NetQin Mobile Inc. Fourth Quarter and Fiscal Year 2011 Results

Conference Call Script

Operator: Good morning and thank you for standing by for the NetQin Mobile Inc. fourth quarter and fiscal year 2011 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, NetQin's Director of Investor Relations and Corporate Development.

Mattan Lurie – NetQin, IR

Hello everyone and welcome to NetQin Mobile Incorporated's fourth quarter and fiscal year 2011 earnings conference call. The Company's earnings results were released yesterday 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 NetQin's Co-CEOs, Dr. Henry Yu Lin and Omar Khan, followed by NetQin's chief financial officer, Suhai Ji, who will take you through the company's operational and financial results for the fourth quarter and fiscal year 2011, and give guidance for the first quarter and full year of 2012. After their prepared remarks, Dr. Lin, Mr. Khan, 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 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. NetQin 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 NetQin's financial results prepared in accordance with U.S. GAAP are included in NetQin'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 NetQin's Investor Relations website.

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

Henry Lin – Founder, Chairman & Co-CEO

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

I am very pleased to report our first full year result since we became a public company in May 2011.For the fourth quarter of 2011, we again achieved strong results, beating the high end of our previously issued guidance. This marks the third consecutive quarter in which we as a public company, have delivered on promises to investors. And for the full year of2011, we achieved remarkable growth and exceeded expectations, with both our revenue and user base more than doubling from the previous year.

A number of factors contributed to our success in 2011. Among the top are the focus on product and technology innovation, the rigorous enhancement of user experience across all of our product lines, and our continued expansion of industry partnerships and user acquisition channels globally. We also continued to see rapid growth in global smartphone shipments and the proliferation of mobile Internet applications, as well as increasing consumer awareness and adoption of mobile security solutions.

In 2011 we achieved significant growth in our China business, adding over 43 million to our registered user base and more than doubling our revenue. We continued to solidify our position as China's dominant leader in mobile security, with a market share of over 60%.

2011 also saw Netqin's continued expansion and rapid growth in overseas markets which contributed almost half of our premium mobile Internet service revenues. Our overseas registered user base grew 137% year over year to reach 55 million, underscoring the global demand for mobile security and privacy protection. Going forward, we believe we have an unprecedented global opportunity in front of us and we are just getting started! We will continue to aggressively expand and grow our international business, investing in overseas branding and marketing, signing key partnerships to drive market entry, and building a world-class international team.

Most key to our continued global expansion effort is, of course, our recent success in attracting Omar Khan to join NetQin as Co-CEO. Omar is widely regarded as a major force in the mobile industry, and was the former Chief Technology and Product Officer of Samsung Mobile. While at Samsung, Omar was instrumental in helping Samsung Mobile develop and deliver its products, services and technology.

I have exceptional admiration for Omar and his success at Samsung Mobile, and am thrilled to share the CEO role with him at NetQin. We share the common vision for NetQin to become the most trusted mobile Internet service company. Together, we will continue to develop innovative products for consumers worldwide and solidify our global leadership position in mobile security. Now it is my great pleasure to introduce Omar to audience on the call.

Omar Khan –Co-CEO

Thank you Henry and hello to everyone on the call.

I am very excited to have the opportunity to join NetQin as Co-CEO and I see tremendous potential in extending our global leadership position in mobile security. Consistent with our international expansion efforts, we announced in January during CES the launch of the NQ Mobile brand and planned change of our corporate name from NetQin Mobile Inc. to NQ Mobile Inc.

2012 is already shaping up to be another exciting year during which we will continue to expand our service offerings and extend our geographic reach. Year to date, we have already announced business partnerships with Motorola, Telefonica, 3LM and eSecuritel. Today I am also pleased to announce our first carrier relationship in the US with Cricket Communications, a leading provider of wireless services that serves six million customers in 35states. Cricket has selected NQ Mobile as the preferred security solution provider for its Android devices. All current Cricket Android smart device owners will be able to download the NQ Mobile app from Cricket's app store and starting later in 2012, NQ Mobile Security 6.0 will come pre-installed on all models of Cricket Android smart devices. Cricket customers will also be able to enjoy NQ Mobile 6.0 bundled into the Cricket's handset protection program which will protect a wide range ofdevices, against loss, theft, and damage. In addition to the basic features of NQ Mobile Security 6.0 such as app privacy advisor and safe browsing, Cricket customers who subscribe to the handset protection program offered by Brightstar's eSecuritel will also be protected by full anti-loss/anti-theft features. These partnerships not only will generate revenue opportunities for sustainable growth, but also provide strong proof points that our solutions is both trusted and in high demand.

