Apple Inc. v. Samsung Electronics Co. Ltd. et al
Doc. 1129 Att. 15

KANG DECLARATION
EXHIBIT 13

Dockets.Justia.com

EXHIBIT B

FILED UNDER SEAL

SAMSUNG TELECOMMUNICATIONS AMERICA, L.L.C.

(A wholly owned indirect subsidiary of Samsung Electronics Co., Ltd., of Korea)

Financial Statements

December 31, 2010 and 2009 and January 1, 2009

(With Independent Auditors' Report Thereon)

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322209

FINANCIAL STATEMENTS OF
SAMSUNG TELECOMMUNICATIONS AMERICA, L.L.C.

(A wholly owned indirect subsidiary of Samsung Electronics Co., Ltd., of Korea)

December 31, 2010 and 2009 and January 1, 2009

INDEX TO FINANCIAL STATEMENTS

	Page
Independent Auditors' Report	2
Financial Statements	
Statement of Financial Position	3
Statement of Comprehensive Income	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to the Financial Satements	8

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322210

KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

SAMSUNG TELECOMMUNICATIONS AMERICA, L.L.C.
(A wholly owned indirect subsidiary of Samsung Electronics Co., Ltd., of Korea)

Independent Auditors' Report

The Member
Samsung Telecommunications America, L.L.C.:

We have audited the accompanying statements of financial position of Samsung Telecommunications America, L.L.C. as of December 31, 2010 and 2009 and January 1, 2009 and the related statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Samsung Telecommunications America, L.L.C. as of December 31, 2010 and 2009 and January 1, 2009, and the results of its operations and its cash flows for the years ended December 31, 2010 and 2009, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

