Third Quarter 2010 Earnings Conference Call

November 5, 2010

Operator: Good day, everyone. Welcome to the NIVS IntelliMedia Technology Group third quarter 2010 Financial Results Conference Call. At this time all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference please press star zero on your telephone keypad. As a reminder, this conference is being recorded.

At this time, I would like to turn the call over to Landon Barretto of Barretto Pacific [Identify what his relationship is to the Company] for opening remarks and introductions. Please go ahead, sir.

: 突出显示

Landon Barretto: Thank you, everyone, for joining us for the NIVS IntelliMedia Technology Group's third quarter 2010 Earnings Call. With us today are Tianfu Li, Chairman and Chief Executive Officer; Jason Wong, Executive Vice President; and Alex Chen, Chief Financial Officer and Corporate Secretary. Before we get started, I'm obligated to read the Safe Harbor statement regarding today's conference call.

During this call management may make forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial conditions or results of operation implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's most recent report Form 10K filed with the U.S. Securities and Exchange Commission and the Company's other filings with the SEC.

At this time I would like to turn the call over to Jason Wong. Jason...

Jason Wong: Thank you very much, Landon. Welcome to our third quarter 2010 Earnings conference call. Today we will discuss our financial results, recent developments and our strategic plans.

删除的内容: talk about

Before we get to the details of our third quarter 2010 financial results, allow me to share with you highlights of our achievements during the quarter.

In our previous earnings call I outlined our key objectives for 2010. They were:

(1) – to expand our brand awareness, specifically our new mobile phone product lines;

删除的内容: Number one

(2) – to increase our sales and marketing activities, broaden our distribution channels and establish relationships with additional mobile telecommunication carriers in China; and,

删除的内容: Number two

删除的内容: and

删除的内容: And,

(3) – to improve our balance sheet and enhance internal controls

删除的内容: Number three

I am delighted that during the third quarter of 2010, we were able to successfully execute on these objectives and at the same time achieve solid growth in revenue and profits. Our third quarter revenue grew to $84.5 million, and our gross margin was 20.5%. Our operating income grew 13.3% YoY, and our net income grew 7.6% YoY.

In addition to our strong financial performance, our first 3G mobile phone handset contract under our own NIVS brand name was completed in the second quarter for China Telecom, with all the revenue realized in the first and third quarters. Another contract from China Telecom in April this year and the "World Expo Limited Edition" 3G Android mobile phone handsets were also completely delivered by the end of October 2010. We are awaiting awaiting approvals from both China Mobile and China Unicom as approved suppliers and if approved, we expect that such designation will further enhance the overall performance of our mobile phone business.

In addition, NIVS was recognized as the top computer peripheral speaker supplier by GOME Electrical Appliances Holding, one of the largest privately owned electrical appliance retailers in mainland China and Hong Kong. In the six-month period beginning in April of this year NIVS' computer peripheral speaker contributed to 12% of GOME's sales in that category. We view our continued relationship with GOME as the positive recognition of our brand by an industrial player.

删除的内容:

删除的内容: I am also very pleased that we achieved solid growth in revenue and profits in the third quarter of 2010. Our third quarter revenue grew to $84.5 million, and our gross margin was 20.5%. Our operating income grew 13.3% YoY, and our net income grew 7.6% YoY.

删除的内容: O

删除的内容: for China Telecom

删除的内容: periodss respectively

删除的内容: this year

删除的内容: The

: 字体: Times New Roman, 四号

删除的内容: approval of vender qualification for China Mobile and China Unicom was still in progress and we believe the recognition of that status in the near future will further enhance our mobile phone business performance

: 两端对齐

删除的内容: The

删除的内容: indicates the

删除的内容: recognition from

This the third quarter since our acquisition of Dongri, which we believe not only enhances our cell phone manufacturing capability, but also contributes stable revenue to our mobile phone business from Dongri's stable and loyal OEM customer base. By combining our strong R&D capabilities and Dongri's professional manufacturing strengths, we intend to provide ODM projects to our existing South East Asia and Middle East Carriers to further improve our gross and net profit margins. We are ready to move forward, and with our own license, and sizable manufacturing facility, we believe that we will be able to speed up market entry for such handsets under our NIVS brand name.

