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PRESENTATION

Operator

Good morning and thank you for standing by for the NQ Mobile Inc. Second Quarter 2012 Earnings Conference Call. At this time, all participants are in listen-only mode. There will be a presentation, and is followed by a question-and-answer session.

During which if you would like to ask a question you will need to press star one on your telephone keypad. Please be advised this conference is being recorded today August 9, 2012. I would now like to turn the conference over to your speaker today, Mattan Lurie, NQ Mobile Investor Relations. Thank you Sir. Please go ahead.

Mattan Lurie - NQ Mobile Inc - IR

Hello everyone and welcome to NQ Mobile's second quarter 2012 earnings conference call. The Company's earnings results were released earlier today and are available on the Company's IR website, ir.nq.com, as well as on News Wire Services.

Today, you will hear opening remarks from NQ Mobile's Co-CEOs, Dr. Henry Yu Lin and Omar Khan, followed by our chief financial officer, Suhai Ji, who will take you through the company's operational and financial results for the second quarter 2012, and give guidance for the third quarter and full year of 2012. After their prepared remarks, Dr. Lin, Mr. Khan, Mr. Ji and our Chief Strategy Officer, Will Jiang, will be available to answer your questions.

Before we continue, please note that the discussion today will contain certain forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995.

These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations. NQ Mobile does not assume any obligation to update any forward-looking statements except as required under applicable law.

Also, please note that some of the information to be discussed includes non-GAAP financial measures as defined in Regulation G. The most directly comparable US GAAP financial measures and information reconciling these non-GAAP financial measures to NQ Mobile's financial results prepared in accordance with US GAAP are included in NQ Mobile's earnings release, which have been posted on the Company's IR website at ir.nq.com.



Finally, as a reminder, this conference is being recorded. In addition, a webcast of this conference call will be available on NQ Mobile's Investor Relations website.

I will now turn the call over to NQ Mobile's founder, Chairman, and Co-CEO, Dr. Lin.

Dr. Henry Lin - *NQ Mobile Inc - Co-CEO*

Thank you Mattan, and welcome to everyone on the call. I am pleased to report that NQ Mobile delivered a solid second quarter with record revenues. Excluding the \$1.4 million revenue contribution from the NationSky acquisition, our revenues reached \$18.6 million, again exceeding the high end of the previously issued guidance.

We also achieved another milestone in our business in the second quarter as our registered user accounts surpassed the 200 million mark, nearly doubling from a year ago.

Even against the backdrop of continued global economic uncertainty, our business and user base growth have maintained growth momentum, and we continue to benefit from the rapid increase in global smartphone shipments and customer awareness and demand for mobile security and privacy solutions. The strong growth in our user base is also clear validation of the global expansion strategy and effective user inaudible channel and models.

In the second quarter, we continued to grow our customer business by launching more innovative products such as NQ Mobile Vault. We also expanded into enterprise business by completing the acquisition of NationSky and established partnerships with industry leaders such as TD Mobility. Our international business has also been gaining strong momentum and now already accounted for more than half of our consumer mobile internet service revenue.

With that I'd like to hand the call over to my partner and NQ Mobile's co-CEO, Omar Khan, who will give you more details on some of the key developments in our business.

Omar Khan - *NQ Mobile Inc - Co-CEO*

Thank you Henry and hello to everyone on the call. Before I get into more details on NQ Mobile's business, I must echo Henry on the enormous market opportunity that we are faced with despite the uncertain global economic outlook.

Two of our biggest growth drivers, our global smartphone shipments and the consumer awareness and adoption of mobile security and privacy solutions, both of which are on a rapid rise. For example, the latest IDC data shows that in the second quarter of 2012, approximately 154 million smartphones were shipped, a 42% increase year-over-year and among which over 68%, or 105 million were Android smartphones.

Android smartphones are the largest and fastest growing segment with over 100% growth. Third party research firm Canalys also forecasts that mobile security will turn into a \$3 billion market opportunity by 2015 and over 20% of smartphones and tablets will have mobile security software pre-installed by 2015. Thus it's quite obvious that we are still at an early stage of the mobile security market evolution and we want to ensure NQ Mobile is well-positioned to capture a disproportionate amount of this opportunity.

In the second quarter, there are a few things we are particularly proud of. First I would like to cover our new products. I'm proud to report that our product teams have been extremely busy in the second quarter.

We officially launched our newest consumer product, NQ Mobile Vault, which is a privacy protection app that enables users to encrypt and protect their personal data and communications. NQ Mobile Vault has been getting rave reviews and has already won several awards and accolades. NQ Mobile Vault continues to gain strong user traction with over 4.2 million downloads of registered users with a very high level of active engagement.

