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NQ - Q2 2013 NQ Mobile Inc. Earnings Conference Call and Webcast

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CORPORATE PARTICIPANTS

Michelle Ma *NQ Mobile Inc. - Director of IR and Corporate Development*

Matt Mathison *NQ Mobile Inc. - VP, Capital Markets*

Henry Yu Lin *NQ Mobile Inc. - Co-CEO, Chairman and Chief Architect*

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

Suhai Ji *NQ Mobile Inc. - CFO*

Gavin Kim *NQ Mobile Inc. - Chief Product Officer*

CONFERENCE CALL PARTICIPANTS

Mark Murphy *Piper Jaffray - Analyst*

Mike Walkley *Cannaccord Genuity - Analyst*

Jiong Shao *Macquarie - Analyst*

Andy Yeung *Oppenheimer & Co - Analyst*

Jun Zhang *Wedge Partners - Analyst*

William Huang *Barclays Capital - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the NQ Mobile Q2 2013 earnings call. (Operator Instructions). I must advise you that this conference is being recorded today, Tuesday, August 13, 2013. I would now like to hand the call over to your first speaker today, Ms. Michelle Ma, Director of Investor Relations and Corporate Development. Thank you. Please go ahead, ma'am.

Michelle Ma - NQ Mobile Inc. - Director of IR and Corporate Development

Good evening and good morning in Asia. Welcome to NQ Mobile's 2013 second quarter earnings conference call. On today's call we have NQ Mobile's Co-Founder and Co-CEO Dr. Henry Lin, Co-CEO Omar Khan, CFO Suhai Ji, and Vice President Matt Mathison. We thank you all for joining us today. Before we begin, I'd like to read you the Safe Harbor disclaimer.

Please note that the discussion today will contain certain forward-looking statements made under the Safe Harbor provision 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 direct comparable US GAAP financial measures and the information reconciling those non-GAAP financial measures to NQ Mobile's financial results prepared in accordance with US GAAP will be included in NQ Mobile's regular earnings release and filings, which will occur in August.

Finally, as a reminder, this conference is being recorded. A webcast of this conference call will be available on NQ Mobile's IR website at IR.nq.com. I would also like to point everyone to a presentation that can be found on our IR website. We will be following that presentation on our call in our call today and we'd encourage you to view that with us. With that I would like to turn the call over to our Vice President, Matt Mathison.



Matt Mathison - *NQ Mobile Inc. - VP, Capital Markets*

Thank you Michelle and welcome everyone. It is an exciting time to be at NQ. It is an exciting time to be at the vanguard of many of the most groundbreaking trends in technology. And it is an exciting time to be executing on the vision of becoming a mobile Internet platform company with global reach and accelerating monetization opportunities. Even though it is very exhilarating, we aren't celebrating our successes. We have a very clear vision and a thorough plan to execute, and collectively everyone at the Company is focused and working tirelessly to make that vision become a near term reality. The takeaway from this call today is that we are proud of what we have accomplished, but this is only just the beginning.

As we begin this earnings call and before I turn the call over to the rest of the management team to discuss our second quarter results and provide an update on our business, I want to highlight a few things, and it is on page four of the slide presentation. Number one, the platform business model is working. Our user-acquisition engine is expanding and our user base along with it. Our monetization efforts are working and showing real and tangible evidence of accelerating revenue growth. We are uniquely and strongly positioned in key areas of the mobile platform environment, namely security-related products, gaming and entertainment, advertising and enterprise.

Number two, as our platform business has taken hold it is now time to clearly layout the right metrics and framework for measuring our progress and success. The earnings release today and our conference call will lay out the proper framework going forward. As discussed on our first quarter result, we are now reporting our revenues in four different segments, Mobile Value Added Service, which includes our consumer security and gaming business; Advertising; Enterprise, which is our NationSky business; and Other.

Also I'm sure you noticed that our operating metrics section in the earnings release contained a new metric, premium users. This metric simply reflects revenue generating users. The metric includes subscription users, which was previously reported as our paying accounts, plus any user that also generates revenues indirectly either through the offer wall or advertising channels. Since our strategy involves accelerating and expanding the monetization of our user base, this premium user metric and the revenues they generate are how we are measuring our success.

Number three, we are also making great progress on the areas that need improvement. This is an endless pursuit but one that we will continue to openly communicate. Previously highlighted areas of improvement that the Company is focused on include the creation of shareholder value, DSOs and expanding our monetization paths beyond direct payment for premium products. I am pleased to report that we are improving in each of these areas. This quarter's results are only the beginning of the evidence that these improvements are underway.

Now I am pleased to turn the call over to our co-Founder and co-CEO, Dr. Henry Lin. Following his remarks, our co-CEO Omar Khan will discuss business highlights and trends, and our CFO Suhai Ji will then provide the financial discussion on the quarter and outlook. We're now on page five of the slide presentation. Dr. Lin.

Henry Yu Lin - *NQ Mobile Inc. - Co-CEO, Chairman and Chief Architect*

Thank you Matt and thank you everyone for joining us. I am pleased to announce that we have achieved record revenues this quarter of [\$41.4m] (Company corrected after the conference call). We also achieved record non-GAAP earnings per share of \$0.26.

Our business continue to outperform expectations. We no longer talk about becoming a mobile Internet platform company. We are a mobile Internet platform company today. With one of the world's leading user-acquisition engines, in the first half of this year alone we have engaged around 27m new active user accounts. We have now proven that our platform is working to monetize our active user base. We're now successfully generating not only security subscription revenue, but gaming revenue and Advertising revenue as well. In addition we have our Enterprise Mobility business in hyper-growth mode.

We remain 100% committed to our mobile platform strategy. As a leading mobile Internet platform company we will continue to grow our user base around the world and broaden our monetization capabilities while expanding our products and services through leading R&D programs and continuous innovation. We are creating more than 40 new patents per year. We have many new technologies in the pipeline to improve mobile discovery and engagement, such as next-generation voice and image-based mobile search.

As Matt said, this is an exciting time at NQ Mobile, but this is only a beginning. We're just starting the exciting journey. We will now turn the call over to my partner and co-CEO, Mr. Omar Khan.

Omar Khan - NQ Mobile Inc. - Co-CEO

Thank you Henry and thank you everyone for joining us. I will be now following on slide six. As Henry mentioned, we are very pleased with our second quarter results. Our strategy of becoming a leading mobile Internet platform company is being realized with tangible results. Just to put this into perspective the revenue achievement during the second quarter, we generated more net revenues than we did in all of 2011. The second milestone of our \$100m, \$200m and \$500m strategy is now plainly in sight as our third quarter outlook surpasses the \$50m mark, faster than we originally anticipated.

