

NQ Mobile Inc. First Quarter 2012 Results

Conference Call Script

Operator: Good morning and thank you for standing by for the NQ Mobile Inc. first quarter 2012 earnings conference call. At this time, all participants are in listen-only mode. After management's prepared remarks, there will be a question-and-answer session. Today's conference is being recorded. If you have any objections you may disconnect at any time. I would now like to turn the call over to your host for today's conference, Mr. Mattan Lurie, NQ Mobile's Director of Investor Relations and Corporate Development.

Mattan Lurie – NQ Mobile, IR

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

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

Before we continue, please note that the discussion today will contain certain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations. NQ Mobile does not assume any obligation to update any forward-looking statements except as required under applicable law.

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

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

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

Henry Lin – Founder, Chairman & Co-CEO

Thank you Mattan, and welcome to everyone on the call.

Today is a special day for NQ Mobile. It is the first trading day since our IPO on the NYSE exactly one year ago. And there is perhaps no better way to celebrate our first year anniversary as a public company by announcing another strong quarter! I am very pleased to report that in the first quarter of 2012, we again achieved record revenue and exceeded our previous revenue guidance. This marks the fourth consecutive quarter in which we as a public company, have delivered on and above promise to investors.

Our business continue to experience strong growth and our revenue and user base have more than doubled from a year ago, as we reached record net revenues of \$16 million for the quarter, and 172 million registered users. This further validated the enormous market opportunity, our business model and management's execution capability.

Also, for the first time, the international markets outside China accounted for more than half of our premium mobile internet service revenues, once again underscoring the importance and increasing traction of our globalization strategy. In particular, with the joining of Omar Khan as co-CEO in the first quarter, we believe we have the right leadership in place to further grow our international business.

In China, while maintaining our leadership position in consumer mobile security, we have also started to expand into the enterprise market. Today we announced our intention to acquire the majority stake in NationSky, a leading provider of mobile services to enterprises in China. NationSky currently has over 1000 enterprise customers in China and will provide us with a great platform to extend our business into the enterprise market.

With that I'd like to hand the call over to my partner and NQ Mobile's co-CEO Omar Khan.

Omar Khan –Co-CEO

Thank you Henry and hello to everyone on the call.

This is my second earnings call at NQ Mobile and it has been more than five months since I joined NQ Mobile in early January. I was excited then when I joined and I am even more excited today, having seen what we have accomplished and where we are heading.

As I stated on my first earnings call in early March, 2012 was shaping up to be another exciting year during which we would continue to expand our service offerings and extend our geographic reach. And we have done exactly that.

On service offerings, we have refined product roadmap and enhanced product pipelines. For example, we will be announcing the launch of a variety of applications designed to protect user privacy with the first of which being Vault, a professional phone-privacy protection app that enables users to hide and protect their private information. Since the launch of our public beta earlier this year, Vault has been downloaded by over one million users, and is rated in the top 10 list of downloaded applications in the business applications category within the Android Play Market. Vault has a 4.5* Google Play star rating and has become the #2 most downloaded app in the business category.

In addition to enhance and add new service offering for individual consumers, we are also working to develop and launch products for families to provide them with security and privacy protection. And with the recent partnership announcement 3LM and intended majority acquisition of NationSky, we are also starting to make inroad to the enterprise market. All these initiatives will provide enormous future growth opportunities for NQ Mobile.

Regarding the geographic expansion, we continue to develop and sign channel partners to further penetrate into the mass consumer market. Year to date, we already announced agreements with Motorola, Telefonica, eSecuritel, Cricket Communications and more recently, The Cellular Connection, which is the largest Verizon premium dealer with over 800 locations nationwide.

But what get me even more excited is our success in attracting the top industry talent and building a world class team. As you have seen from our press releases, the recent senior level hires included Gavin Kim, formerly General Manager of the Windows Phone Product Marketing at Microsoft, as our Chief Product Officer, and Conrad Edwards, formerly of Samsung Mobile, as our Chief Experience Officer and General Manager of International Marketing. We all share the same vision of making NQ Mobile the most trusted mobile Internet cloud service company and after all, it is the people and the execution that will make our vision a reality. To recognize and facilitate our internationalization, we have officially changed our corporate name to NQ Mobile and have established dual headquarters in Beijing and Dallas.