I am fully confident that we will continue our growth momentum in 2012 and capitalize on the global opportunities in the mobile security industry. With that, I would like to hand the call over to Suhai Ji, our Chief Financial Officer, who will speak to the financial and operational results for the fourth quarter and full year of 2011.

Suhai Ji - CFO

Thanks Omar, and hello to everyone on the call. At the outset, please note that unless stated otherwise, all the numbers I will discuss today are in U.S. dollars.

We finished the year 2011 with a strong fourth quarter and this marks the third consecutive quarter that we delivered on and above promise to our shareholders.

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

Our cumulative registered user accounts reached about 147 million at the end of 2011, up 105% year over year and 20% sequentially. Overseas users now account for 38% of total registered users, up from 32% at the end of 2010, and 36% at the end of the previous quarter. So the overseas user base continued to grow faster from a smaller base.

Our average monthly active user accounts were about 52 million for the fourth quarter of 2011, up 106% year over year and 23% sequentially. Active user accounts continue to make up about 35-36% 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 5.6 million for the fourth quarter of 2011, up 74% year over year and 13% sequentially. Overseas paying users now account for about 29% of the total paying users, compared with 21% for the same period last year and 30% for the previous quarter.

The conversion ratio from active to paying users decreased slightly from 12% to 11%, as we had yet to turn on the payment option in certain markets despite the increase in the number of active users. That is to say that when we enter new markets, we first try to build a large and active user base, and only after we have a critical mass of users and available payment channels, do we 'turn on the billing switch' and begin the monetization to charge for our premium features. As we have been aggressively expanding into overseas markets, such as the US and Europe, and in certain markets we had not started billing in 2011, this data is in keeping with our expectations and our strategy. Such fluctuations, in both directions, can be anticipated in the future as we continue to expand globally.

The overall strong increase in our user base was again driven primarily by the growth in the smartphone industry, the continued proliferation of mobile Internet applications, and the increased awareness on mobile security among consumers worldwide. It also reflected management's execution ability to establish effective user acquisition channels and deliver user friendly and innovative products to drive user adoption.

Now moving on to the financials.

Total net revenues were $12.8 million in the fourth quarter of 2011, up 105% year-over-year and 13% sequentially. The increases were mainly due to the strong growth in revenues from premium mobile Internet services.

Net revenues from premium mobile Internet services were $11.6 million in the fourth quarter, up 116% year-over-year and 12% 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 the premium services, particularly among overseas paying user accounts, which generally pay a higher subscription rate. Revenue contribution from overseas users accounted for 49.8% of total net revenues from premium mobile Internet services in the fourth quarter of 2011, compared with 40.4% in the same period a year ago and 49.6% in the previous quarter.

In terms of average revenue per user, or ARPU as measured on a quarterly basis, our blended quarterly ARPU (i.e. China and overseas users together) were $2.05 for the fourth quarter of 2011, compared with $1.66 for the same period a year ago and $2.08 for the previous quarter. ARPU for domestic China users were $1.46 for the fourth quarter of 2011, compared with $1.26 for the same period a year ago and $1.5 for the previous quarter. The significant year-over-year increase in China ARPU was because we have converted most of the pay-per-use users in China (who only pay 2 RMB per use to update the virus library) to monthly, subscription-based users (who pay 5 RMB per month). The pay-per-use users now accounted for less than 10% of total paying users in China and have remained relatively stable for the past two quarters. ARPU for overseas users were $3.48 for the fourth quarter of 2011, compared with $3.16 for the same period a year ago and $3.41 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.

Net revenues from other services in the fourth quarter of 2011 were $1.2 million, up 37% year-over-year and 23% 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 stood at about 10% for the fourth quarter of 2011, compared with 14% for the same period a year ago and 9% for the previous quarter.

For the full year 2011, net revenues were $40.7 million, up 130% from 2010. Net revenues from premium mobile Internet services were $36.2 million for 2011, up 137% from 2010, and net revenues from other services in 2011 were $4.5 million, up 84% from 2010. Net revenues from other services as a percentage of total net revenue was 11% in 2011, compared with 14% in 2010.

