011, the Corporation and subsidiaries had 373 and 315 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulation") and accounting principles generally accepted in the Republic of China (ROC).

For readers' convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the consolidated financial statements shall prevail.

The significant accounting policies of the Corporation and consolidated subsidiaries are summarized as follows:

Consolidation

a. Basis of consolidation

The consolidated financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 7 - "Consolidated Financial Statements," and include the financial statements of the Corporation and its direct and indirect subsidiaries with at least 50% shareholding and other investees controlled by the Corporation.

The Corporation's financial statements are prepared using its functional currency of U.S. dollars, and the financial statements of the rest consolidated entities are prepared using their respective functional currencies. Foreign currencies are translated into U.S. dollars at the following exchange rates:

1) Assets and liabilities - at exchange rates prevailing on the balance sheet date;
2) Shareholders' equity - at historical exchange rates;
3) Income and expenses - at average exchange rates for the year.

All significant intercompany balances and transactions have been eliminated upon consolidation.

b. Under the above basis of consolidation, the consolidated entities were as follows:

Investor	Subsidiary	Natures of Business	Percentage of Ownership as of June 30		Explanation
			2012	2011	
Corporation	Array Networks, Inc. (Array Cayman)	Investment	100%	100%	-
Array Cayman	Array Networks, Inc. (Array US)	Research, manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	100%	100%	-
	Array Networks (China) Co., Ltd. (Array China)	Research, manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	100%	100%	-
	InfoSec Technologies Holdings, Inc. (InfoSec Cayman)	Investment	100%	100%	-
Array US	Array Networks Japan Kabishiki Kaisha	Research, manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	100%	100%	-
	Array Networks, LLC	Research, manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	100%	100%	-
	Array Networks, SARL	Research, manufacture and sale of Application Delivery Controllers, high-end SSL VPN systems, Remote Desktop Access Solutions and Application Acceleration	100%	100%	-
InfoSec Cayman	Beijing InfoSec Information Security WOFE (InfoSec WOFE)	Research and sale of full life cycle management of Public Key Infrastructure (PKI)	100%	100%	-
InfoSec WOFE	Beijing InfoSec Technologies Co., Ltd. (InfoSec Technologies)	Research and sale of full life cycle management of Public Key Infrastructure (PKI)	-	-	Controlled by InfoSec WOFE under structure contracts

InfoSec WOFE is a wholly-owned foreign enterprise (WOFE) in the People’s Republic of China (PRC), which has made numerous achievements in the research on the management of digital Public Key Infrastructure (PKI). However, current PRC laws and regulations limit foreign investment in businesses relating to PKI business development. Therefore, InfoSec WOFE arranged structure contracts with InfoSec Technologies to have the power to govern its financial and operating policies. The structure contracts were designed to provide InfoSec WOFE with effective control over and the right to acquire the equity interests in the assets of InfoSec Technologies.

Foreign Currencies

Non-derivative foreign-currency transactions are recorded in U.S. dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

Accounting Estimates

In conformity with these guidelines and principles, the Corporation and subsidiaries (hereinafter referred to as the "Group") are required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, provision for losses on inventories, allowance for product warranties, depreciation, income tax, impairment loss on assets, amortization, etc. Actual results may differ from these estimates.

Current and Noncurrent Assets and Liabilities

Current assets include cash, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Fair value of bonds at the balance sheet date is determined at transaction price.

Impairmental Assessment of Accounts Receivable

Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Group's past experience in the collection of payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

Impairment of Assets

If the recoverable amount of an asset (mainly property and equipment and intangible assets) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings. If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU(s)") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

Inventories

Inventories consist of raw materials and finished goods. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Major additions and improvements to property and equipment are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is provided on a straight-line basis over estimated useful lives as follows: machinery and equipment - 3 years; office equipment - 5 years; and leasehold improvements - shorter of the estimated useful lives of the assets or over the term of the related lease; other equipment - 3 years.

The related cost and accumulated depreciation are derecognized from the balance sheet upon asset disposal. Any gain or loss on disposal of asset is included in nonoperating gains or losses in the year of disposal.

Intangible Assets

a. Computer software

   Computer software is stated at cost. Amortization is provided on a straight-line basis over 3 - 10 years.

b. Goodwill

   Goodwill is the unidentifiable difference between the cost of acquisition and the equity in the investee's net asset value. Goodwill on the acquisition of Array US in 2003 was previously amortized over the estimated life of 5 years. Effective January 1, 2006, based on SFAS No. 37, goodwill is no longer amortized and instead is tested for impairment annually.

c. Core technology, customer relationship and brand

Core technology, customer relationship and brand were identified based on the analysis of the excess of acquisition cost over the ownership in net asset value of InfoSec Cayman and its subsidiaries, and are stated at fair value according to the purchase price allocation report. Amortization is provided on the basis of the future economic value and useful life.

Core technology and customer relationship are amortized by the straight-line method over 5 and 4 years, respectively. Due to its expected continuing use, brand was determined to have an indefinite useful life and is not amortized; instead, it is tested for impairment annually. An impairment test is also required if there is evidence of impairment due to certain circumstances.

d. Others

Other intangible assets are amortized on a straight-line basis over 5 years.

Income Tax

The Group applies intra-year and inter-year allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Adjustments of prior years' tax liabilities are added to or deducted from the current period's tax provision.

Stock-based Compensation

Stock options granted between January 1, 2004 and June 30, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation. The Group adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period. Fair values of the stock at the grant date were determined at the net asset value of the latest balance sheet date before the grant date.

Employee stock options granted between January 1, 2008 and June 30, 2009 were accounted for in accordance with Rule No. 0960065898 issued by the Financial Supervisory Commission (FSC) under the Executive Yuan on December 12, 2007. Thus, the stock options granted were initially measured at their intrinsic value and then adjusted at each reporting date for any change in intrinsic value until the date of final settlement.

Employee stock options granted on or after January 1, 2010 are accounted for in accordance with Rule No. 0990006370 issued by the FSC on March 15, 2010, which superseded Rule No. 0960065898. Under the FSC's requirement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in shareholders' equity.