Next, I am also pleased to announce that we have released a public beta version of NQ Mobile Vault for iOS on the iTunes app store. In addition, last week in New York at BlogHer we announced the availability of the public beta of NQ Family Guardian produce, a new Android offering that will help parents better manage their children's' smartphone experiences.

Family Guardian is a suite of services that includes an application that is downloaded and installed on the child's smart phone and a Web-based control center, which can be accessed by parents from any desktop or mobile browser.

Features include safety features such as browser blocker that enables parents to block inappropriate websites, app filters helping make smart choices about which applications children can download, a panic button where children can send an alert message when they need you.

We also include monitoring and limit functions including schedules where you can set up times where children can unlock their phone to make phone calls, browse the Internet, text and much, much more.

You can monitor using NQ mobile friendly web tools. Parents can keep track of their parents location, text messages, calls, browsing history, app downloads, and photos.

And finally how the check-in feature where parents can receive a check in message when children arrive safely at their destination. It also tracks their location if they forget to check in.

Finally, on the product front for our consumer business, we launched the public beta of our flagship application, NQ Mobile Securities version 6.6 with new integrated features such as anti-spamming.

On the enterprise product front, we announced NQ Enterprise shield to protect businesses and bring your own devices to work from mobile threats. We pride ourselves on technology and product innovation and will continue to invest in R&D to extend our technology and product leadership.

Next I would like to cover our business development and channel updates. In the second quarter we worked with Vodafone to launch NQ Mobile Vault through Vodafone global pp select storefront with featured placement.

We are now live in the following Vodafone storefronts including the UK, Ireland, Germany, same, Russia, Portugal, and Greece. We are also available in the Vodafone Google play tab in the UK and Ireland as well.

And in the US, we announced partnerships with A Wireless and TD Mobility in the second quarter and expect to see revenue generation beginning in the second half of 2012.

Together with the strong team we have assembled since I came on board, we continue to see tremendous momentum in our business development pipeline in certain key markets such as North America, Latin America and Europe.

Frankly, the response from channels and customers has exceeded my expectations. It is clear to us, that in order to harvest these opportunities, we need to continue investing in our international business for the remainder of the year and expand the necessary infrastructure to position us for long-term growth.

This infrastructure includes additional resources focused on business development, solution engineering, product/project management, channel marketing, and business operations. We expect these markets to hit an inflection point in 2013 and begin to contribute significant revenue growth as well as margin enhancement.

Finally, on the enterprise front, we closed our acquisition of a 55% stake of NationSky which will contribute approximately \$10 million to 12 million in revenues in the second half of this year.

We also expect margin improvement in the NationSky business in 2013 as the business grows and achieves additional scale. Together with our TD Mobility partnership, we believe we are well positioned to seize the growth opportunity in the mobile security market for enterprise.

I will now turn the call over to our CFO, Suhai Ji, to speak to the second quarter financial and operational results.

Suhai Ji - NQ Mobile Inc - CFO

Thanks Omar and hello to everyone on the call. At the outset, please note that unless stated otherwise, all the numbers I will discuss today are in US dollars. In the second quarter, we once again saw strong user growth and reached new highs in all three sets of operating metrics that we disclosed.

Our cumulative registered user accounts reached 204 million at end of the second quarter of 2012, up 98% year-over-year and 18% sequentially. Overseas users now accounted for 40% of total registered users, up from 35% at the end of same period a year ago and 39% at the end of the previous quarter.

Our average monthly active user accounts were about 69 million for the second quarter, up 90% year-over-year and 15% sequentially. Active user accounts now make up about 34% of the registered user base and the breakdown between China and overseas are still similar to that of registered user accounts. Those ratios have been quite consistent for the past two years.

Our average monthly paying user accounts were 7.4 million for the second quarter of 2012, up 74% year-over-year and 14% sequentially. Overseas paying users now account for about 30% of the total paying users, compared with 28% for the same period a year ago and 29.5% for the previous quarter.

The conversion ratio from active to paying users remained flat at around 11% from the previous quarter, as we had yet to turn on the payment option in certain markets while experiencing strong active user growth across all markets. As I discussed in previous earnings calls, we may experience fluctuations in both directions as we continue to expand globally.

The overall strong increase in our user base was again driven by the growth in the smartphone industry, the continued proliferation of mobile internet applications, and the increased awareness on mobile security among consumers worldwide. It also reflects our execution ability to establish effective user acquisition channels and deliver user-friendly, innovative products to drive user adoption, such as NQ Mobile Vault that Omar had just discussed earlier.