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 fourth quarter of 2011 was $2.6 million, up 29% year over year and 17% sequentially. The year over year increase was primarily due to higher staff costs from salary and headcount increases and higher revenue sharing with mobile payment service providers while the sequential increase was primarily due to increased customer acquisition cost. The SBC amount in cost of revenue is insignificant so there is little difference between GAAP and non-GAAP figures.

Gross profit in the fourth quarter of 2011 was $10.3 million, up 140% year over year and 12% sequentially. Gross margin was 80% in the fourth quarter of 2011, compared with 68% in the same period a year ago and 81% in the previous quarter.

For full year 2011, cost of revenues was $8.1 million, up 55% from 2010, and gross profit was $32.6 million, up 161% from 2010. Gross margin was 80% in 2011, compared with 71% in 2010.

Going forward, we expect gross margin to remain relative stable between 75-80%. 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 fourth quarter of 2011, fourth quarter of 2010 and third quarter of 2011, we recorded total SBC expenses of $3.3 million, $11.5 million and $2.6 million, respectively, across the three operating expense line items. Compared with the third quarter of 2011, the larger SBC expenses in the fourth quarter of 2011 were mostly due to the additional option grant in the quarter to certain employees, non-employees consultants and a business partner. The unusually high SBC for the fourth quarter in 2010 was due to the options grant before company's IPO and the immediate vesting of certain options. We expect SBC for the first quarter 2012 to be around $2.6 million, not counting on the additional option grant in the quarter. For this reason, our total operating expenses in the fourth quarter of 2011 were $8.8 million, down 40% year over year but up 24% sequentially. To make the quarterly comparison more consistent, I would like to address the following line items on a non-GAAP basis, which excludes SBC expenses.

Non-GAAP selling and marketing expenses in the fourth quarter of 2011 were $2.4 million, up 58% year over year and 78% sequentially. The year over year increase was primarily due to higher marketing and advertising spending and increased travelling and entertainment expenses. The sequential increase was primarily due to higher marketing and advertising spending, higher staff costs from salary and headcount increases, and higher travelling and entertainment expenses. For example, we continue to spend more on marketing to drive user acquisition and brand awareness, as well as hiring key talent to build the international team.

For the full year 2011, non-GAAP selling and marketing expenses were $6 million, up 39% from 2010 mostly due to increased marketing and advertising spending and higher staff costs from salary increases.

Non-GAAP general and administrative, or G&A, expenses were $1.6 million in the fourth quarter of 2011, up 34% year over year but down 23% sequentially. The year over year increase was primarily due to higher legal and professional fees and higher staff costs from salary and headcount increases partially offset by lower bad debt expenses and lower office related expenses. The sequential decrease was primarily due to a reversal of bad debt expenses upon settlements recovered from long outstanding receivables and lower office-related expenses partially offset by higher legal and professional fees.

For full year 2011, non-GAAP G&A expenses were $6.1 million, up 150% from 2010. The increase was primarily due to higher staff cost from salary and headcount increases, higher legal and professional fees, and higher travelling and entertainment expenses.

Non-GAAP research & development, or R&D, expenses were $1.5 million in the fourth quarter of 2011, up 78% year over year and 42% sequentially primarily due to higher staff costs from salary and headcount increases.

For full year 2011, non-GAAP R&D expenses were $4.4 million, up 55% from 2010, primarily due to higher staff costs from salary increases and, to a lesser extent, higher office-related expenses.

As a result, our non-GAAP operating income was $4.8 million in the fourth quarter of 2011, up 571% year over year and 2% sequentially. Non-GAAP operating margin was 37.5% in the fourth quarter of 2011, compared with 11.5% in the same period a year ago and 41.6% in the previous quarter.

For full year 2011, our non-GAAP operating income was $16.2 million, up 455% from 2010. Non-GAAP operating margin was 40.9% in 2011, compared with 16.5% in 2010.

We continue to record foreign exchange gain and interest income in the fourth quarter. Together they added $1.5 million to the bottom line, compared with $0.1 million in the same period a year ago and $2.1 million in the previous quarter. The foreign exchange gain and interest income were mostly due to the appreciation of RMB against US$ when a portion of May 2011 IPO proceeds was converted into RMB and placed in bank deposits from the second quarter of 2011 onwards and the higher deposit position resulting from the IPO proceeds.