删除的内容: after the

删除的内容: this cell phone SMT factory

删除的内容: their

We continued to improve our internal controls to comply with SOX requirements, and also continued to work with Protiviti Inc.'s Hong Kong office for the second year. We are planning to have the SOX improvement test in December. According to the new legislation, NIVS is not required to have our auditor prepare a SOX report this year, therefore after the test is conducted by Protiviti, we'll have another half year for the third trial run of the new internal control procedures. We're confident in our ability to abide by the internal controls required to fulfill our Sarbanes Oxley requirements. As a recognition of our strong internal controls, NIVS was granted a Triple A credit rating from the China Export & Credit Insurance Corp for the third consecutive year, reflecting our excellence in business operations, credit worthiness and internal risk management.

We're very satisfied with our third quarter 2010 performance, and believe the combination of our growing brand, distribution networks, and portfolio of innovative products will provide our operations with strong momentum for the remainder of 2010.

删除的内容: s

删除的内容: balance

At this point, however, let me turn the focus to our third quarter 2010 financial results. Afterwards, I will return to discuss our recent developments and our strategic plans.

Driven by our successful integrated marketing campaign and new product launch, our revenue, profit margin, net income, and cash flows all posted solid growth during the quarter.

3Q 10 Financial Results

Revenue: In the 3rd quarter of 2010, total revenue grew 59.7% to $84.5m when compared to $52.9m from a year ago, and it was an 8.8% increase compared to the previous quarter's $77.6m . As for first nine month period, we achieved $236.1m in total sales compared to $123.1m last year's - a significant 92.0% increase. There are some metrics behind these revenue numbers I thought was worth explaining. They show some very telling stories of our business and the changes that are taking place and the role the new mobile phone unit plays for the company group.

删除的内容:

From the numbers I just stated, it suggests a trend of even growth for all quarters and across the whole year. Traditionally, the market demand for our main products of audio/video are seasonal and cyclical in nature and they are relatively weak in demand in Q1, better in Q2, strong in Q3 and strongest in Q4. This is because audio/video products are considered large household items in China and many of our overseas markets because our customers in these markets have to plan and budget for those products . Holidays are another important consideration for consumer purchases. In China all the important holidays seems to be concentrated more in the Q3 and Q4 periods which partially explains the seasonal characteristic of our audio/video sales. But since the acquisition of Dongri and the launch of our mobile phone business, this seasonal pattern has been

删除的内容: l

删除的内容: ,

删除的内容: and

删除的内容: countries that we sell to

删除的内容: purchased are considered a big household item have to be planned and budgeted for

删除的内容: people committing a

删除的内容: . This was partially the reason why

删除的内容: has this seasonal cyclical characteristic

删除的内容: cyclical

smoothed to a more even growth pattern across all quarters so that the Q1 and Q2 quarters are no longer weak. The reason for this stabilizing effect of the mobile phone business is because mobile phones are in high demand all year. The addition of the new mobile business to our group has the most obvious benefit of increasing our total sales but the even growth also helps us to better manage our workforce and improve our cash flows.

删除的内容: the past weak

删除的内容: Beside

删除的内容: the most obvious benefit of adding the new mobile business to the group that increase our total sales, there are a number of other benefits that are also important, for example, the

删除的内容: the

删除的内容: s

删除的内容: the

The following product sales statistics for the first nine months of 2010 further explain the structural changes of our revenue mix that is occurring right now to the Group and shows how fast and how big and positive a role the mobile phone business unit plays.

Mobile	69.0	29.2%
Intelligent	77.9	33.0%
Standard	48.9	20.7%
Others	40.5	17.1%
Total	236.3	100.0%

During the first nine months of the year mobile phone sales are already the second largest revenue contributor to the Group after the Intelligent audio/video product category and the gap between them is relatively small. As a result, we expect that that mobile phone sales will eventually overtake the Intelligent audio/video product sales and become our No.1 best selling product. Hand it not been for the relocation of Dongri during the third quarterwhich caused some disruption to production, we believe that the performance of our mobile phone sales would have been even stronger.

