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#### Henry Yu Lin

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### **Mark Murphy**

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### **PRESENTATION**

# Operator

Good day ladies and gentleman and welcome to the second quarter 2011 NetQin Mobile Inc. earnings conference call. My name is Keisha and I would be your operator for today. At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session.

(Operator Instructions)

I would now like to turn the conference to your host for today Mattan Lurie, please proceed.

## Mattan Lurie - NetQin Mobile Inc.

Hello everyone and welcome to NetQin Mobile Inc. second quarter 2011 earnings conference call. The Company's earnings results were released yesterday and are available on the Company's IR website, ir.netqin.com as well as on newswire services.

Today, you will hear opening remarks from Dr. Henry Yu Lin, NetQin's Founder Chairman and CEO followed by NetQin's Chief Financial Officer; Suhai Ji who will take you through the Company's operational and financial results for the second quarter of 2011 and give guidance for the third quarter and full year of 2011. After their prepared remarks, Dr. Lin, Mr. Ji and NetQin's Chief Strategy Officer, Will Jiang, will be available to answer your questions.

Before we continue; please note that the discussion today will contain certain forward-looking statements made under the Safe Harbor 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.



NetQin does not assume any obligations to update any forward-looking statements except as required under applicable law. Also, please note that some of the information to be discussed includes non-GAAP financial measures as defined in regulation G. The most directly comparable US GAAP financial measures and information reconcile these non-GAAP financial measures from NetQin's financial results prepared in accordance with US GAAP are included in NetQin's earnings release which has been posted on the Company's IR website at ir.netqin.cn.

Finally, as a reminder, this conference is being recorded. In addition, a webcast of this conference call will be available on NetQin's investor relations website. I will now turn the call over to NetQin's Founder, Chairman and CEO, Dr. Lin.

### Henry Yu Lin - NetQin Mobile Inc. - Chairman, CEO

Thank you, Mattan, and hello to everyone on the call. I am pleased to inform that we have again delivered strong results in second quarter of 2011. Achieving the cost, net revenues as we continue to execute on our company's gross cashes, the [Federal avenues] that I would like to highlight for the past quarter and year-to-date.

We successfully completed our IPO on the New York Stock Exchange in May raising about \$18 million in net proceeds. We now have a very strong balance sheet with almost \$120 million in cash and internal deposits and zero debt. This gives us the financial strength and the ability to fund our future goals, but more importantly our IPO increased our international liquidity significantly and enhanced our brand image and credibility.

Right now liquidity creates a great platform to expand our business globally. Second, we continued to make progress in marketing and business investments in this space. We recently announced two new strategic partnerships with Telefonica and MediaTek to offer our great mobile security services to their customers.

Telefonica and MediaTek's decision to partner with NetQin is a strong testament to quality and integrity of our services and our commitment to providing the best available protection for smart phone users globally. These two deals also demonstrate our ability to execute our ongoing strategy to strengthen and diversify our relationship with leading players in the mobile ecosystem.

We will continue to devote resources on our marketing and business development efforts; for example, we recently hired a senior industry professional, Mr. Chris Stier from Motorola mobility to lead our operations in the Americas. We will continue to build our international team for global expansion. In China, where we are more established. We also started a marketing campaign in tier 1 cities for indoor LCD screens and bus media in efforts to enhance our brand image among mass consumers.

Third, we continue to stay in the forefront of the mobile security industry and our technology leadership was recognized through a number of distinctions in the second quarter both in China and abroad. For example, NetQin mobile anti-virus was the first application certified by China's anti-virus product testing and certification center, Which is the only antivirus product testing organization approved by the Chinese government. And our android mobile security application, Mobile Antivirus 4.8, achieved third party Checkmark Certification from West Coast Labs which is a global leading security system for information security products and services. West Coast Labs granted the certification after extensive anti-malware testing which included NetQin's successful detection of 100% of the viruses in the testing simulation.

Lastly the second quarter also marked an important milestone for NetQin as our registered user accounts exceeded 100 million. This achievement not only maximizes the value of NetQin's products for extending user base, but also speaks to a strong growth momentum in the mobile security industry, as consumers are increasingly recognize the need for mobile protection in their mobile devices; a trend that will continue to benefit NetQin.). We also launched NetQin mobile security 5.0 for android and Symbian operating systems. Which resulted in a record number of active and user accounts during the quarter.



Looking forward we will continue to execute our global growth strategy, and expand our leading position in the mobile security and productivity services market. We feel that our international growth will succeed based on our chance of our product offering, our strong R&D capabilities and our innovative training business model.