For the full year 2011, foreign exchange gain and interest income together amounted to $4.3 million, compared with $0.15 million in 2010.

Income tax expense was $0.05 million and the effective tax rate was 1.5% in the fourth quarter of 2011. The low effective tax rate was primarily due to the preferential tax treatment enjoyed by certain subsidiaries of the Company. For full year 2011, income tax expense was $0.1 million and the effective tax rate was 0.9%.

Net income attributable to NetQin was $3.2 million in the fourth quarter of 2011, compared with net loss of $10.5 million in the same period a year ago and net income of $4.3 million in the previous quarter. Non-GAAP net income attributable to NetQin was $6.5 million in the fourth quarter of 2011, compared with $0.6 million in the same period a year ago and $7 million in the previous quarter. On an EPS basis, our fourth quarter GAAP earnings per ADS is about 7 cents (on a diluted basis) and non-GAAP earnings per ADS is about 14 cents.

For the full year 2011, net income attributable to NetQin was $10.3 million, compared with net loss of $9.8 million in 2010. Non-GAAP net income attributable to NetQin was $20.9 million in 2011, up 664% from $2.7 million in 2010. On an EPS basis, our full year 2011 GAAP earnings per ADS is about 22 cents and non-GAAP earnings per ADS is about 45 cents, if we were to use the same number of ADSs as the fourth quarter.

In the fourth quarter of 2011, we continue to generate strong cash flows, our operating cash flow for the quarter was a net inflow of $4.2 million compared with $0.3 million in the same period a year ago and $2.6 million in the previous quarter. And our deferred revenue has grown further to $7.1 million from $6 million at the end of the previous quarter. As of December 31, 2011, we had about $70 million in cash and cash equivalents and $59 million in term deposits and zero debt.

Looking forward to the first quarter of 2012 and beyond, we expect net revenues to be in the range of $14.5 million and $15.0 million, representing 91-97% year over year growth and 13-17% sequential growth. For full year 2012, we expect net revenues to be in the range of $70-72 million, an increase of 71-76% year over year.

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 Session

Operator: Thank you, Mr. Ji. Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions)

Your first questions comes from the line of Mr. Mark Murphy from Piper Jaffray. Mr. Murphy, please feel free to proceed.

Matthew Coss: Hi. Good morning. This is Matthew Coss calling in for Mark Murphy. Congrats, on the great quarter and also on the deal with Cricket. I just had a couple of questions. One, can you talk a little bit about the strong cash flow, any specific things we should be looking for that led to that great cash flow number? And then two, if you guys look at Google Bouncer, do you see that as a threat or more of an opportunity that's validating your market?

And then three, just what do you think the odds of securing a partnership with one of the, you know, largest US carriers are in 2012 maybe either Sprint or AT&T or Verizon? Thank you.

Suhai Ji: So why don't I have our Co-CEO Omar to address the second and third question? And I will take care of your first question.

Omar Kahn: Okay.

Suhai Ji: Great.

Omar Kahn: Thanks. I appreciate the question. So on the first question I think you asked about Google Bouncer. I mean, we had just recently in the first quarter done a consumer survey, so -- in the US market applying to both the US, North America, Western Europe markets.

If you take a look at the feedback that we got from consumers, the -- about fourth-fifths about 80% were concerned about mobile security or mobile threats related to their mobile device because of the evolution of what's actually happening in the marketplace in terms of how people are using their devices, and the increasing personal nature and sensitivity of the information and transactions that they're doing.

But there is still a large degree of unawareness of how to protect themselves. And so -- so to answer your question, it's really the latter. We believe it as an opportunity and a validation of the environment because consumers are going -- becoming increasingly aware, and it creates an increased opportunity for solutions like ours that are technologically superior to help augment and reinforce the trust in the ecosystem.

And, in fact, if you look at -- from a statistical perspective, an overwhelming majority of malware and threats actually emanate from outside of the marketplace. They come from other sources. So, the need for solutions like ours are absolutely necessary to protect consumers.

So, great question. And I think it does definitely validate the -- our business model and our technology solution out there, and it definitely validates the opportunity for us.

The second question you asked was related to whether or not we would be able to secure additional partnerships with US operators.