This revenue growth is also being generated in very profitable ways. Our margin performance in the quarter was strong across the board, resulting in non-GAAP earnings per share of \$0.26, which is a record for our Company. On an annualized run rate basis this will allow us to exceed \$200m in net revenue and a \$1.00 per share in non-GAAP EPS, which are both symbolic and significant milestones for our Company. We remain committed to fast growth, but we are focused on doing it profitably and sustainably.

Additionally, we highlighted on our first quarter earnings call that as a Company we were not at all satisfied with the significant gap that existed between the market valuation and our business results. We committed to creating shareholder value and put in a relentless effort to closing that gap. It has been a very busy and successful quarter for us in terms of continuous improvement on our business fundamentals, but we also delivered on our promise to not just talk about creating shareholder value, but also to demonstrate action and results.

Let me be very clear about this, we took decisive steps in addressing this by first adding Matt Mathison to our team. We also brought in additional and key new shareholder support with the Atlantis transaction. We believe that the majority of the impact and improvement is still in front of us. In other words, we've taken steps, we have a clear plan, we are delivering on our promises, but there still remains strong value creation ahead.

Now before I provide you a broader update on our business segments, I want to provide more detail about the successes of our monetization strategy and platform growth. As we turn to slide seven you can see the tangible evidence that our monetization expansion has begun to take hold and is delivering results. Our monetization is increasing significantly beyond just premium security and gaming revenue to now include the advertising revenues through the offer wall and third-party application referrals.

This increase in traffic monetization through advertising is enhancing the way in which we engage with and monetize our active user base. Our active user accounts increased nearly 11% in the quarter to exceed 138m active user accounts yet our net revenues for this segment in the quarter increased nearly 24% to over \$32m. This is the direct benefit of monetizing our once non-paying active user base. During the second quarter our average monthly premium user accounts, including both our paying security customers and these other revenue-generating users via the offer wall and advertising channels, is 11.3m users.

The month-over-month results we are seeing are nothing short of astounding. We are seeing the engagement and monetization levels with our active user base jump on a monthly sequential basis. It is easy to say that the results have exceeded our expectations. At the beginning of the quarter in April, we were measuring the premium users, not including the paying security accounts, in the tens of thousands. As we exited the quarter in June we are now measuring these same engaged and revenue-generating users in the millions. As we report our premium user accounts on an average monthly basis, it is incredibly exciting to say that we saw an average of more than 2m of these revenue-generating user accounts average during the three months of the second quarter.

The Advertising segment of our business achieved record net revenues in the second quarter of \$5.5m and has already become greater than 10% of our total net revenues. We're excited about this monetization strategy and the expanded ability we have to engage our growing and global user base.



Now let's turn to the FL Mobile business. You can follow along on slide eight. As Matt discussed, we are now reporting the FL Mobile business in two parts. The gaming revenues are included in our MVAS segment and advertising is reported separately. However, on a consistent basis with last quarter, FL Mobile performed well above expectations and grew its net revenues to \$7.5m in the second quarter.

I want to congratulate Dr. Tony Ni and the entire FL Mobile team for an incredible performance. The FL Mobile team is surpassing our expectations and as a result exceeded numerous performance-based targets ahead of schedule. As highlighted in the press release, this resulted in an increase in share-based compensation. We are thrilled at the performance of this business. In fact based on the trends in the third quarter, the current third quarter, FL Mobile is poised to achieve an annualized net revenue run rate that exceeds \$40m.

In the first half of the year FL Mobile has operated 13 games in the top 100, including current popular games such as Gods and Dragons, Journey to the West - Mythical Edition, Legend of Kings, and the FL Extreme Edition of Tencent's QQYujian. Also we have had four games break into the top 10 in the first half of the year. We are very excited about the pipeline of upcoming games for the balance of the year.

We recently announced key partnerships with important game developers and operators including Tencent, China Mobile Games and Entertainment, Baidu and China Mobile. There are other exciting partnerships on the horizon. Additionally, as we focus on the platform model of FL Mobile, we will continue to expand our channel reach to a broader set of the Android-based communities and app stores. Finally, in the next month we will officially begin the expansion into International markets beginning in North America. If there weren't already enough things to be excited about in the FL Mobile business, we have further strengthened the FL Mobile team with top talent from around the industry to help fuel our global expansion.

Let's now move on to a brief update on our Enterprise Mobility business. You can turn to slide nine to follow along. As we announced on July 15, owning 100% of the NationSky business is a powerful addition to our overall platform strategy. The BYOD trends are bringing the consumer and enterprise needs and solutions closer together.

We are at the very beginning stages of the mobile device management market opportunity in China and around the world. In addition to some of the exciting deals we previously announced with GE Healthcare China and Anbang Insurance, we have also recently closed an MDM contract with The People's Insurance Company of China. Our pipeline of future MDM customers is very full and we see rapid and accelerating expansion. The combination of our experienced sales organization and localized customer service capabilities along with our core IP and technology strength give us an advantage as we go head to head with our competitors.

We remain confident that our Enterprise business will not only grow rapidly from a top line perspective, but we will also be able to maintain operating margins in the 10% to 12% range over time. There will continue to be some fluctuations from quarter to quarter especially as product procurement is a leading indicator of future software and services revenues. Like all of our businesses and in everything we do, we view the marketplace as a global marketplace. Our technologies and solutions work globally and our enterprise business opportunity is no different. Over time we will see our solutions expand across geographies and across key partners around the world.

I will now provide you with some highlights from our consumer security business internationally and you can follow along on page 10. As we communicated last quarter, NQ Mobile Security was officially launched in partnership with Telcel in Mexico in June of this year. Over the course of the last couple months, Telcel and NQ have been focused on activating all distribution channels as well as initiating and optimizing several digital marketing efforts and mobile security trial promotions. Telcel and NQ are also now initiating the preload planning process and we expect to be in market, preloaded on Telcel Smartphones along with retail promotion support starting in the Q4 timeframe.

While the operator's marketing efforts are still in the beginning stages, early results are very promising. Stay tuned for more news here as we will be launching with the America Movil operator brand Claro in Brazil in the September/October time frame, followed by Peru, Argentina and the remaining Latin America countries in America Movil's footprint as well as the rollout of Vault and Family Guardian in the six months following that.

We are also pleased to have been awarded the US Cellular mobile security bid for NQ Mobile Security and NQ Mobile Vault this past quarter. This award expands USCC's relationship with NQ Mobile and continues to validate our land and expand strategy as we will soon be delivering our full trust suite with the operator in the fourth quarter.



All of NQ's products are being introduced under the US Cellular Protector series. The US Cellular Mobile Data Security, which is based on NQ Mobile Security, was first launched in July and our joint go-to-market plans include both retail offerings and on-device preloads across the US Cellular smartphone portfolio. In October we expect to be fully operational with the first US Cellular Smartphone to roll off the line with mobile security preloaded on the device followed by the rest of US Cellular's entire Android portfolio shortly thereafter.