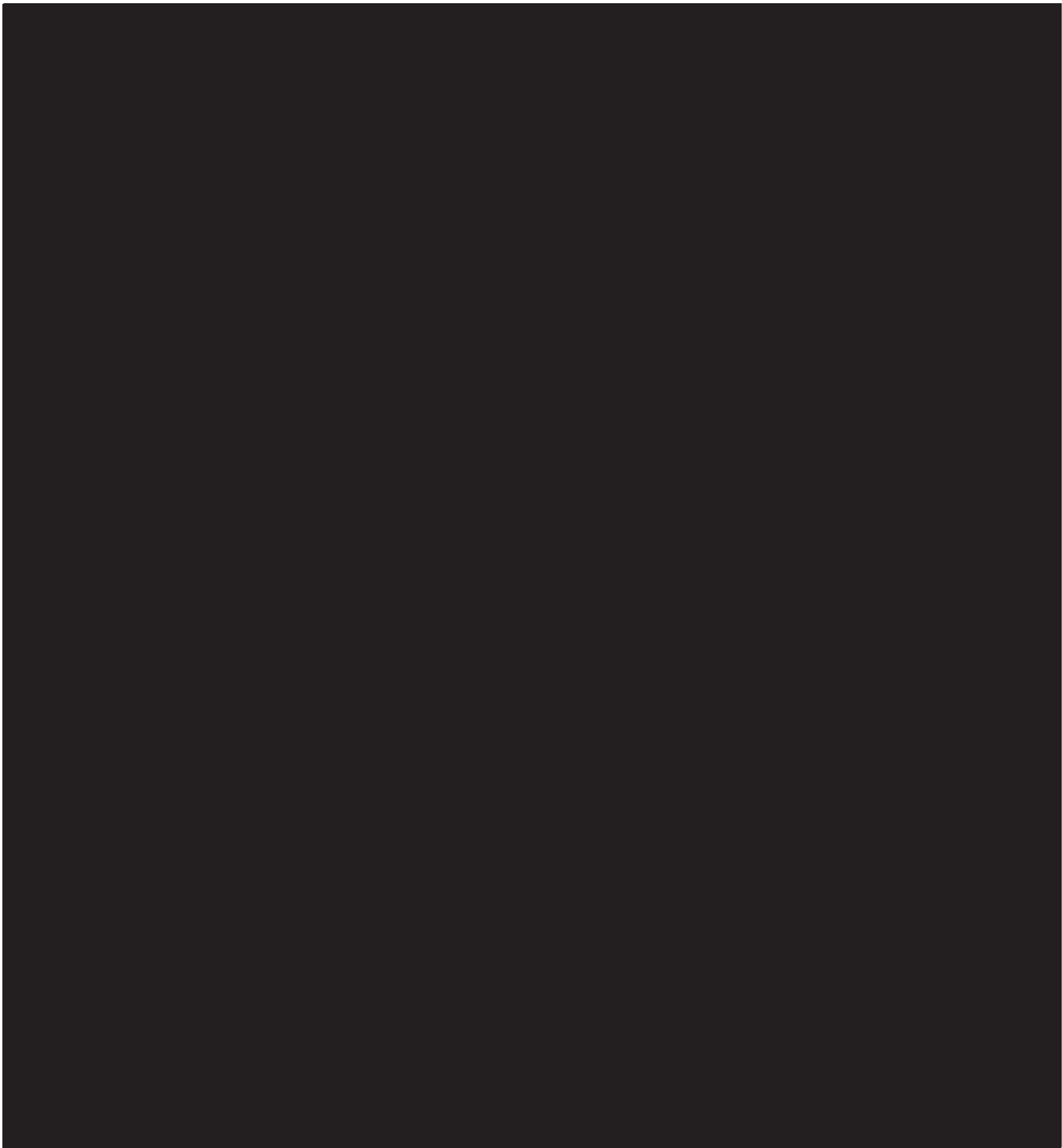
KPMG LLP

January 21, 2011
Dallas, Texas

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322211

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322214



HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322216

SAMSUNG TELECOMMUNICATIONS AMERICA, L.L.C.
(A wholly owned indirect subsidiary of Samsung Electronics Co., Ltd., of Korea)

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Effective December 31, 2006, Samsung Telecommunications, L.P. was converted into a limited liability company known as Samsung Telecommunications America, L.L.C. (the Company). The address of the Company's registered office is 1301 E. Lookout Drive, Richardson, Texas, 75082. The Company is a wholly owned subsidiary of Samsung Electronics America, Inc. (SEA), located at 105 Challenger Rd., Ridgefield Park, New Jersey, which, in turn, is a wholly owned subsidiary of Samsung Electronics Co., Ltd. (SEC), the Company's ultimate parent company, which address is Suwon, the Republic of Korea.

The Company is engaged in the import, distribution, repair, and research and development of telecommunications devices and related products throughout the United States and Canada, manufactured primarily by SEC.

This year-end financial information was approved by management for issue on January 21, 2011.

2. Summary of Significant Accounting Policies

The Company first adopted International Financial Reporting Standards (IFRS) from January 1, 2010 (the date of transition: January 1, 2009). These standards have been consistently applied to 2009 comparative financial information presented.

These year-end financial statements have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations applicable at December 31, 2010. The policies set out below were consistently applied to the opening statement of financial position and for the comparative financial statements presented.

Principal adjustments made by the Company in restating its previously published financial statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) are described in Note 6.

The principal accounting policies applied in the preparation of these financial statements are set out below:

2.1 Basis of preparation

The financial statements have been prepared in accordance with IFRS (as issued by the International Accounting Standards Board (IASB)) on a historical cost basis unless otherwise stated in the notes.

These statements are the Company's first IFRS financial statements, and they were prepared in accordance with IFRS 1, *First-Time Adoption of International Financial Reporting*. IFRS 1 requires the application of the same accounting policies to the opening statement of financial position and for the periods for the comparative financial statements presented.

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322217

NOTES TO THE FINANCIAL STATEMENTS

Standards, amendments, and interpretations that have been issued but are not effective for the financial year beginning January 1, 2010 and have not been early adopted:

IAS 24
In November 2009, the IASB issued a revised version of International Accounting Standard (IAS) 24, *Related-Party Disclosures* (IAS 24 R). IAS 24 R provides a partial exemption from the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted. This revision only affects disclosure requirements and will not have any effect on the Company's financial statements.

IFRS 9
In November 2009, the IASB issued IFRS 9, *Financial Instruments*, as a first step in its project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for how an entity should classify and measure financial assets that are in the scope of IAS 39. The standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The adoption will not have any effect on the Company's financial statements.

