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NQ - Q3 2013 NQ Mobile Inc. Earnings Conference Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the NQ Mobile Q3 2013 earnings call. (Operator Instructions). I must advise you that this conference is being recorded today, Wednesday, November 13, 2013. I would now like to hand the call over to the Director of Investor Relations and Corporate Development, Michelle Ma. Thank you. Please go ahead.

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**Michelle Ma** - *NQ Mobile Inc. - Director, IR & Corporate Development*

Good evening and good morning, Asia. Welcome to NQ Mobile's third quarter 2013 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, KB Teo; Chief Commercial Officer, Gavin Kim and Vice President, Matt Mathison. We thank you all for joining us today.

Before we begin, we would 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 are included in NQ Mobile's annual release, which has been posted on NQ's IR website.

Finally, as a reminder, this conference is being recorded. A webcast of this conference is being broadcasted on NQ Mobile's IR website.



I would also like to point everyone to a presentation that can be found under the Investor Relations section of our website. We'll be following that presentation on our call today and we encourage you to view that with us.

Following management's prepared remarks, we will open the line for questions. With that, I would like to turn the call over to our Vice President, Matt Mathison.

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**Matt Mathison - NQ Mobile Inc. - VP**

Thank you, Michelle and hello to everyone on the call. We are excited to be here with you today and to share with you more information related to our third quarter results, as well as provide you updates on some of our key business developments and focus areas. As we begin this earnings call and before I turn the call over to the rest of the management team, I want to highlight a few things.

Number one, this is not just an ordinary quarterly report and conference call. As ridiculous and false, the many allegations from the recent short seller reports and coordinated other blog posts are, we are determined to provide the marketplace with transparency and action.

We are energized and resolved to grow stronger from this attack. We have taken steps that no other company has taken. We have already clearly shown that the entire premise of the report is false.

In fact, in spite of the increased scrutiny on our Company over the past couple of weeks, we have reported our quarterly results on time and on schedule, without deviation.

Further, as a reminder, in addition to everything that the Company is doing and will do in the future to overcome such attacks, we also formed a special committee, comprised of four independent directors of the Company to conduct an independent review of the allegations.

The special committee has retained the global law firm of Shearman & Sterling to advise it in connection with its independent review. And the law firm has in turn engaged the Deloitte & Touche Financial Advisory Services Limited as forensic accountants to assist it in the matter.

The independent review of the special committee is still ongoing. The management of the Company is fully cooperating with the special committee in its ongoing review and will continue to do so in the future. We look forward to sharing with you the findings of this independent review, as the special committee permits.

Number two, the platform business model is working. And our financial performance is showing the impact of this great vision. Our user acquisition engine is expanding. Our user base continues to expand rapidly. Our monetization efforts are working and continue to show the real and tangible evidence of accelerating revenue growth among our user base.

We are uniquely and strongly positioned in the key areas of the mobile platform environment, security-related products, gaming and entertainment, advertising, enterprise, and other promising products and technology advancements, including our music search technology and applications.

NQ Mobile is uniquely positioned to lead the mobile revolution, going forward. In fact, just three weeks ago, our Company announced the most significant product innovation in our history, NQ Live.

Additionally, one of the key areas of focus for our management team has been in our collections and cash cycle. We are pleased to report that DSOs fell to 115 days in the third quarter from 145 days previous. The efforts over the past couple of quarters is absolutely and undeniably working. This led to a record quarter of cash generations from operations.

Number three, as we have previously announced, NQ Mobile will be hosting its second annual investor and analyst meeting in New York City on Tuesday, November 19th. We will be sending out the details to this event later this week, to those that have RSVPed to investors@NQ.com, based on capacity. We look forward to this event.



Finally, I restate what I clearly stated on our conference call held on October 25th. I am proud to be part of this team at NQ Mobile. The past two weeks have been filled with false, and malicious, and oftentimes ridiculous allegations. Yet we are resolved and resolute. This team is determined and is responding speedily and completely.

NQ Mobile will be a stronger business and a stronger organization as a result of this or any other hardship that comes our way. See, life is not about what comes your way. Rather, it's about how you respond to what comes your way. NQ Mobile will continue to respond fully, transparently and resolutely.

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, KB Teo will then provide the financial discussion on the quarter and outlook. Please go ahead, Dr. Lin.

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**Henry Lin** - *NQ Mobile Inc. - Co-Founder and Co-CEO*

Thank you, Matt. And thank you everyone who joined us. Before I speak a little bit about our progress and [record quarter], I want to take the opportunity to speak with you about the history of our great Company and great team.

I think that a great majority of you on this call today actually do not know the history of NQ Mobile. And given the amount of inaccurate and false information out there right now, it is important for you to hear from me about how we came to be who we are today.

In 1994, I came to Beijing and studied at the famous Beijing University of Posts and Telecommunications, following a humble childhood. I got my PhD degree at this university in 2003. As the youngest associate professor, in 2004 I began working at the National Laboratory of Networking and Switching.

We were working with Nokia and I listened to a speech about various safety concerns in future smartphones. During that speech, I had a strong gut feeling that mobile devices and smartphones would literally be the center of everyone's life in the future and securing these devices would be a new industry for the future.

I decided to follow my gut feeling with Dr. Vincent Shi, our COO today, who was from Beijing University and also my high school classmate. Along with five graduate students, we put together around \$15,000 or around RMB100,000 and registered our Company in October 2005.

We developed a mobile anti-virus software and offered it as a download from our website. Six months later, we had nearly 100,000 user accounts coming from more than 30 countries. One year later, we had nearly 300,000 user accounts, coming from almost 100 countries. It was exciting.

However, it was a challenging time. In early days, everything, from meeting payroll to buying computers, to finding office space was a struggle. There were so many times we almost gave up, but we never did. That is why, today, NQ stands for Never Quit.

Yet it was those early years, those years of struggle and hardship that became the foundation of this great team. The first two years of the start of the business benefited us tremendously. It taught us that we ought to fight through any hardship.

In August 2006, we received our first angel investment, nearly RMB750,000. We developed an outstanding product. And in 2007, we caught our first major break and received a business loan from China's Ministry of Industry and Information Technology funds, based on the quality of our mobile [screen] solutions.

In 2007, we completed our series A investment from Sequoia and GSR venture funds and then got series B investments from Fidelity and [Ceyuan] Ventures. This provided us with the capital to expand our product development, expand our sales and marketing and ultimately led to one more pre-IPO financing run from strategic investors, including Qualcomm, MediaTek, and HTC before we went public on NYSE in May of 2011.

We struggled, like many other small start-up companies that are building a solution set for the future. Yet, out of that struggle came [refinement] and experience. That is why today NQ stands for Never Quit. Never quit, no matter what stands in our way. Never quit changing the mobile world.

The difficult times are what make us great. These moments are only making our team better and stronger. This (inaudible) on our Company will only help highlight the great Company that we are. I welcome you all to come to know the real NQ Mobile.

Our basic assumption in the very beginning was smartphones will be very popular in the future and open operating system will mainstream. This would mean that safety and security related to those smartphones would be critical. And the security backbone will open -- and this would open up endless possibilities and create the makings of the platform business model, along mobile (inaudible).

This vision is playing out, right before our eyes. NQ Mobile has been positioning for this from the very beginning and before any other company in the world. NQ Mobile has been a mobile first, mobile-only mover in the world.

We have a great history. We have struggled at times. We have fought to survive at times. Yet we have a great team. We have great products. We have great partners and customers. And we have a great business.