Revenue Recognition

Revenue from sales of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Group and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

Service revenue from sales of software upgrade contracts and customer support is recorded as deferred revenue and recognized as service revenue by the straight-line method over the service contract term.

Reclassifications

Certain accounts in the consolidated financial statements as of and for the six months ended June 30, 2011 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the six months ended June 30, 2012.

3. EFFECTS OF CHANGE IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Group adopted the newly revised SFAS No. 34-“Financial Instruments: Recognition and Measurement.” The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Group are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change has no significant influence on consolidated net income for the six months ended June 30, 2011.

Operating Segments

The Group has adopted the newly issued SFAS No. 41 - “Operating Segments” on January 1, 2011. The requirements of the statement are based on the information on the components of the Group that management uses to make decisions on operating matters. SFAS No. 41 requires the identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20 - “Segment Reporting” and this adoption only changes the disclosure of the segment information of the Group.

4. CASH

	June 30 2012	June 30 2011
Checking accounts and demand deposits	$ 8,730	$ 20,384
Time deposits	3,760	2,256
Cash on hand	12	9
	$ 12,502	$ 22,649

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30, 2012
Corporate bonds	$ 7,416
Mutual funds	251
	$ 7,667

The Corporation invested in corporate bonds with total par value of $7,260 thousand and coupon interest rates of 2.125%-7.00%. The maturity dates ranged from August 2012 to May 2013.

6. ACCOUNTS RECEIVABLE, NET

	June 30 2012	June 30 2011
Accounts receivable	$ 19,800	$ 16,200
Less: Allowance for doubtful accounts	(2,913)	(1,040)
	$ 16,887	$ 15,160

7. INVENTORIES

	June 30 2012	June 30 2011
Finished goods	$ 1,640	$ 847
Raw materials	1,467	2,757
	$ 3,107	$ 3,604

As of June 30, 2012 and 2011, the allowance for loss on inventories included in the cost of sales was $660 thousand and $474 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended June 30, 2012 and 2011 included $7 thousand and $208 thousand, respectively, write-downs of inventories.

8. PROPERTY AND EQUIPMENT - ACCUMULATED DEPRECIATION

	June 30	
	2012	2011
Machinery and equipment	$ 1,627	$ 1,887
Office equipment	728	1,902
Leasehold improvements	408	324
Other equipment	647	614
	$ 3,410	$ 4,727

9. INTANGIBLE ASSETS

	Six Months Ended June 30, 2012		
	Goodwill	Brand	Core Technology
Balance, beginning of period	$ 5,594	$ 952	$ -
Amortization	-	-	-
Balance, end of period	$ 5,594	$ 952	$ -

	Six Months Ended June 30, 2011		
	Goodwill	Brand	Core Technology
Balance, beginning of period	$ 5,594	$ 952	$ 148
Amortization	-	-	(74)
Balance, end of period	$ 5,594	$ 952	$ 74

a. Brand, core technology and customer relationship

On January 7, 2007, the Group acquired 100% of outstanding shares of InfoSec Cayman by issuing Array Cayman Series C preferred shares and common shares. Under SFAS No. 25 - "Business Combinations" and No. 37 - "Accounting for Intangible Assets," the Group should measure the fair value of the acquired assets and thus identified brand, core technology and customer relationship based on the analysis of the purchase price allocation report. As of June 30, 2012, core technology and customer relationship had been fully amortized.

b. Goodwill

The goodwill as of June 30, 2012 and 2011 comprised of goodwill of $3,521 thousand acquired from Array US and goodwill of $2,073 thousand acquired from InfoSec Cayman, respectively.

In conformity with SFAS No. 35, "Accounting for Asset Impairment," the Group identified the smallest identifiable group of cash-generating units (CGU): The Corporation, Array US and Array BJ (Array Group) were identified and viewed as one CGU, InfoSec Cayman, InfoSec WOFE, InfoSec Technologies and Dingan (InfoSec Group) were identified and viewed as another CGU.

On the evaluation of the impairment test on goodwill, the recoverable amounts of the CGUs were based on value in use, which was estimated using budgeted cash flows of respective CGU. The critical assumptions to estimate the recoverable amounts were as follows:

1) Operating revenues were estimated on the basis of changes in industry and competitive landscape.

2) The estimates of costs and expenses were based on the proportion of the actual costs and expenses to operating revenues in the 2011 and 2010 financial statements.

3) Assumptions on discount rate:

   The discount rates used to calculate the recoverable amounts for Array Group were both 21.0% in 2011 and 2010; the discount rates used for InfoSec Group were 20.7% and 24.7% in 2011 and 2010, respectively.

Based on the above key assumptions, the Group's management believed that the carrying amounts of these assets for operating and goodwill would not exceed their recoverable amounts even if there were changes in the critical assumptions used to estimate recoverable amounts as long as these changes were reasonable for the years ended December 31, 2011 and 2010.

10. ACCRUED EXPENSES

	June 30	
	2012	**2011**
Salary and bonus	$ 976	$ 325
Accrued vacation	706	540
Commission	215	110
Others	680	394
	$ 2,577	$ 1,369

11. SHAREHOLDERS' EQUITY

a. Stock option plan

   Array Cayman adopted the stock option plan resolved by the Board of Directors in December 2003. Due to the reorganization on May 1, 2009, pursuant to the merger agreement, the Corporation modified each outstanding stock option to be exercisable to subscribe for one common share of the Corporation. The options were granted to qualified employees, directors and consultants of the Group. The options granted are valid for 10 years and vest 25% one year after the date of grant and the remaining balance vests 1/48 in equal monthly installments over the following 36 months.

   On August 5, 2011, 300 options were granted to qualified employees of the Group. Each option entitles the holder to subscribe for one thousand common shares of the Corporation when exercisable. The options granted are valid for 10 years and vest 50% two years after the date of grant and the remaining balance vest 1/48 in equal monthly installments over the following 24 months.

   The options were granted at an exercise price equal to the fair value of the Corporation's common shares on the grant date. For any subsequent changes in the Corporation's common shares, the exercise price will be adjusted accordingly.