You know, obviously I can't speak to the business development pipeline specifically, but if you look at the deal that we announced today as part of our earnings announcements with Cricket, which is one of the leading prepaid operators in the US with 6 million customers in 35 states, it's a great leading indicator and a validation of our strategy, related to expansion of global markets such as North America and our strategy related to establishing partnerships with key channel partners such as carriers, as well as enterprise partners such as 3LM that we announced with last week.

And I think you saw in Western Europe we announced an expansion of our agreement with Telefonica. So, it's a great leading indicator of where our strategy's going in the US market. And I look forward to hopefully sharing more and more good news with you over time as we continue to execute on that front.

So, I'll hand it back to Suhai to answer your first question.

Suhai Ji: Yes, I think in terms of financial metrics, we, again, delivered a strong fourth quarter not only on the top line gross, but also if you look at it from the cash flow perspective. On the fourth quarter, our operating cash flow is, like, $4.2 million given that we have very little CapEx.

If you saw from the investing (inaudible) on the cash flow that -- statement that we disclosed, we only have US$250,000 in CapEx. So, that's essentially over $4 million -- about $4 million in free cash flow. So, that shows the healthy business that we have.

And also part of the reason for that is also for revenue because we are on the subscription and recurring basis. So that positioned us really -- enable us to provide good visibility on the future revenue stream. And that has been also improving in the past two quarters, in terms of the guidance that we give that we have been able to meet and exceed the guidance, but not by -- not way off. It's -- we are pretty much on the ballpark, but have done a bit better than we had expected.

Does that answer your question?

Matthew Coss: Okay. Thank you so much. Yes. Thanks, you guys.

Suhai Ji: Yes.

Operator: Thank you for your questions.

(Operator Instructions)

Your next question is from Mr. Andy Yeung of Oppenheimer. Mr. Yeung, please feel free to proceed.

Andy Yeung: Hi. Good evening. Congrats, on another great quarter. My first question is about your lines with 3LM. I think, your product was traditionally targeting the consumer market, but I think with your 3LM alliance you're entering into the enterprise market.

So can you give us some more colors on how the 3LM alliance work, in terms of distributions, pricing, et cetera? And also, can you quantify the potential impact as well as your overall view or strategies for the enterprise market?

Omar Kahn: Yes, I'll take that question. Andy, this is Omar Kahn. Nice to meet you. The -- so if you take a look at our announcement at 3LM, which was -- which we made last week at the Mobile World Congress in Barcelona it absolutely highlights our entry into the enterprise.

While our solution traditionally has been targeted at the consumer market, the actual capability of our software from both from a server or Cloud site as well as from a client-side application apply very well to the enterprise market as well.

And so from a trend perspective, if you take a look at what the enterprise is doing, especially related to the Android and smartphone ecosystem in terms of bringing your own device to work, we were seeing a lot of demand from enterprises to augment their traditional mobile device management solutions with a mobile security software capability or mobile security protection capability, and that's really what led to the partnership with 3LM.

So, as an example, in 3LM's both console and client-side software, our Cloud -- our Cloud scan technology as well as our white listing and black listing technologies will be integrated into their service offering. And while I can't go into specific details of either volumes or specific financials, it is a premium-only model.

It's not related to a free to -- premium conversion, so our business model associated with that will be on a per user -- on a pay per user basis. And as we head into the launch of that solution, we'll be able to share more details with you in terms of both the availability and customer launches.

And I think you saw in the announcement as well, Dave already -- 3LM has already reached -- announced significant deals with over ten OEMs or mobile phone manufacturers for preloading, as well as carrier deals as well. So, we look forward to that being our major entry into -- a major entry for us into the enterprise market, and we will continue to expand our offering for the enterprise space as well.

Andy Yeung: Great. Thanks, Omar. And now my next question is a little bit about your current markets. And looking at your user base, can you give us an update in terms of --the distribution of user base, in terms of the offering system that they use, and also about your new user -- what's the profiles, how are you doing with the Android platform?

Will Jiang: Andy, this is Will. I'll take this question. As usual, we don't disclose our user base by platform, but what we can share with you is that based on the most recent quarter as well as for the whole year of 2011, Android represents the strongest momentum out of the [only] platform available. This is in line with the global smartphone shipment in volume which Android pretty much owns 50% of the market share according to various third-party research.