[One last point I would like to mention on this call is that as a technology leader in mobile security, our mobile anti-virus technology was once again proven as superior, with NQ Mobile Security coming in as a top performer in effectiveness, with over 90 percent malware detection rate, in independent testing by AV-TEST Institute, a leading international and independent service provider in the fields of IT security and anti-virus research.] [Omar, not sure if you want to mention AV TEST thing].

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

Suhai Ji - CFO

Thanks Omar.

As Henry mentioned earlier, today is a special day in commemorating our one year anniversary as a public company and indeed, there is no better way to celebrate by announcing and delivering another strong sets of operational and financial numbers.

At the outset, please note that unless stated otherwise, all the numbers I will discuss today are in U.S. dollars.

We started 2012 with a strong first quarter and this marks the fourth consecutive quarter that we delivered on and above promise to our shareholders.

In the first quarter, we again saw strong user growth and reached new highs in all three sets of operating metrics that we disclose.

Our cumulative registered user accounts reached 172 million at end of the first quarter of 2012, up 100% year over year and 17% sequentially. Overseas users now account for 38.9% of total registered users, up from 33.2% at the end of the first quarter of 2011, and 37.5% at the end of the previous quarter.

Our average monthly active user accounts were about 60 million for the first quarter of 2012, up about 99% year over year and 15% sequentially. Active user accounts continue to make up about 35% of the registered user base and the breakdown between China and overseas are similar to that of registered user accounts. Those ratios have been quite consistent for the past two years.

Our average monthly paying user accounts were 6.5 million for the first quarter of 2012, up 77% year over year and 15% sequentially. Overseas paying users now account for 29.5% of the total paying users, compared with 23.5% for the same period last year and 29.4% for the previous quarter.

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

The overall strong increase in our user base was again driven by the growth in the smartphone industry, the continued proliferation of mobile Internet applications, and the increased awareness on mobile security among consumers worldwide. We have also been improving existing products and launching new products to build user traction such as the Vault that Omar mentioned earlier and Niceday in China has also been gaining momentum which could also start to generate some advertising revenue in the second half of this year.

Now on to the financials.

Total net revenues were \$16 million in the first quarter of 2012, up about 110% year-over-year and 25% sequentially. The increases 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 were about \$14 million in the first quarter, up 111% year-over-year and 20% sequentially. The increases were again due to the strong and steady growth in the number of paying user accounts, which reflected growth in the number of registered and active user accounts, as well as increased use of the premium services, particularly among overseas paying user accounts, which generally pay a higher subscription rate. For the first time, revenue contribution from overseas users accounted for more than half, 50.8% of total net revenues from premium mobile Internet services in the first quarter of 2012, compared with 45.4% in the same period a year ago and 49.8% in the previous quarter.

In terms of average revenue per user, or ARPU as measured on a quarterly basis, our blended quarterly ARPU were \$2.14 for the first quarter of 2012, compared with \$1.79 for the same period a year ago and \$2.05 for the previous quarter. ARPU for domestic China users were \$1.49 for the first quarter of 2012, compared with \$1.28 for the same period a year ago and \$1.46 for the previous quarter. ARPU for overseas users were \$3.69 for the first quarter of 2012, compared with \$3.46 for the same period a year ago and \$3.48 for the previous quarter. Just like the conversion ratios from active to paying for overseas users, overseas ARPU also tend to fluctuate because it depends on the pricing strategy we set in each country and the timing when we turn on the billing switch. But as the overseas pricing is generally higher than China and overseas revenue carries more and more weight, we expect the blended ARPU to trend up over time.

Net revenues from other services in the first quarter of 2012 were about \$2 million, up 99% year-over-year and 69% sequentially.

The increases were primarily due to the growth in revenues from secured download and delivery services for mobile applications produced by third parties. Net revenues from other services as a percentage of total net revenue were 13.1% for the first quarter of 2012, compared with 13.8% for the same period a year ago and 9.6% for the previous quarter.

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

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

Cost of revenues in the first quarter of 2012 was \$3.4 million, up 128% year over year and 34% sequentially. The year-over-year increase was primarily due to increased customer acquisition cost and higher staff cost from salary and headcount increases while the sequential increase was primarily due to increased customer acquisition costs.

Gross profit in the first quarter of 2012 was \$12.6 million, up 105% year over year and 22% sequentially. Gross margin was 78.6% in the first quarter of 2012, compared with 80.3% in the same period a year ago and 80.1% in the previous quarter.