IFRIC 19
IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, clarifies the requirements when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 will be adopted on January 1, 2011. The adoption will not have any effect on the Company's financial statements.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in U.S. dollars, which is the Company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rate at the end of the reporting period of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

2.3 Cash and cash equivalents

The Company considers all highly liquid investments with maturities less than twelve months from the date of acquisition to be cash equivalents. Bank overdrafts are considered short-term borrowings in the statement of financial position and treated as cash and cash equivalent in the statement of cash flows. Bank overdrafts in excess of cash and cash equivalent are treated as financing activities in the statement of cash flows.

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322218

2.4 Financial instruments

The Company has classified all financial assets as loans and receivables and all financial liabilities as financial liabilities at amortized cost. Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability carrying value at inception and are amortized or accreted into the statement of comprehensive income utilizing the effective interest rate method. Pre-payments and statutory liabilities are excluded from this analysis as it is required only for financial instruments.

1) Financial assets

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables, due from related parties and loans receivable from related parties. The carrying value of financial assets approximates fair value due to the short-term nature of these assets.

2) Financial liabilities

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities comprise trade and other payables, due to related parties, loans payable to related parties, and cash overdraft. The carrying amounts of financial liabilities approximate their fair value due to the short-term nature of these liabilities. All financial liabilities are due on demand.

3) Impairment of financial assets

(a) Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments; and
- The group, for economic or legal reasons relating to the borrower's financial difficult, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties.

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322219

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

2.5 Trade receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the Company if longer), they are classified as current assets. If not, they are presented as non-current assets.

A provision for impairment of trade receivables is established based on a periodic review of all outstanding amounts when there is evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that a trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognized in the statement of comprehensive income within selling, general, and administrative expenses. When a trade receivable is uncollectible, bad debts are written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling, general, and administrative expenses in the statement of comprehensive income.

In the event of a transfer of receivables, the Company derecognizes receivables when the Company has transferred the contractual rights to the cash flows and all the risks and rewards of ownership of the receivables [redacted]

2.6 Inventories

Inventories, representing mostly wireless terminal phones, business communications systems, wireless system products, WiMax equipment, and related parts and accessories, are stated at the lower of cost and net realizable value and are classified as finished goods. Cost is determined using the weighted average cost method, except for materials-in-transit. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Inventories are written down to net realizable value based on excess, obsolescence, and the decline in value. This reduction is determined by estimating market value based on future customer demand. The losses on inventory obsolescence are recorded as a part of cost of sales.

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322220

2.7 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes the expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Leasehold improvements are depreciated over the shorter of the lease term or useful life. Depreciation is calculated using the straight-line method over their estimated useful lives, as follows:

	Estimated useful lives
Leasehold improvement	7 years
Machinery and equipment	5 years
Tools and fixtures	5 years
Vehicles	5 years
Furniture and office equipment	5 years
Computer hardware	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within the statement of comprehensive income.

2.8 Intangible assets

[redacted] d
[redacted].

2.9 Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, the recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, then recoverable amount is determined for the cash-generating unit to which the asset belongs. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Borrowings and loans

Borrowings are recognized initially at fair value, net of transaction costs. Borrowings are subsequently measured at amortized cost; any difference between proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. If the Company has

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322221

an indefinite right to defer payment for a period longer than 12 months after the end of the reporting date, such liabilities are recorded as non-current liabilities. Otherwise, they are recorded as current liabilities.

2.11 Employee benefits

2.12 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event and is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

2.13 Leases

The Company leases certain property and equipment. Lease of property and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2.14 Revenue recognition

(a) Sales of goods

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company recognizes revenue when specific recognition criteria have been met. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue related to products are recognized upon delivery when the significant risks and rewards of ownership of goods have transferred to the buyer, continuing managerial involvement usually associated with ownership and effective control has ceased, the amount of revenue can be measured reliably, it is probable that the economic

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322222

benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. The Company records reductions to revenue for special pricing arrangements, price protection and other volume based discounts. If product sales are subject to customer acceptance, revenue is not recognized until customer acceptance occurs.

. Depending on the nature of the revenue arrangement, deferred revenue is either recognized on a straight-line basis over the term of the arrangement or recognized when customer acceptance is obtained for products and services delivered under arrangements with significant customer acceptance criteria. The Company's products are generally subject to warranty and such estimated costs are provided for in cost of sales when product revenue is recognized.