Now moving on to the financials. Total net revenues reached \$20 million in the second quarter, up about 125% year-over-year and 25% sequentially. The increases were mainly due to the strong growth in revenues from premium mobile internet services, revenues from other services, and also revenue contribution from NationSky which amounted to \$1.4 million in the second quarter.

Net revenues from premium mobile internet services were about \$16 million in the second quarter, up 109% year-over-year and 16% sequentially. The increases were once again due to the strong and steady growth in the number of paying user accounts, which reflected growth in the number of registered and active user accounts, as well as increased use of the premium services, particularly among overseas paying user accounts, which generally pay a higher subscription rate.

Revenue contribution from overseas users continued to increase and now accounted for 51.2% of total net revenues from premium mobile internet services in the second quarter of 2012, compared with 49.5% in the same period a year ago and 50.8% in the previous quarter.

In terms of average revenue per paying user, or ARPU as measured on a quarterly basis, our blended quarterly ARPU were \$2.18 for the second quarter, compared with \$1.82 for the same period a year ago and \$2.14 for the previous quarter.



ARPU for domestic China users were \$1.51 for the second quarter, compared with \$1.27 for the same period a year ago and \$1.49 for the previous quarter. ARPU for overseas users was \$3.73 for the second quarter, compared with \$3.24 for the same period a year ago and \$3.69 for the previous quarter.

We expect ARPU for China to remain relatively stable unless we launch new additional premium services at different price points or experience significant change in the mix of payment channels.

And just like the conversion ratios from active to paying for overseas users, overseas ARPU also tends to fluctuate because it depends on the pricing strategy we set in each country and the timing when we turn on the billing switch. But as the overseas pricing is generally higher than China and overseas revenue carries more and more weight, we expect the blended ARPU to continue to trend up over time.

Net revenues from other services in the second quarter, which include revenues from NationSky, increased 231% year-over-year and 86% sequentially to \$3.9 million. Excluding the revenues of \$1.4 million from NationSky, net revenues from other services were \$2.5 million, representing an increase of 111% year-over-year and 19% sequentially.

The increases were mainly due to the growth in revenues from secured download and delivery services for mobile applications produced by third parties. Excluding revenues from NationSky, net revenues from other services as a percentage of total net revenues, again, excluding NationSky, was 13.4% in the second quarter of 2012, compared with 13.3% in the same period a year ago and 13.1% in the previous quarter.

Before moving on to the cost of revenues and operating expenses, I want to refer you to our disclosure on non-GAAP financial measures, which was included in our official press release. The only difference between our GAAP and non-GAAP numbers are share-based compensation, or SBC, expenses.

SBC expenses are included across cost of revenues and operating expenses on a GAAP basis, but are excluded to derive our non-GAAP numbers. Most of the SBC expenses are incurred in operating expense line items, and we have included a reconciliation table in our earnings release showing the detailed calculation.

Cost of revenues in the second quarter was \$4.7 million, representing an increase of 160% year-over-year and 37% sequentially. Excluding the \$1.1 million of NationSky's contribution, cost of revenues increased 97% year-over-year and 4% sequentially to \$3.6 million.

The year-over-year increase was primarily due to increased customer acquisition costs as a result of more users acquired in the second quarter and higher revenue sharing with mobile payment service providers which is consistent with the increase of revenue from mobile payment service providers while the sequential increase was primarily due to increased staff cost due to headcount increase and intangible asset amortization cost resulted from the NationSky acquisition.

Gross profit in the second quarter was \$15.3 million, representing an increase of 116% year-over-year and 22% sequentially. Gross margin was 77% in the second quarter, compared with 80% in the same period a year ago and 79% in the previous quarter. Excluding the impact from NationSky, gross margin was 81% in the second quarter of 2012.

Given NationSky's lower margin business nature, gross margin is expected to decline further in the second half of 2012 as NationSky's revenue contribution becomes greater. NationSky's gross margin in the second quarter was about 20% on a standalone basis and cost of revenues for NationSky primarily consist of the hardware device procurement cost.

Going forward and assuming there no major shift in the mix of payment channels, we expect gross margin to remain stable for the NQ Mobile business excluding NationSky. We also expect the gross margin for NationSky to improve in 2013, as the business scales up and generates more service revenues.



Now on to the operating expenses. For the second quarter of 2012, second quarter of 2011, and first quarter of 2012, we recorded total SBC expenses of \$5 million, \$3.2 million and \$4.3 million, respectively, across the three operating expense lines. The higher SBC in the second quarter this year was primarily due to the additional restricted share grant to newly hired executives and the acquisition of NationSky.

To make the quarterly comparison more consistent, I would like to address the following line items on a non-GAAP basis, which excludes SBC expenses.