Our US retail footprint now stands at 3,500 locations in the United States. We are ahead of our plan in terms of retail footprint. This primarily came from the addition of Target with 1,500 new locations. Target is now selling NQ Mobile Security, NQ Mobile Vault and NQ Family Guardian.

We will continue to focus on improving the ease of the activation process for new customers that acquire NQ products through retail as well as ensuring consistency and execution in training throughout the channel. Maintaining sales-force mindshare is critical. In order to enable this we have created retail sales training and train-the-trainer programs that we are rolling out and are scheduling consistently with our retail partners. Furthermore, the introduction of our activate.nq.com portal has facilitated the ease by which retail sales professionals are able to activate NQ products on new customer handsets by reducing the amount of time, often by as much as 10 minutes, to install and activate NQ products on a newly purchased device.

As we discussed on the last earnings call, Q2 was about expanding the footprint and launching retail 2.0 initiatives. We have done both by rolling out new pricing, point of sale materials, product bundling capability and easier activation processes. Partners like TCC, where we have implemented our complete retail strategy along with soft bundles with handset protection insurance, have been able to maintain strong momentum in sales of mobile security.

Over the next year we will be implementing the systems capabilities to enable monthly retail billing and hard bundling with handset protection insurance. We believe this will allow us to continue our strong momentum at retail and also reduce variability of performance due to salesperson turnover or retail focus on other new initiatives.

As I conclude my prepared remarks, I want to summarize our positioning and strategy while also providing you with an update on new products and partnerships. Why don't we turn to slide 11 to follow along?

While the earnings call is not an appropriate forum for announcing new products and partnerships, I will give you more insight into what is coming at NQ. As I've said before, while I am excited about our performance and potential going forward from our existing products, solutions and channels, I'm even more excited about what we have been working on and developing for the past several years that will soon complement and expand our platform channels -- and channels globally. Let me explain further.

Our Enterprise strategy is firmly heeled in the expansion of our NQ Sky platform. Through our NationSky business, we have continued to expand our enterprise customer base and developed extensive expertise on what enterprises need to mobilize their workforce. That has led to the current features of the NQ Sky platform as well as informed its future roadmap. Some of the important technology enhancements and product roadmap initiatives include Application Security Management including App Wrapper and an App Security SDK; and the integration of Mobile Enterprise Application Platform; new MDM features including the support of iOS 7 and other OEMs; finally, on-premise and cloud-based hosted services, which will also include key partnerships with carriers.

From a geographic perspective, while our Enterprise business has been focused on the Greater China market to date, we look forward to 2014 and beyond. We are laying the groundwork for global expansion, working with OEM, carrier and channel partners to take NQ Sky global. For instance, we continue to collaborate closely with GEMA and VOX Mobile to assess international requirements for the NQ Sky platform and prepare to engage with friendly user trials. Stay tuned for continued product, business development and customer updates.

Our consumer strategy remains focused around four key tenets, user acquisition, engagement, monetization and retention. All of our research, development and initiatives and investments can be tied back to this core strategy which we unveiled last November at our first analyst and investor day in New York. We have multiple new products targeting these areas that are launching very soon.



In the area of user acquisition we have launched new products such as NQ Easy Finder for iOS and Android. We have launched NQ Mobile Security version 7.0 in a public beta. We have expanded our iSMS deployment with MediaTek to include systems enabled by chipset models MT6589, 6589M, 6572 and 6582. The feature set includes a unified messaging experience for both SMS and over the top IP messaging as well as support of 11 content types for attachments.

In the area of user engagement we have invested in and developed technologies around both audio and image recognition. We look forward to upcoming announcements of how these technologies will be integrated into our products and services, both current and next generation.

In the area of monetization we have continued to invest in our targeted advertising platform for third-party developers and advertising partners. We continue to add high-quality titles and monetize them using our proprietary in-app and cloud-based analytics and reporting engine.

In the area of retention we have developed an anti-piracy technology called NQ Shield that prevents piracy of mobile applications. B This enables developers not to lose valuable traffic to pirated versions of their applications. Furthermore, it prevents phishing and privacy attacks on users who may be directed to pirated versions of applications.

This gives you a high level view of where NQ Mobile is headed and how we are allocating our R&D resources. We are working closely with many tier-one and global partners to launch these new products. On last quarter's earnings call I stated that our business development pipeline was strong. I am pleased to report that the pipeline is even stronger today than it was three months ago. In addition to the carrier and OEM partners we have been working with historically, we have added a diverse set of global partners from the mobile ecosystem to our pipeline. I look forward to sharing specific updates and announcements with you in the near future.

I'd like to hand the call over to our CFO, Suhai Ji.

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.

We had another great quarter and again exceeded the high end of our previous revenue guidance. Our total net revenues in second quarter of 2013 were \$41.4m, up 107% year over year and 25% sequentially.

As we discussed in the Q1 earnings conference call and again today, beginning this quarter to further align with our platform strategy we categorized our revenues into MVAS, or mobile value added services which include the consumer-facing mobile security and mobile games business; Advertising, which include the app referral and advertising revenues; Enterprise Mobility, which is our NationSky business; and Other, which consists of other technical consulting and security-related project-based services.

In the second quarter of 2013 our MVAS revenues increased 67% year over year and 18% sequentially to \$26.8m. About 80% or \$21.5m of the MVAS revenues came from consumer mobile security subscription revenues. We continue to see increased contribution from overseas users outside of China, which accounted for almost 57% of consumer mobile security revenues in the second quarter of 2013 compared with 51% in the same quarter a year ago and 56% in the previous quarter. The remaining 20% or \$5.3m of the MVAS revenue came from mobile games revenue in our FL Mobile division.

Our cumulative registered user accounts were about 372m as of end of second quarter 2013, up 83% year over year and 14% sequentially. Including 87m registered user accounts for FL Mobile, NQ Mobile had total registered user accounts of about 460m as of end of second quarter 2013. Average monthly active user accounts for the second quarter 2013 were 122m, up 77% year over year and 10% sequentially. Including FL Mobile's 16m average monthly active user accounts, NQ Mobile had total average monthly active user accounts of 138m for the second quarter of 2013.

As discussed before by Matt and Omar, we have also begun to use average monthly premium user accounts beginning in the second quarter to measure the success of our monetization effort among the active user base, and that number came in at 11.3m. We define premium user accounts



as any user account that generates revenues either through direct payment or indirect payments from third-party developers and advertisers. This will replace the paying user account metric that we used previously as we accelerate the monetization of our user base.