Going forward and assuming there no major shift in the mix of payment channels, we expect gross margin to remain between 75% to 80%. As stated in the previous earnings calls, 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 an analytical point of view, management places less emphasis on gross margin than on operating margin, especially on non-GAAP operating margin.

Now on to the operating expenses. For the first quarter of 2012, first quarter of 2011 and fourth quarter of 2011, we recorded total SBC expenses of \$4.2 million, \$1.4 million and \$3.3 million, respectively, across the three operating expense line. The higher SBC in the first quarter was primarily due to the SBC impact of a newly hired executive. 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 \$2.8 million in the first quarter of 2012, compared with \$1.4 million in the first quarter of 2011 and \$2.4 million in the fourth quarter of 2011. The 100% year-over-year and 15% sequential increase were primarily due to higher marketing and advertising spending and to a much lesser extent, higher travelling and entertainment expenses. Non-GAAP general and administrative expenses were \$3.0 million in the first quarter of 2012, compared with \$0.9 million in the first quarter of 2011 and \$1.6 million in the fourth quarter of 2011. The 239% year-over-year increase was primarily due to higher staff costs from salary and headcount increases, higher consulting, legal and professional fees and higher office related expenses. The 82% sequential increase was primarily due to higher staff costs from salary and headcount increases, higher office related expenses partially offset by lower legal and professional fees.

Non-GAAP research and development expenses were \$1.3 million in the first quarter of 2012, compared with \$0.9 million in the first quarter of 2011 and \$1.5 million in the fourth quarter of 2011. The 45.0% year-over-year increase was primarily due to higher staff cost from salary increase while the 13.0% sequential decrease was primarily due to lower staff costs from change in salary mix as a result of internal reorganization and to a much lesser extent, lower office related expenses.

As a result, our non-GAAP operating income was \$5.6 million in the first quarter of 2012, up 88% year-over-year and 16% sequentially. Non-GAAP operating margin was 35.0% in the first quarter of 2012, compared with 39% in the first quarter of 2011 and 37.5% in the fourth quarter of 2011. This was also consistent with the mi-30s guidance that we gave in the last earnings call.

We continue to record interest income in the first quarter resulted from our strong cash and deposit position. We had a net negligible Foreign Exchange loss in the first quarter. This is due to exchange gain arising from the RMB deposits in the holding company offset by the exchange loss arising from additional USD deposit in WOFE upon additional capital injection of \$20mn in Q1 2012

Income tax expense was \$0.07 million and the effective tax rate was 3.1% in the first quarter of 2012. The low effective tax rate was primarily due to the preferential tax treatment enjoyed by certain subsidiaries of the Company. And we expect the effective income tax rate to remain below 10% for the remaining of 2012.

Net income attributable to NQ Mobile was \$2.1 million in the first quarter of 2012, compared with \$1.7 million in the first quarter of 2011 and \$3.2 million in the fourth quarter of 2011. Non-GAAP net income attributable to NQ Mobile was \$6.4 million in the first quarter of 2012, compared with \$3.1 million in the first quarter of 2011 and \$6.5 million in the fourth quarter of 2011.

On an EPS basis, our first quarter GAAP earnings per ADS is 4.6 cents (on a diluted basis) and non-GAAP earnings per ADS is about 13 cents.

In the first quarter of 2012, we continue to generate strong cash flows. Our operating cash flow for the quarter was a net inflow of \$6.8 million compared with \$2 million in the same period a year ago and \$4.2 million in the previous quarter. Our AR days have decreased significantly due to our collection efforts and our deferred revenue has grown further to \$8.3 million, up from 7.1 million at the end of the previous quarter. As of March 31, 2012, we had a total cash position of \$131 million, of which we held \$59 million in cash and equivalents, and \$72 million in term deposits, and zero debt.

Looking forward to the second quarter of 2012 and beyond, we expect net revenues to be in the range of \$17.5 million and \$17.8 million for the second quarter of 2012, representing 97% to 101% year over year growth and 10% to 11% sequential growth. For full year 2012, we are raising our guidance from the previously issued 70-72 million to the new range of \$73-75 million. Please note the above guidance does not include the impact from just announced NationSky acquisition.

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

Operator?