I tell my employees, partners, even investors that we're truly building a 100-year company. NQ Mobile is positioned uniquely and strongly to truly become the leading global mobile Internet services platform company.

I'm excited by the progress of our business, as we reported a record quarter of revenues of \$54.2m. Our business is performing ahead of expectations. The growth we are seeing is remarkable and we are just at the very beginning [in that] today.

We are also announcing that the senior management, including myself and Vincent, Omar, KB and Gavin, along with other senior management of our Company will be buying NQ stock shares in the open market.

Vincent and I have not sold a single share of NQ, since we went public, even volunteering to lock ourselves up until September of 2014. We will buy more stock shares and continue to hold our position. We are more confident in NQ Mobile's future than ever before.

I will now turn the call over to my partner, Mr. Omar Khan. Please.

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

Thanks, Henry and hello to everyone. I want to take a few minutes to talk about why I am here today. After completing my undergraduate and graduate degrees at MIT, I spent the better part of my career growing up in the mobile industry.

I've seen hardware innovation. I've seen network innovation. I've seen software innovation. I've seen companies come and go. I've seen people come and go. I have had the unique opportunity to work with the industry's best and brightest.

I have been part of many successes and failures in the mobile industry. I have learned from each of these experiences along the way. It has enabled me to form a personal vision for the future enabled by mobile.

When I first met Henry more than two years ago at the Conrad Hotel in Hong Kong, I knew I was in the presence of a true visionary, someone who stretched the limits of my own thinking. I wasn't alone in recognizing this genius. Years before me, Sequoia, GSR, Fidelity, Qualcomm, MediaTek and HTC all saw the same thing.

I was thoroughly impressed and respectful of his personal story and humble beginnings. I knew immediately that this was where I belonged. I knew that I could play a significant role in commercializing and scaling products and solutions, based on the core technologies that NQ had developed, invested in and incubated.



In the end, it's all about people. And I am proud and humble to have the opportunity to work alongside Henry, Vincent and the team that they have built. This is a once in a lifetime opportunity for any who have the pleasure of working with or investing in this team. I am a firm believer that Henry will go down as one of the great entrepreneurs of our generation, on par with any international entrepreneur focused on the Internet, mobile, social, or the cloud.

Early on, we looked to Japan for mobile innovation, such as i-Mode from Docomo. But today we look at China to be the leading indicator of mobile innovation. During the course of my career, I spent a considerable amount of time in China. Not only is it the single largest smartphone market in the world, but it will be the largest fill-in-the-blank market in our lifetime, gaming, enterprise, advertising. And the list goes on.

As Henry just described for you all, NQ Mobile has tremendous history. The history of the Company and the strong IP and technology leadership is something that really attracted me to this business.

When I first began looking at this business, I wasn't just attracted to a consumer security products company. I saw a company that had tremendous mobile platform IP and a unique opportunity to participate globally in some of the strongest secular trends in any sector, the mobile revolution.

My decision to join a company with deep roots in China was based on the opportunity to globalize a set of learnings and experiences from the most competitive and dynamic mobile market in the world.

Eight years of learning on how to monetize, and leverage, and partner with channels to create win-win business models is invaluable experience. These are extremely valuable assets that Gavin, myself, Conrad, Victoria, Chris, Geoff Casley and the global team use to grow our business around the world.

Our China business is an asset. Our China business is a competitive advantage. Our China business is diverse. Our China business is a model to be proud of and it sets the standard. Now let's focus on the third quarter results and how our platform strategy is working brilliantly.

If you recall from our second quarter conference call, we are very focused on expanding the monetization of our user base. We're still in the early days of our user growth. But we are also in the very early days in the monetization of this user base. Last quarter, we rolled out our premium user metric as one of the key health metrics of our monetization strategy.

In the second quarter, we reported 11.3m premium users. I am pleased to report that our premium users continue to accelerate at an incredible pace. In the third quarter, we now have average monthly premium user accounts totaling 14.8m, or a monthly average of 14.8m users that are generating revenues for our Company.

We grew this number of users that generate revenues by 31%, quarter over quarter. This compares to our active user growth of approximately 10%, quarter over quarter.

The slide on page 17 clearly shows that our monetization efforts are working. We are doing exactly what we said we would do a year ago. That is we are beginning to monetize our once non-paying active user base. This trend is something that really excites us and the results continue to exceed our own expectations.

I should also note that the introduction of NQ Live will have a dramatic positive impact, over time, on our ability to generate revenues from our user base. We look forward to sharing more about this at our upcoming analyst and investor meeting next week.

There are many segments of our business that performed amazingly well during the quarter. The advertising segment of our consumer business achieved record net revenues in the third quarter and doubled sequentially to \$11m, which is now over 20% of our total revenues.

The advertising segment of our business is one area that directly captures our monetization strategy. We have a tremendous user base and an impressive user acquisition engine. And our ability to monetize this is being captured on our advertising growth. Up until this point, we have focused mostly on third-party application referrals.



However, given the launch of NQ Live and future partnerships with this revolutionary new product, we will expand our advertising platform to more traditional sources. This will continue to be a key segment of growth for us.

Remember, we will continue to grow our user base aggressively. But it is the growth of the number of those users that can generate revenues that we are even more focused upon. So far, so good and we are off to an incredible start.

Now let's move on to our FL Mobile business. I am pleased to report to you tonight that our recently launched game, Pocket Dream, has already reached the top 10 paid apps on the iOS app store in China and has already been in the top six for the past week.

This is a very successful launch. And given the strong interest during our beta test period, we are excited to see what this game can actually do. As a reminder, we are reporting our FL Mobile revenues in two different segments since last quarter, including the gaming segment in the MVAS group and the advertising portion of the FL Mobile business within the overall advertising segment.

For the quarter, our FL Mobile business collectively achieved revenues greater than \$10m. And we continue to be very excited about this segment of our business.

Additionally, during the third quarter, we expanded our partnership with Tencent, signed a new strategic relationship with Perfect World, and continued to add the best content for our users.

We have a strong pipeline of games to be operated over the next couple of quarters, with continued strong partnerships and strategic relationships, with the strongest mobile content developers.

NQ has taken our first steps to globalize FL Mobile internationally, officially launching one game, Gods and Dragons, in North America. The game was nominated for best game in the Best Mobile Apps award for 2013 and has consistently been rated four point stars in the app store and will be available on Android shortly.

This effort to expand the reach of FL Mobile globally is just the start. There are other games that are in the pipeline that are scheduled for release in the upcoming year.

Our enterprise business also performed well ahead of our plan in Q3. In fact, it's very encouraging to report that the third quarter results in our enterprise mobility segment of over \$15m exceeded the total amount of revenues generated by NationSky in all of 2012. It also surpassed the total amount of revenues generated in the first half of 2013.

This business is firing on all cylinders. The pipeline is full. The team is executing brilliantly. I want to take a moment to congratulate Charlie Hou and his entire team.

We have some very exciting deals and partnerships to announce over the next couple of quarters. In fact, the deals that are coming down the pipeline actually dwarf anything that we have announced to date. This business remains extremely important to our entire platform approach.

I want to turn the call over to Gavin Kim, our Chief Commercial Officer, who will walk you through our recently announced global product collaboration deal with Samsung Mobile, as well as provide you with an update on our international security business.

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

Thanks, Omar. We recently announced a global product collaboration effort with Samsung Mobile and are working with them closely to develop enterprise mobility management services, in combination with their Samsung KNOX solution.