Information about stock options was as follows:

	Six Months Ended June 30			
	2012		2011	
	Number of Exercisable Options (In Thousands)	Weighted-average Exercise Price (US$)	Number of Exercisable Options (In Thousands)	Weighted-average Exercise Price (US$)
Balance, beginning of period	10,117	$ 0.13	11,609	$ 0.14
Options exercised	(608)	0.16	(1,591)	0.13
Options expired	-	-	(2)	0.34
Balance, end of period	9,509	0.13	10,016	0.14
Options exercisable, end of period	9,123	0.13	9,617	0.13

The weighted-average stock price at the date of exercise for stock options exercised during the six months ended June 30, 2012 and 2011 was US$0.84 and US$1.24, respectively.

Information about outstanding options as of June 30, 2012 and 2011 was as follows:

June 30			
2012		2011	
Range of Exercise Price (US$)	Weighted-average Remaining Contractual Life (Years)	Range of Exercise Price (US$)	Weighted-average Remaining Contractual Life (Years)
$0.05	1.50	$0.05	2.50
0.1	3.47	0.10	4.47
0.34-0.36	5.11	0.34-0.36	6.11
0.73	9.10	-	-

Options granted during the year ended December 31, 2011 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

Grant-date share price (US$)	$0.73
Exercise price (US$)	$0.73
Expected volatility	39.53%
Expected life (years)	6
Expected dividend yield	0%
Risk-free interest rate	1.15%

Stock-based compensation cost recognized for the six months ended June 30, 2012 was $12 thousand. Reversal of stock-based compensation cost recognized for the six months ended June 30, 2011 was $360 thousand.

As of June 30, 2012 and 2011, the estimated percentages of forfeiture due to termination of employment over the remaining vesting period were both 25%.

b. Capital surplus

Except as may otherwise be provided by law, under the Corporation's Articles of Association, the capital surplus from share issued in excess of par, capital redemption reserve and earning reserves may be capitalized.

c. Appropriation of earnings and dividend policy

Under the Corporation's Articles of Association, when making appropriation of the earnings for each fiscal year, after offsetting losses from previous years and after paying taxes, the Corporation may set aside any 10% as legal reserve and less special reserve based on relevant laws and regulations. The remaining balance should be distributed as follows:

1) Up to 3%, as bonus to directors;

2) No less than 1%, as bonus to employees of the Corporation and subsidiaries; and

3) The appropriation of the remaining balance as bonuses or dividends should be resolved by the shareholders' meeting. The appropriation should not be less than 5% of remaining balance of the earnings. The distribution of cash dividends should comprise no less than 10% of the dividends in such year.

For the six months ended June 30, 2012 and 2011, there was no appropriation for bonus to employees and there was no appropriation for bonus to directors. Material differences between estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the shareholders' meeting.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain shareholders' equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, net loss not recognized as pension cost, cumulative translation adjustments) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The shareholders resolved not to appropriate earnings for 2010 in the shareholders' meeting on June 10, 2011. The appropriation of earnings for 2012 resolved by the shareholders' meeting on June 21, 2012 was as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Cash dividends	$ 1,130	$0.50

Information on the bonus to employees and directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

12. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
<u>Six months ended June 30, 2012</u>				
For transfer to employees	-	2,000	36	1,964

In order to motivate employees and enhance employees' retention, on December 23, 2011, the Board of Directors decided the plan to buy back the Corporation's outstanding shares as treasury stock from the securities exchange market. The buyback of treasury stock of 2000 thousand shares was executed in the period between January 2, 2012 and February 22, 2012, and the total buyback amount was $1,381 thousand.

The Corporation transferred 36 thousand shares of treasury stock to employees based on the resolution of the Board of Directors on March 14, 2012. The shares were transferred on April 20, 2012 and the transfer price was NT$20.62 per share. Under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"), the compensation cost of $9 thousand was recognized for the six months ended June 30, 2012.

Under the Securities and Exchange Act, the Corporation shall neither pledge treasury stock nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

13. INCOME TAX

A reconciliation of income tax expense based on income before income tax and income tax expense was as follows:

	Six Months Ended June 30	
	2012	2011
Income tax benefit at the statutory rate	$ (515)	$ (316)
Tax effect on adjusting items:		
Permanent differences	461	(98)
Temporary differences	430	554
Others	(271)	(8)
Current income tax expense	105	132
Deferred tax	2	(41)
Adjustments for prior years' tax	4	(47)
	$ 111	$ 44

Deferred income tax assets were as follows:

	June 30	
	2012	2011
Current		
Deferred income tax assets		
Deferred revenue	$ 1,297	$ 733
Bad debt	429	332
Accrued vacation	176	176
Unrealized loss on inventories	104	312
Others	923	627
	2,929	2,180
Less: Valuation allowance	(2,929)	(2,140)
	$ -	$ 40
Non-current		
Deferred income tax assets		
Loss carryforwards	$ 20,229	$ 22,003
Investment tax credits	1,597	1,641
Others	61	101
	21,887	23,745
Less: Valuation allowance	(21,840)	(23,744)
	$ 47	$ 1

As of June 30, 2012, investment tax credits comprised of:

Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Federal tax			
2000	$ 144	$ 144	2020
2001	342	342	2021
2006	213	213	2026
2007	188	188	2027
2008	92	92	2028
2009	54	54	2029
2010	46	46	2030
2011	48	48	2031
	$ 1,127	$ 1,127	
State tax			
2001	$ 359	$ 278	None
2006	160	160	None
2007	141	141	None
2008	68	68	None
2010	26	26	None
2011	27	27	None
2012	12	12	None
	$ 793	$ 712	

As of June 30, 2012, investment tax credits and loss carryforwards comprised of:

Unused Amount	Expiry Year
$ 77	2012
1,407	2013
972	2014
2,602	2015
2,319	2016
11,872	2021
20,167	2022
5,665	2023
5,383	2024
930	2025
4,529	2026
309	2027
400	2028
1,072	2031
$ 57,704	

Array China and InfoSec Technologies were both recognized as High-Tech Industry company and entitled to the preferential income tax rate of 15% from 2011 to 2014.

14. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30					
	2012			2011		
	Classified as Operating Cost	Classified as Operating Expense	Total	Classified as Operating Cost	Classified as Operating Expense	Total
Labor cost						
Salary	$ 317	$ 6,090	$ 6,407	$ 309	$ 5,163	$ 5,472
Insurance	54	1,202	1,256	47	1,022	1,069
Others	-	391	391	-	143	143
	$ 371	$ 7,683	$ 8,054	$ 356	$ 6,328	$ 6,684
Depreciation	$ 134	$ 437	$ 571	$ 15	$ 364	$ 379
Amortization	$ 3	$ 51	$ 54	$ -	$ 109	$ 109

15. CONSOLIDATED (LOSS) EARNINGS PER SHARE ("EPS")

	Amounts (Numerator)		Shares	EPS (US$)	
	Before Income Tax	After Income Tax	(Denominator) (In Thousands)	Before Income Tax	After Income Tax
Six months ended June 30, 2012					
Basic EPS					
Loss for the six months attributable to common shareholders	$(3,547)	$(3,658)	67,999	$ (0.05)	$ (0.05)
Effect of dilutive potential common shares					
Stock options	-	-	-		
Diluted EPS					
Loss for the six months attributable to common shareholders plus effect of potential dilutive common shares	$(3,547)	$(3,658)	67,999	$ (0.05)	$ (0.05)
Six months ended June 30, 2011					
Basic EPS					
Income for the six months attributable to common shareholders	$ 327	$ 283	68,893	$ -	$ -
Effect of dilutive potential common shares					
Stock options	-	-	9,299		
Diluted EPS					
Income for the six months attributable to common shareholders plus effect of potential dilutive common shares	$ 327	$ 283	78,192	$ -	$ -

16. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

Please refer to reviewed consolidated balance sheets.

b. The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash, notes and accounts receivable, short-term loans, accounts payable and accrued expense.

c. Fair values of available-for-sale financial assets are based on their quoted prices in an active market.

d. The fair values of financial assets and liabilities were not simultaneously determined by quoted prices in active markets and by estimations using valuation technique.

e. The financial assets exposed to fair value interest rate risk amounted to $11,980 thousand and $2,702 thousand as of June 30, 2012 and 2011, respectively. The financial assets exposed to cash flow interest rate risk amounted to $8,762 thousand and $20,416 thousand as of June 30, 2012 and 2011, respectively.

f. For the six months ended June 30, 2012 and 2011, the interest income associated with financial assets (liabilities) other than those at FVTPL amounted to $52 thousand and $145 thousand, respectively, and the interest expense amounted to $107 thousand and $20 thousand.

g. Financial risks

1) Market risk

The Group is neither exposed to material interest rate risk nor fair value interest rate risk. Therefore, market risk is not material.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Group if the counterparties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Group's exposure to default by those parties to be material.

3) Liquidity risk

The Group's operating funds are deemed sufficient to meet the cash flow demand; therefore, liquidity risk is not considered to be significant.

4) Cash flow interest rate risk

The Group is not exposed to material floating-rate risk; therefore, cash flow interest rate risk is not considered to be significant.

17. RELATED PARTY TRANSACTIONS

a. Related parties and their relationships with the Group

Related Party	Relationship with the Group
H&Q Asia Pacific, Ltd.	Major shareholder of the Corporation

b. Significant transactions with related parties:

	June 30, 2011	
	Amount	% to Total
Accounts payable		
H&Q Asia Pacific, Ltd.	$ 9	-

18. MORTGAGED OR PLEDGED ASSETS

As of June 30, 2012 and 2011, the tangible assets of Array US mortgaged as collateral for bank loans, amounted to $16,893 thousand and $14,352 thousand, respectively. Besides, the Group's assets mortgaged or pledged as collateral with banks were as follows:

	June 30	
	2012	2011
Pledged time deposits	$ 32	$ 32

19. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Group entered into operating lease agreements for its office premises. These operating leases will expire in August 2015. Rent is paid monthly.

As of June 30, 2012, future lease payments were as follows:

Year	Amount
Six months ended December 31, 2012	$ 930
2013	1,886
2014	808
2015	193
	$ 3,817

20. FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

As of June 30, 2012 and 2011, the non-U.S. dollars financial assets and liabilities which have significant effect on the Group were as follows:

(In Thousands of U.S. Dollars or Foreign Currencies)

	June 30					
	2012			2011		
	Foreign Currencies	Exchange Rate	In U.S. Dollars	Foreign Currencies	Exchange Rate	In U.S. Dollars
Monetary financial assets						
RMB	$ 118,871	0.158105	$ 18,794	$ 84,018	0.154522	$ 12,983
Monetary financial liabilities						
RMB	11,165	0.158105	1,765	11,083	0.154522	1,713

21. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau for the Corporation and its investees:

a. Financings provided: Table 1 (attached)

b. Endorsements/guarantees provided: Table 2 (attached)

c. Marketable securities held: Table 3 (attached)

d. Marketable securities acquired or disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: None

e. Acquisition of individual real estate at costs of at least NT$100 million or 20% of the paid-in capital: None

f. Disposal of individual real estate at prices of at least NT$100 million or 20% of the paid-in capital: None

g. Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: None

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None

i. Names, locations, and related information of investees over which the Company exercises significant influence: Table 4 (attached)

j. Derivative transactions of investees over which the Company has a controlling interest: None

k. Investments in Mainland China

   1) Name of the investees in Mainland China, main businesses and products, paid-in capital, method of investment, information on inflow or outflow of capital, percentage of ownership, investment income or loss, ending balance of investment, dividends remitted by the investee, and the limit of investment in Mainland China: Table 5 (attached)

   2) Significant direct or indirect transactions with the investees, prices and terms of payment, unrealized gain or loss: Table 6-1 and 6-2 (attached)

   3) Endorsements, guarantees or collateral directly or indirectly provided to the investees: None

   4) Financings directly or indirectly provided to the investees: None

   5) Other transactions that significantly impacted current year’s profit or loss or financial position: None

l. Business relationships and significant details between the Corporation and subsidiaries: Tables 6-1 and 6-2 (attached).