QUESTION AND ANSWER

Operator

Thank you, Mr. Ji. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions). Your first question comes from the line of Mr. Mark Murphy from Piper Jaffray. Mr. Murphy, please feel free to proceed.

Mark Murphy - Piper Jaffray - Analyst

Yes. Thank you very much. Congrats on the upside here in Q1. You've had a number of recent business development wins including The Cellular Connection, Telefonica, eSecuritel, 3LM and others. And I guess my assumption is that you've got multiple competitors that are bidding on that same business. So it's a really a question on why do you win.

When you reach the end of the negotiation and you're awarded the business what are these companies telling you in terms of why they chose to work with NQ? Are they -- is it really revolving around a better technology assessment, a broader ecosystem, bigger install base? Or is there something else that they're referencing for you?

Omar Khan - NQ Mobile Inc. - Co-CEO

And so, Mark, thank you for the question. This is Omar. You referenced the BD wins and the pipeline that we've been able to demonstrate. I think that's -- it's a great proof point on the business model and the potential of the business.

It really is a multiple for and I think you covered most of them. First and foremost what we're hearing back from our channel partners is the superiority of the technology. And that's validated. We share third-party reports such as West Coast Labs, as well as AV-Test reports. And those are great third-party validations, but our partners in sales also test our technology as well. And it's a validation of our, of the great technology that we've invested in over the last seven years since the Company was founded.

The other thing we hear is the breadth of our solution. As I've mentioned before we, mobile security is a very broad space and it covers more than just malware and virus protection. And it covers the area of privacy detection and privacy protection. It covers the areas of utility and productivity when it comes to things like anti-theft, anti-loss, data backup and restore and contact backup and restore, in addition as we're expanding into multiple constituents within the household including the family, which we've talked about. It expands into that coverage area as well.

And then we talked about privacy protection, privates around data privacy such as Vault. So we continuously are hearing back from our customer base that they are very impressed with the breadth of the product portfolio, both from a feature functionality perspective as well as from a platform perspective that we are both to support.

So and then from an engineering perspective I think we're continuously we're proud of the engineering investment that we've made and the team in vision, so the responsiveness and the talent that we've been able to build over the last seven years does give us a tremendous resource base to be able to not only continuously develop new technologies and enhance our current technologies, but also be able to partner effectively with these third parties from a biz that perspective.

Mark Murphy - Piper Jaffray - Analyst

Okay, great. And, Omar, how do you feel about NQ's ability to ramp up whatever you have to ramp up in terms of operations, infrastructure just to be able to support all the distribution agreements that are going to get layered in I guess presumably later this year and even going into 2013?

Omar Khan - NQ Mobile Inc. - Co-CEO

That's a great question, Mark. And that's an area that I talked about even on the last call that that was an area of focus for us, frankly, was to put the infrastructure in place to make sure that we can not only get the deals done, but also operationally delivered and then monetized. And so that's an area where we made investments in the first quarter as we had indicated that we would.

I think you've seen some of the higher profile hires that we've been able to bring on board over the last quarter that included again, Kim, from a product as our chief product officer as well as he's expanding our business development capabilities. In addition to that we also brought on Conrad Edwards from a design and marketing perspective and then also Victoria Repice to lead in product management for us. And she was influential in launching at Barnes & Noble the Nook and the new color as one of the key product managers.

And the discipline that that team brings on board as well as the folks that we put around them is really how to not only plan the road map and do business development, but also how to deliver and collaborate with those with the third parties that we're doing business with, how do you go through the testing and approval cycles? How do you launch? How do you do channel marketing and be able to train the sales forces and the channels to be able to understand how to sell it and operationalize those? So it's the team that we're bringing on board has a lot of experience in those areas and I'm very confident that as we continue to put the operational infrastructure around these key hires that we'll be able to execute the deals that we've announced.

Mark Murphy - Piper Jaffray - Analyst

Okay, great. Now some of these newer wins I believe are also premium only, so there's not going to be any free to pay conversion. I was wondering [Sue High] or anyone have you thought through what impact that's going to have on your conversion ratios? You were around 11% this quarter and how will we think about those ratios in the future? Are those ratios going to lose relevance over time or not?