Now I would like to turn the call over to our CFO, Suhai.

#### Suhai Ji - NetQin Mobile Inc. - CFO

Thank you Henry and hello to everyone in the call and thanks for joining. Please note that unless stated otherwise all the numbers that we discussed today are in US dollars. In the second quarter, we once again saw robust growth in both our operating and financial metrics.

First regarding our operating metrics, we reached new highs again in all three set of numbers that we disclosed. Our cumulative registered user accounts were about 103 million at the end of the second quarter of 2011 compared with 50 million at the end of the second quarter, so that is about 103% year-over-year growth and 20% sequential growth.

The breakdown between China and overseas user account are now 65% in China versus 35% overseas compared to 71% in China versus 29% overseas at the end of the second quarter of 2010 and 67% versus 33% at the end of the previous quarter. Our average monthly active user account was 36.4 million at the end of the second quarter compared with 17 million for the second quarter of 2010 and 30.3 million in the previous quarter, that is about 114% year-over-year growth and 20% sequential growth.

Active user accounts continue to make about roughly 35% of the registered user accounts. So the breakdown between China and overseas were active user accounts are about the same as registered user accounts. Our average monthly paying user accounts were 4.2 million at the end of the second quarter compared with 1.9 million for the second quarter of 2010 and 3.7 million in the previous quarter that is about 121% year-over-year growth and 16% sequential growth.

The breakdown between China and overseas paying accounts are now 72% versus 28% compared to 75% versus 25% for the second quarter last year and 77% versus 23% for the previous quarter. So, it is obvious that our overseas paying users now account for a greater proportion of the total paying users and the conversion ratio from active to paying users remained roughly constant as last quarter at about 12% on the overall basis while we see a slight sequential decrease of conversion ratio over China users from active to paying from 14% to 13% and a slight sequential increase for overseas conversion ratio from 8.4% to 9.4%.

The strong increase in our user base was again driven primarily by the growth in the smartphone industry and the proliferation in mobile internet applications including mobile security and productivity products. It also reflects our ability to establish the effective user acquisition channels and the deliberate user friendly innovative products to drive user adoption.

We are now moving on to the financials. Total net revenue in the second quarter were \$8.9 million an increase of 147% from \$3.6 million in the same period in 2010 and 16% from \$7.6 million in the previous quarter. The significant year-over-year and sequential increases in revenues were mainly due to the strong growth in revenues from premium mobile internet services and revenues from other services.

Net revenues; from premium mobile internet services in second quarter was \$7.7 million up 148% year-over-year and 17% sequentially. The increases were primarily due to the strong and steady growth in the number of paying user accounts which reflected growth in the number of registered and active user accounts as well as increased use of our premium services particularly among our overseas paying users of overseas paying user accounts which generate a higher subscription rate.



Revenue contribution from overseas users now accounted for 49.5% of total net revenues from premium mobile internet services in the second quarter that compared with 42.3% in the second quarter of 2010 and 45.4% in the previous quarter. Net revenues from other services in the second quarter were \$1.2 million up 144% year-over-year and 12% sequentially.

The increase was primarily due to the growth in revenues from secured downloads and delivery services for mobile applications produced by third party. Net revenue from other services as a percentage of total net revenue has remained relatively stable in the 12% to 14% range for the past five quarters.

Before moving on to the cost of revenues and operating expenses, I want to defer 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 measures are share-based compensation or SBC expenses. SBC expenses are included across cost of revenue and operating expenses on the GAAP basis, but are excluded to derive our non-GAAP numbers. Most of the SBC expenses are incurred in operating expense on our line items and we have included reconciliation table in our earnings release showing the detailed calculation.

Cost of revenues in second quarter was \$1.8 million up 71% year-over-year and 20.4% sequentially. The increases were primarily due to increased customer acquisition cost and higher staff cost from salary and head count increase. The SBC amount in cost of revenue is insignificant so there is little difference between GAAP and non-GAAP figures.

As a result; gross profits in the second quarter of 2011 was \$7.1 million of almost 180% year-over-year and 15.4% sequentially. Gross margin was about 80% in second quarter up from 71% in the same period in 2010 and remained relatively flat from the previous quarter. We expect gross margins to stabilize between 75% to 80%.

As stated in the previous earnings call of our first quarter results, the gross margin for our business has a lot to do with our revenue recognition policy and how we collect revenues from China and overseas users thus from analytical point of view. The management places less emphasis gross margin than our operating margin, especially the non-GAAP operating margin.