22. OPERATING SEGMENT FINANCIAL INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Corporation's reportable segments under SFAS No. 41 are therefore as follows:

Network application - (US and China) and Public Key Infrastructure (PKI).

a. Segment revenues and results

The Group's revenue and results from continuing operations by reportable segment were as follows:

	Segment Revenue		**Segment Profit**	
	Six Months Ended June 30		**Six Months Ended June 30**	
	2012	**2011**	**2012**	**2011**
Network application				
- US	$ 7,731	$ 6,897	$ 224	$ (1,025)
- China	3,129	3,733	(2,348)	(555)
PKI	3,146	4,444	(1,201)	1,523
Others	-	-	(306)	108
Total for continuing operations	$ 14,006	$ 15,074	(3,631)	51
Interest income			52	145
Exchange gain (loss)			17	(86)
Other non-operating income and gains			166	237
Interest expense			(107)	(20)
Other expenses			(44)	-
(Loss) profit before tax			$ (3,547)	$ 327

b. Segment assets and liabilities

	June 30	
	2012	**2011**
Network application		
- US	$ 17,106	$ 16,892
- China	8,739	3,508
PKI	15,707	14,311
Other	10,250	16,479
Total segment assets	$ 51,802	$ 51,190
Network application		
- US	$ 6,992	$ 5,925
- China	1,780	799
PKI	2,371	1,816
Other	1,182	94
Total segment liabilities	$ 12,325	$ 8,634

23. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Group pre-disclosure information on the adoption of International Financial Reporting Standards (IFRSs) was as follows:

a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, Interpretations, and related guidance translated by the ARDF and issued by the FSC. To comply with this framework, the Group has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is the project team. The main contents of the plan, anticipated schedule and status of execution as of June 30, 2012 were as follows:

Contents of Plan	Responsible Department	Status of Execution
1) Assessment: From January 1, 2010 to December 31, 2011		
• Set up IFRSs plan and project team	Accounting	Completed
• First internal employee training	Human resources	Completed
• Compare and analyze differences between current accounting policies and IFRSs	Accounting	Completed
• Assess change required for current accounting policies	Accounting	Completed
• Assess first-time adoption of IFRSs	Accounting	Completed
• Assess change required for related IT system and internal control	Accounting, internal audit, MIS	Completed
2) Preparation: From January 1, 2011 to December 31, 2012		
• Decide the modification required for current accounting policies according to IFRSs	Accounting	Completed
• Decide the adoption of "First-time adoption of IFRSs	Accounting	Completed
• Set up related IT system and internal control	Internal audit, MIS	In progress
• Second internal employee training	Human resources	In progress
3) Execution: From January 1, 2012 to December 31, 2013		
• Test related IT system	MIS	In progress
• Collect data to prepare the opening balance of balance sheet and comparative financial statements based on IFRSs	Accounting	Completed
• Prepare financial statements according to IFRSs	Accounting	In progress

b. The Group had assessed the material differences, shown below, between the current accounting policies and the accounting policies to be adopted under IFRSs:

1) Reconciliation on balance sheet on January 1, 2012

(In Thousands of New Taiwan Dollars)

	ROC GAAP	Influence	IFRSs	Description
Assets				
Deferred income tax assets - current (classified under prepayment and other current assets)	$ 51,874	$ (1,454)	$ 50,420	6) a)
Deferred income tax assets - noncurrent	26	1,454	1,480	6) a)
Liabilities				
Deferred revenues	155,967	43,284	199,251	6) b)
Shareholders' equity				
Capital surplus	386,235	24,748	410,983	6) c), d)
Retained earnings	300,003	(41,978)	258,025	6) b), c), d)
Cumulative translation adjustments	7,859	(26,054)	(18,195)	6) c)

2) Reconciliation on balance sheet on June 30, 2012

(In Thousands of New Taiwan Dollars)

	ROC GAAP	Influence	IFRSs	Description
Liabilities				
Deferred revenues	$ 178,568	$ 34,490	$ 213,058	6) b)
Shareholders' equity				
Capital surplus	379,538	30,051	409,589	6) c), d)
Retained earnings	153,016	(28,829)	124,187	6) b), c), d)
Cumulative translation adjustment	(3,944)	(35,750)	(39,694)	6) c)
Treasury stock	(41,194)	38	(41,156)	6) c)

3) Reconciliation on income statement for the six months ended June 30, 2012

(In Thousands of New Taiwan Dollars)

	ROC GAAP	Influence	IFRSs	Description
Operating revenue	$ 418,505	$ 5,102	$ 423,607	6) b), c)
Operating costs	77,543	(566)	76,977	6) c), d)
Operating expenses	449,464	(3,551)	455,913	6) c), d)
Nonoperating income, gains, expenses and losses	2,502	(19)	2,483	
Income tax expense	3,307	(24)	3,283	6) c)
Other comprehensive income				
Translation adjustments resulted from the translation of financial statements of foreign operations	-	-	(21,499)	

4) Special reserve at the date of transition to IFRSs

In accordance with the order VI-1010012865 issued by FSC on April 6, 2012, at the first-time adoption of IFRSs, an entity shall appropriate a corresponding amount to special reserve same as the IFRS adjustment, in which case an entity elects to use exemption application specified in IFRS 1 and resets unrealized revaluation increment and cumulative translation differences under stockholders' equity to zero, and its retained earnings is being increased accordingly. However, if the retained earnings' arising from IFRS adjustment at the first-time adoption is insufficient, special reserve shall be appropriated by the amount that retained earnings increase from the IFRS adjustment. While subsequent usage, disposal or reclassification of the related assets, special reserve shall be reversed in proportion.

The Group did not elect to use exemption application specified in IFRS 1; therefore, VI-1010012865 is not adopted.

5) Exemptions in International Financial Reporting Standards 1

International Financial Reporting Standards 1 - "First-time Adoption of International Reporting Standards", states procedures that apply when companies first adopt IFRSs as consolidated financial statements base. According to the Standard, the Group should construct accounting policies under IFRSs and trace the adoption of those accounting policies to determine the beginning balance sheet on IFRSs conversion day (January 1, 2012). The Standard exempts several accounting policies from tracing. Exemptions adopted by the Group are as follows:

<u>Business combinations</u>

The Group elected not to apply IFRS 3, "Business Combinations, retrospectively to business combinations that occurred before the implementation date of the IFRS. Therefore, the balance sheet items and the amount of goodwill generated from past business combinations remain the same compared with the one under R.O.C. GAAP as of December 31, 2011.