Suhai Ji - NQ Mobile Inc. - CFO

Yes. I think for the premium only deals, for example the Verizon dealer deal that we assigned, basically those conversion rates are at almost 100%. So that definitely gives a positive, will improve the conversion ratio, but however the active, the paying user conversion depends on quite a few things. I think I touched upon it in the last earnings call as well. It depends first on the number of paying users, how many countries we are monetizing, how many paying users we actually have, how many paying channels we put in place in those countries. So that's basically what's impacting the numerator.

And the premium only deal we definitely give a boost to that number, but however on a denominator basis we -- there are two factors. One is our active users growing not only in the countries we are monetizing, but also in the countries where we currently do not monetize. So that will improve further make the base larger.

And the other is we in addition to the premium or the premium product people can pay we also have other products such as like Nightday which is totally free that are gaining momentum in terms of building the active users. So that will make the active user base very large.

So we think depending on which factor will dominate in the quarter it's going to have a strong duration from quarter to quarter, but as our base gets larger and larger eventually this strong duration will be quite small. So it's hard to give a one way or the other answer like a definitive answer to the overall conversion ratio, but for the premium only deals that will definitely give the boost to the conversion ratio. I hope that addresses your question.

Mark Murphy - Piper Jaffray - Analyst

Yes. That's great. And, Suhai, I had another one for you on the investment that you're making into NationSky. Are you able to talk about what the total consideration is for that stake? In other words if you were to add up the cash and stock portion of it and are you able to talk about what the revenue run rate is for NationSky in total? And then the third part of that is I think the raise revenue guidance does not include any contribution from that. And is there a reason why you're not including it at this point?

Suhai Ji - NQ Mobile Inc. - CFO

Yes, so sure, happy to address that. I think in the press release we did not disclose the terms on the acquisition, one, because it's relatively insignificant in terms of total dollar amount, but again on this call I think I'm happy to share some to provide some additional color on that.

So basically it's acquisition that we paid in a combination of cash and stock. And the total number of cash is really slightly over \$3 million, is about \$3.17 million. And then in terms of shares it's about less than \$9.5 million in stocks, then plus a performance-based earn out of about \$4 million. So that's if you add those together that's a consideration amount for the 55% stake in NationSky.

And the reason we did not include it because this deal actually was just announced, but we do not expect to be closed towards the end of the second quarter. So that's why before it's closed in we do not want to give a feature of guidance for the full year including the impact from this acquisition, but obviously we do expect when this, assuming this deal closes in the second quarter it will add incremental revenue in the second half to our total revenue. And we are expecting somewhere between \$10 million and \$12 million and we also believe this deal should be accretive to our earnings as well.

So I think those are the, all the details that we are, we can disclose on this call. And when the deal closes then we may be able to share a bit more detail because then we can [inaudible - multiple speakers], yes.

Mark Murphy - Piper Jaffray - Analyst

Yes, I'm sure. Suhai, what was the last number you said? You said you were expecting somewhere between \$10 million and \$12 million. Did I hear that right?

Suhai Ji - NQ Mobile Inc. - CFO

\$10 million to \$12 million for the second half this year in the third and the fourth quarter.

Mark Murphy - Piper Jaffray - Analyst

Okay. Okay, just I have one last question on the Android platform. I was wondering if you could possibly update on the number of new Android threats in Q1, what kind of a growth rate did you see there. And do you have any estimate of what percentage of the Android threats were first discovered by NQ?

Omar Khan - NQ Mobile Inc. - Co-CEO

Yes. So in the first quarter we profiled just over 3,500 new threats on the Android platform as a growth of about 250% year-over-year, so you can see the acceleration again continued of the malicious actors in the ecosystem focusing on the Android device portfolio from a malware perspective. We have not -- I think in the future we will release as we do the first attack rates. It's not something that we've got on this call, but it's something we should be able to follow up with soon.

Mark Murphy - Piper Jaffray - Analyst

Okay, great. Thank you very much for taking my questions.

Omar Khan - NQ Mobile Inc. - Co-CEO

Thanks, Mark.

Operator

The next caller is Michael Walkley if Canaccord Genuity. Mr. Walkley, please feel free to respond.

Michael Walkley - Canaccord Genuity - Analyst

Great. Thank you. Still I just on the NationSky you said it would be accretive once it was closed. Can you share anything on the margin structure or headcount of NationSky? Thank you.

Suhai Ji - NQ Mobile Inc. - CFO

Yes. I think that's something that we probably don't feel comfortable disclosing at this moment before the transaction gets closed. So I think those are the additional deals. That's why in our official guidance we do not want to include additional impact from this acquisition before it closes. I think we would be in a better position to provide additional details once the acquisition closes.