We have multiple products available currently in our Android market getting very good traction. If you do independent research on Android market, you'll find our mobile security product, Mobile Guard, Mobile Manager and the newly launched Secret Box all received multi-million downloads on Android market alone.

This is in addition to a lot of the OEM pre-installation agreements that we've announced, that we've executed including Motorola, Huawei, ZTE and many other OEMs as well.

So on the other side, iOS, we have a nice [day] product that's growing very fast in China. It peaked at number one in the iOS app store in the productivity category. We've also recently launched Mobile Security 3.0 for Windows Phone Platform 7 at CES this year. So all the platforms are growing quite nicely.

On the other hand, even though the global shipment for (inaudible) is dropping, we're still seeing growth momentum from the service side, meaning that we're still adding revenue and it's representing some user worlds and some revenue growth in the aspect. So all in all, we're seeing traction across platform which is in line with our global strategy, meaning that we're trying to become carrier platform as well as headset OEM agnostic.

Andy Yeung: Got it. Thanks. And then my final question is a housekeeping question. You know, given the current stock price, how much stock based compensation do you expect in the first quarter and for the full year 2012?

Suhai Ji: Well, I think that I mentioned that on the call. I think for the first quarter our expectation was $2.6 million, but, again, that does not include additional option granted during the first quarter, which will bump that up.

And we are still working with our auditor in determining what's the impact on the -- because obviously, as you know, our new Co-CEO joined in the first quarter. So, there will have to be some equity component of the compensation that needs to be taken into consideration. And we're still working through with our auditor of Pricewaterhouse Coopers to determine the exact amount.

You know, other than the new other option grants throughout the remainder of 2012, I think each quarter it would be roughly between $2 million to $3 million in terms of SBC expenses. And because we --

Andy Yeung: Okay.

Suhai Ji: -- cannot tell what's the additional ones. That's why one of the reasons we do not provide a EPS guidance on a GAAP basis.

Andy Yeung: Got it. Okay. Thank you.

Operator: Thank you for your questions. Your next questions is from Michael Walkley of Canaccord Genuity. Mr. Walkley, please feel free to proceed.

Michael Walkley: Great. Thank you. Just a longer-term question. Clearly, great job with Omar coming onboard and already signing up some strategic deals with 3LM and Motorola (inaudible) the enterprise and the Cricket deal.

So, obviously, as you try to gain more share with carriers and partners onboard, you've got to grow your team. So how to view 2012 in terms of OpEx growth relative to sales growth? And does it change it all with the needed headcount addition your longer-term operating margin targets?

Suhai Ji: Yes, I -- that's a good question in terms of operating margin. I mean, for the last quarter our margin was about 38%. And as you saw from the recent string of announcements that we have made -- the deals with 3LM, the deal with the carrier -- and this is really our first US carrier relationship with Cricket.

So we definitely continue to invest, but that investment -- just to give a bit more color on that -- it's really not, like, doing more marketing and ads. It's really providing -- some of -- is really putting the infrastructure, and provide the operational support for the recent deals that we signed and that's really a fundamental part of our investment in the US and also continuously to build our team on the ground.

And we offer - obviously, we're going to expand our effort on the PR side as well, but we always take a very prudent approach to that. And also with the -- I think those investments would be a bit front-loaded. And once the revenue ramps up and -- I think we -- our scalable business model is going to kick in place and you will see the margin improvement.

So, right now I think for the first quarter and second quarter, we think our operating margin is going to be in the mid-30s and with some fluctuation. And then, towards the end of the year, we're going to see the margin improvement into -- gradually into 2013.

So 2012 and 2013 will be kind of -- kind of expansion -- we'll be in an expansion and an investing mode. But, again, we want to maintain a good balance between the profitability and our growth and also growing our market share in a developer market.

Michael Walkley: Okay. Great. Thank you, Suhai. That's very helpful. And just in terms of your business mix, I mean, there's two big growth drivers -- and coming out of Mobile World Congress, I think everyone agrees -- at least our view is Huawei had probably the best improvement year-over-year in their Android smartphone offering, and they plan to triple their smartphone units with a lot of growth in China markets.

So, could you discuss your relationship with Huawei? And then, also, just given China 3G smartphone growth is a strong growth driver that you're expanding your international base, how do you expect your mix between China and the international to change over the course of the year, and what might that do to your average revenue per user?