(b) Income from outsourced research and development

2.15 Income tax expense and deferred taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statements of comprehensive income, except to the extent that it relates to items recognized directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the asset and liability method, (i) on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, (ii) unused tax losses and (iii) unused tax credits. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322223

NOTES TO THE FINANCIAL STATEMENTS

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred taxes are reviewed at each statement of financial position date to take into account factors including the impact of changes in tax laws and the prospects of recovering deferred tax assets arising from deductible temporary differences. Deferred tax assets and liabilities are not discounted.

The Company is part of a consolidated tax group that files a consolidated federal income tax return. State tax returns are filed on a consolidated, combined, or separate basis depending on the applicable laws relating to the Company.

Following a restructuring on July 1, 2004, the Company is a disregarded entity for federal tax purposes. Accordingly, the Company is treated as a division of the parent company, SEA and is not regarded as a subsidiary of the SEA affiliated group of corporations.

All members of the group have entered into a tax allocation agreement, which provides for the allocation of federal and state consolidated income tax liabilities based upon each member's proportionate share of taxable income contributing to such liability [REDACTED] x [REDACTED] h [REDACTED] r [REDACTED].

As a result of the election to become a disregarded entity as well as amendments to the tax allocation amendment, the Company, prior to 2009, recorded its federal tax accrual and separate state tax accrual to additional capital contribution, instead of an income tax payable account.

[REDACTED] e [REDACTED] y.
Accordingly, the Company now records its federal tax accrual and separate tax accrual to an income taxes payable account instead of additional capital adjustment.

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322224

NOTES TO THE FINANCIAL STATEMENTS

2.16 Product warranties

The Company provides a 15-month standard product warranty for wireless terminal devices, a 36-month standard product warranty for set-top boxes, and a 24-month standard product warranty for business communication systems, from the date of sale. [redacted] e [redacted] e [redacted].

2.17 Advertising and promotional expense

The Company expenses all advertising and promotional costs as incurred.

3. Financial risk management

3.1 Financial risk factors

The Company is exposed to credit risk, liquidity risk and market risk. Market risk arises from currency risk and interest rate risk is associated with investments. The Company's risk management program is run on a group-wide basis.

(1) Market risk

(a) Foreign exchange risk

The Company markets its products primarily in the United States of America, and most of the Company's financial assets and liabilities originate in U.S. dollars. The Company is exposed to foreign exchange risk for some sales and purchases that are denominated in Canadian dollars. Gains and losses arise from foreign currency transactions and exchange positions. The Company believes that foreign exchange risk is low since financial assets and liabilities denominated in Canadian dollars are not significant.

(b) Interest rate risk

[redacted] y [redacted] d [redacted]).

(2) Credit risk

Credit risk arises during the normal course of transactions and investing activities, where clients or other parties fail to discharge an obligation. The Company monitors and sets the counterparty's credit limit on a periodic basis based on the counterparty's financial conditions, default history and other important factors.

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322225

Approximately 67% of the Company's total product revenues for the twelve months ended December 31, 2010 were generated from four customers: Sprint, T-Mobile, Verizon Wireless, and AT&T. For the twelve months ended December 31, 2010, Sprint, T-Mobile, Verizon Wireless, and AT&T comprised approximately 15%, 13%, 21%, and 19% of total product revenue, respectively.

Approximately 74% of the Company's total product revenues for the twelve months ended December 31, 2009 were generated from four customers: Sprint, T-Mobile, Verizon Wireless, and AT&T. For the twelve months ended December 31, 2009, Sprint, T-Mobile, Verizon Wireless, and AT&T comprised approximately 13%, 15%, 23%, and 23% of total product revenue, respectively.

Credit risk arises from cash and cash equivalents and savings transactions with financial institutions. The Company transacts only with banks that have a strong credit rating.

(3) Liquidity risk

The Company develops and runs net liquid assets and cash management tools to manage its liquidity. The Company's liquid asset strategy requires maintaining adequate net working capital

All remaining financial liabilities, including trade payable, other payables, taxes payable, and cash overdrafts do not bear interest are expected to be paid within one year. The contractual amounts due for all financial liabilities do not differ materially from their carrying amounts.

(4) Operational risk

The Company is dependent on SEC for the majority of its supply of telecommunications devices and related products. The loss of SEC as the Company's primary supplier could have a material adverse effect on the Company.