Michael Walkley - Canaccord Genuity - Analyst

Okay, thanks, and maybe just a follow-on question for Will or Dr. Lin, just with the NationSky acquisition what other areas do you -- would NQ look at in terms of R&D development to further your platform for other areas you might want to build out to acquisitions? What are some of your strategic longer term investment plans?

Dr. Henry Yu Lin - NQ Mobile Inc. - Chairman, Co-CEO

I think we are expanding our product lines not only for consumers, but also into family and enterprise market, but also focusing on security, privacy and productivity. This I think this is achieved through both internal technology innovation and also collaboration with panels such as [su a n]. Our goal is to keep our global technology leadership position and continuously expanding our product offerings. So we will make investments on technologies that are synergic and complementary to our product offerings.

Michael Walkley - Canaccord Genuity - Analyst

Great. Thank you. And maybe, Omar, building on that with the 3LM relationship can you talk about any early attach rates or the two early given 3LM is part of Motorola? And then also once Motorola is sold into Google do you have any idea if Google tries, will make 3LM a bigger part of their Android platform and use NQ also as its partner for that?

Omar Khan - NQ Mobile Inc. - Co-CEO

So I'll answer your question in two parts, the first one around attach rates. It's too early to tell because we're -- we haven't operated -- we haven't commercially launched just yet. What I can share with you is that the project is going as planned in terms of integration.

And obviously on the second part of your question I can't speculate on acquisition in terms of what might happen after that potential acquisition closes, not something that we should be speculating on, but what I can tell you again is that the partnership with 3LM in terms of execution is going as planned.

Michael Walkley - Canaccord Genuity - Analyst

Okay, great, and just a follow-up question to you, Omar. Just with you building out a great team of well known industry veterans, what areas or opportunities are you most excited about having been there four months? Are there certain regions where you see better growth opportunities or certain end markets, maybe just elaborate on your first four months and the team you're building?

Omar Khan - NQ Mobile Inc. - Co-CEO

Yes. So we've had some very good success for both in North America and Western Europe in terms of division development, pipeline over the last few months. And I think that's good. Those are indicative proof points of again the traction that we're getting and how the pipeline is progressing.

It's as I've discussed before each of the panels as if we think about carrier partnerships, or we think about retail partnerships or we think about direct to consumer models, each of those has a different business development timeline associated with it in terms of how long it takes to cultivate and launch. So we remain very excited about the North American market where there is 50% smartphone penetration depending plus or minus depending on what report you read. And that gives us a large market to go after.

The and Western Europe does as well. So the question has multiple answers depending on what channel you partner with it determines the long term versus the future long term, medium term and short-term impacts. So we're working multiple channels as I've mentioned. We're working the retail channels, direct to consumer digital channels, and we're working carrier and multiple device manufacturer channels as we've announced in the past from a pre-load perspective. So and each of those has a different time line associated with it, so it's a little bit of a mix and in terms of the balance of short and long-term opportunities, but the early proof points continue to give us, continue to give credence to the traction that we're getting.

Michael Walkley - Canaccord Genuity - Analyst

Okay, thanks. And, Suhai, just a follow-up question on that just with putting the infrastructure, and the team in place and to make NQ Mobile a much larger company long term, how do we model kind of the near-term investing and operating margin targets for 2012 versus maybe some longer term targets in 2013 and beyond? I guess another way to ask it is when we would expect to see more leverage in the model realizing this is a big investment year for NQ?

Suhai Ji - NQ Mobile Inc. - CFO

Yes. I think it's really again as I think I addressed a similar question on the last call is a balance that we try to strike between growth and also profitability. And as I guided in the last earnings call we think our non-GAAP operating margin will be in sort of around mid 30s for the next couple of quarters. That includes the quarter past and also for the upcoming one quarter or maybe one more because as you saw that we actually are putting together the infrastructure especially in terms of the senior hires, I think most of

them already in place with the chief product officer, chief experience officer. I think that next is really building a team around them to support that.

So hopefully our revenue we start ramping up and the leverage we start kicking starting towards end of the second half. I think we will see hopefully a margin improvement. Again that's purely on the existing business basis, okay?

Michael Walkley - Canaccord Genuity - Analyst

Great. Well congratulations on the education of the past year and thanks for taking my questions.