<u>Share-based payment</u>

The Group choose to take the optional exemption from applying IFRS 2 - "Share-based Payment", retrospectively for the share-based payment transactions granted and vested before January 1, 2012.

6) Material reconciliation on IFRSs conversion

The Group had assessed the material differences, shown blow, between the current accounting policies and the accounting policies to be adopted under IFRSs.

a) Deferred income tax assets/liabilities

Under ROC GAAP, valuation allowances is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized.

Under IFRSs, a deferred income tax asset is recognized only when it is more than likely to be realized, and therefore, valuation allowance is no longer required.

Moreover, under ROC GAAP, a deferred tax liability or asset should, according to the classification of its related liability or asset, be classified as current or noncurrent. However, a deferred tax liability or asset that is not related to a liability or asset for financial reporting should be classified as current or noncurrent according to the expected reversal date of the temporary difference.

Under IFRSs, a deferred income tax liability or asset should all be classified as noncurrent.

As of June 30, 2012 and January 1, 2012, the Group reclassified $0 thousand and $1,454 thousand of deferred income tax assets to noncurrent assets, respectively.

b) Service revenue

Under current accounting practice, if the product sales contract includes subsequent service and specifies the service amount, and the amount for the subsequent service is identifiable, the amount should be deferred initially and recognized as revenue over the period during which the service is performed.

Under IFRSs, if the product sales contract includes subsequent service but does not specify the service amount, the subsequent service should be independently identified, deferred initially and recognized as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable profit on those services.

As of June 30, 2012 and January 1, 2012, the Group increased NT$34,490 thousand and NT $43,284 thousand of deferred revenues, respectively. Further, operating income is increased by NT $8,169 thousand for the six months ended June 30, 2012.

c) Translation into presentation currency in NTD

When the consolidated financial statements are translated from functional currency - U.S. dollar to presentation currency - N.T. dollar, except for the share capital that is translated to NT$10 per share at the historical exchange rate, the other items of financial statements are translated at the exchange rates on the balance sheet date. Exchange differences resulting from translation to presentation currency are recognized in the cumulative translation adjustments.

Under IFRSs, exchange rates used for the translation to presentation currency are the same as those used in the translation of different foreign functional currency. Assets and liabilities are translated at the exchange rate on the balance sheet date. Equity items are translated at historical exchange rates, and income and expense items are translated at the average exchange rate for the period. The exchange difference resulting from translation of financial statements are recognized in the cumulative translation adjustments.

As of June 30, 2012 and January 1, 2012, the Group increased NT $31,003 thousand and NT $26,054 thousand of capital surplus, increased NT $35,750 thousand and NT $26,054 thousand of cumulative translation adjustment.

d) Stock-based compensation

Under ROC GAAP, employee stock options granted between January 1, 2004 and December 31, 2007 should be accounted for under the fair value method or the intrinsic value method. Compensation cost was recognized on a straight-line basis over the vesting period. Employee stock options granted between January 1, 2008 and December 31, 2009 were initially measured at their intrinsic value and then adjusted at each reporting date for any change in intrinsic value until the date of final settlement.

Under IFRSs, unless the Group could not have reliable estimate of the fair value of equity-based compensation in rare situation, stock-based compensation cost should be recognized at the fair value method from applying IFRS 2-“share-based payment’.

As of June 30, 2012 and January 1, 2012, the Group reduced NT$952 thousand and NT $1,306 thousand, respectively. Further, stock-based compensation cost increased NT $966 thousand for the six months ended June 30, 2012.

c. The Group have prepared the above assessments in compliance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the International Accounting Statements Board continues to issue or amend standards, and as the FSC may issue new rules governing the adoption of IFRSs by companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market. Actual accounting policies adopted under IFRSs in future may differ from those contemplated during the assessments.

ARRAY INC. AND SUBSIDIARIES

FINANCINGS PROVIDED
SIX MONTHS ENDED JUNE 30, 2012
(In Thousands of United States Dollars, Unless Specified Otherwise)

Financing Company	Borrower	Financial Statement Account	Maximum Balance for the Year	Ending Balance	Balance Used	Interest Rate	Type of Financing	Transaction Amount	Reason for Short-term Financing	Allowance for Bad Debt	Collateral		Financing Limit for Each Borrowing Company	Financing Company's Financing Amount Limit
											Item	Value		
Array Inc.	Array Cayman	Other receivables	US$ 618	US$ 618	US$ 618	-	Short-term financing	$ -	Operational revolving fund	$ -	-	-	Net worth of the Corporation US$39,477	Net worth of the Corporation US$39,477
	Array Networks, Inc.	Other receivables	US$ 3,000	US$ 3,000	US$ 3,000	-	Short-term financing	-	Operational revolving fund	-	-	-	Net worth of the Corporation US$39,477	Net worth of the Corporation US$39,477
Array Cayman	Array Networks, Inc.	Accounts receivable	US$ 13,621	US$ 12,756	US$ 12,756	-	Short-term financing	-	Operational revolving fund	-	-	-	Net worth of the Corporation US$39,477	Net worth of the Corporation US$39,477
	Array Networks (China) Co., Ltd.	Accounts receivable	US$ 254	US$ 254	US$ 254	-	Short-term financing	-	Operational revolving fund	-	-	-	Net worth of the Corporation US$39,477	Net worth of the Corporation US$39,477
Beijing InfoSec Technologies Co., Ltd. (InfoSec Technologies)	Array Networks (China) Co., Ltd.	Other receivables	RMB 12,238	RMB 12,238	RMB 12,238	-	Short-term financing	-	Operational revolving fund	-	-	-	Net worth of the Corporation US$39,477	Net worth of the Corporation US$39,477

ARRAY INC. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
SIX MONTHS ENDED JUNE 30, 2012
(In Thousands of United States Dollars)

Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Year	Ending Balance	Balance Used	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity Per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable
	Name	Nature of Relationship							
Array Cayman	Array Networks, Inc.	Indirect subsidiary	Note	$ 5,000	$ 5,000	$ 5,000	$ -	12.67%	Note

Note: The limitation of endorsement and/or guarantee between the Corporation and its subsidiaries in which the Corporation directly or indirectly holds 90 percent or more of the investees' voting shares is 10 percent of the Corporation's net worth. However, there is no limitation of endorsement and/or guarantee between the Corporation and its subsidiaries which the voting shares are directly or indirectly 100 percent held by the Corporation.