Non-GAAP selling and marketing expenses were \$3.4 million in the second quarter of 2012, representing an increase of 275% year-over-year and 22% sequentially. The year-over-year increase was primarily due to higher marketing and advertising spending and higher staff costs as a result of increases in salary and headcount while the sequential increase was primarily due to higher staff costs and office related expenses.

Non-GAAP general and administrative expenses were \$3.7 million in the second quarter of 2012, representing an increase of 144% year-over-year and 25% sequentially.

The year-over-year increase was primarily due to higher staff costs from salary and headcount increases, higher legal and professional fees resulted from the contemplated follow-on offering, and higher office related expenses while the sequential increase was primarily due to higher legal and professional fees resulted from the contemplated follow-on offering and higher office related expenses partially offset by lower staff costs caused mainly by a one-time signing bonus paid to a newly hired executive in the first quarter of 2012.

Non-GAAP research and development expenses were \$1.7 million in the second quarter of 2012, representing an increase of 75% year-over-year and 33% sequentially. The year-over-year and sequential increases were primarily due to higher staff costs from salary and headcount increases.

As a result, our non-GAAP operating income was \$6.5 million in the second quarter, representing an increase of 78% year-over-year and 17% sequentially. Non-GAAP operating margin was 32.8% in the second quarter of 2012, compared with 41.6% in the same period a year ago and 35% in the previous quarter of 2011.

Excluding the impact from NationSky, non-GAAP operating margin was 34.5% in the second quarter of 2012. NationSky's operating margin was about 10.4% on a standalone basis in the second quarter of 2012.

In the second quarter, we continue to record interest income resulted from our strong cash and deposit position. Interest income was \$0.8 million in the second quarter, compared with \$0.2 million in the same period a year ago and \$0.7 million in the previous quarter. The significant year-over-year increase was primarily due to the higher deposit position resulting from the May 2011 IPO proceeds.

We had a foreign exchange loss of \$0.3 million in the second quarter of this year, compared with a gain of \$0.4 million in the same period a year ago and a loss of \$0.06 million in the first quarter of 2012.

The larger foreign exchange loss increases was primarily attributable to the depreciation of RMB against US dollars as a significant portion of IPO proceeds was converted into RMB and placed in bank deposits since the second quarter of 2011.

Income tax expenses were \$0.12 million and the effective tax rate was 5.7% in the second quarter of this year, compared with an income tax benefit of \$0.02 million in the same period a year ago and an income tax expense of \$0.07 million in the previous quarter.

The low effective tax rate was primarily due to the preferential tax treatment enjoyed by certain subsidiaries of the Company, and we expect the effective income tax rate to remain below 10% for the remaining of 2012.

Net income attributable to NQ Mobile was \$2.1 million in the second quarter, compared with \$1.1 million in the same period a year ago and \$2.1 million in the previous quarter. Non-GAAP net income attributable to NQ Mobile was \$7.1 million in the second quarter this year, compared with \$4.3 million in the same period a year ago and \$6.4 million in the previous quarter. NationSky contributed about \$0.05 million to net income in the second quarter of 2012.

On an EPS basis, our second quarter GAAP earnings per [EDS] is \$0.4.2 on a fully diluted basis and non-GAAP earnings per EDS was about \$0.14.2.

In the second quarter of 2012, we continue to generate positive cash flows. Our cash flow generated from operations for the second quarter was \$1.9 million, compared with \$3 million for the same period a year ago and \$6.8 million for the previous quarter. The fluctuation of cash flow mainly has to do with changes in working capital. And our deferred revenue has grown further to \$9.5 million from \$8.6 million at the end of the previous quarter, which gives us better visibility and more confidence in future revenues.

As a last point, I would also like to update you on the status of our senior management share purchase program announced on June 6 of this year. As of June 30, 2012, these officers have bought a total of 83,887 [ADSs] amounting to \$631,000. So the average purchase price per ADS is about \$7.52. They may continue to buy the Company's ADSs, subject to applicable legal restrictions and other factors, as they continue to believe in the long-term success of NQ Mobile.

Looking forward to the third quarter and beyond, we expect net revenues to be in the range of \$24 million and \$25 million for the third quarter of 2012, representing 112% to 120% year-over-year growth and 20% to 25% sequential growth.

For full year of 2012, we are raising our guidance from the previously issued \$73 million to \$75 million to the new range of \$86 million to \$89 million. Please note that the above guidance includes the impact from the NationSky acquisition.

This concludes my remarks and I will now hand the call over to the operator and open the line for questions -- operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from the line of Andy Yeung of Oppenheimer.