Our first commercial release of NQSky and Samsung KNOX will be available at the end of this month. This is an exciting time for our efforts in the enterprise space. Customers will have the opportunity to take advantage of the NQSky platform and Samsung KNOX for bulletproof device management and security protection for Samsung devices.

We also provide enterprise customers with cross-platform support, with NQSky MDM platform, including Android, iOS and Windows Phone for other non-Samsung devices for robust device management, mobile application management, mobile content management and mobile security management for smartphones maintained within the enterprise.

NationSky will first go to market with the Samsung KNOX product collaboration in the China market later this month, as we continue to broaden our enterprise channel efforts in other global markets through the next year.

I'll now provide you with some highlights from our consumer security business internationally. As discussed in August, at our last earnings call, NQ officially launched a partnership with Telcel in Mexico, in June of this year.

We are thrilled with the interest level from consumers in the market thus far. Results have been very promising, with digital daily marketing efforts ramping to cover Telcel's full prepaid and postpaid Android smartphone business in Mexico. And we are working daily with the operator to better tune our marketing efforts in the region.

We are very excited to be launching Brazil in December, which has traditionally had a strong demand for mobile security due to the size of the market, very high Android penetration and overall consumer willingness to pay for this type of service.

We've been working closely with Claro Brazil and have a robust marketing plan ready to launch on day one. The other 14 markets in Latin America will be launched in late Q1 and early Q2.

Also, as we discussed last quarter, Telcel and NQ had previously confirmed our efforts to initiate the preloaded planning process, previously targeting to preload on Telcel smartphones.

Because of the early successes we have seen from our joint mobile security efforts in Mexico, we will also preload in Claro Brazil, starting in Q1. With Mexico and Brazil covering over 50% of the (inaudible), NQ will be well positioned for a strong Q4 and Q1 in our international business.

We also still continue to plan then to introduce NQ Mobile Vault and NQ Family Guardian thereafter, with the operators.

We are heartened by our partners' strong commitment to our partnership and the excitement they see for these new services across their footprint. And we look forward to the opportunities that lie ahead of us, to continue to ramp our international security business performance in Latin America.

As formally announced, we have also been executing our strategy with US Cellular, having launched NQ Family Guardian, NQ Mobile Security and NQ Mobile Vault. We are now delivering our full trust suite with the operator, launching NQ Vault as the third offering on September 30th of this year, under the US Cellular Protector Series brand.

We are also currently in the market, with the first set of US Cellular smartphones to either roll off the line, preinstalled or software updated in the field with NQ Mobile security, including such devices like Samsung Galaxy Note 3, Samsung Galaxy S4 Mini and field updates for devices like Samsung Galaxy S3 and Samsung Galaxy Note 2, later this month.

Furthermore, our international business exposure also continues to expand with OEM preinstalled partnerships with Micromax and Index in India and Mobistar in Vietnam, as well as broad global contracts with Huawei, ZTE and Lenovo to preload NQ Mobile Security on their devices globally.

Huawei will provide NQ Mobile security on certain of their Android devices sold in the international markets. Lenovo will provide its international customers with the latest NQ Mobile security services. And ZTE has extended its agreement to preload mobile security for certain Android devices in the global markets.

Furthermore, based on interest and requests we are receiving from some of our partners, we have been implementing systems capabilities to enable monthly retail billing as well as hard bundling of our security products, along with partner handset protection insurance offerings.

In Q1, we expect to launch hard bundles in which mobile security is included as part of the handset protection insurance offer, with select retailers and operators.

The end consumer sees a single bundled price for both insurance and security as a single package and is marketed an all-in-one value proposition from the start. The benefit to NQ is that mobile security now becomes an integral part of the mobile insurance offering and improves acquisition metrics to fall in line with mobile insurance attach rates.

As we have stated before, this is a great opportunity for NQ to increase the uptake of our security business internationally. We will continue to share announcements with partners and customers in this area as we move forward through the next year.

As for our NQ Care product in China specifically, our early market test results are promising. It's still early days for this first of a kind offering in China. And we'll be adding distribution channels in the coming quarters.

In addition to the work we have done with partners and customers globally, NQ has always made it our priority to constantly improve the capability, features, value and security of our core products globally. We've been doing exactly that for the last eight years, as the pioneers in the mobile security space. We will never stop learning, innovating and creating value for our partners and end users.

Now I'll turn the call back over to Omar.

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

Thanks, Gavin. Before I turn the call over to KB, to go over the financial review of the quarter and outlook, let me just make a couple more comments.

As we stated before, lowering our DSOs has been one of our key priorities as a management team. And our team is delivering those results. Our DSOs have dropped significantly in the quarter, from 145 to 115 days, our lowest number as a public company. I want to thank the business development and finance team for their hard work in reconditioning the channels. They worked hard and the fruits of their labor are showing up in tangible results.

We will have time to go through, in greater detail, some of our newest products across the platform next week at our analyst meeting. But let me make a few quick remarks about a couple of them. As we (technical difficulty) and exceeded an average of 3m unique daily search enquiries just after a short time after commercial launch in September.

Since then, we have continued to expand our partnerships, utilizing our search technology to include the largest carrier in the world, China Mobile, who is licensing our technology and including it in their music player application, Migu, which will be preloaded on every smartphone that they sell.

Additionally, TTPod and Kugou will also utilize our audio search technology in their offerings. This technology and applications opens up -- opens a lot of exciting doors for our platform, including traffic generation, revenue content sharing, and other partnerships.

Even with our new partnership announcements with China Mobile, China Unicom and the slew of partners announced on our NQ Live conference call, our business development pipeline remains as strong as it's ever been, which is a testament to our product and technology leadership, as well as our partner-friendly business models.

We also highlighted in our NQ Live product announcement conference call that our joint venture with MediaTek, Hesine Technologies, whose promising messaging client, known as ISMS, has approached an impressive milestone. We are seeing nearly 2m daily active users of the ISMS platform, yes, 2m.

We have not started to include our music radar and music search technology users, or our ISMS users in any of our operating statistics. We look forward to sharing with you more insights into our platform of products and solutions next week.

Now let me talk about our share buyback. I want to make a few comments about this. In addition to our existing \$35m buyback that we will pursue aggressively and the senior management share purchase plan announced earlier today, the Company continues to evaluate any and all uses of our capital to create additional shareholder value.

It is important to note that there are many considerations around the use of our cash and cash equivalent. Specifically of cash and cash equivalents on the balance sheet at the end of Q3, approximately \$144m resides onshore in China. The remainder is held outside of China.

In addition, since the completion of the convertible bond offering after the quarter end, we continue to hold the proceeds of approximately \$166m in Hong Kong. Both the fact that a majority of our capital is held onshore in RMB and the most recent convertible bond offering, coupled with the manufactured volatility, all play a role in the capital allocation decisions that are made both operationally and strategically.

As we stated on the conference call we hosted during our convertible bond offering process, everything we do as a Company, including raising capital, is done with our eyes and focus directed at strengthening, expanding, differentiating and accelerating our ability to grow, lead and dominate in the mobile user acquisition, engagement, monetization and retention.

We remain committed to efficient and effective allocation of capital. We're committed to using our existing offshore cash balance and future cash flows from operations to buy back shares for our existing \$35m buyback.

More importantly, our Company remains poised for tremendous growth and has proven its discipline and rigor in allocating capital for expansion, investment and acquisition. Our international mobile -- our international expansion and the acquisition of NationSky and FL Mobile are perfect examples of our ability to deploy capital in an effective and accretive manner.

Despite the temporary and manufactured volatility of the past two weeks, we remain laser focused and disciplined on utilizing our capital to accelerate our business strategy.