Now on to the operating expenses, for second quarter of 2011, second quarter of 2010 and first quarter of 2011. We recorded total SBC expenses of \$3.2 million, \$0.3 million and \$1.4 million respectively, of course the three operating expenses in line items. The larger SBC expenses in the second quarter this year were due to the granting of new share option and are restricted shares to qualified employees as well as the immediate backing on IPO in May, on certain options issued in the past, so for this reason and to make the quarterly comparison more consistent I would like to address the following line items on a non-GAAP basis which exclude SBC expenses.

The non-GAAP selling and marketing expenses decreased 5% year-over-year and 35% sequentially to \$0.9 million in the second quarter of 2011. The year-over-year decrease was primarily due to lower office related expenses, lower travelling and independent expenses and the lower marketing and advertising spending, partially offset, by higher staff cost.

The sequential increase was mainly due to lower staff cost, lower office related expenses and the lower travelling and independent expenses. Non-GAAP general and administrative expenses increased 188% year-over-year and 73% sequentially to \$1.5 million in the second quarter.

The year-over-year increase was primarily due to higher staff cost from salary and head count increase and higher legal and professional fees. The sequential increase was mainly due to higher legal and professional fees. Non-GAAP R&D expenses increased 59% year-over-year and 10% sequentially to \$1 million in the second quarter.

The increases were primarily due to higher staff cost from salary increase and to a lesser extent higher office related expenses. As a result, non-GAAP total operating expenses were \$3.4 million in second quarter of 2011 compared with \$2.1 million in the same period in 2010 and \$3.1 million in the previous quarter.



Non-GAAP total operating expenses as a percentage of net revenues amounted to 38% in second quarter of 2011 compared with 58% in the same period in 2010 and 41% in the previous quarter. Our non-GAAP operating income was \$3.7 million in the second quarter of 2011 up 727% year-over-year and 24% sequentially. Non-GAAP operating margin was 42% in second quarter of 2011 compared with 12% in second quarter of 2010 and 39% in the first quarter of 2011.

We expect to continue to enjoy this operating leverage as our user base grows further and scale up. For the second quarter we also recorded significant growth in certain below the operating line items such as foreign exchange gain and interest income, both on year-over-year and sequential basis.

We had a foreign exchange gain of \$0.4 million, primarily attributable to the appreciation of RMB against the US dollar when the portion of IPO proceeds were converted into RMB and are placed in bank deposits during the second quarter of this year. Our interest income was \$0.2 million, which was primarily due to the higher deposit position resulting from the May IPO proceeds.

Income tax benefit was \$0.02 million and the effective tax rate was almost zero in the second quarter of 2011, compared with an income tax expense of \$0.03 million in the second quarter of 2010 and an income tax benefit of \$0.01 million for the first quarter of 2011. The very low effective tax rate was primarily due to the preferential tax treatment enjoyed by certain subsidiaries of the Company and the reversal of deferred tax liabilities.

The net income attributable to NetQin was \$1.1 million in the second quarter, compared with \$0.1 million in the same period of 2010 and \$1.7 million in the previous quarter. Non-GAAP net income attributable to NetQin, which excludes share-based compensation expenses was \$4.3 million compared with \$0.4 million in the same period in 2010 and \$3.1 million in the previous quarter.

I would like to highlight that from the next quarter onwards (technical difficulty) --

## Operator

(Operator Instructions)

### **Unidentified Company Representative**

Everyone, thank you for your patience. We had some technical difficulties but we'll be continuing immediately.

#### Suhai Ji - NetQin Mobile Inc. - CFO

Hello, everyone. Sorry for the technical glitches and we are back on. So I think I was talking about net income when the line was cut off so I will pick it up from there. So the Non-GAAP net income attributable to NetQin, which excludes share-based compensation expenses was \$4.3 million compared with \$0.4 million in the same period in 2010 and \$3.1 million in the previous quarter. I would like to highlight that from the next quarter onwards, so basically from the third quarter, net income attributable to NetQin would be the same as net income attributable to NetQin's common shareholders given all of the Company's outstanding preferred shares were automatically converted to common shares immediately upon the completion of our IPO in May. So, the preferred shares will still have some impact on our financial statement, as you have probably already seen and noticed from the disclosure in the press release, but that impact would be totally gone beginning of the third quarter.

So, as a mobile internet company, our business is highly scalable and we enjoy significant operating leverage as seen from the preceding financial results, and to ensure maximum financial transparency, we have continued to disclose the full set of three financial statements, including the cash flow statement.