Andy Yeung - Oppenheimer & Co. - Analyst

Good morning. Thank you for taking my questions. My first question is about your enterprise market shares. I think NationSky has a lower margin profile due to some hardware costs. So can you give us some color on what kind of hardware and software solution NationSky provides to the customer and also would you bring solutions to the international market?

Will Jiang - NQ Mobile Inc - Chief Strategy Officer

Good morning Andy. This is Will. Let me answer this question. NationSky currently provides software and services solutions based on IOS, Android, and blackberry platforms.

In some of the certain cell scenarios enterprises would actually require NationSky to procure and subsidize the hardware portion of the solution. That includes client devices and service. So their current software solutions actually do include middleware management devices, integration application with enterprises existing IT infrastructure, whereas the services include deployment, management [of the mobile clients].

We also plan to develop enterprise grade security products that are expected to ship in late 2012 and to be integrated and sell through NationSky channels. We don't actually right now have any immediate plan to bring NationSky solutions to the international market.



Andy Yeung - *Oppenheimer & Co. - Analyst*

Okay, I see. My next question is it seems like you have made some investments in a couple of startup companies. Can you give us a little bit more color on those investments and going forward what are your plans for your cash?

Will Jiang - *NQ Mobile Inc - Chief Strategy Officer*

Sure. We actually did complete a couple of early-stage investments to increase our strength and also partnership in the mobile cloud technology and also user acquisition channels. We plan to continuously look into acquisition targets that offer complementary solutions and also beefing up our intellectual property offerings.

Andy Yeung - *Oppenheimer & Co. - Analyst*

Are those in China or are those in overseas markets?

Will Jiang - *NQ Mobile Inc - Chief Strategy Officer*

These two early-stage investments are in China right now.

Andy Yeung - *Oppenheimer & Co. - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Mark Murphy of Piper Jaffray.

Mark Murphy - *Piper Jaffray - Analyst*

Thank you. Omar, I wanted to take your temperature on any preliminary discussions with major US carriers. Do you sense any inclination to possibly engage in a preload agreement or perhaps an in-store promotion or anything else just among the major US carriers?

Omar Khan - *NQ Mobile Inc - Co-CEO*

Thank you Mark for the question. I can't specifically speak to a deal or a specific customer. I mentioned earlier during the call that we had a very, very strong business development pipeline and that is reflective of carriers and other channel partners as well as in North America, Latin America, and in Western Europe.

What I can tell you is the fact that many of those deals -- we have multiple deals that are in late stages in terms of the business development lifecycle and they span various types of relationships. They include preload, they include App Store relationships with promotions as well as in-store type of offering, like we've got with the Verizon dealers that we have announced.

I'm very optimistic that we will be able to materialize these deals in the near term and they will contribute significantly in 2013.



Mark Murphy - *Piper Jaffray - Analyst*

Okay. I wanted to ask as well about the competitive dynamic within China. How are consumer preferences evolving relative to the free versus paid products and business models that are available out there for smartphone security and do you expect that is going to fluctuate at all with the economic cycle within China?

Will Jiang - *NQ Mobile Inc - Chief Strategy Officer*

We believe, as validated by third-party research, our market share in China in mobile security has remained about 60% for the past few quarters and we expect this dominant position to continue to take place in China.

We don't think free versus premium is an issue for us as we do have a flexible freemium business model. In fact, we are competing with the free service providers with our free services in addition to the innovative premium services that we deliver.

We continuously innovate our product so that we are offering more and more premium services to make them available to the consumers and this is why we are seeing that our premium user conversion, paying user conversion has remained quite stable for the past eight or nine quarters and we expect this trend to continue.

So all in all we don't think the consumer mobile security service is being impacted by the economic fluctuation at all mainly because the users paying for the services is quite nominal; right now in China it's only RMB5 per month so this is the nominal price for a smart phone user to pay in China.

Mark Murphy - *Piper Jaffray - Analyst*

So just be clear on that, Will, you think that your market share is holding steady in China and you think that it is increasing rapidly internationally? Is that a fair way to sum it up?

Will Jiang - *NQ Mobile Inc - Chief Strategy Officer*

That would be fair, yes.

Mark Murphy - *Piper Jaffray - Analyst*

Okay, Suhai, I wanted to ask you in terms of NationSky is the Q2 margin structure here which I believe you are saying 20% gross margin, 10% operating margin, is that representative of what it's going to do on a full-year basis and the reason that I ask is that I believe it is a very seasonal business in the second half of the year and very little revenue in the first half of the year which means we need to model that appropriately for Q1 and Q2 of next year. So just really a question overall on NationSky's seasonality.