Advertising revenues were \$5.5m for the second quarter of 2013, up 149% year over year and 66% sequentially. The robust growth was due to increased monetization through advertising and promotional revenue through third-party application referrals.

In general we are very pleased with the results of our consumer business in second quarter. Our platform monetization effort of the active user base resulted in significant growth in the mobile games and advertising revenues, with FL Mobile's gaming business being a particular bright spot, beating our original expectation by a wide margin. Average daily active users or DAU for FL Mobile's games reached 98,595 in the second quarter of 2013, up from 68,810 in the first quarter of 2013. In the second quarter FL Mobile also had nine games ranked among the top 100 grossing apps, of which three ranked among the top 30 on Apple's iTunes app store in China.

The significant outperformance of FL Mobile in second quarter also resulted in a large increase in share-based compensation that came from accelerated operating and performance goals in the period. I will discuss the specifics of this a little later.

Our Enterprise Mobility revenue also experienced very strong growth in the second quarter, up 32% sequentially to \$8.1m. NationSky became a tier one distributor for Apple in the first quarter of 2013 and has been ramping up its MDM business, both of which contribute to the significant increase in the Enterprise Mobility revenues. Product revenue for hardware sales increased 25% sequentially to \$5.2m, and software and services revenue increased 45% sequentially to \$2.9m in the second quarter of 2013. As of June 30, 2013, NationSky had over 20 mobile device management enterprise customers and over 1,250 total enterprise customers.

Other revenues in the second quarter of 2013 were about \$1m, up 288% year over year and down 4% sequentially. Other revenues are generated primarily by providing technical contract services to third parties.

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 expenses line item and we have included a reconciliation table in our earnings release showing the detailed calculation.

Cost of revenues in the second quarter of 2013 was about \$13.8m, up 194% year over year and 32% sequentially.

Gross profit in the second quarter of 2013 was \$27.6m, up 81% year over year and 21% sequentially. Gross margin was 67% in second quarter of 2013 compared with 77% in the same quarter a year ago and 69% in the previous quarter. Excluding the impact from NationSky, gross margin was 75% in second quarter of 2013 compared with 76% in the previous quarter. NationSky's gross margin in the second quarter of 2013 was 33.9%, about flat from the previous quarter. So overall our gross margins have remained relatively stable in the past quarter.

Now on to the operating expenses. For second quarter of 2013, second quarter of 2012 and first quarter of 2013 we recorded total SBC expenses of \$13.1m, \$5m and \$7.6m respectively across the three operating expense line items. As discussed earlier, out of the \$13.1m SBC expenses this quarter, \$6.8m was due to FL Mobile exceeding the operating and performance targets in the period and accordingly was awarded additional shares per the original acquisition agreement. Our total SBC without the FL Mobile performance-based awards would have been \$6.3m or down sequentially from the first quarter.

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 \$5.8m in the second quarter of 2013, up 71% year over year and 39% sequentially. Non-GAAP general and administrative expenses were 5.2m in the second quarter of 2013, up 40% year over year and down 12% sequentially. Non-GAAP research and development expenses were \$3.1m in the second quarter, up 84% year over year and 7% sequentially.



So non-GAAP operating income was \$13.7m in the second quarter, up 109% year over year and 37% sequentially. Non-GAAP operating margin was 33% in the second quarter, almost unchanged from the same quarter a year ago and up from 30% in the previous quarter. So thus we are continuing to realize operating leverage in our business, especially in the G&A and R&D areas. Excluding the impact from NationSky, non-GAAP operating margin was 38.3% in second quarter compared with 33.4% in the previous quarter. Operating margin for NationSky was about 10.8% in second quarter compared with 14.8% in the previous quarter.

Income from operations in the second quarter was \$0.5m, down 66% year over year and 78% sequentially. Operating margin was 1.3% in the second quarter compared with 7.5% in the same quarter a year ago and 7% in the previous quarter. Again this is due to the high SBC expenses that we recorded in the second quarter this year, of which the majority of the increase quarter over quarter was due to the FL Mobile operating and performance based acceleration. If we take out the \$6.8m of SBC in the second quarter tied to accelerated performance targets at FL Mobile, our income from operations would have been a record \$7.3m and our operating margins would have been 17.7 %

Income tax expenses were \$0.06m and the effective tax rate was 2.7% in the second quarter of 2013 compared with an income tax expense of \$0.1m in the same quarter a year ago and income tax expenses of \$0.3m in the previous quarter. The low effective tax rate was primarily due to the preferential tax treatment enjoyed by certain subsidiaries of the Company.

Net income attributable to NQ Mobile was \$1.9m in the second quarter compared with \$2.1m in the same quarter a year ago and \$2.9m in the previous quarter. Non-GAAP net income attributable to NQ Mobile was a record \$15m in the second quarter of 2013 compared with \$7.1m in the second quarter of 2012 and \$10.5m in the first quarter of 2013. GAAP fully diluted earnings per ADS was \$0.03 and non-GAAP fully diluted Earnings per ADS was \$0.26. The big difference between the GAAP and non-GAAP EPS is again due to the SBC expenses. When excluding the additional SBC expenses recorded by FL Mobile, the GAAP EPS would have been a record \$0.15.

We also recorded a very strong deferred revenue growth and operating cash flow in the second quarter. Our deferred revenue grew 21% sequentially to \$17.4m by the end of the second quarter and our operating cash flow in the second quarter was \$11.1m compared with \$1.9m in the same quarter a year ago and \$4.4m in the previous quarter.

So lastly I want to discuss the accounts receivables days as that's one financial metric that we'll continue to focus on improving. In the second quarter our total AR days came down from 158 days in the first quarter to 145 days, an 8.2% decrease.

As a reminder, our DSOs are higher in some regions outside of China like Southeast Asia and the Middle East. Our collection period will continue to improve as the rest of our business in other geographies grow. Additionally, we would continue to point to the fact that despite the length of DSO, the quality is extremely high. You can see from our bad debt expenses that quality remains excellent. We have a long history with these distributor partners and have gone through several cycles of billings and collection. We would expect to see an even faster improvement of this situation beginning in the current quarter as our efforts to re-train these channels over the past five months will start to show up more dramatically.

Finally, let me provide our outlook. Looking forward, we expect net revenues to be in the range of \$50m to \$51m for third quarter of 2013 and we raise the full year 2013 net revenue guidance from the previous issued range of \$179m to \$184m, to \$185m to \$188m.

So this concludes my remarks and I will now hand the call back over to Matt.

Matt Mathison - NQ Mobile Inc. - VP, Capital Markets

Thank you Suhai. Before we open the call up to the operator for our Q&A, let me just conclude by summarizing the following three things. And this is on the last slide, page 24. Number one, the platform business model and strategy are working, and we're monetizing more of our active user base. Number two, we are making progress in key areas, including financial, operating and strategic focuses. And finally, we have an exciting second half of the year lined up with a full pipeline of both products and partnerships.