Our operating cash flow for the second quarter was a net inflow of \$3 million, compared with a net cash outflow of \$1.7 million in the same period a year ago, and the net cash inflow of \$2 million in the previous quarter. And our deferred revenue has also grown further to \$4.6 million this quarter from \$3.4 million at the end of the previous quarter. So that deferred revenue gives us better visibility and also more confidence into our future revenues.

Looking forward to the third quarter and beyond, we expect net revenues to be in the range of \$10.1 million and \$10.3 million, representing a year-over-year growth of 87% to 90% and quarter-over-quarter growth of 14% to 16%. For the full year of 2011, we are raising our guidance from the previously issued \$30.5 million to \$38.5 million to \$38.3 million to \$38.8 million, representing year-over-year growth of 116% to 119% from the previous year of 2010. We believe the company's business fundamentals remain as strong as ever and we've continued to execute to deliver solid financial results.

So, lastly, I just want to provide you with a bit more detail on the two mobile security deals that we have recently announced with Telefonica and MediaTek. So, they were both strategic framework agreement that gave us strong involvement from leading industry players. Our mobile security products have been launched and promoted in Telefonica's App Store and we would like to deepen the cooperation with Telefonica in the future with eventual goal of having our products preinstalled on handsets sold by Telefonica and potentially having our software bundled with Telefonica's services offered to its subscribers.

Under the framework agreement signed with MediaTek, our mobile security product will be endorsed and recommended by MediaTek through its large base of OEM handset customers. Although there is no terms between us and MediaTek and we will sign separate pre-installation deals with the OEM handset manufactures under agreed terms.

We are not in the position to quantify the financial impact from those two deals currently, but we believe both agreements are of great strategic importance for our company and enable us to better position ourselves in the mobile ecosystem. So, I will now hand the call over to the operator and open the line for

# QUESTIONS AND ANSWERS

### Operator

Thank you.

(Operator Instructions)

Our first question comes from the line of Mark Murphy from Piper and Jaffray, please proceed.

### Mark Murphy - Piper Jaffray - Analyst

Yes, thank you. Congratulations on the strong results. I noticed here looking at the financials, the deferred revenue on the balance sheet is very strong. Your gross margins are also ahead of our forecast for Q2. And I believe that both of those can potentially relate to your prepaid card business, among other factors. And so I was just wondering if you could provide, maybe, any additional color on the payment channel trends, specifically the prepaid cards in Q2?

### Suhai Ji - NetQin Mobile Inc. - CFO

Yes, thank you Mark for the question and I will address your question. Yes, you are right. The deferred revenue definitely is related to prepaid cards, but you know, more than that, deferred revenue for the last quarter went up significantly because not only the prepaid cards, but also the higher overseas revenue growth. And also in our overseas market, prepaid card is - for the



majority it is about [80%] of the payment channel by our overseas users. And also the minimum subscription period for those prepaid cards is a quarter, and then we have six months and also a year, so, all of those would generate deferred revenue.

As I mentioned earlier, you can see that our overseas revenue contribution has also grown to almost 50% of the total premium mobile internet services. So, that has contributed to a strong growth in deferred revenue, which is actually the money we already collected, but haven't recognized the revenue.

So that's the detail on deferred revenue. And also with relation to gross margin, I think I addressed that earlier on the call. Our second quarter gross margin is roughly the same as the previous quarter, so it is about 80%, and that margin compared to the same period a year ago, which is only 71%, and that also has had to do with; one, the prepaid card payment channel; and two, higher overseas revenue contribution and also a large portion of the overseas users actually paid through the prepaid card channel. So, going forward, we believe our gross margin will stay relatively stable around 75% to 80% as our payment channel remain in similar fashion. So that's how we look at our gross margin. I hope that I addressed your question in more detail.

### Mark Murphy - Piper Jaffray - Analyst

Yes, it does, it does. Thank you, Suhai. And my second question is on the topic of the android platform, I believe you have turned on the billing switch I think for the US android customers in Q3. And I am just wondering, first of -- if that's correct, and secondly, what milestone would trigger that? And is there any -- relating to that -- is there any early indication on the uptake of some of the paid products in the United States specifically?

### Will Jiang - NetQin Mobile Inc. - Chief Strategy Officer

Hi Mark, this is Will. I'll pick up this question. Yes, we did turn on billing in certain part of the US market, solely for pilot basis, but it's on a trial basis. We just wanted to see how the US consumers react to this premium business model. So far the results have been encouraging, by that we mean - we find that the US-based consumers have much more willingness to pay for services, meaning more of a better conversion rates.