Suhai Ji - *NQ Mobile Inc - CFO*

Yes, that's a good question. Thanks Mark. I think as you understand NationSky and its seasonality, it's similar to a typical enterprise software company. Probably 30% is in the first half and then 70% in the second half but overall, it's still a small company. It's in a hypergrowth stage and customer acquisition stage.

So now the priority for NationSky is to capture market share at the moment and will inevitably impact the gross margin. I think in the first and the second quarter in the financial you can see from supplemental notes that we disclosed the separate financials and in the near term we think the margin structure just to be conservative will remain similar levels but as we are going into next year as the revenues scale up and as the company

can upsell more software and services to their enterprise accounts we think the gross margin and the operating margin will have room for improvement heading into 2013.

But again, please bear in mind, NationSky is only one component of our total enterprise revenue as we started generating enterprise revenue from the overseas market from our partnership with TD mobility, with 3LM, they all have a much higher margin structure so we think that we will continue to improve going into 2013. And eventually we will separate the enterprise revenue as a new line item on our income statement.

Mark Murphy - Piper Jaffray - Analyst

Okay. And Suhai, just following on that, any thoughts on the overall margin structure? I think most companies growing over 100% I think a lot of them wouldn't be profitable at all at this stage and that said NQ has -- we've observed a much more efficient business model so you have been extremely profitable.

I think what I'm not clear on at this point is maybe what might be the lower boundary of where you would let operating margins go just as you are considering some of the large deals that you might have in the pipeline where you might need to build up the infrastructure.

I don't know if you are prepared to comment on that, but I'm just wondering is there any high-level thought on where that could go over time?

Suhai Ji - NQ Mobile Inc - CFO

Yes, that's a very good question, Mark. Indeed we are very proud of the fact that there is very high, high growth company. We are able to maintain the growth rate and also at the same time have very good profitability and that really has to do with the scalability and the validity of our business model, the premium model that has been working very well.

And as Omar mentioned in his remarks earlier we see enormous opportunity especially in the international markets so we are continuing to invest and we are building a great team as you know and laying out all of the operational infrastructure to position us for the further revenue ramp-up in the overseas market beginning of next year.

We will see significant revenue contribution. So that will offset some of the margins that comes with the investment. But I think the lowest boundary for the existing NQ mobile business not counting on NationSky we think we are going to maintain above 30% operating margin.

Mark Murphy - Piper Jaffray - Analyst

Okay so above 30% for the quarter and then I guess we are going to take 20% gross and 10% operating on NationSky and then we will just run that through our models for next year. Is that the best way to think about this?

Suhai Ji - NQ Mobile Inc - CFO

Yes. I think that would be the conservative approach.

Mark Murphy - Piper Jaffray - Analyst

Okay. I had one last one. Omar, I was wondering if I could go back to you. Is there any early feedback on the conversion rates from I guess I'm thinking the cellular connection that there could be some data points there or maybe A Wireless. I don't know if that's too early, but I guess I'm wondering if 100 consumers walk into one of those stores how many do you think are going to walk out with NQ on their smart phone in terms of a paid subscription?



Omar Khan - *NQ Mobile Inc - Co-CEO*

That's a good question. We are looking at it pretty closely. We have run some controlled tests if you will in terms of soft launches in a few stores. We are in the process of ramping the stores right now. We've done training. If you get a chance, once we get a lot of the collateral materials in stores we are going to have window banners, we are going to have stickers and the stores, and retail cards as well in addition to the training itself.

So that some of the investment obviously that you're making from a channel marketing perspective to make sure those channels are ready to ramp. The initial -- I can't specifically share numbers in terms of attach rates because I know that's what you're asking, Mark, is specifically what the attach rate to Android smart phone sold in the store.

I can tell you that the controlled tests that we've done in terms of soft launch have been very positive and they have exceeded expectation that we had in the, for the soft launch because we didn't have all of the materials and training in place.

So I think what we will do is as we get the launches scaled throughout the stores and get a couple of months worth of data I will come back to you guys either in the next call or sometime before that and share some of the attach rates anecdotally terms of what we are seeing. But I can tell you that in the soft launch period the results of that we got in the stores that we tested in were better than expected.

Mark Murphy - *Piper Jaffray - Analyst*

Okay. That's great to hear. Thank you very much gentlemen for taking a whole big string of questions from me and congratulations on the revenue upside.

Operator

Your next question comes from the line of Mike Walkley of Canaccord Genuity.

Mike Walkley - *Canaccord Genuity - Analyst*

Thank you. Suhai just a couple of housekeeping questions from me. And a lot of questions have been asked. Just on the tax rate you said it was going to be -- did I hear you right 10% for the rest of the year or can you clarify that and also can you give us the share count at the end of the quarter so we know what share count to model for the next quarter?