4. Capital management policy

5. Use of estimates and judgments

The preparation of financial statements requires management to exercise significant judgment and make assumptions based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322226

NOTES TO THE FINANCIAL STATEMENTS

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.
The resulting accounting estimates will, by definition, seldom equal the related actual results. The critical judgments and estimates and assumptions that have a significant effect on the amounts recognized in the financial statements and a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(1) Allowances for doubtful accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the subsequent inability of customers to make required payments based on Company policies determined at the SEC level. If the financial conditions of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods.

(2) Inventory-related allowances

The Company periodically reviews inventory for excess amounts, obsolescence and declines in market value below cost and records an allowance against the inventory balance for any such declines based on Company policies determined at the SEC level. These reviews require management to estimate future demand for products. Possible changes in these estimates could result in revisions to the valuation of inventory in future periods.

(3) Legal contingencies

Legal proceedings covering a wide range of matters are pending or threatened against the Company. Provisions are recorded for pending litigation when it is determined that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates.

(4) Income taxes

Management judgment is required in determining provisions for income taxes, deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized. If the final outcome of these matters differs from the amounts initially recorded, differences may impact the income tax and deferred tax provisions in the period in which such determination is made.

6. Transition to International Financial Reporting Standards as issued by the IASB from Generally Accepted Accounting Principles in the United States.

The Company adopted IFRS from the fiscal year 2010 (the date of first-time adoption to IFRS: January 1, 2010). The comparison year, 2009, is restated in accordance with IFRS 1 (the date of transition to IFRS: January 1, 2009).

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322227

SAMSUNG TELECOMMUNICATIONS AMERICA, L.L.C.

(A wholly owned indirect subsidiary of Samsung Electronics Co., Ltd., of Korea)

NOTES TO THE FINANCIAL STATEMENTS

Significant differences in accounting policies

Significant differences between the accounting policies chosen by the Company under IFRS and under previous U.S. GAAP are as follows:

Deferred tax

Under U.S. GAAP, deferred tax assets and liabilities were classified as either current or non-current based on the classification of their underlying assets and liabilities. Under IFRS, deferred tax assets and liabilities are all classified as non-current on the statement of financial position.

(1) Adjustments to the statement of financial position as of the date of transition, January 1, 2009:

(In thousands of U.S. dollars)
Current assets
Non-current assets
Total assets
Current liabilities
Non-current liabilities
Equity
Total liabilities and equity

(2) Adjustments to the statement of financial position as of December 31, 2009:

(In thousands of U.S. dollars)
Current assets
Non-current assets
Total assets
Current liabilities
Non-current liabilities
Equity
Total liabilities and equity

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322228

SAMSUNG TELECOMMUNICATIONS AMERICA, L.L.C.
(A wholly owned indirect subsidiary of Samsung Electronics Co., Ltd., of Korea)

NOTES TO THE FINANCIAL STATEMENTS

There are no significant differences to the statement of comprehensive income and statement of cash flows under IFRS and those under previous U.S. GAAP for the twelve months ended December 31, 2009 and the year ended December 31, 2010.

7. Inventories

Change in inventories, net of valuation losses, for the twelve months ended December 31, 2010 and 2009, consists of the following:

(In thousands of U.S. dollars)
Balance at January 1
Adjustment of net realizable value
Inventory write-off
Inventory in/out, net
Balance at December 31

d

8. Property and Equipment

Changes in property, plant and equipment for the years ended December 31, 2010 and 2009 consist of the following:

(In thousands of U.S. dollars)	2010
Balance at January 1, 2010	
Acquisition/Capitalized expenditure	
Disposal/Impairment	
Depreciation	
Balance at December 31, 2010	
Acquisition cost	
Accumulated depreciation	

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322229

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322230

NOTES TO THE FINANCIAL STATEMENTS

10. Trade receivables

(In thousands of U.S. dollars)

Trade receivables
Less: allowance for doubtful account
Trade receivables – net

The carrying amounts of trade and other receivables approximate their fair value.