Finally, in summary, we welcome the spotlight on our great Company. We encourage you all to learn more about the real history of NQ Mobile, to learn about the real heritage of our great product offering, to learn about the real platform business that is unfolding before you, to learn about the real position of our business in the mobile revolution.

The real NQ Mobile is why I joined this Company. It is why we have attracted so many other great leaders in the industry. The real NQ Mobile is supported by our great partners, throughout the mobile ecosystem, including the largest carriers, operators, handset OEMS, chipset makers, retailers and distributors around the world.

The real NQ Mobile has great customers, who benefit from our great products and offerings. The real NQ Mobile rises above the challenges, the competition and the lies and falsehoods associated by faulty and malicious blogs and intended attacks.

The real NQ Mobile is the one that I remain fully confident and committed to. We are the real NQ Mobile. And we invite you all to actually research us, do your due diligence on our customers, our partners and discover for yourselves what makes our Company so great and what makes our future so bright.

With that, I will now turn the call over to KB.

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**KB Teo** - NQ Mobile Inc. - CFO

Thank you, Omar. Let me start by giving an update of our cash position as of September 30.

As mentioned by Omar, we have total cash of \$149.5m. 96% of our total cash, which comprises cash and term deposits is held onshore in China, or approximately \$144m. 4% is held offshore, or a little less than \$6m.

Additionally, since the close of the third quarter, the Company also maintains its existing accounts with Standard Chartered Bank and HSBC in Hong Kong, where the proceeds of the recent convertible bond offerings, totaling approximately \$166m continues to reside.

The CB offering was completed after the end of the third quarter and this cash is not included in the third quarter balance sheet.

We had another great quarter and again exceeded the high end of our previous revenue guidance. Our total net revenues in the third quarter were \$54.2m, up 110% year over year and 31% sequentially.

Mobile value-added services revenues which include consumer mobile security revenues and mobile games revenues increased 46.4% year over year and 0.3% sequentially, to \$26.9m in this quarter. The slight decrease in consumer mobile security subscription revenues was primarily due to our monetization expansion to mobile advertising and mobile games in domestic China market.

Our overseas consumer mobile security subscription revenues continued to grow with the increase of paid user accounts.

Our cumulative registered user accounts grew to 426.6m at the end of the third quarter, up 77% year over year and 50% sequentially. Including 98.4m registered user accounts of FL Mobile, we had total registered user accounts of 525m as of September 30.

Our average monthly active user accounts grew to 133m at the end of the quarter, up 57% year over year and 69% sequentially. Including FL Mobile's 19.1m average monthly active user accounts, we had total average monthly active user accounts of 152.1m for the quarter as of September 30.

Our average monthly premium user accounts grew to 14.8m, compared with 11.3m for the previous quarter. We define premium user accounts as any user account that generates revenue, either with direct payment or indirect payment from third party developers and advertisers, via the offer wall or other forms of advertising.

The increase in mobile games revenues was primarily due to rapid user growth of FL Mobile game platform and the launch of new games in the third quarter of 2013. FL Mobile operated and distributed a total of 22 games on iOS and 52 games on Android platforms, as of September 30.

Through the third quarter, FL Mobile had 11 games ranked among the Top 100 grossing applications, of which three ranked among the top 30 of Apple's iTunes app store in China.

Average daily active users for FL Mobile's games reached 127,448 in the third quarter, up from 98,595 in the previous quarter.

Advertising revenues were \$11m for the third quarter, up 99.7% sequentially. The robust growth was due to increased monetization, through advertising and promotion revenue, through third-party applications referrals.

Enterprise mobility revenues increased 243% year over year and 90.6% sequentially to \$15.3m in the third quarter, mainly due to the strong growth in the enterprise business and new customer gains.

NationSky became a tier one distributor for Apple in the first quarter of this year and has been ramping up its mobile device management or MDM business.

Other revenues in the third quarter of -- this quarter was \$0.9m, down 8.6% sequentially. Other revenues are generated primarily by providing technical contract services to third parties. Thus the revenue fluctuates as such business is driven by individual projects.

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 excluded to derive our non-GAAP numbers. Most of the SBC expenses are included in operating expense line items. And we have included the reconciliation table in our earnings release, showing the detailed calculation.

Our cost of revenues in the third quarter was \$21.9m, up 175.7% year over year, and 58.9% sequentially.

Gross profit in the third quarter was \$32.3m, up 80.8% year over year, and 17% sequentially.

Gross margin was 59.5% in the third quarter, compared with 69.2% in the same quarter a year ago and 66.7% in the previous quarter. The decline of the gross margin was mainly due to the increased revenue portion of the enterprise mobility business, NationSky, which has a lower margin.

Excluding the impact from Nation Sky, gross margin was 73.3% in the third quarter, compared with 74.6% in the previous quarter. The gross margin of Nation Sky in the third quarter is 24.8%.

Now on to the operating expenses. SBC expenses, which were allocated to related operating costs and expense line items, were \$20.1m in the third quarter, compared to \$7.8m in the corresponding period last year and \$13.1m in the second quarter. The increase in share based SBC expenses were mainly due to senior management compensation and also fair-value re-measurement of certain non-vested shares and share option previously granted as a result of the significant increase of our stock price, as of September 30.

There was \$8.2m increase in the SBC based on the stock price increase during the quarter. Assuming the same stock price, SBC would have been \$11.9m and would have declined sequentially.

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 \$6.1m the third quarter, up 29% year over year and 6% sequentially.

Non-GAAP general and administrative expenses were \$5.6m in the third quarter up 39% year over year and down 9% sequentially.

Non-GAAP research and development expenses were \$3.6m in the third quarter, up 56% year over year and 50% sequentially.

Non-GAAP operating income was \$17.1m in the third quarter, up 150.1% year over year and 24.9% sequentially.

Non-GAAP operating margin was 31.5% in the third quarter compared with 26.4% in the same quarter a year ago and 33% in the previous quarter. Excluding the impact from NationSky, non-GAAP operating margin was 39% in the third quarter compared with 38.3% in the previous quarter.

Operating margin for NationSky was about 12.3% in the third quarter compared with 10.8% in the previous quarter.

Net loss from operations was \$3.1m and net loss attributable to NQ Mobile was \$2.7m mainly due to \$20.1m in SBC expense in the third quarter compared with the operating loss of \$1m and net income attributable to NQ Mobile of \$0.3m in this corresponding period of 2012.

\$8.2m of the SBC was due to the revaluation of the pool of equity and option awards based on the stock price appreciation during the quarter. The SBC would have been \$11.9m assuming the same stock price that was used at the end of the second quarter which would have led to a GAAP profit from -- net income from operations of [\$5.1m] and a net income attributable to NQ Mobile of \$5.5m.

Income tax expenses were \$0.9m and the effective tax rate was negative 48.2% in the third quarter compared with the income tax expense of \$0.31m in the same quarter a year ago and income tax expense of \$0.06m in the previous quarter. The negative effective tax rate was primarily due to the loss before income tax as a result of the increased SBC expenses.

Net loss attributable to NQ Mobile was \$2.7m in the third quarter, compared with the net income of \$0.3m in the same quarter a year ago and \$1.9m in the previous quarter. The decline is mainly due to \$20.1m in SBC expense in the third quarter.

Non-GAAP net income attributable to NQ Mobile was \$17.4m in the third quarter, compared with \$8.1m in the third quarter of last year and \$15m in the second quarter.

Net cash flow generated from was \$22.2m in the third quarter, compared with \$6.9m in the corresponding period of 2012.