However, we do not plan to turn on the full building capability in the US as of yet, because our primary goal at this stage is still to gain massive number of free users, to gain market share before monetization. So, right now our top goal is still to expand as quickly as possible, on android, the official Google Android market as well as third-party app source and also pre-installation channels. So, really free users are our key at this moment.

## Mark Murphy - Piper Jaffray - Analyst

Thank you Will; that's helpful. When you say you have turned on part of the billing in the US, can you give me just a one liner on maybe what part of it, you have turned and what part you have not turned on?

## Will Jiang - NetQin Mobile Inc. - Chief Strategy Officer

We have turned on, so for example, on carriers, we have turned on two of them and do a little bit of test, so basically AT&T and T-Mobile. We didn't have the Verizon yet, but we do believe that these are our, basically they offer a similar service and they address the same, the targeted customer base. So, we believe the conversion should be the same. And we only turn on certain regions, so basically in smaller cities not really the large cities, on a pilot basis. So, really this is all depending on the geography and also the carrier.



## Mark Murphy - Piper Jaffray - Analyst

Okay, got it, understood. And then my next question is, just on a high level, could you comment on the rate of malware proliferation on smart phones and obviously as part of that, I am interested in what you have seen on the android platform in recent months? I am just wondering is the malware out there on smart phones accelerating, decelerating, you know, holding steady. And are there any new types or varieties of malware, you know, is it getting increasingly malicious or not in recent months?

### Henry Yu Lin - NetQin Mobile Inc. - Chairman, CEO

Yeah Mark, it is Henry. I think in quarter two, our research team has identified over 2300 malwares based on android platform. So, this number is almost doubling the previous cumulative total number. As we have mentioned before in quarter one, we have found nearly 1,000 malware on android platform. We have seen the malware and mobile security problems based on android platform has been increasing very rapidly.

#### Will Jiang - NetQin Mobile Inc. - Chief Strategy Officer

I like to add to that Mark. So, basically as you saw in the news on Google official android market, not only once, but it occurred in two different instances where Google was forced to take down more than 50 applications from its app store due to malware infection. In which we believe more than 2 million users were infected directly from this official market.

Even more so, what we are finding in our study is that, specifically in China many third-party app stores are infected with malware as well. So, really this presents us the opportunities to the consumer to help them better fortify their smartphone and we do believe if applications are getting more malicious by the day. Really, by studying them we find that, a lot or most of them are still target towards privacy; identity theft as well as the malicious feeling and also other sort of mobile payment channel, mobile payment related activities. So, definitely we expect that trend to further tickering up going to the future. And this definitely gives better consumer awareness, for them to install mobile security on their devices.

# Mark Murphy - Piper Jaffray - Analyst

Okay, thank you that is very helpful. One last one for me, I think you mentioned in your prepared comments that you are going to be ramping up some of the marketing and advertising, in terms of generating consumer brand awareness? I think you are and I think you are referring to that within China? But, I was just wondering, if you could give us anymore details on that? How do you view this in terms of the ROI on this consumer advertising sense?

### Will Jiang - NetQin Mobile Inc. - Chief Strategy Officer

We believe it is very helpful. Yes as Henry mentioned in the statements, we actually did run a couple of marketing campaigns on indoor house LCD screenas well as on bus media's. So it definitely helped us to gain consumer awareness. In addition to that, we also launched a digital marketing campaign on Sina Weibo which is the China version of twitter. And, in fact, we generated over 6 million impressions in one week alone, through a campaign.

So, we definitely believe that these digital campaign as well traditional media campaign will help us gain additional users. So far, the feedback has been quite positive; in fact we did a customer survey right after our campaign finished. We noticed many consumers impressed our studies including Beijing, Shanghai, Guangzhou and Shenzhen perceived NetQin as a popular brand and also realised that NetQin have gained quite a footprint in mobile security and we believe this prove - bode well for our future business. So, yes in future quarters we will consider to deploy marketing exercises such as this to help further grow our user brand awareness.



Mark Murphy - Piper Jaffray - Analyst

Okay, terrific thanks again that's all from me.

### Operator

And our next question comes from the line Andy Yeung representing Oppenheimer, please proceed.

#### Andy Yeung - Oppenheimer & Co. - Analyst

Hi, good Evening, congratulations on another very strong quarter. I have a couple of questions. My first question is about monetization. There seems to be a slight drop in your paying users, as a percentage of active users in China. Just want to know, you know, what is driving that and if there is any relationship between the conversion ratio and ARPU.