Suhai Ji - NQ Mobile Inc. - CFO

Thanks, Mike.

Operator

The next call line is Mr. Andy Yeung if Oppenheimer & Company. Mr. Yeung, please feel free to proceed.

Andy Yeung - Oppenheimer & Co. - Analyst

Good morning, gentlemen. Thank you for taking my questions, also congratulations on another very strong quarter, my first question also about NationSky. Obviously it's a pretty significant move for you in the (inaudible) space and since I also extend your product offering into obviously affirmation, so can you give us some idea regarding the, how NationSky fits into your overall strategy for your enterprise market as well as how does that fit in or leverage the 3LM posture?

Will Jiang - NQ Mobile Inc. - Chief Strategy Officer

Hi, Andy. This is Will. So NationSky has been focusing on enterprise mobile services since the inception in 2005 and they have roughly around 70 employees right now. Their customer base includes large to medium enterprises in financial services industry, energy, pharmaceutical and many other industries with over actually 1,000 customers already.

So it has been our strategy to extend our services offering to enterprises. And we believe this transaction will give NQ the direct access to enterprise customers for mobile security and privacy and for the (inaudible) products with our new enterprise offerings, including the ones that we mentioned before such as the partnership with 3LM.

Andy Yeung - Oppenheimer & Co. - Analyst

Okay, okay, okay. And then of all the questions regarding the international market and growth, obviously you guys are doing very well in international market. Can you just remind us what's your currently where are your key overseas market right now and where the geographic section you expect in the next 12 to 24 months?

Omar Khan - NQ Mobile Inc. - Co-CEO

Yes. So I'll let Suhai start and then I'll finish up the answer to the question, Andy.

Suhai Ji - NQ Mobile Inc. - CFO

Yes. I think in terms of the user growth I think our international user growth is actually again because started from a smaller base it's actually outpacing the China if you look at user growth international is in the countries range and China is in the teens, in the mid

teens range in terms of registered user growth. And in terms of ARPU, and that's why we -- the overseas market now contributing more than half of our premium consumer mobile Internet services revenue that's because the ARPU or the SP in the international markets are just higher than the China.

And the existing big international markets are still from mostly Southeast Asia countries and some of the Middle East countries, and also as well as Russia, but with Omar coming on board we are hoping to expand that into include a more mature market. And we will let Omar speak to what are some of the markets we are targeting.

Omar Khan - NQ Mobile Inc. - Co-CEO

Yes. So we're already starting to experience growth obviously in the North America markets, not only in from the deals, but also from a customer perspective in addition to the markets like India and other regions like Western Europe and Latin America as well. From a potential perspective obviously the investments we're making give us -- we're going to continue to direct to consumer and digital channel acquisition business in markets where in all of these markets, but in addition to that as we expand into other channels to have access not only just to those digital acquisition channels, but through partnerships with carriers or retail partners.

We do believe the opportunity within the developed market regions that Suhai has talked about are continue to be significant, so in the markets like North America, Western Europe, et cetera. And that's something that we've talked about prior as well. The other area that I think dovetails that and also into a question Mike asked a little bit earlier is that from a growth perspective we're also seeing not only this growth from a user perspective from our flagship security products, but also from as we announced just on this call from a privacy product line, including NQ mobile Vault, which even in the public beta, in the public beta since the beginning of this year has added over one million downloads.

And we're getting tremendous user feedback. It's rated at 4.5 in the Android market and we see applications for that not just in the consumer space, but some of the feedback we're getting is that even the BYOD space where you want to sequester your data between a personal and from an enterprise perspective the applications are pretty broad. So we're excited about the growth of opportunities in the privacy space and then also Henry talked a little bit about our expansion into the family product lines as well. So I think that probably covers your question not only from a geographic perspective, but I think it dovetails back into Mike's question around our product strategy in terms of making sure that we continue to expand our product lines in addition to our core business and mobile security.

Andy Yeung - Oppenheimer & Co. - Analyst

That's very helpful, Omar, just a follow-up question on your on developed market, and you try and penetrate developed market. Do you see the competitive landscape differently from for example China or other emerging markets? And do you also into the [taking] the way of distributing your products in these developed markets where they are existing markets?