Cash and cash equivalents and term deposits together amounted to \$149.5m as of September 30.

Lastly, I want to discuss accounts receivable days as that's one financial metric that we have been focusing on improving and made good progress in this quarter. In the third quarter, our total AR days came down to 115 days from 145 days in the previous quarter, decreasing 20.7% sequentially.

Finally, let me provide our outlook. Looking forward, we expect net revenues to be in the range of \$62m to \$63m for the fourth quarter of 2013 and raised the full year 2013 net revenue guidance from the previously issued range of \$184m to \$188m to \$191m to \$192m.

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

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**Matt Mathison** - NQ Mobile Inc. - VP

Thank you, KB and once again, thank you all for joining us. Before we turn the call over to the operator to open up for Q&A, let me just summarize the key points of today's call.

Number one, operational results are tremendous, record revenues, strong operating margins, record cash flows, and DSOs declined significantly.

Number two, the platform strategy is working and we are poised for future growth. We saw a strong growth in the monetization of active users clearly shown in the premium user growth. We continue to expand our product offerings including music and audio based search and NQ Live.

Lastly, our Company is stronger today than it has ever been and the future is bright for the NQ Mobile team comprised of our employees, our partners, our customers and our shareholders.

Thanks, and Valerie, would you please open up the lines for Q&A?

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## QUESTIONS AND ANSWERS

### Operator

We will now begin the question and answer session. (Operator Instructions). Jiong Shao, Macquarie.

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**Jiong Shao** - Macquarie - Analyst

Good morning. Thank you for taking my questions. Good results. I have some housekeeping questions and some of the longer-term questions. Let me go one by one.



The first question is about your MAVs and the premium users. Could you give us a breakdown for the users in China and overseas? And somewhat related to that -- I have not seen your PPT slides yet. Could you talk about the segment revenue for your China mobile security and overseas as well as the mobile games in your MVAS business? So that's my first question.

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**Matt Mathison** - NQ Mobile Inc. - VP

Okay. Thanks, Jiong. I will give you the breakdown of the mobile value added Services for the third quarter and the changes relative to the breakdown.

So we've got -- the MVAS was \$26.9m as you know. Of that the gaming revenues were approximately \$5.7m and the security revenues were \$21.2m and of that, international accounted for about \$12.5m in revenue.

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**Henry Lin** - NQ Mobile Inc. - Co-Founder and Co-CEO

Yes, just roughly speaking, in China, the number of premium users is nearly two-third of the total premium users, and for international, one-third.

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**Matt Mathison** - NQ Mobile Inc. - VP

And that accounts for the total of [14.8m]

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**Jiong Shao** - Macquarie - Analyst

Okay, great. Thanks for that detail. And just to follow up on that, it looks like -- I think you highlighted it in your press release as well, your China Mobile security business saw some weakness quarter over quarter. Could you talk about a competitive landscape? Is that because there's just some of the free products out there putting pressure on this particular part of your business?

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**Henry Lin** - NQ Mobile Inc. - Co-Founder and Co-CEO

Yes, I think it's our platform strategy. It means we can direct the user traffic to more channels to monetize our user base. For example, we can monetize our user base not only from security subscription model but also through mobile advertisement and mobile games.

So we find it's a more important way to increase user ARPU and maximize the capability of monetization of our user base.

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**Jiong Shao** - Macquarie - Analyst

I see. So you are moving slightly away from the subscription based model to more monetizing the traffic.

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**Henry Lin** - NQ Mobile Inc. - Co-Founder and Co-CEO

Yes, it's more important. It's an enhanced business model. It means that we can have multiple channel to monetize our user base not only the security subscription models (multiple speakers).

And furthermore, we will add more monetization channels in the future.



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

So just to add on to what Henry just said. You've got to remember, Jiong, this was exactly the strategy we made out a year ago. So as we expand the monetization of our non-paying active user base, what you will see is we actually had an expansion in terms of the number of users that became premium users as a percentage of our active user base.

So it was up to 10% last quarter. That shows that we are doing a better job of monetizing our non-paying active user base and that really comes from the fact that you not -- you can't only just look at mobile security revenues as a monetization engine. You have to look at advertising and the cross-platform monetization mechanisms of how we are basically monetizing the remainder of the active user base.

And that is exactly what is working and that is what yielded the 14.8m premium users or 31% user growth quarter over quarter.

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**Jiong Shao** - *Macquarie - Analyst*

That's right. Okay, great. Thank you for that. That's a good segue into my second question, which is on advertising business. It is great to see doubling revenue quarter over quarter. Could you sort of put a -- give us some more details about how much of that business is from Feiliu and how much is from the other -- for example, security products and other products in your portfolio? And what are the other key drivers than what you already highlighted in your prepared remarks behind this tremendous growth?

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

Yes, great question.

So obviously, the \$11m which was that doubling quarter over quarter for advertising revenues was driven by the gaming side of the business and the security -- and other application side of the business. It has grown -- the gaming portion is \$4.7m and the remainder is \$6.3m.

So the gaming portion, as an example, grew from \$2.2m in the previous quarter to \$4.7m this past quarter and the remainder grew from \$3.3m to \$6.3m. And that is really driven by the gaming portion, obviously, would get added back into the Feiliu or FL Mobile revenues which was over \$10m for the quarter versus \$7.5m last quarter, if you look at it that way.

And then you know, the way to look at the monetization of the remaining part of the active user base is really it's coming primarily today from third party application referrals and connecting our platform partners and people who use our platform with our end-users. And that is really the testament to how we are opening up our user base to connect with advertisers.

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**Jiong Shao** - *Macquarie - Analyst*

Okay, that sounds good.

And then moving down to your P&L on your NationSky business. Could you please give us the breakdown between hardware -- between the products and the services?

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**KB Teo** - *NQ Mobile Inc. - CFO*

The product revenue is around \$11m and then the service revenue as reflected in our balance sheet is around \$4.3m.

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

And I think Jiong the great thing to take away from that breakdown of hardware at 70%, software and services at 30%, and I said this on previous conference calls, is that the hardware revenues and what's going through our channels from a hardware perspective is an excellent leading indicator of the ongoing strength of the software and services revenue of the business.

So as we engage with larger and larger customers such as the AnBang Insurances of the world, that's what gives us the ability to generate ongoing software and services revenue. So when we look at the business, to me, I look at that as an extremely positive health indicator of what sort of software and services revenue are to come in the future.

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**Jiong Shao** - *Macquarie - Analyst*

Okay. Thanks for the additional color.

Could you also talk about how much of the revenue from NationSky is from the MDM-related businesses?

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

So that is what -- it's captured in the software and services portion. Obviously, Jiong, so that is what's in that -- in the \$4.3m or so that -- it is part of the \$4.3m that he mentioned.

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**Jiong Shao** - *Macquarie - Analyst*

Okay. All right, thanks. Another financial question is on your DSO. It is great to see, again, DSO has gone from 145 to 115, quarter over quarter. Could you elaborate a bit on the drivers behind that? Where did you achieve the most improvement? Is that China; is that overseas? What are the regions; what are some of the reasons behind that improvement?

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**Matt Mathison** - *NQ Mobile Inc. - VP*

Hi, Jiong, this is Matt. I will answer that question. There were two key drivers to the DSOs declining. First, in our international and overseas business, which we have highlighted in the past, as really having the highest collection times, we based it on our channel reconditioning efforts. We had a great collection quarter and that drove, you know, the largest improvement in the DSOs.