Suhai Ji - *NQ Mobile Inc - CFO*

I think for the tax rate this quarter as I mentioned earlier that the tax rate is above 5.8%. I think again to be conservative for the remainder two quarters we think it is still going to be below 10% for the remainder of this year.

And also for the share count as you can see from our income statement our diluted weighted average number of shares for the second quarter is 50.1 million shares.

I think towards the end of the year it's harder to tell because it depends on how many options employees exercise and sell and also whether there is additional options that would be issued in the second half of this year, but I don't think the increase will be that significant. I am guessing that we will be probably between 51 or 52 by the end of the year.

Mike Walkley - *Canaccord Genuity - Analyst*

Okay, thank you. Will, just a question on the Chinese smart phone market. Our checks have started to show a big shift in affordable smart phones from some of the more local not as well known brands outside of China.

Is this changing your attach rate at all with android in terms of maybe some of these newer brands you don't have a pre-installment relationship or given there are a lot of MediaTek and Qualcomm brands that you have relationships with, are you still seeing a pre-installments on some of these local brand phones ramping up?

Will Jiang - *NQ Mobile Inc - Chief Strategy Officer*

Yes, Mike. In fact, NQ has been working quite closely with QUALCOMM and MediaTek on their reference designs. In fact we find that many of the tier 2 hence the OEMs do adopt QUALCOMM and MediaTek solutions.

We actually do have pre-installation agreements with many of these tier 2 providers in addition to the well-known names such as Motorola, Sony Ericsson among others, also Huawei and ZTE.

So really we actually do have installation agreements already in place and they do contribute quite a bit of our user acquisition channels in China. So in fact, we believe our vendor agnostic approach had successfully shielded us from any shift or impact from market share.

Mike Walkley - *Canaccord Genuity - Analyst*

Okay. Thank you. Suhai, just going back to your comments about the conversion rate from your cumulative users to your paying users, I know you have some international opportunities are with Omar that are ramping that don't have payment in place, do you have a longer-term target where you see the conversion rate stay in this 3.5% to 4% range or would you have a higher rate you think in future years as you turn on payments in the international markets?

Suhai Ji - *NQ Mobile Inc - CFO*

I think we actually monitor more closely for the conversion rates from active to paying because that's more comparable (inaudible) than from registered to paying because those two are a bit different. One is more like a balance sheet item and the other is more like an income statement item.

So from active to paying I think China would be a good metric or reference point because in China we have a very mature set of payment channels and as you can see the conversion rates in China from active to paying is about between 12% and 13% and the overseas right now is only at about 8%. It is lower only because we have a large active base outside of China by only payment channels in a limited number of countries and in fact we think overseas consumers' willingness to pay is actually greater than that of China.

So it depends on the additional payment channels that we will implement in those countries and we think overseas conversion ratio eventually is actually going to be higher than China and that we will also bring up the overall blended conversion rate from active to paying users.

Omar Khan - *NQ Mobile Inc - Co-CEO*

Another factor Mike on that one specifically is the fact that a lot of the new channels that we are bringing on board and the products that we are launching, I went over a bunch of the products that we launched in the second quarter are premium only products and premium only channels.

So that also affects the conversion ratio especially in the markets outside of China in a positive way. So when you are buying at retail or an enterprise product et cetera, it's a premium only sales. So that's another positive effect on the conversion ratio.



Mike Walkley - *Canaccord Genuity - Analyst*

Okay, thanks, Omar, winning The Vault product at CTA was a good example of momentum in your product development. Just one last question for you Omar. You talked about inflection points in 2013 on your growing pipeline. As we are tracking your business can you kind of rank order which region you think coming into the model faster than others just given the momentum you have in your pipeline?

Omar Khan - *NQ Mobile Inc - Co-CEO*

Yes, I will say in the near term what we are really focused on is operationalizing the deals that we've already won. So making sure that we put the right support infrastructure and channel support in place for TD mobility as an example on the enterprise sales for TCC and A Wireless, and what I see in the near term from a business development perspective is the fact that North America, Latin America will start and Western Europe to a certain extent will also start to contribute to that inflection point in 2013.

So the deal that we have in the pipeline they are at advanced stages of business development and that we can announce and launch heading into the end of this year beginning of next year in those regions specifically I would say US, Latin America countries such as Brazil and Mexico obviously where the smart phone penetration is high as well as markets in Western Europe like the UK, Germany, and among others would probably be the regions that have the most contribution potential in 2013 to our business in the near term.