Omar Khan - NQ Mobile Inc. - Co-CEO

Yes, so it's a great question. I think that we've talked about competitive links in the past. I can answer the question by saying that I see no material change to the competitive landscape in the last quarter since we had the last call.

We continue to have very strong market share as of the last time our MMR GFK report. We were at 62% market share in the China market. So we are continuing our strong trends in that market as well as the competitive landscape remaining fairly consistent with what we've talked about in the past.

As the -- so as we think about the competitive landscape towards the future we're also a fairly -- our product line continues to broaden as well. And so it's a question I answered earlier too when Mark asked this. The -- we've got a very comprehensive set of products in under our security umbrella that span a very broad set of both consumer and enterprise requirements, so whether it's privacy related, whether it's (inaudible) and productivity related or whether we start to top out the expansion into the family. So those are all areas that continue that will continue to give us capability and confidence as we continue to expand into these developed markets.

And the channels, I think the last portion of the question you asked was how do the channels differ in terms of how we go to market? Obviously the digital acquisition channels continue to be important. The carrier acquisition channels are very important in some of

these developed markets, especially in North America, parts of Latin America and Western Europe. Retail is a very important channel in these markets. I think the deal that we, or the partnership that we announced with The Cellular Connection that has over 800 stores in the US is very important because as consumers are walking in to those stores and finding smartphones for themselves or their family members that's an excellent opportunity to sell that consumer into a mobile security solution, so having the active point of sale to not only educate the consumer, engage them in a dialogue and then up sell them is a very important (inaudible) channel in markets where retail sales are extremely important in terms of smartphone acquisition.

So hopefully that answers your question, Andy.

Andy Yeung - Oppenheimer & Co. - Analyst

Yes. It does. Thank you so much. It's been helpful.

Operator

Thank you, Mr. Lin. Now I will revert the call to Mattan Lurie, NQ's Mobile director of investor relations and corporate development.

Dr. Henry Yu Lin - NQ Mobile Inc. - Chairman, Co-CEO

Does Mark have one more question?

Operator

I will -- Mark Murphy from Canaccord Genuity. Please proceed.

Mark Murphy - Piper Jaffray - Analyst

Oh great. Thanks. I just had a quick follow-up question just in terms of acquiring new customers. Yes, my team we were in China recently at a big Huawei event and real impressive their smartphone offerings. And I know you guys have a pre-installation partnership with Huawei. Can you share with us just in terms of acquiring new customers? Is there a better correlation with preinstalled on phones? Does that help drive your revenue and as Huawei triples their volume this year will it help you in the new markets as they grow internationally?

Will Jiang - NQ Mobile Inc. - Chief Strategy Officer

Sure, Mike. Roughly close to 30% of our user acquisition right now are coming from pre-installations. And actually from what we're seeing the convergence of paying user from registered user are quite similar across our acquisition channels, meaning pre-installation, online acquisition and viral channels, which is close to 4% if you do it on the registered user to paying user basis.

Certainly as you mentioned we actually do have global installation of pre-installation agreements with vendors such as Huawei, VG and many others. So with their expansion globally we definitely would foresee that our pre-installation would be a major channel of our user acquisition going forward.

Mark Murphy - Piper Jaffray - Analyst

Okay. That's great. Well so it's Huawei and it's and so T-Mobile US and to the [my such] brand that would come pre-installed with your software right away at a US larger carrier?

Omar Khan - NQ Mobile Inc. - Co-CEO

In carrier distribution markets the carrier makes the final call on preloads and software that's on the device, but obviously the preload relationship with Huawei does bring with it the open market channels and then in addition to that the qualification process that you go through does lend credibility as you try to enter some of the other partnership models, if that makes sense.

Mark Murphy - Piper Jaffray - Analyst

Okay. And that does. I appreciate that. Thanks, Omar.

Operator

Thanks, Mr. [Waffling]. I will now revert the call back to Mattan Lurie, NQ's Mobile director of investor relations and corporate development. Please go ahead.

Mattan Lurie - NQ Mobile Inc. - Director - IR & Corporate Development

Great. Thank you, operator. Well if there are no further questions at present we would like to conclude by thanking everyone for joining us on the call. We welcome you to reach us directly by e-mailing investors@nq.com should you have any questions or requests for additional information. And we encourage you to visit our investor relations website at ir.nq.com where you can find numerous resources and materials including the recording of this and previous earnings webcasts. This concludes NQ Mobile's earning call.