Rosie, with that we'd like to open up the call to Q&A.



QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions). Your first question comes from the line of Mark Murphy from Piper Jaffray. Please ask your question.

Mark Murphy - Piper Jaffray - Analyst

Yes, thank you. Congratulations on the results. Omar, you've announced partnerships with Tencent, Baidu and China Mobile in rapid succession here. What do you think is driving these very large technology leaders to want to get this kind of exposure to your platform, including the gaming platform?

And also I realize that you said the business development pipeline is actually stronger than it was three months ago. I guess I'm wondering what would you consider to be stronger than Tencent, Baidu and China Mobile? Are you strategizing with other tier one carriers or are you referring to handset deals, or is there something else going on in the background?

Omar Khan - NQ Mobile Inc. - Co-CEO

Thanks Mark. Thanks for the questions. I'll answer those. They're sort of connected, but I'll answer them separately.

The first one in terms of what large partners are seeing from us, I think they're seeing a handful of things. First and foremost, they're seeing a tremendous capability in our gaming business, specifically in FL Mobile from a game operations platform. What they're seeing is a leading-edge capability from both the user acquisition and engagement perspective in terms of how we go to market, not as just a traditional app store, but through a community-based, interest-based mod, interest-based profiling mechanism. In addition I think you're seeing the power of our analytics and optimization engine, where we help work with our developers when we're operating games, to optimize them from an engagement and from an ARPU perspective.

And I think it's that credibility that we've built. And frankly speaking, Mark, it comes down to results. The reason those partners are coming onboard is we're delivering results for them. And as we deliver results, that success begets more success and that's the reason they're coming on board.

I hope that answered the first part of your question. But the second part of your question related specifically to the business development pipeline, no, you're absolutely right; those are really big partners and they're strong partners. I think they're indicative of what I'm talking about, which is there's some significant partners outside of the traditional, let's say, carrier and OEM space that we're starting to engage, both in the currently public parts of our business around gaming and some of the other monetization engines like advertising, as well as some of the next-generation technologies.

But what I mean specifically by that comment is that there's a strong pipeline of those types of partners out ahead of us, not just in China, but globally. So in addition to the tier one carriers and OEMs that we're working with in various stages of the business development pipeline, which includes things like RFP, selection, development, testing and launch, where we have multiple partners in various stages of that pipeline, we've also engaged over the past few quarters a broader set of mobile ecosystem partners. And I think you've just seen the beginning of those partnerships, such as Baidu, such as Tencent. And I think that gives you an indicator of the types of folks that are interested in our platform.

The power of the platform, Mark, itself is valuable, not just to OEMs and carriers, but anyone from a content perspective who is looking to, one, engage with mobile users around the world and, two, monetize them and retain them. So it's safe to say that the attraction of our platform extends well beyond just traditional partners, such as carriers and OEM.



Feel free to ask a follow-up question, if you want, Mark.

Mark Murphy - *Piper Jaffray - Analyst*

Yes, thank you. That's very helpful color, Omar. I wanted to follow up on the expanded monetization efforts, where you've had obviously a long history with recurring subscription revenues and you're adding on the gaming and Advertising revenues. So clearly the Q2 results are much stronger than we all expected. But what can you share maybe in terms of any metrics or any user behavior that you have seen thus far, and I know it's the early innings, when you're providing this option for your active users to, I guess essentially to try out some of the games coming out of FL Mobile?

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

Yes. And so, Mark, on that specifically I think for the first time you've seen us unveil a new metric, which is premium users, which takes into account not just our security paying users, but also users that are basically revenue-generating users for us via our Advertising channels, which includes both the offer wall and third-party application referrals. And so the health of that business from a metrics perspective, the way we look at it is really, going back to page seven of the presentation, we look at in terms of total active user accounts. Secondly, how well we're engaging that active user base. The metric of that is really premium users, which stands at 11.3m. And then the revenues that we're generating from them.

So you can see that the fact is, if you just look at it from a pure numbers perspective, the growth of the gaming business at [300%] plus as well as Advertising, which grew at 67%, which is really traffic monetization, that really speaks to the capabilities of that broader engagement that's measured in the 11.3m number of premium users. So that's really the health indicator to look at, which is how well are we engaging our active user base, one, and then the monetization that results from them, which is directly reflected in revenues.

Mark Murphy - *Piper Jaffray - Analyst*

Okay. So I had one follow-on question because it's essentially relating to that and perhaps maybe this is a question for Suhai. But you do have this premium user accounts metric, which is replacing the paying user accounts, as you said. Is there any way to try to project forward maybe as we try to build out our models, for instance, what type of ratio would you model for the premium user accounts as a percentage of active user accounts? Because going back historically there have been certain ratios there that you've tried to hold year to year between all the user account classifications and I'm just wondering maybe what you think is possible there with the premium accounts.

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

Yes, Mark. Actually I wanted to just real quickly correct one of the percentages I stated. Our gaming business grew 200% quarter over quarter. So just to answer your question specifically, Mark, I think the ratio is very important, but it's fairly early. We need to get a couple of quarters under our belt. We've seen tremendous growth, but I think if you remember back to what I said on the conference call earlier, at the beginning of the quarter if you just look at premium users minus security paying users, we were measuring them in the tens of thousands. At the end of the quarter they're in the millions so you can see the tremendous growth that we're seeing there.

So I think we need to get a couple of quarters under our belt of seeing that metric grow. And we're seeing it grow dramatically month over month. And then see how that ratio balances out over time. It is the right way to look at it. But I think we need to get a little bit more history under our belt. One, it's showing tremendous success. It's exceeding our expectations. But to forecast at a ratio over time is going to require some more, a couple more quarters of data.

Mark Murphy - *Piper Jaffray - Analyst*

Okay. Thank you very much for taking my questions.



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

Thanks Mark.

Operator

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

Mike Walkley - *Canaccord Genuity - Analyst*

Great. Thank you. And maybe just building on Mark's question. Congratulations on the monetization strategy. Clearly you've seen some strong growth in the new businesses that you've added, a little slower growth in the more mature security business. But what are some of the key metrics? Is it revenue per premium user? What are the key metrics we should look at to look at the health of the business growth going forward?

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

I think -- thanks, Mike, for asking the question. I think it's very similar to the answer I gave Mark. What we're doing specifically from a premium user perspective is driving additional monetization of the active user base. And that really comes from a CPA-based advertising model through the offer wall and third-party application referrals. It also comes obviously from a broader engagement of our user base in terms of monetizing through gaming revenues.