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322231

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322232

NOTES TO THE FINANCIAL STATEMENTS

13. Commitments and Contingencies

The Company is obligated under a number of operating lease agreements for equipment, office, and warehouse space. Generally, the leases require the payment of base rents plus property taxes, insurance, and maintenance costs. Rent expense charged to operations for the twelve months ended December 31, 2010 and 2009 was

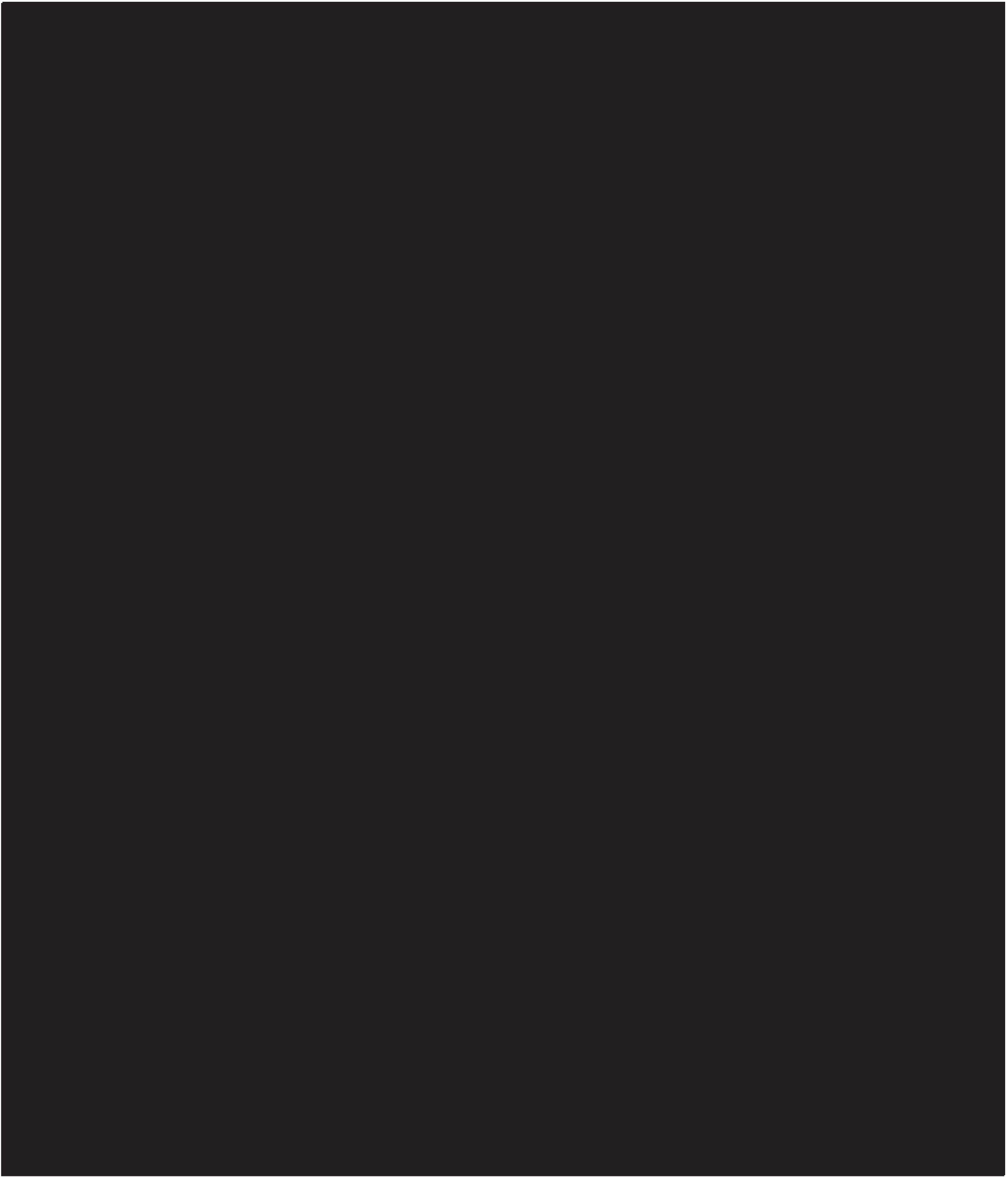
In the normal course of operations, the Company is named as defendant in various legal actions. In the opinion of the Company's management, the ultimate liability, if any, resulting from the disposition of these actions is not expected to have a material adverse effect on the Company's financial position or results of operations.

14. Selling, General, and Administrative Expenses

Selling, general and administrative expenses for the twelve month period ended December 31, 2010 and 2009 consist of the following:

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322233

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322234



HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322235

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY

19. Related-Party Transactions

The Company is the principal U.S. distributor of telecommunications devices and related products manufactured by SEC. The Company purchased approximately [redacted] of the aforementioned products for resale from SEC and its affiliates for the twelve months ended December 31, 2010 and 2009, respectively.