删除的内容: For only 9 months, m

删除的内容: biggest

删除的内容: , so it is not a leap of faith to start contemplatin

删除的内容: g

删除的内容: s

删除的内容: er

删除的内容: If

删除的内容: not

删除的内容: 3

删除的内容: the

删除的内容: performance

There has been high interest and expectations from our shareholders since the launch of the mobile phone business in January of this year, so I think it worth a little bit more time to spend on this area explaining this part of our business.

There has been no doubt from the very beginning that we see the alliance with large mobile phone service carriers as an important part of our business strategy and for that, we have secured sizable sale contracts and made the deliveries to China Telecom in Q1 and Q2 and we are actively pursuing opportunities with China Mobile and Unicom. (these three companies, together own the China mobile phone service market). Apart from the strategy of allying with large carriers, we also actively develop our own products, sales channels and customer base, which we view as critical to our survival. For the first nine months, our mobile phone sales to China Telecom totaled $31.9m, while sales to our own customer base was $37.1m for the same period. We believe that this two approach strategy of pursuing alliances with large industry players while developing our own customer base will ensure that our mobile phone business remains strong and self reliant regardless of the competitive climate and we are very pleased with the results.

Expenses:

For Selling Expense, for the 3rd quarter of 2010, it was $2.2m, compared to $2.3 m for the same period of prior year. The increase in selling costs associated with the increased sales was offset by savings on TV adverting. Currently, we have managed to achieve increased sales without having to engage in expensive TV advertising campaigns.

Amortization for the 3rd quarter was $0.8 million, increased 3,326.6% from 0.02 million for the same period last year. This increase was directly linked to the amortization of Dongri's intangible assets , in connection with our January 2010 purchase of that subsidiary.

Stock-based Compensation of $2.0m, is a new cost, relating mainly to options issued to certain of our employees in August 2010.

删除的内容: big
删除的内容: Between t
删除的内容: they
删除的内容: big
删除的内容: and
删除的内容: see this
删除的内容: Our mobile phone business must be able to stand on its own feet and not depend on big company's orders for survival
删除的内容: the
删除的内容:
删除的内容: mobile phone sales
删除的内容: T
删除的内容: both
删除的内容: big company
删除的内容: and
删除的内容: was to
删除的内容: is
删除的内容: in both good and bad times
删除的内容:
删除的内容: S
删除的内容: the
删除的内容: the
删除的内容: big and
删除的内容: of Dongri's
删除的内容: - a
删除的内容: we purchased in January 2010
删除的内容:
删除的内容: this
删除的内容: the

Research and Development was $2.7m for the 2010 3rd quarter, compared to $1.1m, the same time last year. Research and development cost on mobile phone products accounts for much of the 140.9% increase.

删除的内容: Q3

: 上标

All said, the total Operating Expenses was $9.2m for the 3rd quarter of 2010, compared to last year's $4.8m, a 95.2% increase. The majority of the Operating Expenses increase comes from none cash expense items of Amortization and Stock based Compensation.

Income from operations was $8.2 million for the 3rd quarter of 2010, a 13.3% increase compared to the 3rd quarter of 2009's $7.2m.

Interest expense on the 3rd quarter increased slightly from $0.4m in 2009's to $0.6m in 2010's. This is in line with our increased borrowings.

Our income tax provisions for the 3rd quarter of 2010 were approximately $1.5m, as compared to approximately $1.0m from the same period last year, primarily due to an increase in taxable income. The effective tax rates for the relevant periods covered here were 15%. This is a preferential tax rate enjoyed by high-tech enterprises in China as compared to a full 25% otherwise.

Net income to the Group was $6.0 mm, an increase of $0.5 million, from $5.5 m for the same period in 2009. The reason for the strong quarterly (Q3 to Q3) revenue increase of 59.7% translated only to a modest Net income increase of 7.6% and was primarily due to the increase in Operating expense, specifically the non-cash cost of Amortization and Stock based Compensation.