But again I think from a metrics perspective we've honed into a few valuable metrics. One continues to be the active user base and the active user accounts. The second continues -- is now the premium user accounts. And the third being the revenues that we're generating from those in terms of MVAS and Advertising revenues. And that's really where we've locked into from a metrics and a health perspective.

I think over time we'll continue, as any business does, evaluating additional metrics or health indicators in terms of what we can give you in terms of color. But those are the ones we're really focused on from a business perspective. And we're focused on measuring those and we're focused on growing those and optimizing those over time. So we'll look forward to showing more data on those with you in the future, but that's where we're focused today.

Mike Walkley - *Canaccord Genuity - Analyst*

Okay. And as you're trying all these monetization engines, should we expect the premium user, call it an ARPU, would that be a trending upward from what you just reported this quarter? Is that a fair way to think about it or is more just driving more of these premium users?

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

Yes. I think again ARPU is a -- I'm not sure I would look at it as an ARPU metric, but if you wanted to take premium users and you wanted to take MVAS and Advertising and do a division, you would see an incremental effect. You would see an improvement on -- that both of those business and premium users have added to our business. So it's been a positive effect on our business.

I think again similar to the question that Mark asked earlier in terms of data and trending it forward, we need a couple more quarters of data related to the growth of both premium users and the revenues generated from it. It's trending in a very positive direction, but I wouldn't look at it as a metric today as a point in time to lock in to. But again as we get more data over the next couple of quarters I think it's something that we'll be able to discuss more.



Mike Walkley - *Cannaccord Genuity - Analyst*

Okay. Great. Thank you.

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

The initial results are extremely positive.

Mike Walkley - *Cannaccord Genuity - Analyst*

Yes, it sounds like it. And if you give a little more color about America Movil, just a little more color on their early attach rates. I know you said some in your fixed comments. And would this type of customer be accretive to your revenue per user?

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

Yes, I'm going to ask -- Gavin has also joined us on the call, Mike, so I'm going to ask Gavin handle the America Movil question and then we can also talk about the accretive nature of the two.

Gavin Kim - *NQ Mobile Inc. - Chief Product Officer*

Yes, so I know Mark covered a little bit of this in his comments, but NQ Mobile Security was launched under the Telcel brand in Mexico in June. I think primarily bringing up a channel like that, as large of a channel as America Movil is, obviously we've been spending a lot of time and effort on making that happen. But we've activated largely all distribution channels right now through Telcel. That includes several digital marketing efforts and, as we mentioned, several new Mobile Security trial promotions.

And I think what's also interesting and what we're looking forward to is that we've started going through the planning process for their preloads with their marketing teams and we do fully expect to be preloaded on Telcel smartphones along with, and this is important, their retail promotional support activity starting in the Q4 timeframe. It's still early in it's beginning stages, but the results are promising. We are excited about what we're going to continue to do with them.

I mentioned before obviously we're at Telcel today. We're going to be bringing on Claro in Brazil, which is another big portion of Telcel's overall footprint, in the September and October timeframe. And then quickly follow them with Peru, Argentina and then the remaining Latin American countries. And that's only Mobile Security, followed then by Vault and Family Guardian thereafter.

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

And then just to answer your question, Mike, very succinctly, the ARPUs we see in Latin America I think are more reflective of the emerging market ARPUs similar to China, I think, plus or minus. But we can share more color on that as we go forward.

Mike Walkley - *Cannaccord Genuity - Analyst*

Okay. Great. And then, Suhai, just for the next quarter, Omar made in some of his comments that you can have some lumpiness from NationSky. Is there any seasonality we should consider on NationSky or anything that would change maybe the gross margins from the current quarter?

And then also if you can maybe help us think how to model OpEx for the rest of the year.



Suhai Ji - *NQ Mobile Inc. - CFO*

Yes, NationSky continued to have a strong quarter and its seasonal in terms of it's back-end loaded; second half would generate more revenue. But in terms of operating margin for NationSky we still would guide between 10% to 12%. It will have some fluctuations, as you saw in the first quarter and second quarter, depending the mix of the hardware business and the software, and our services component, but we expect a strong growth in NationSky. So for the operating margin outside of NationSky we still guide above 30%, but from the last couple of quarters you can see the increasing operating leverage in that business as well.

Mike Walkley - *Cannaccord Genuity - Analyst*

Okay. And then OpEx, just for the Company in general, just steadily growing as you invest?

Suhai Ji - *NQ Mobile Inc. - CFO*

Yes, as for dollar terms it will increase. But in Q2 you see the leverage in the G&A and the R&D areas in particular. But in terms of percentage of revenue we're guiding 30% above for the business outside of NationSky and for NationSky we see between 10% to 12%.

Mike Walkley - *Cannaccord Genuity - Analyst*

Okay. Great. Thanks for taking my questions and I look forward to seeing you at the conference a little later in the week.

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

Thanks Mike.

Operator

Your next question comes from the line on Jiong Shao from Macquarie. Please ask your question.

Jiong Shao - *Macquarie - Analyst*

Good morning. Thank you very much for taking my questions and congrats on a very good results and guidance. I have two questions. First, on your Advertising business, it's very encouraging to see you're gaining a lot of traction in mobile advertising, which is a very nascent and new market. Since NQ Mobile is all mobile all the time, I was wondering could you just talk about what are some of the advertiser verticals for your Advertising business and how you price those adverts, and where you put those adverts? Any details or color would be helpful. That's my first question.

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

Okay. Thanks Jiong for the first question. Really the way we look at it as a mobile first, mobile only company, there's a couple of places in terms of how we look at advertising. The majority of our business really comes from third-party application referrals. So it's not the traditional, I would say, banner advertising type of approach. It really comes from third-party application referrals, which comes from the targeted nature of our business. And so the way we look at it is that it comes from mobile application and games from a verticals perspective. So we're not out there targeting specific verticals outside of applications.



And within the applications they come from a broad set of applications and gaming partners that is driving our advertising revenue. And the way we engage them is through our advertising platform, specifically meaning that we've got an analytics and reporting engine that allows us to understand what users are doing and measure the value of users, and then also present to them a much more targeted viewpoint from an ads perspective or from a third-party app recommendation perspective.

Now in the future we may have a broader set of verticals that we may target at because we are going to get broader in terms of the partners that we're also deploying. So you can anticipate from us as we head into the future from an advertising perspective that we will broaden the constituency of ad supply beyond just applications and gaming vendors to brand advertising and beyond.

Jiong Shao - *Macquarie - Analyst*

Okay. Great. Thanks. That's helpful. Second question I have is on your MDM business. Again, that's another very new and nascent market. Could you talk about how big have you estimated the market is in China, if you look at the States as a benchmark, and who are some of the players here?