Does that answer your question, Mike?

Mike Walkley - *Canaccord Genuity - Analyst*

Yes, it sure does. I will pass on to the next question. Thanks for taking my questions and look forward to seeing you next week.

Operator

At this time I would like to remind everyone in order to ask a question please press star one on your telephone keypad. Your next question comes from the line of Fred Ziegel of Topeka Capital Market.

Fred Ziegel - *Topeka Capital Markets - Analyst*

Good afternoon everybody. A couple of questions. One, where exactly are we in terms of tech data, TD mobility rolling out to its channel partners? And then I have one follow-up question.

Omar Khan - *NQ Mobile Inc - Co-CEO*

I can cover that one, Fred. This is Omar. Thank you for the question. We are actually in the stages of engaging the resellers for the value added resellers so we are working in conjunction with TD mobility. They've got 65,000 bars between North America and Western Europe.

So we are in process of engaging the larger bars in terms of both training and product availability so in that Q3 timeframe we should see bars starting to launch and targeting their enterprise sales connections.

The feedback that we are getting from TD mobility as well as some of the other bars is the buyers on the enterprise side that they have historically been selling to from a securities solution perspective on the PC side are the same buyers that they are targeting for mobile so they feel it should be to a certain extent a shorter selling cycle than if they had to go Greenfield and start to establish new connections at their enterprise partners.

So we should start to see TD mobility bring on bars and start to target enterprise customers here in the third quarter.

Fred Ziegel - *Topeka Capital Markets - Analyst*

Is the rollout more by geography or is it more of a global push?

Omar Khan - *NQ Mobile Inc - Co-CEO*

What's focused on North America and the US and Western Europe I would say we will prioritize the US from a large perspective and we will prioritize the larger bars where we can get a higher ROI in terms of training.

Obviously we've got limited resources which is the reason we are continuing to invest and so from an ROI perspective we are going to target the larger bars that have the broadest reach first and then start to work our way down at that list. If that makes sense.

Fred Ziegel - *Topeka Capital Markets - Analyst*

Okay. On a different topic there is certainly been a lot more discussion of late around Apple and IOS and some of the security problems that they have been encountering. Do you get any sense that they are thinking about opening IOS to third-party security vendors like yourselves?

Omar Khan - *NQ Mobile Inc - Co-CEO*

I'm not sure necessarily about the platform itself opening up but I can share with you how I think about and how we think about development for IOS. It is a significant development platform for us.

So if you were to look at the opportunities for IOS privacy and customer data protection, identity protection, it still an opportunity which is why we have just launched a beta version of NQ Mobile Vault for IOS just about last week or the week before last and we are starting to get user downloads and feedback to make sure that when we have commercially launched that product in the official format that it's ready to go in scale as we promoted.

The other aspect is that I think as the app development environment in general starts to migrate from native development to hybrid development meeting as HTML 5 becomes a development platform for applications and you see more hybrid applications that use native development environments as well as HTML 5 development environments there is an opportunity to provide security in that environment.

So as an IOS is among the platforms that should go through that transition in addition to Android. So I think as that transition happens over the next few years there can be opportunities to provide additional security components for IOS in addition to the privacy solutions that we will be providing.

Fred Ziegel - *Topeka Capital Markets - Analyst*

But that sounds like it's still a little ways off in the way you think about it?

Omar Khan - *NQ Mobile Inc - Co-CEO*

Yes, I would say that as the App Ecosystem or the app development platform migration occurs that opportunity will present itself.



In the meantime, the opportunities on IOS from a productivity standpoint from a privacy perspective as well as other applications still present to us pose a significant business opportunity which is why we are continuing to develop and rollout our products as well as the family suite of services that we can continue.

We announced family Guardian for android. That also present an opportunity on IOS as well. So we have a pretty broad set of products that go beyond core security malware and antivirus into productivity solutions, utility solutions, family solutions, and enterprise solutions. Some subset of those also present an opportunity on top of IOS in the near-term.

Fred Ziegel - *Topeka Capital Markets - Analyst*

All right. Good. Thanks.

Operator

I would like to turn the call back over to Mattan Lurie for closing remarks.

Mattan Lurie - *NQ Mobile Inc - IR*

Thank you operator. If there are no further questions at present, we'd like to conclude by thanking everyone for joining us on the call.

We welcome you to reach out to us directly by e-mailing investors@nq.com should you have any questions or requests for additional information and encourage you to visit our investor relations website at ir.nq.com where you can find numerous resources and materials including the recording of this and previous earnings webcasts. This concludes NQ Mobile's earnings call.

Operator

Thank you for participating in today's conference. You may now disconnect.

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