The earnings per share ratio for both the basic and diluted EPS were $0.12 compared to $0.14 for 3rd quarter of 2009. This reduction was the result of the combined effects of both the increased operating cost in this quarter due to the increase of the non cash cost of

Amortization and Stock based Compensation, plus the secondary issue of additional shares in April 2010. However EPS for the nine month period ended 30 September 2010 was $0.40 an increase from the 2009 nine-month period's $0.31.

Now, I would like to turn your attention to our balance sheet and cash flows. Because the balance sheet is a snapshot at a moment in time, we'll address specifically only line items that have significantly changed or that we believe can have material impact to our on-going operations.

We showed a strong balance sheet at September 30, 2010 and it was very liquid with $23.8 million in cash, compared to $5.9 million as of December 31, 2009. Comparing the Working Capital, we had $12.6m more in cash and other liquid current assets over short terms liabilities, where in December 31, 2009, our Working Capital was $3.3m. Because all our liabilities are short term, if we were to retire all our debts, we would still have $12.6m in cash or cash equivalents, plus all the none current assets such as land, buildings, machineries etc. This is a very strong balance sheet.

In the 3rd quarter, we have seen continued growth for our traditional audio/video products and we have solidified our position for the new but rapid growing mobile phone business. Now with only one quarter left for the year, I'm confident in meeting our annual revenue target of $290m – $340m in fact. That concludes my financial review, so let me turn the call back to Jason for a discussion on our recent developments and our strategic plans.

Jason

Thank you Alex,

During the fourth quarter, we welcomed Mr. Robert Wasielewski to the NIVS Board. Mr. Wasielewski has an extensive background in the U.S. capital markets through his past service at Citigroup, PriceWaterhouseCooper and GKH Partners. Mr. Wasielewski has also assisted companies in going public, has built portfolio companies on behalf of private equity sponsors and has provided acquisition and restructuring assistance to numerous companies. Mr. Wasielewski currently serves as the interim Chief Executive/Chief Financial Officer of ForteONE CEO Services, a business development consultancy based in Chicago, IL. Mr. Wasielewski holds a Bachelor of Science Degree in Accountancy with Honors from the University of Illinois at Urbana-Champaign College of Commerce and Business Administration.

删除的内容: Starting in

Additionally, the Board of Directors of the Company appointed Alexander Chen as the Company's new Chief Financial Officer, to fill the vacancy left by Simon Zhang, who resigned as Chief Financial Officer for personal reasons. Prior to joining the Company, Mr. Chen served as the Business Development Manager of WCT Pty Limited, a remittance services and money transfer company; as Chief Financial Officer of Service Central, an online business directory service company, and as the Chief Financial Officer of TMS, a company accredited with a special license to market, sell and manage government-run lotteries, where Mr. Chen oversaw the company's return to profitability and record sales after many years of heavy losses. Mr. Chen received a Bachelor's Degree in Accounting from the University of Victoria in Australia in 1998.

Beginning with the fourth quarter, we also opened a New York City office where Alex and our VP of IR Jason Wong will take turns being stationed. We believe that the establishment of a New York City office will enable our U.S. based investors

删除的内容: station

删除的内容: in the office alternatively,

删除的内容: T

to have direct access to our representatives, and view certain of our products (which will be featured in a mini showroom on site).

删除的内容: with
删除的内容: Company
删除的内容: the Company's
删除的内容: to be demonstrated to interested parties

We also have plans to expand our presence within the China domestic market. In April we established a sales and marketing branch of the company in the Shenzhen Central Business District which we expect will draw in a large number of new customers. We also expanded and relocated our Multimedia sales and Marketing branch to Poly Guangzhou International Convention and Exhibition Centre, located in Guangzhou, the capital city of Guangdong Province. This is another prime location that should help increase sales.

删除的内容: By
删除的内容: had already
删除的内容: should
删除的内容: the

The expansion also applies to our manufacturing facility. We recently completed Phase 2 development of our production facilities, adding an additional 500,000 square feet to house four new production lines along with two dormitories. We expect the capital expenditures to generate higher revenues later this year. We believe that the completion of this expansion is paramount to ensuring a strong fourth quarter.