The second area was in China, in our China business and really just from a business mix and the growth of our NationSky business, our gaming and advertising business. This business mix is having a positive impact on our China DSOs as well. So those were the two key drivers.

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**Jiong Shao** - *Macquarie - Analyst*

I see. So the mix change probably will continue. But for the international business, do you feel like -- now, the level is the new norm or we should continue to expect the further improvement from this point on?

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**Matt Mathison** - *NQ Mobile Inc. - VP*

I mean it's -- you know, we are in the process of reconditioning the channels and then obviously, you know, it's always -- there is always an ebb and flow. But you know, we've done -- I think, I want to congratulate the team on the job that they have done on working with international distribution partners, retailers, distributors for working on collections and the cash to cash cycles. So I mean -- I think just stay tuned.



**Jiong Shao** - *Macquarie - Analyst*

Okay, great.

My last question before I pass the mike to somebody else on the phone is on your acquisitions. I think you announced three small acquisitions in your press release in the last few months. Could you elaborate a bit on the -- what these companies do exactly? Why you're buying them and are they bringing any revenues or customers? Any additional information would be helpful. Thank you.

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**Will Jiang** - *NQ Mobile Inc. - VP, Strategy*

Hi, Jiong, this is Will. So all acquisitions that we have announced will have continuously accretive impact to our financial performances in the short run and in the long term.

We are actually executing these acquisitions based on our platform strategy that was laid out at the end of last year. And we believe each acquisition will play a very important role going forward in our platform strategy. Specifically, Best Partners and Fanyue would expand our user acquisition in both online and offline channel in China, while Tianya and Best Partners would also add to our advertising monetization capability as Henry mentioned earlier to expand our monetization capability.

We have also completed the acquisition of NationSky, especially the outstanding 45% that we didn't own in Q3 to accelerate the product synergy and security and enterprise mobility solutions.

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**Jiong Shao** - *Macquarie - Analyst*

Okay, great. Thank you all. Great results, ongratulations.

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**Operator**

Mike Walkley, Canaccord Genuity.

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**Matt Ramsay** - *Canaccord Genuity - Analyst*

Yes, thank you. Good morning. This is Matt Ramsay on for Mike. He apologizes for being stuck on a delayed flight. Thank you for taking our questions.

I guess the first one I wanted to dig into is obviously the gross margin in the quarter was affected by the hardware sales mix from NationSky. In particular, not just the mix but the gross margin of those particular hardware products was down to -- I guess, a bit over 1% in the quarter. Maybe you guys can talk a bit going forward about two things.

One, what do you expect the hardware revenue to be or what is implied in the Q4 guidance as the driver of margins? And what the long-time margin of that hardware in the NationSky business could be because it has jumped around quite a bit. Thanks.

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**KB Teo** - *NQ Mobile Inc. - CFO*

So I think that is -- this is KB. I think let's address the decline in the gross margin this quarter. So essentially, it is really due to the -- you know, revenue -- the increased revenue contribution of the enterprise mobility business which has a lower margin.

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So if you look at the contribution of NationSky to our third quarter revenue, this has increased from 19% in the second quarter to 28%. So if we exclude the impact of NationSky, actually our gross margin is 23.3% in the third quarter compared with 74.6% in the previous quarter. And overall, the gross margin for NationSky in the third quarter is 24.8%.

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**Matt Ramsay** - *Canaccord Genuity - Analyst*

Okay, great. Thanks for that, KB, I appreciate that. I was just trying to get a sort of a going forward indicator of maybe what the run rate should be or what's implied in your Q4 guidance on a hardware sales level if that is a fairly material driver of the overall company gross margin going forward. So if you can talk, maybe going forward of what the right run rate is for hardware to assume in a model going forward as a driver of margins.

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

Yes, I think, if you take a look at, Matt, from a deals perspective, you know, we have been hovering around the same sort of 70/30-ish ratio plus or minus a handful of percentage points from a hardware versus software and services revenue.

And you have seen the gross margins, you know, hover in the mid-20s you know, for that business. I think the way to model it -- I mean, I think that you've got -- the growth is going to come, obviously, from a seasonality perspective. We know that the enterprise business is generally higher in the fourth quarter and that is something that we have been very transparent about.

And so it's really going to be a mix on -- from a blended margins perspective. You should -- I don't think you should expect, you know, I would say, appreciable differences in terms of mix of hardware and software and services. But so I think you've got the model -- I think the model itself is pretty consistent.

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**Matt Ramsay** - *Canaccord Genuity - Analyst*

All right, great. Thanks, Omar.

I guess the next question from us is around, I guess following on the previous caller's questions around the three additional acquisitions that you guys made in the quarter that are disclosed in the press release. [KB], are there any revenue or OpEx impacts implied in your guidance for Q4 from the three businesses that you acquired? Maybe you could sort of break that down for us if there's anything implied. And if not, I guess when would the revenue or cost impacts of those three additional acquisitions hit the model?

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

So you know, our guidance takes in -- for the fourth quarter, Matt, any revenue impact. And also from a margin perspective, we've continued to state that our business will continue to operate at 30% plus you know, net operating margin and takes into account the -- you know, the impact of any of those acquisitions from an OpEx perspective. You know, we are operating and the discipline we are using from an acquisition and investments perspective, Matt, is very similar to what we have talked about and it actually remains incredibly consistent.

We are doing things from a disciplined manner, when it comes to the transactions themselves being accretive. So you can expect, you know, the contributions of those to be factored in already into the guidance that we have given. And I think the way to look at the overall margin mix of the model that you and others probably have is just try and understand the mix between the enterprise and the consumer business in the fourth quarter.

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**Matt Ramsay** - *Canaccord Genuity - Analyst*

Thanks for that. That makes a lot of sense.

And I guess, the last question for us, maybe Omar, Gavin, you could elaborate a little bit more. I would appreciate what you guys discussed in your prepared remarks. But about the specific momentum in Latin America with the America Movil properties, any additional color you could give around attach rates or adoption rates or monetization rates of the early indications in Mexico would be really helpful.

I know you gave and discussed some metrics with smaller US points of sale and carriers in the past about introducing some of these products and what the attachments were. So anything that you can give on that would be really helpful.

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

Yes, hi Matt. This opportunity is obviously a big undertaking for us and for our partner. But we are seeing you know, really great results for Mexico. We are already there marketing across our full prepaid and postpaid base. But that is really a digital marketing acquisition technique.

What we are doing now is obviously, we're beginning to focus with the operator to launch on a pre-installed basis. Obviously, the pre-installed versus the digital marketing acquisition we expect, you know, good things from that type of a collaboration. And then broadening that opportunity, we are going to press on pretty quickly here to Brazil as we get to December and then preload on those devices and market.

You know the business for us is obviously going to be positive as we move towards more preinstalled. But obviously, everything at this point is a largely digital marketing acquisition base which is pretty consistent with what we see across other markets.

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

And just to add in, obviously, the revenues from -- one, the results, Matt, have been very, very exciting and promising both from our perspective and our customer's perspective. The financial results associated with our traction in those markets are and will continue to be reported in our financials. But we defer to our customer's policies in terms of sharing specific results when it comes to user metrics or broken down, you know, metrics from a regional or by a country by country basis.

I know you spend a lot of time in the telecom industry and you know that we are partnered with the carriers. So we defer to our partners from a metrics disclosure perspective if that makes sense.

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**Matt Ramsay** - *Canaccord Genuity - Analyst*

Thanks guys for that. And I think that is sort of the end of my questions for tonight. All the best in the continued ongoing efforts. And we look forward to hearing more about your future strategy in New York next week. Thanks.