TABLE 3

ARRAY INC. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
JUNE 30, 2012
(In Thousands of United States Dollars)

Holding Company	Marketable Securities Type and Issuer's Name	Security Issuer's Relationship with the Holding Company	Financial Statement Account	June 30, 2012				Note
				Shares/Units (In Thousands)	Carrying Value (US$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value	
Array Inc.	Stock							
	Array Cayman	Subsidiary	Investment accounted for using equity method	52,592	$ 39,477	100	$ 39,477	Note
Array Networks, Inc. (Cayman)	Stock							
	Array Networks, Inc.	Indirect subsidiary	Investment accounted for using equity method	-	(806)	100	(806)	Note
	Array Networks (China) Co., Ltd.	Indirect subsidiary	Investment accounted for using equity method	-	8,340	100	8,340	Note
	InfoSec Technologies Holdings, Inc.	Indirect subsidiary	Investment accounted for using equity method	6,000	15,725	100	9,998	Note
	Bonds							
	Citigroup Inc. Intermediate and long term debt	None	Available-for-sale financial assets - current	-	781	-	781	-
	Citigroup Inc. Intermediate and long term debt	None	Available-for-sale financial assets - current	-	785	-	785	-
	Household Fin Co. Intermediate and long term debt	None	Available-for-sale financial assets - current	-	791	-	791	-
	BNP Paribas Medium Term Note 2	None	Available-for-sale financial assets - current	-	779	-	779	-
	JPMorgam Chase Intermediate and long term debt	None	Available-for-sale financial assets - current	-	943	-	943	-
	Bank One Corp Intermediate and long term debt	None	Available-for-sale financial assets - current	-	937	-	937	-
	Morgan Stanley Intermediate and long term debt	None	Available-for-sale financial assets - current	-	790	-	790	-
	Citigroup Inc. Intermediate and long term debt	None	Available-for-sale financial assets - current	-	797	-	797	-
	Verizon NY Inc. Intermediate and long term debt	None	Available-for-sale financial assets - current	-	813	-	813	-
	Mutual fund							
	Fidelity Advisor Short Inter Muni Inc. mutual fund	None	Available-for-sale financial assets - current	-	251	-	251	-

(Continued)

Holding Company	Marketable Securities Type and Issuer's Name	Security Issuer's Relationship with the Holding Company	Financial Statement Account	June 30, 2012 Shares/Units (In Thousands)	Carrying Value (US$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value	Note
Array Networks, Inc.	Stock							
	Array Networks Japan Kabishiki Kaisha	Indirect subsidiary	Investment accounted for using equity method	200	$ 365	100	$ 1	Note
	Array Networks, LLC	Indirect subsidiary	Investment accounted for using equity method	-	(15)	100	(3)	Note
	Array Networks, SARL	Indirect subsidiary	Investment accounted for using equity method	-	-	100	-	Note
InfoSec Technologies Holdings, Inc.	Stock							
	Beijing InfoSec Information Security WOFE	Indirect subsidiary	Investment accounted for using equity method	-	569	100	(406)	Note

Note: The equities in net assets of unlisted stocks are based on unaudited financial statements as of June 30, 2012.

(Concluded)

ARRAY INC. AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2012
(In Thousands of United States Dollars, Unless Specified Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2012			Net Income (Losses) of the Investee	Equity in Earnings (Losses)	Note
				Ending Balance	Beginning Balance	Shares (In Thousands)	Percentage of Ownership	Carrying Value			
Array Inc.	Array Networks, Inc. (Cayman)	British Cayman Islands	Investment	NT$ 525,925	NT$ 525,925	52,592	100	US$ 39,477	US$ (3,658)	US$ (3,658)	
Array Networks, Inc. (Cayman)	Array Networks, Inc.	U.S.A.	Research manufacture and sale of application delivery controllers, high-end SSL VPN systems, remote desktop access solutions and application acceleration	US$ 6,019	US$ 6,019	-	100	US$ (806)	US$ (1,649)	US$ (1,649)	
	Array Networks (China) Co., Ltd.	China, Beijing	Research manufacture and sale of application delivery controllers, high-end SSL VPN systems, remote desktop access solutions and application acceleration	US$ 6,000	US$ 3,000	-	100	US$ 8,340	US$ 167	US$ 167	
	InfoSec Technologies Holdings, Inc.	British Cayman Islands	Investment	US$ 5,115	US$ 5,115	6,000	100	US$ 15,725	US$ (1,790)	US$ (1,790)	
Array Networks, Inc.	Array Networks Japan Kabishiki Kaisha	Japan	Research manufacture and sale of application delivery controllers, high-end SSL VPN systems, remote desktop access solutions and application acceleration	JPY 10,000	JPY 10,000	200	100	US$ 365	US$ 1	US$ 1	
	Array Networks, LLC	United Kingdom	Research manufacture and sale of application delivery controllers, high-end SSL VPN systems, remote desktop access solutions and application acceleration	-	-	-	100	US$ (15)	US$ (3)	US$ (3)	
	Array Networks, SARL	France	Research manufacture and sale of application delivery controllers, high-end SSL VPN systems, remote desktop access solutions and application acceleration	EUR 1	EUR 1	-	100	-	-	-	
InfoSec Technologies Holdings, Inc.	Beijing InfoSec Information Security WOFE	China, Beijing	Research and sale of full life cycle management of Public Key Infrastructure (PKI)	US$ 2,000	US$ 2,000	-	100	US$ 569	US$ (406)	US$ (406)	
	Beijing InfoSec Technologies Co., Ltd.	China, Beijing	Research and sale of full life cycle management of Public Key Infrastructure (PKI)	RMB 10,000	RMB 10,000	-	100	US$ 9,429	US$ (1,384)	US$ (1,384)	