#### **Suhai Ji** - NetOin Mobile Inc. - CFO

Yes Andy, I would just address your questions. I think again for the monetization, we have both China and overseas component. For China, we had a slight decrease from the 14% in the previous quarter to first quarter of 2011 to 12.8% in the second quarter this year and that was because in China the paying user account has both pay-per-use component and also subscription.

So, our pay-per-use account continues to decrease and that has caused our total number of paying accounts to decrease, you know. However, the upside for that is our subscription users, you know, the number of subscription users actually increased, especially the longer term subscribers, the monthly or the quarterly or even the semi-annually subscribers and that also contributed to a higher deferred revenue increase, because we have subscribers with longer term of subscriptions.

So, even though our ARPU for China remained relatively flat and that's because with the longer term subscribers they have lasted longer, we offered them more discounts. And that's why our ARPU in China has remained relatively flat, but deferred revenue actually increased. Then for overseas users, the conversion ratio actually has a slight increase from 8.4 in the first quarter to 9.4 in the second quarter and ARPU went from 3.46 to 3.24.

Overseas ARPU varies quite a bit, because depending on the countries, the markets where our paying users are. So, on a overall basis, you know, as the branded ARPU actually increased from 1.79 in the first quarter to 1.82 in the second quarter as the overseas proportion increased.

So as we continuously try to monetize on those longer paying term users and it reduced the pay user, the pay-per-use users in China, so this may potentially have an impact on the active to paying conversion ratio, but you know can see flip side is the deferred revenue has increased and also we have gained more traction from the users.

**Andy Yeung** - Oppenheimer & Co. - Analyst

Got it.

Will Jiang - NetQin Mobile Inc. - Chief Strategy Officer

And that would come as a trade off.



### Andy Yeung - Oppenheimer & Co. - Analyst

Okay, got it and then my next question is about your competitive landscape, have you seen any change in competitive landscape especially in the international market as you mentioned it become more important and it's growing faster for you? And how well is the premium model being received by the national user outside of North America, for example?

### Will Jiang - NetQin Mobile Inc. - Chief Strategy Officer

So, actually, android really represents strong growth in the end of the past quarter. This really, it's matching what we are seeing market as validated by various research reports showing that android right now, pretty much own 40% more than 40% of the mobile market share. So, this is also being showing our official Google android market download, also seeing that from the user feedback.

We also saw much more, many more positive ratings, ratings at five Stars to our app. So, yes we do think the growth in android is going to present us huge opportunities in the future. So, in terms of competitive landscape, in fact, we didn't notice any drastic changes in the competitive landscape, because what we are seeing is that the growth momentum in the industry to roughly matching, but we are still the strongest we believe.

And, we have also moved quite aggressively into the mobile eco system, by planning out more carriers and had the handset partners, for example the Telefonica deal marks a really a big milestone for us in the Europe, because we are the first and the only mobile security provider that find this deal with the top five carrier in Europe. And also the key agreement with MediaTek, it would give us a good exposure to a low cost android OEM's out there where they would probably most likely adopt the MediaTek reference design. And the Netqin mobile security is already included at the chip set level by the MediaTek to be recommended, we opt their OEM products.

#### Suhai Ji - NetQin Mobile Inc. - CFO

So, basically just to add, we do compete, I think we best compete by aligning ourselves with all those key industry players in the mobile eco system, that will position us better in the overall competitive landscape. Because, if you look at any other mobile security players, very few, if not none of them have actually done as a extensive, kind of, have those, have those kind of extensive relationship with many number of those players as we do. So, that is a key differentiator for us and also serves as a competitive entry barrier for our competitors.

#### Andy Yeung - Oppenheimer & Co. - Analyst

Okay got it. And then finally, I have a couple of book keeping questions, as Will mentioned, obviously android is doing very well in the international market and so what's the distribution of newer accounts by smartphone operating system for you in the second quarter of 2011?

### Suhai Ji - NetQin Mobile Inc. - CFO

We don't disclose this number in earning calls, but what we can say is that, right now android represents, definitely it represents as the strongest growing smartphone platform in our user base. Also, Symbian still presents strong growth, even though we are seeing a global shift in, a market share decline by Symbian, but we do believe the device is still being shipped quite a lot by Nokia.

In addition, as we mentioned in previous earning call that as a service provider, a mobile internet service provider really we are not seeing the impact from this downturn in Symbian. And, because we divide and platform agnostic really, the shift in momentum amongst smartphone platforms don't really impact us. And also, we also saw growth in Blackberry as well as iOS platform as



well as we released other products including mobile security for Blackberry, as well as SmartCalendar for iOS, which also saw good reception from the consumer space.