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**Operator**

Fred Ziegel, Tokepa Capital Markets.

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**Fred Ziegel** - *Tokepa Capital Markets - Analyst*

Good evening or good morning, guys. Let me ask you one question on the inventory which went from I think a couple of hundred thousand in Q2 to 5m in Q3. I'm assuming that is BlackBerry/Apple products. And how far are in advance -- I guess my question is how much is that a near term leading indicator of what it drags along with service revenues?

**KB Teo** - *NQ Mobile Inc. - CFO*

So this is KB. Just to confirm that those actually are hardware that is being held by NationSky. And so you are right. You know, you could include some of the product -- including Apple products that is being held by NationSky.

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**Fred Ziegel** - *Tokepa Capital Markets - Analyst*

Okay.

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

Yes, and so -- and then, just as a follow up, Fred, obviously, you know, to me, one, this is a snapshot in time from a hardware -- from an inventory perspective. But hardware, remember, the larger the deals in the pipeline, and I mentioned this on the conference call in my prepared remarks, the deals that we have in our pipeline are -- to use verbatim, dwarf the deals that we have announced to date.

So the larger the deals in the pipeline, the larger the hardware components but also the larger the leading indicator of the hardware, of the service and software component that follow on from that.

So again, a very, very good leading indicator. Each deal varies from a lead time perspective depending on the customization required and the number of modules that we implement as well as the number of vertical applications that need to get implemented from an integration perspective.

So you know, each -- to be honest with you, each deal is somewhat unique in that respect.

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**Fred Ziegel** - *Tokepa Capital Markets - Analyst*

What is kind of the time frame if you have a customer A who buys X amount of Blackberries or iPhones [which is obviously] in your inventory number, and deployed. So when -- how quickly does that start to swing from a hardware revenue to a service revenue predominantly?

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**Will Jiang** - *NQ Mobile Inc. - VP, Strategy*

Hi, Fred, this is Will.

So I think, as Omar mentioned, there is always a lead-in period. Usually, it is about a couple of months up to a couple of quarters. Really, it's a case by case, very unique to each situation. But I would like to correct you. Really right now most of the NationSky sales are focused on Apple and Android platform. Blackberry has been a legacy service that we offer. It's still ongoing. But we've [ever since] refocused to our Apple and Android. Thank you.

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**Fred Ziegel** - *Tokepa Capital Markets - Analyst*

Okay, thank you.

And if you think about what you are trying to do longer term and I guess in technology that is like tomorrow, but maybe over the next two to three years, if I think about it in three buckets between mobile security, advertisers and NationSky, what do you think that mix looks like in a couple of years?

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

That's a good question, Fred. I think we've had this discussion. It's -- I've got three kids, it's like trying to pick -- when somebody asks me who your favorite kids is, it's like picking between your three kids and naming the favorite.

I mean NationSky as an enterprise business, you have seen quarter over quarter, and year over year, the tremendous growth that we are seeing there.

The pipeline is extremely strong when it comes to the enterprises that we are doing business with. And it is still pretty early stages, Fred, for enterprise development and deployment in China. I mean one of the key factors that I think is really important when you think about Greater China and some of the other emerging markets that we can expand to over time is that they are skipping the PC generation altogether from an enterprise deployment perspective. So we're going straight to mobile and that is a great tailwind for us from an enterprise deployment perspective.

If you think about the gaming and advertising business, I mean, today, gaming is still probably the single largest monetization engine on mobile from a consumer perspective. And given the secret sauce that FL Mobile has in terms of both identifying operating and optimizing games for play, as well as for user acquisition, it is something that has worked extremely well which is why partners like TenCent and Perfect World and others have continued to double down on FL Mobile from a partnership perspective.

The security business, I think, you know, we've got some pretty good tailwinds in the international markets both from a Latin America perspective as well as from a -- you know, just from the partnerships we are doing to support the security business and global markets.

So you got to layer in all of those growth opportunities, Fred. I think that you know right now, NationSky is firing on all cylinders. You're going to see tremendous impact from the NationSky business over the next several quarters from a growth perspective. Advertising and gaming are continuing to grow at a very, very fast clip.

And the international security business as we ramp with carriers and partners around the world will continue to grow. And we haven't even factored in, by the way, Fred, NQ Live which I think will actually put some -- call it jet fuel into the advertising bucket because it's a new modality of how consumers can integrate and -- sorry, interact with the content partners that we've got.

So that is a question I have a difficult time answering just the same way I have a difficult time picking my favorite of my three kids.

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**Fred Ziegel** - *Tokepa Capital Markets - Analyst*

So when you think about what you are trying to do going forward, is it more around the addressable market? So if I think about NationSky as an example with margins blended in the low 30s, are you more inclined to be looking at [TAMs] from a revenue perspective and margins will be what they will be?

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**Matt Mathison** - *NQ Mobile Inc. - VP*

Hey, Fred, this is Matt. Again, we have consistently stated we are a company in hyper-growth mode. We are obviously going to take advantage and focus on growing. But we are going to do that and obviously, keep in mind, the profitability behind it. We have committed to keeping our operating margins in the 30% range as we do focus on accelerating our top line growth. But you know, that is where our focus is.

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

Yes, I think you can see, Fred, from just the operating results that we've had and we've said this in the past quarters that we see the opportunity from a revenue perspective to invest in the business as a percentage of revenues.

We don't feel that we are in the mode of having to invest in the business ahead of revenues. So I think we can keep our leverage in our business model at this point.

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**Fred Ziegel** - *Tokepa Capital Markets - Analyst*

Okay guys, thanks.

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**Operator**

Jun Zhang, Wedge Partners.

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**Jun Zhang** - *Wedge Partners - Analyst*

Thanks for taking my questions. Congrats on the strong results.

My first question is I want to ask about we all know many investors went to your company to do a lot of the groundwork and due diligence work. I'm just wondering how is the auditing progress going before the Q3. And did the PWC become more strict on some auditing progress? Thanks.

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

So, thank you, Jun, for the question. You know, just to talk about -- you know, I think there are two parts to your question. Obviously, you know, we have had multiple investors/third parties come to Beijing to visit us to sort of look under the hood and continue due diligence. We are working with them closely and opening up everything that they have been wanting to see. And as you probably have gotten feedback, that process is going along very well.

From an auditor perspective, obviously, you know, we have been working -- we have been working, we work very closely with PWC. Their processes are very stringent, very robust, and very disciplined. And they continue to be that way and partnered with us and worked with us very, very closely in their normal stringent processes to help us close the corridor and get our results announced on time. And obviously, we reported record results today even during the course of this increased scrutiny and the events that have happened over the last couple of weeks. So we work with them very closely and their processes remain extremely strict and stringent.

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**Jun Zhang** - *Wedge Partners - Analyst*

Okay, thanks. And so my second question is about advertising business. So what's the gross margin looks like on those advertising side of the business? And also, should we expect this segment to be one of the main growth driver as you launch NQ Live in the next couple of months? Thanks.

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

Yes, so for the advertising business, obviously, it is in the consumer side of the business, Jun. And so it's rolled up and it is consistent with the consumer side of the business if you will.

You've seen that it's in the -- you know, the consumer side of the business is in the low -- in the mid-70s, the enterprise side of the business in the mid-20s. And the operating margins continue to be well over 30 in the consumer side of the business and so the advertising business is -- you know, blends into that business model very, very well.