[redacted]

[redacted]

[redacted]

[redacted]

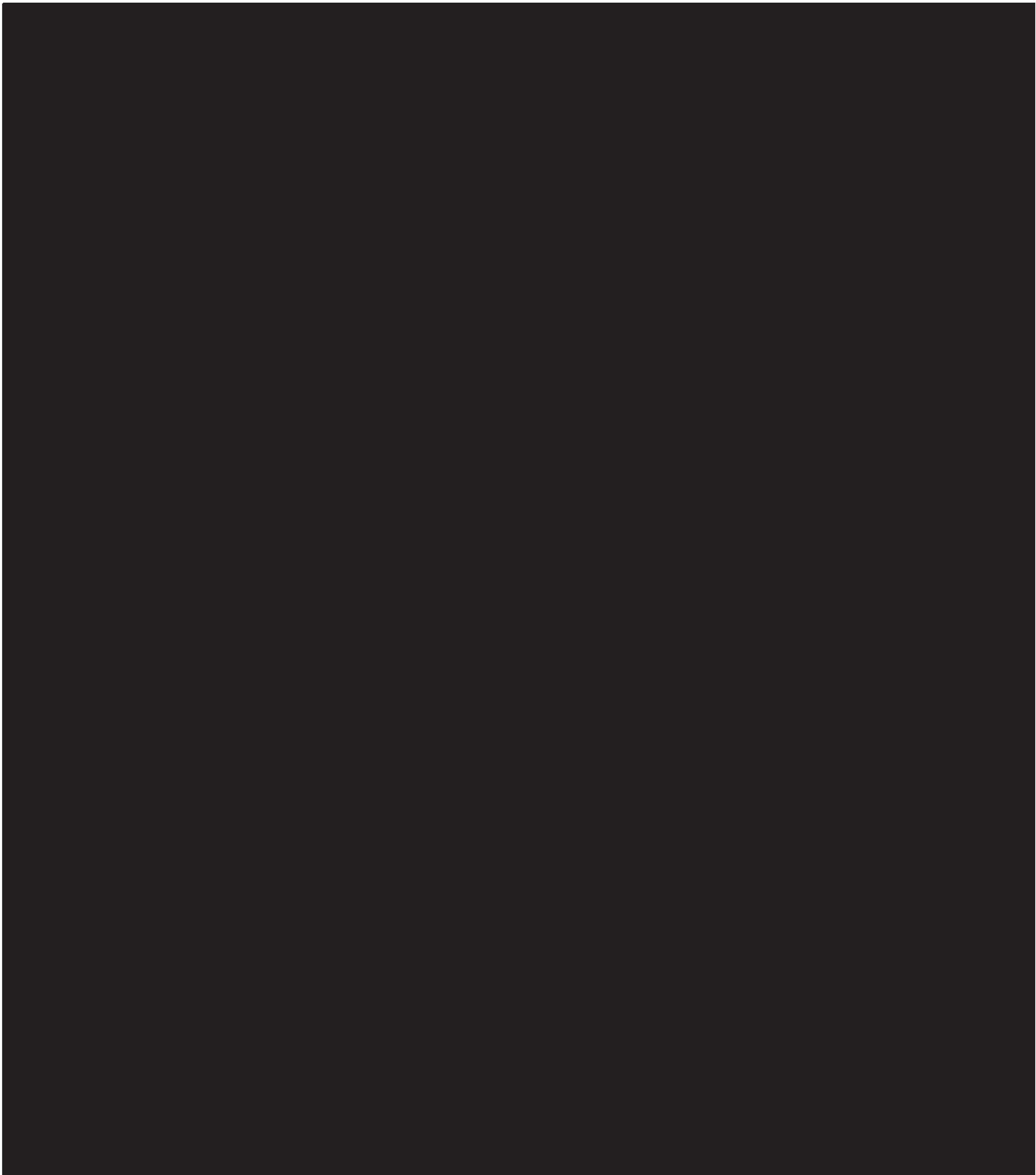
[redacted]

[redacted]

[redacted]

[redacted]

HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322237



HIGHLY CONFIDENTIAL - ATTORNEYS' EYES ONLY SAMNDCA00322238