So, going into the future we are planning to release more products on the android and iOS platform. So really, we do believe in the upcoming quarters, by releasing more and more products in mobile security, mobile manager and other products on android and iPhone platforms. These platforms are have potential for further increasing our market share.

### Andy Yeung - Oppenheimer & Co. - Analyst

Got it and just one final question about SBC expenses and so there has quite been variation in the last couple of quarters, you know, going forward how should we model that for the rest of the year?

#### Suhai Ji - NetQin Mobile Inc. - CFO

Yeah, I think for SBC is because, we issued additional totaling about [5 million] in auctions and their restricted shares in June, so that has the impact and that wasn't expected, because we felt that was a good opportunity for us to grant options to our employees because at the time of the granting as we knew our share would have to be all time low, has a significant drop on the IPO price.

We thought it was deeply undervalued, so we decided to try to grant those share options which resulted in the higher SBC charges. And also there are some previous issued options that got immediately invested upon IPO, so just that generated about, you know, just one time kind of SBC charge for the second quarter, so we do not foresee that we will have a company-wide sort of option issue in the - at least in the next quarter or within this year other than issuing more options on restricted shares to you know the new employees that we will hire either at the senior level overseas or in China, because 100% of our employees hold all options. The option SBC expenses will definitely go down for the next two quarters and you should not see any further increase on the SBC expenses.

### Andy Yeung - Oppenheimer & Co. - Analyst

Great thank you for answering my questions.

#### Operator

And our next question comes from the line of Michael Walkley from Canaccord, please proceed.

### Michael Walkley - Canaccord - Analyst

Great, thank you, just wanted to dig into the MediaTek relationship a little more and congratulations on signing with them and they obviously support a vast number of handset OEMs, if your part of the reference design and at least to your software getting installed on handsets, obviously that is going to help the adoption rate for your solutions, but how does this impact may be gross margins will you share, you have a [fee] then you go back to MediaTek, if you get to business this time - understand the financial impact of this relationship, does it lead to conversion of pre-installing the handsets.

### Suhai Ji - NetQin Mobile Inc. - CFO

Yes, I think Mike, this I just want to elaborate a bit more on the term. There are actually no financial terms attached to this MediaTek agreement though basically that we would become they preferred partner so as to speak, so MediaTek when deals



with the OEM customers along with our chip that we would recommend or endorse you to pre load the Netqin software on the handset, then if the parties are out, we are interested in doing that then we would actually negotiate separately with the OEM customer to sign separate agreement pre-installation, so that is subject to commercial negotiation.

There is no money or revenue that of component to the agreement with MediaTek. However as you know in the future when mobile security become so important that even at the chipset level there may be some, we are not building our mobile security at the chipset level yet, but that is something that we intend to do in the longer term, so we do not have any set of tangible financial contribution in the immediate term, but we think this is the deal that of strategic importance to us and also better position us in the industry.

## Will Jiang - NetQin Mobile Inc. - Chief Strategy Officer

Also Mike, this is Will so just to clarify regarding what is regarding the MediaTek actually we are including the android, smart phone chips that reference design, so really not relating to any of their traditional chips they used to make for 2.5G, so it is really relating to the 3G and your chips that are releasing this year and the next, so we do believe yes because many smaller second tier or third tier handset OEMs - of the reference design as the way of standard phone design, so really just definitely gives a exposure to further acquire number of users and as Suhai mentioned the commercial arrangements will have to be negotiated separately with the OEM makers.

#### Michael Walkley - Canaccord - Analyst

Okay, thank you and Will, can you remind me when you have this agreement, it is a fee just a one time fee with these OEMs or is it a kind of you share revenue based on a conversion rate to paying customers.

### Will Jiang - NetQin Mobile Inc. - Chief Strategy Officer

Really this will be case by case subject to different OEMs, (inaudible) so it really just depends on the OEM manufactures.

### Michael Walkley - Canaccord - Analyst

Okay great and can you remind us just - this with the android ramping, you have some other agreements with the OEMs is there any update may be on new partnerships with existing OEMs outside the MediaTek eco-systems.

# Will Jiang - NetQin Mobile Inc. - Chief Strategy Officer

Actually yes, we did have pre-installation agreements with the likes of Sony Ericsson, Samsung, HTC and Huawei on different models in previous quarters and we do believe we are going to sign up more and more handset makers going to the future through working with OEM directly or through carrier deals such as Telefonica going to the future.