And you know, as we go forward from an NQ Live perspective or other components of advertising, I think those operating models will remain consistent with the current margin structures that we've got in the consumer side of the business.

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**Jun Zhang** - *Wedge Partners - Analyst*

Okay. Should we expect the gross margin will gradually improve as there's software and advertising business growth in the next couple of quarters?

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

Yes, I think the way to think about the gross margin specifically -- and I just want to make sure we are very clear, right? We are managing the business to net operating margins. And just going back to the gross margin question specifically, the consumer side of the business operates you know, let's say in the mid-70s. That is really driven by two factors, right?

One on the consumer side of the business, our security business has operated at or above or at or around 80% gross margin. The FL Mobile side of the business has operated, you know, closer to the -- let's call it the mid-50s and for a blended margin in the mid-70s. And the reason that comes -- that works that way from an FL Mobile perspective is obviously, there is headcount and user acquisition costs that go above gross margin.

Now, having said that, the net operating margin which is what we managed to and what we incent our teams to, Jun, are extremely healthy, operating well above the 30% range. In fact, consumer side of the business, I believe, operated, you know, in the high 30s in the past couple of -- sorry, this quarter. And you know, for a blended operating margin in the low 30s for the entire business.

So we continue to focus our business on maintaining net operating margins at or above 30%. And that's really what the -- what we measure our teams on, what we incent our teams on and how we structure our business.

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**Jun Zhang** - *Wedge Partners - Analyst*

Okay, thanks. The last question is about -- so for the Q4, how should we look at the disruption of [Muddy Waters thing] affect your Q4 OpEx and other items in the income statements? Thanks.

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

So from a guidance perspective, you know, I will let also KB answer. But our guidance that KB gave earlier as well as what was included in the quarter, already factors in you know, obviously any or all known factors going into the quarter. So it's -- we are giving our guidance today and we're standing behind it.

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**KB Teo** - *NQ Mobile Inc. - CFO*

Basically you know --

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

Jun, just to circle back on the question about the extra cost, obviously, as we move forward with the independent audit and the special committee cost and things like that, we will be breaking those out as one time. And we will be providing more details as we get further along in the process.

**Jun Zhang** - *Wedge Partners - Analyst*

Okay, thanks. That's all my questions.

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**Operator**

William Huang, Barclays.

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**William Huang** - *Barclays - Analyst*

Hello, thank you for taking my call. I have a couple of questions.

My first question is about SBC which is about \$20m this quarter. Can you guys offer the rough breakdown between management salary versus the option revaluation?

And the second question is about your FL Mobile revenues. Can we know the top games revenue contribution this quarter?

And also, can you update us in terms of your overseas strategy? It seems like your first game launch is very successful in the US. And so what do you guys plan to do going forward to migrate your security users into game users and also further monetize the game revenues in international markets? Thank you. And I have some other questions.

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**KB Teo** - *NQ Mobile Inc. - CFO*

We'll first address the first question, SBC. So approximately \$8.2m of SBC was due to the re-measurement of a portion of our pool of equity and option awards that was previously granted. As a result, the stock price increased during the quarter. And then the remainder is due to vesting events, new grants, and performance-based grants relating to acquisitions.

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

And then just to answer the second part of your question, William, you know, from a games perspective, the MVAS, I think I mentioned this earlier, is about \$5.7m in the quarter. And I'm going to let Gavin talk a little bit about the international strategy when it comes to the gaming business.

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

Yes, so I mean, as we've already discussed, we've already taken first steps to globalize FL Mobile's reach internationally. We have launched, as we've explained, that one game, Gods and Dragons, in North America, specifically in Canada and the US.

For us, localizing, or sorry, globalizing games is not just about language pack changes. It really is about working with a developer to do things like changing game play, changing mechanics, social -- billing, integration, etc, for non-China markets.

I think the -- so far the effort has been a great success. We've been nominated for the best game in the mobile -- the Best Mobile App Award in 2013. We've consistently been rated 4.5 stars in the Apple App Store and we are about to go live on Android shortly.

You know, it's the first of many games in the pipeline that we're going to be bringing into North America. And we've got a good handle on a number of games, obviously from the China market that we think suits the profile for internationalization and we're going to continue to do that.

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**William Huang** - Barclays - Analyst

Okay. Well, back to game revenue. And can you share with us like if we just look -- like top five games, what is the overall contribution roughly speaking?

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**KB Teo** - NQ Mobile Inc. - CFO

On this question, the top five games contribute around 60% to probably 70% for -- to the gaming revenue for this quarter.

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**William Huang** - Barclays - Analyst

Okay. And I have two more questions. And on the security user side, we understand that a part of your users are actually using your white label products. Do you guys have some like maybe roughly breakdown how much of kind of the percentage of the user base are using like white label security products versus your in-house branded like NQ Mobile security products. Thank you.

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**KB Teo** - NQ Mobile Inc. - CFO

Yes, actually nearly 20%.

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**William Huang** - Barclays - Analyst

Okay.

The last question is like previously, you announced about our \$35m share buyback plan after the result. Do you still stick to that plan? And what is the roughly like the maturity date? Any update will be appreciated. Thank you.

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

So yes, thanks for the question.

Yes, I announced that obviously, the share buyback plan that we have in place is \$35m. In addition, we announced a management purchase on the open market using personal funds of \$3m. We remain committed to both in the open windows that we have ahead of us. So I think it's consistent with our effective and efficient use of capital.

In addition to that, obviously, I stated the Board and the management team are looking at every opportunity for efficient and effective use of capital and we are going to continue to do so.

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**William Huang** - Barclays - Analyst

Thank you. Congrats to a very solid quarter. Thank you.

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**Operator**

Ravi Sarathy, Citibank.

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**Ravi Sarathy** - *Citibank - Analyst*

Thank you very much for taking my question and congratulations on another very solid quarter. My key question really revolves around your vision for the NQ Live product, when can we expect to see an impact from that. And how you -- and what your vision for that product will be going forward in terms of user interaction and potential for different revenue streams there. Thank you.

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

Thanks for the question, Ravi.

Yes, it's three weeks ago today that we announced NQ Live but it seems like an eternity ago. But we are -- I can't tell you how excited I am about NQ Live. You know, it completely changes the paradigm of user interaction as it starts to monetize and engage users on a piece of real estate on the home screen that has never been done before in a way that we are doing.

And what I can tell you is that as we head forward in terms of the vision for, we are opening up that platform to third parties and partners whether it be third party content developers, advertisers, carriers, OEMs. We've got interest across the board from every single piece of that value chain or ecosystem.

And really, you know, the primary mechanism there is really advertising you know, when it comes to the monetization schemes that I believe that will result in financial benefit both for us and our partners.

In addition to that, it is a platform so there's platform service revenue capacity from it as well. And the final piece of it, obviously is premium content that can be delivered via the platform as well.

And so as an entry point for our partners, they have existing assets in mobile whether it be mobile browser or website and or mobile applications. And it really starts to take users back into content and applications that are already being supported by our partners.

And just from a financial contribution standpoint, you know, I think that as we head forward, it's really, you know, in the early days, it's about gaining traction; it's about gaining a user base, and it's about gaining engagement. And then monetization will obviously be a big part of the equation you know, I would say, you know, in the next fiscal year. In 2014, we should start to expect NQ Live to start to contribute to our -- both our top line and bottom line.

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**Ravi Sarathy** - *Citibank - Analyst*

Thank you very much and congratulations again on a very, very solid quarter and some great strategic developments. Cheers.

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

Thanks, Ravi.

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**Operator**

Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you for participating. You may all disconnect.

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