删除的内容: The Company
删除的内容: its
删除的内容: which
删除的内容: in the third quarter of
删除的内容: T

Back to our operations -

For the mobile phone business, as we illustrated before, our current marketing channel is, firstly, delivering our own branded NIVS handset which runs over the Android operating system and fully supports 3G functions for carriers in China, and secondly, the OEM and white label business for carriers in South East Asia and middle-east countries, are only the step stone for our mobile phone business development. We believe that our relationships with carriers will increase consumer awareness of the NIVS brand of mobile phone products. Our OEM white label contracts for those customers from South East Asia and Middle Eastern

删除的内容: Our
删除的内容: the
删除的内容: NIVS branding awareness, to further develop the branding perception of our mobile phone products

countries contributes steady revenue sufficient to guarantee a solid return of our investment in the mobile phone business. We are confident our ODM concepts to OEM customers will help us improve margin for those white label projects.

Our ultimate target is to distribute our mobile phones to the general public in China under our NIVS brand name. As you may notice from our recent disclosed press releases, we have a very strong promotional campaign for both our branding and our mobile phone products. The efforts of such promotional activity has well positioned us to implement the distribution of NIVS handset under our own marketing channels, which we expect to begin during fourth quarter this year.

Despite the foregoing success with our mobile phone products, we expect to also continue our focus and reliance on our traditional audio and visual manufacturing. We believe two-thirds of the revenue will come from our audio and visual products this year. **[PWSP: does this conflict with the earlier expectation that mobile phone sales will outpace this segment?]**

For the remainder of 2010, we intend to continue our strong marketing and new product launch momentum, as we remain focused on executing our goal of becoming China's preeminent integrated consumer electronics Company. In addition, we aim to further enhance our balance sheet by focusing on cutting operating costs and streamlining our operating efficiencies. We plan to continue to focus on R&D and adding to our product portfolio, such as 3G mobile handsets and the launch of a new family of NIVS branded mobile phones, termed "Childhood" for the children's market, "Performance" for the pre-teen market, "Pride" for the teen-age market, "Elite" for business executives market and "Care" for the elderly market. We also plan to introduce an additional phone

删除的内容: o

删除的内容: can realize

删除的内容: those

删除的内容: branding development processes would

删除的内容: well prepare

删除的内容: that will happened

删除的内容: in

删除的内容: We

删除的内容: believe on the other hand, we would like to emphasize that the Company will

删除的内容: still

删除的内容: its

删除的内容: - our revenue will continue to heavily rely on our traditional products

: 字体: 加粗, 突出显示

删除的内容: will

删除的内容: . For example, we will

删除的内容: series

删除的内容: family. The phones

删除的内容: will be introduced at the conference

删除的内容:

删除的内容: An

"Outstanding," intended for sale through carrier channels. [PWSP: Is this plan disclosed anywhere else, i.e. in any of your filings? If not then we will need to remove it from the script or file the script in an 8-K.] . The specific phones will feature unique functions and be designed for their intended targeted consumer. As demonstrated by our tripling of revenue year-over-year for our intelligent audio and visual products in 2010, we believe that our integrated combination of solid technology, design, manufacturing, distribution, product and marketing continues to be well-received by our customers and end users.

删除的内容: ,

删除的内容: "Outstanding," will also be introduced

: 字体颜色: 黑色, (中文) 中文(中国)

Finally, we offered revised 2010 guidance prior to our release of the third quarter financials after we had better visibility into the business for the year. The Company expects to achieve over 300 million of total revenue, with gross and net margins estimated to range between 19-21% and 7-10% respectively. We expect to achieve over 30% year to year growth for all our audio and visual products across the categories and for the new mobile phone business, we expect it to contribute $90m or beyond in revenue for 2010. The EPS guidance will be in the range of $0.5-0.6

In closing, we're pleased with our growth, and our objective is to sustain our strong growth across all our operating segments. We remain confident about the business and growth of the AV consumer electronics industry, and believe that our integrated strengths should allow us to expand our market share within our core market and help us to capture opportunities in new markets, enabling us to deliver sustained strong financial results and to ultimately reward our supportive shareholders with greater share value.

This concludes my prepared remarks for the third quarter 2010. Operator, I am now ready to take some questions please.

.;