And also when you go to pitch to a big customer like a bank or insurance companies, do you usually start with like one department, one location, how you price your offering? Is that a maintenance contract? Is that per users or per device? Thank you.

Gavin Kim - *NQ Mobile Inc. - Chief Product Officer*

Hi. So let me try to -- this is Gavin Kim. Let me talk a little about I guess your comments related to the competitive landscape that we see with MDM. Actually InfoDesk, which is an independent research firm that is focused in China, just last month a report, they released a report that profiled the competitive landscape of the MDM market in China and I actually see this as a good representation of the landscape there.

So in terms of just competitors, we do see the likes of Huawei, MobileIron and Citrix as well as some local players. And just to comment on them briefly, Huawei is a platform that is only compatible with Huawei devices whereas NQ Sky is platform agnostic. MobileIron, they've been at market since 2010, and Citrix has really gone to market through their acquisition of Zenprise, which is a little bit different than a traditional mobile device management platform. But both have been early entrants in the China MDM market. Both have import solutions that typically find implementation difficulties due to the customized nature of the local IT infrastructure that is specific to China.

NQ Sky is a recent entrant into market. We have seen incredibly quick traction and great results, demonstrating really what we think of as immediate product strength and leadership and execution for companies in China, which gives us a great platform as we think about globalization going forward.

And then just to talk about specifically the types of our monetization. So we in China, the platform, the method that we use is what we call a [COW]. Basically it's a number that represents numbers of users per deployment. It's actually not terribly different than is used by other companies so it's more of a traditional market pricing method that we use in market.

Matt Mathison - *NQ Mobile Inc. - VP, Capital Markets*

And then just from a perspective that you just asked about also, Jiong, in terms of how we go to market, usually we enter, let's say, with SFI or financial services and insurance companies we'll do, let's say, approximately 5% of their market or of their users and then expand in the future. And you've heard me say this before that we've got specifically large customer bases. If we just further penetrate the current customer base that we have and expand beyond, expand to their full mobile workforce, we have tremendous growth out of head of the Enterprise business just by expanding within the current customer base.



Jiong Shao - *Macquarie - Analyst*

Right. Great. Thank you very much guys. This is very helpful. Great quarter. Thank you.

Operator

Your next question comes from the line of Andy Yeung from Oppenheimer. Please ask your question.

Andy Yeung - *Oppenheimer & Co - Analyst*

Hi. Good morning. Thank you for taking my questions. My first question is questions on FL Mobile. In term of revenues by platform, can you give more colors in term of division between iOS and Android?

And my next question is a follow-up on that, which is for FL Mobile what's your go-to-market strategy for the international market and when do you expect that to roll out in, say, overseas markets?

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

Yes, so I'll answer that question. Specifically, we don't break out the FL Mobile business between Android and iOS, but here's the color I'll give you. We've had tremendous successes historically on iOS within the FL gaming business or the FL Mobile games business. We are the number one platform from a publishing perspective on iOS in China as rated by third parties. And so we've experienced tremendous growth. We're going to continue to experience tremendous growth out ahead of us.

What we're looking at as we go forward is we are expanding our relationships that continue giving us and expanding our monetization capabilities within Android, such as the relationship with Baidu and China Mobile, which will expand our capabilities and footprint within the Android portfolio and add significant growth not just from iOS but also from the Android business as well or the Android footprint in terms of installed base of devices as well.

Andy Yeung - *Oppenheimer & Co - Analyst*

Great. And then I think you guys mentioned that you want to launch FL Mobile in the international market. Do you guys have a schedule for that?

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

Yes, so I think I discussed it on the conference call. We are going to be starting in North America in the next month and the strategy for us remains fairly similar. The goal is really there are leading developers and content providers in the Asia markets that we work with. And the capability for us to bring the relevant content globally is exactly what we're working on doing. And so we will launch our first set of titles here in the next couple of months and we look forward to tremendous international growth.

We changed the branding of the business to FL Mobile in the last quarter, and that's part of the beginning of the internationalization of the business. We've brought in a talented team in the Bay Area and starting to grow our team in the Bay Area with talent from around the industry. If you had a chance or if some folks had a chance to attend the Casual Connect conference, we presented there in San Francisco last week and received tremendous feedback from both the attendees as well as the media. So we're looking forward to the capabilities in terms of growing that business internationally.

Andy Yeung - *Oppenheimer & Co - Analyst*

Thanks Omar. Congrats on another great quarter.

Operator

Your next question come from the line of Jun Zhang from Wedge Partners. Please ask your question.

Jun Zhang - *Wedge Partners - Analyst*

Thanks for taking my question. Congrats on great results. My first question is about the platform strategy. You mentioned a lot of the platform strategy. I know the FL Mobile has strong position on the iOS platform, such as the FL Game Center, and NQ has pretty good position on the CB and Android platform. So what's the Company's strategy moving forward to combine those strengths together to build a cross-device platform? Is there new products going to launch or is the Company mainly focusing on the monetization of the current product offering? Thanks.

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

Yes. So thanks, Jun, for the question. There is absolutely synergy from a platform expertise perspective between the FL Mobile team and the NQ team, but what I'll say is that they both have done well on both platforms.

So if you look at the NQ traditional security-based applications and privacy-based applications, we've continued to expand those over time within the IOS platform. We have first launched our NQ Mobile Vault product as well as contact management. We have launched Easy Finder just recently in the last quarter and then we're continuing to expand. On the Enterprise side, which is also a platform capability developed in-house here at NQ, NQ Sky supports the iOS platform and we are going to be supporting iOS 7 as we go forward as well. So there is a tremendous R&D capability and knowledge within the Company around iOS.

In addition obviously from a distribution perspective FL has done very well not only on iOS but they have done well on the Android Platform as well. We are bringing them -- the way to look at that, Jun, from a synergy perspective is we have a tremendous user acquisition pipeline. And the ability for us to acquire both registered user accounts and active user accounts in the Android landscape give us the ability to monetize using a broader set of monetization engines. The first one being our premium security subscription business, but the second one being gains, and then the final one being traffic monetization through advertising.

So there's absolutely a synergy, but both businesses have the talent and expertise in both iOS and Android. The key really is leveraging the active user base across the entire business on the consumer side as well as leveraging the newly acquired users across the entire business.

Jun Zhang - *Wedge Partners - Analyst*

Okay. Great. Thanks. My second question is about the mobile games. So starting Q2 you don't break down the mobile game revenue, but as the Company guide, give the full year guidance on the mobile game, I just want to make sure the guidance still unchanged, and how much the revenue, I mean the pay users coming from those mobile game in direct payment. Thanks.

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

Yes. Obviously you know that we have reclassified our business and last quarter you have seen tremendous strength in the FL Mobile business. If you look at it, the way we looked at it last quarter, FL Mobile did \$7.5m in net revenue in the past quarter and so you're seeing tremendous strength and growth in the FL Mobile business.