## Michael Walkley - Canaccord - Analyst

Okay great thank you, and Suhai, just a couple of questions to help out with the model here, what you expect the share counts to be for the first full quarter oppose the IPO just to help is modeling share count going forward.



#### Suhai Ji - NetOin Mobile Inc. - CFO

Yes, actually, I am glad you asked that question because there is some confusion over the number of shares outstanding from the financial statement, because that was calculated on the weight of average basis for the second quarter than for the first half of the year, before the IPO we have a large number of preference shares, though all of which were converted to common shares right immediate after the IPO, so after the IPO we have a total share of about [229.1 million], in terms of number ADRs, it is five common shares for ADR that is about 45.82 million ADRs, that includes the number of options that have been exercised.

In addition to that, we also had 19 million options, not yet exercised and also in the second quarter we issued five million additional options. So on a fully diluted basis in addition to the 45.82 million ADR right after the IPO, we have additional 24 million common shares for all 0.8 million ADR, so the total on a fully diluted basis around 50.6 million but keeping in mind, those newly issued 5 million options progressed typically over four years period along with the other remaining 19 million options, so only less than a quarter of that will be due by end of next year. I think we will be somewhere between 46 and 47 towards the end of this year in terms of total share count, is that clear to you?

#### Michael Walkley - Canaccord - Analyst

Yeah, that is clear thank you and just on the tax rate, how should we - is still the 7.5% the best tax rate to you going forward.

#### Suhai Ji - NetQin Mobile Inc. - CFO

I think for 2011 for the remaining, reminder of the year for the second half of the year; I think we are still going to continue to do enjoy certain tax benefits enjoyed by our subsidiaries and also continued to have a reverse of the tax liability. So for the remainder of the year, I think 7.5% will be very conservative. We probably would be going the effective rate could be even lower than that and for 2012, in our model we think 10% would be reasonable, the effective tax rate but to be conservative, putting like 15 and I do not think we would go beyond the 15% of 2012.

## Michael Walkley - Canaccord - Analyst

Okay great. That's it from here; look forward to seeing you guys next week and congratulations on the strong result.

Suhai Ji - NetQin Mobile Inc. - CFO

Thank you.

#### Operator

(Operator Instructions)

And our next question comes from the line of Eddie Long representing Merrill Lynch, please proceed.

#### Eddie Long - Merrill Lynch - Analyst

Hi, good evening to you all guys, thank you for taking my questions. The first question is about how is your operating margins, quantitatively I am wondering if Suhai could you share with those on your thought on operating expenses and your margins in the medium term, given on one hand, you guys have operating leverage, on the other hand you have also entering a lots of overseas markets and perhaps I guess you with running operation in some higher course areas, so if you can share with us your thought, that would be very helpful thanks.



Suhai Ji - NetQin Mobile Inc. - CFO

Thanks, Eddie that is a good question, actually, I think we really reached our subtle inflection points, now we our user baselast year, that is the time when we just started to enjoy the operating leverage that is why our operating margins have gone up substantially versus a year ago.

But from the first quarter of this year to second quarter of this year, our non-GAAP operating margins increased slightly from 39% to about 41% for the second quarter and going forward you brought a very good point, while we can continue to leverage the scale but also as we enter into different new markets we would incur higher cost in marketing and selling expenses for example in this past month we started a marketing campaign in China as we mentioned earl on elevated screens but media how we will lead into the margin, we will bear that in mind and we want to keep our balance between the marketing spending and also in keeping healthy margins and in different markets our marketing strategy would be also a bit different.

Going forward at least for the immediate couple of quarters, I feel confident that we can still keep the margin at a current level or even slighter to the exceeding the current level while incur, we still have the flexibility to do the necessary marketing that we need to do in those new markets, that is more - did I address you question? Hello.

### Operator

You line is still open at this time.

Suhai Ji - NetQin Mobile Inc. - CFO

Okay, I am not sure whether Eddie is still on. Eddie are you still on?

### Operator

He has removed himself from the queue.

Suhai Ji - NetQin Mobile Inc. - CFO

Okay.

### Operator

(Operator Instructions)

At this time we have no further audio questions in the queue, I would like to turn the call back over to Mattan Lurie for closing the marks, you may proceed.

Mattan Lurie - NetQin Mobile Inc.

Thank you very much. Well if there are no further questions at the present we would like to conclude by thanking everyone for joining us on the call and we welcome you to reach out to us directly by emailing investors@netqin.com should you have questions or request additional information. This concludes NetQin earnings call.



## Operator

Ladies and gentlemen, that concludes today's conference, thank you for your participation. You may now disconnect and have a great day.

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