TABLE 5

ARRAY INC. AND SUBSIDIARIES

INFORMATION ON INVESTMENT IN MAINLAND CHINA
SIX MONTHS ENDED JUNE 30, 2012
(In Thousands of United States Dollars, Unless Specified Otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Thousands)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2012	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2012	Percentage of Ownership	Investment Income (Loss) Recognized	Carrying Value as of June 30, 2012	Accumulated Inward Remittance of Earnings as of June 30, 2012
					Outflow	Inflow					
Array Networks (China) Co., Ltd.	Research, manufacture and sale of application delivery controllers, high-end SSL VPN systems, remote desktop access solutions and application acceleration	$ 6,000	Through a third-region company invested by the Corporation.	$ -	$ -	$ -	$ -	100%	$ 167	$ 8,340	$ -
Beijing InfoSec Information Security WOFE	Research and sale of full life cycle management of Public Key Infrastructure (PKI)	2,000	Through a third-region company invested by the Corporation.	-	-	-	-	100%	(406)	569	-
Beijing InfoSec Technologies Co., Ltd.	Research and sale of full life cycle management of Public Key Infrastructure (PKI)	RMB 10,000	(Note)	-	-	-	-	100%	(1,384)	9,429	-

Accumulated Investment in Mainland China as of June 30, 2012	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on Investment
$ -	NA	NA

Note: InfoSec WOFE arranged structure contracts with InfoSec Technologies to have the power to govern its financial and operating policies. The structure contracts were designed to provide InfoSec WOFE with effective control over and the right to acquire the equity interests in the assets of InfoSec Technologies

ARRAY INC. AND SUBSIDIARIES

BUSINESS RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTION
SIX MONTHS ENDED JUNE 30, 2012
(In Thousands of United States Dollars)

Number	Company Name	Counterparty	Nature of Relationship (Note 1)	Transaction Details			
				Account	Amount	Transaction Item	Percentage of Consolidated Total Operating Revenues or Total Assets
0	Array Inc.	Array Cayman	1	Other receivables	$ 618	Based on regular terms	1%
		Array US	1	Other receivables	3,000	Based on regular terms	6%
1	Array Cayman	Array Inc.	2	Other payables	618	Based on regular terms	1%
		Array US	1	Accounts receivable	12,756	Based on regular terms	25%
		Array China	1	Accounts receivable	423	Based on regular terms	-
2	Array US	Array Inc.	2	Other payables	3,000	Based on regular terms	6%
		Array Cayman	2	Other payables	12,756	Based on regular terms	25%
		Array China	3	Accounts receivable	1,060	Note 3	2%
			3	Accounts payable	4,799	Note 3	9%
			3	Operating revenues	1,163	Note 2	8%
			3	Marketing expenses	1,145	Note 3	8%
			3	Research and development expenses	1,729	Note 3	12%
		InfoSec	3	Accounts receivable	2,248	Note 3	4%
			3	Operating revenues	693	Note 2	5%
3	Array China	Array Cayman	2	Other payables	254	Based on regular terms	-
			2	Other current liabilities	169	Based on regular terms	-
		Array US	3	Accounts payable	896	Note 3	2%
			3	Purchase	1,163	Note 2	8%
			3	Accounts receivable	4,635	Note 3	9%
			3	Operating revenue	2,874	Note 2	21%
		InfoSec	3	Other payables	1,935	Note 3	4%
				Operating revenue	542	Based on regular terms	4%
4	InfoSec	Array US	3	Accounts payable	2,248	Note 3	4%
			3	Purchase	693	Note 2	5%
		Array China	3	Other receivables	1,935	Note 3	4%
			3	Non-operating expenses	542	Based on regular terms	4%

Note 1: 1. Parent to subsidiary.
2. Subsidiary to parent.
3. Between subsidiaries.

Note 2: The prices were determined after taking the selling and warranty expenses into consideration.

Note 3: The period of receipt and payment was longer than those for third parties in accordance with the financial position of the Group.

TABLE 6-2

ARRAY INC. AND SUBSIDIARIES

BUSINESS RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTION
SIX MONTHS ENDED JUNE 30, 2011
(In Thousands of United States Dollars)

Number	Company Name	Counterparty	Nature of Relationship (Note 1)	Transaction Details			
				Account	Amount	Transaction Item	Percentage of Consolidated Total Operating Revenues or Total Assets
0	Array Inc.	Array Cayman	1	Other receivables	$ 618	Based on regular terms	1%
1	Array Cayman	Array Inc.	2	Other payables	618	Based on regular terms	1%
		Array US	1	Accounts receivable	13,824	Based on regular terms	27%
		Array China	1	Accounts receivable	263	Based on regular terms	-
2	Array US	Array Cayman	2	Long-term debt	13,824	Based on regular terms	27%
		Array China	3	Accounts receivable	935	Note 3	2%
			3	Accounts payable	4,790	Note 3	9%
			3	Operating revenues	880	Note 2	6%
			3	Purchase	985	Note 3	7%
			3	Marketing expenses	315	Note 3	2%
		InfoSec	3	Accounts receivable	773	Note 3	2%
			3	Operating revenues	773	Note 2	5%
3	Array China	Array Cayman	2	Other payables	263	Based on regular terms	-
		Array US	3	Operating revenue	1,300	Note 3	9%
			3	Purchase	880	Note 2	6%
			3	Accounts receivable	3,855	Note 3	8%
		InfoSec	3	Other receivables	118	Based on regular terms	-
			3	Other payables	1,005	Note 3	2%
4	InfoSec	Array US	3	Accounts payable	773	Note 3	2%
			3	Purchase	773	Note 2	5%
		Array China	3	Other receivables	1,005	Note 3	2%
			3	Other payables	118	Based on regular terms	-

Note 1:
1. Parent to subsidiary.
2. Subsidiary to parent.
3. Between subsidiaries.

Note 2: The prices were determined after taking the selling and warranty expenses into consideration.

Note 3: The period of receipt and payment was longer than those for third parties in accordance with the financial position of the Group.