As we look forward obviously we're not giving necessarily guidance broken out the same way that that we did for FL Mobile, but you can anticipate that it would be even stronger than the previous guidance. The way -- the one thing I did say on the conference call was that if you look at FL Mobile's performance within the current quarter in Q3 that we're already seeing halfway through the quarter, they're on pace already to have an annualized run rate based on Q3 performance that we are out-looking of over \$40m in net revenue. So you can anticipate that that business is growing extremely well.

Matt Mathison - *NQ Mobile Inc. - VP, Capital Markets*

Yes. This is Matt, Jun, and just to be clear, remember we are providing those numbers on a consistent basis with how we reported FL Mobile previously. Remember in the current quarter, in Q2 and in the current quarter going forward we're breaking out the gaming business in our MVAS segment and then the advertising portion obviously in the Advertising segment. So let's -- just didn't want you to confuse the two numbers.

Jun Zhang - *Wedge Partners - Analyst*

Okay, okay. That's great. Thanks. And my last question is about Hissage. I remember Omar mentioned there's some preload agreement with MediaTek on their new smartphone, the dual-core or the quad-core on chipset platform. As we all know that WeChat, the Tencent WeChat is becoming the dominant mobile platform in China, so I just wanted to know what's the current status of Hissage and is Hissage going to be a new mobile Internet platform that NQ is going to take advantage of in the near future.

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

So we absolutely -- we entered this partnership with MediaTek in terms of investing and co-investing and leading the product roadmap of Hesse Technologies. And the product set is based on Hissage and the first product is iSMS. We absolutely look at it as, one, it is the native messaging experience. It is both the SMS experience as well as the over the top messaging experience on those devices. We are in the very early stages in terms of how it is being integrated and preloaded on to the chipset.

I gave a view of which chipset it's being preloaded on and we absolutely look at that as a future user acquisition engine for NQ, so as users come in. And, remember, one of the most exciting things about the messaging layer is it drives daily active engagement. So that active user that comes in from that has tremendous value for us in the future in terms of how we will be able to engage with them and monetize them, and adds value to the MediaTek chipset as well as users and the end-customers that they then ship to.

It is very early. Obviously with chipsets you have to go through a qualification process and then go through a preload process, and then it makes its way in the channels. But we're giving a preview of the types of chipsets that we're preloaded on and then in upcoming quarters we'll share with you more results around how that is doing and how it is performing in the market.

Jun Zhang - *Wedge Partners - Analyst*

Okay. That's great. Thanks. The last question is for Suhai. So is SBC going to continue impact the GAAP earnings in the second half?

Suhai Ji - *NQ Mobile Inc. - CFO*

Hi Jun. Thanks for the question. I think it's probably difficult to predict the performance-based portion of the operating expenses for our acquisition. But, as you can see that the base portion will continue to trend at the lower levels. Actually it has been trending down in the last quarter. So, yes, so that, as you can see, this quarter the SBC outside of the FL Mobile portion actually came down quarter over quarter.



Jun Zhang - *Wedge Partners - Analyst*

Okay. Sure. Thanks a lot. Congrats again on a great quarter.

Operator

Your final question comes from the line of William Huang from Barclays. Please ask your question.

William Huang - *Barclays Capital - Analyst*

Hi. Good morning. Thank you for taking my call. Congratulations to a very solid quarter. I have two questions. My first question is just follow up on your mobile game business portfolio. Can you share with us your top games' contribution ARPU trends on users?

And how should we view any impact from Tencent given that the company released WeChat version 5 with a new game center last week?

And second question is regarding margin trend. How should we expect sales and marketing R&D expenses going forward in light of your upcoming promotion play and new products innovation? Thank you.

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

Hi. Thanks for your question. I'll answer both of those. On the first question, while the mobile game business is very difficult to track, obviously the success of the game is measured in days and often not times in months and quarters or years.

But the way we like to view this is a top-30 game typically is generating around \$15,000 per day. And a top-10 game typically generates -- I'm sorry, a top-30 game generates roughly \$10,000 per day and a top-10 game generates \$15,000 per day. So that is a metric. It obviously has a lot of variation. The difference between a number-one game and a number-10 game is wide, and likewise a number-11 game and a number-30 game, but that's how we view the games and the success of it and I think that's good metric that you can use for modeling going forward.

In terms of the sales and marketing question, again, I think Suhai has already stated at the end of the day we're a company in very fast hyper-growth mode, but we're also doing it profitably. And so on the cost of sales side, including sales and marketing, you should expect a consistent ratio going forward as it relates to our revenue growth.

William Huang - *Barclays Capital - Analyst*

Okay. Thank you. Just a follow up on the game app store business, particularly after 91 Wireless being acquired by Baidu and we actually know that more company have switching their focus into this area and now there have been many similar game app stores in China. So just want to know management's view in terms of your core competitive advantages and when do you see -- do you expect the market may start to consolidate? And what do you view might be your biggest challenges going forward to build up your -- to further enhance your momentum of Feiliu business. Thank you.

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

Alright. Thank you William. Yes. I've talked about this before and it is actually something we are really proud of. We don't approach the gaming business from a traditional sense. So we don't approach necessarily the gaming business from just the sense of being an app store or just a contextual-search-based distribution platform.

We approach it from a community-based approach. We approach it from a platform perspective where we have gaming communities that we operate. Within those gaming communities, where we have over 16m active user accounts, we are able to develop user profiles and connect them in a high-quality fashion with titles and offers that they have a high propensity to consume, which is why leading content partners continue to bring their titles to us. They look at what we bring them from a user base perspective and from a quality perspective as truly incremental, and that's what allows us to continue to bring high quality content and titles to market.

And obviously I think it's our analytics engine that we put in place, both from an analysis perspective and from an optimization perspective, that allows us to continuously grow and optimize the performance of the games that we operate, but also helps us identify titles and developers that we want to bring on to the platform. And that's really the differentiation that we put in place.

We are an IP-intensive company. We have a lot of intellectual property. I think Henry mentioned on the call we are generating over 40 new patents per year and we have over 100 patents already filed and issued. Many of these patents are in the space of operating our platform from an analytics perspective, from an optimization perspective, and that's really the way we approach it. So we're not -- we don't look at ourselves as just an app store. We don't look at ourselves as just a publishing engine. We look at ourselves as a truly value-added operations platform for our own titles as well as for our third-party operated titles.

William Huang - Barclays Capital - Analyst

Okay. Thank you. Congratulations once again to a very great quarter. Thank you.

Omar Khan - NQ Mobile Inc. - Co-CEO

Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating and you may all disconnect.

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