Suhai Ji: Yes, we continue to see -- as you saw from our historical numbers, right now, the overseas user already contribute about half of our premium mobile internet services. And we see that trend continuing especially -- you see the recent deals. And in 2012, that's the year we -- for example, we're going to start monetization in the United States.

So that's why -- and also the ARPU in the US and all the overseas markets are definitely higher than China. And as we turn on the more billing channels in additional countries, for example, Europe -- the deal we announced with Telefonica a global API, will enable us to start a monetization.

And, also, our experience is telling us once you have the carrier billing in place, your sell through rate is, like, five -- anywhere between 500 times - 500% to 1,200%. In a developed country like the US or Europe is probably five times more likely consumer will pay for the service, and in the Latin America, those developing market is for as high as, 1,200%.

So, that's why it's critical for us to put in the carrier billing into those more give out markets where we are expanding into. And so, , again, I think for ARPU for China, I think we have had a stable business.

I -- unless we're going to increase the price, we see ARPU kind of maintaining the level where they are for -- at least for 2012. And for overseas depending on how quickly we turn on the billing channels, you will see the increase in conversion and also potential increase in ARPU as well.

Michael Walkley: Thank you. One more last for me. Omar, you've only been there, I think, two months now, but could you just discuss how the -- how your discussions are going in terms of growing your international business with carriers, and how you're viewing the competitive environment in signing these deals?

And just for my last question if you guys could follow-up just on your relationship with Huawei, are you [installed] on some or all of thereof smartphones? Thanks.

Omar Kahn: Okay. So I'll handle your question related to the momentum in the international markets. And just to add into Suhai's question that he just answered related to -- related to ARPU and business models, also, as we expand into the enterprise channel for the discussion we had earlier, which has -- which has a different business model associated with it, obviously there's a higher propensity to spend in the enterprise channel.

And they also buy in terms of larger seats, in terms of the business model, in terms of how you sell it, in terms of multiple seats or multiple licenses per enterprise. So we should see -- we should see some diversification in the business model, in addition to our traditional consumer channel.

So I hope that gives you a little bit more color to the channel diversification and the additional business models that we may see. And obviously over time we'll be able to share with you more how that impacts -- how that impacts ARPU as we launch and add those users into our user base.

Now, related to -- specifically to your question on sort of momentum in the international markets, I think you saw we had the volume of deals as well as the volume -- I mean, the volume of announcements was very significant for us over the last couple of weeks, everything starting from Telefonica to eSecuritel, which is an insurance offering that we're bundled with in addition to Cricket and 3LM.

You can see the momentum that we're building. So, we're looking forward to accelerating that momentum here to finish out the first half and going into the second half as well. The reception that we're getting frankly speaking both at the OEM level, at the carrier level as well as other partners such as retail and enterprise is actually extremely good.

The technological advantage that we've got that we've been building since 2005 is actually, frankly, made it -- made it a very fruitful conversation and a very productive conversation for me and the team to have with carriers and partners and potential partners in North America, European, as well as the Latin American markets. So I would expect that momentum will continue and, if anything, accelerate throughout 2012 and heading into 2013.

And the product pipeline that we've been able to share with the operators and with our potential customers has them very excited about where we're headed not just with the current products that we're launching, but the partnerships that they're looking forward to from us also take into account the evolution of our product portfolio and the growth of it as well as the diversification of it.

So, I look forward to sharing with you in upcoming earnings calls, increase momentum on the deal pipeline.

Michael Walkley: Great. Thank you very much --

Omar Kahn: And sorry -- and you had one last question I think Will was going to answer related to Huawei.

Will Jiang: Yes. So, in addition to Huawei, ZTE as well as Motorola, all these pre-installation agreements have been executed. We are starting to see in the market in retail channels that all these phones come pre-installed with NQ - NetQin or NQ Mobile branded mobile security. So, you should be able to find them in the market available.

Michael Walkley: And, Will, is that just in China for Huawei, or is it also in international markets?

Will Jiang: It's global.

Michael Walkley: Oh, great. Okay. Great. Well, congratulations, on the momentum, and thanks for taking my question.

Will Jiang: Thank you.

Operator: Thank you, Mr. Walkley. Now, I will revert the call to Mattan Lurie, NetQin's Director of Investor Relations.

Mattan Lurie: Thank you, operator. If there are no further questions at present, we'd like to conclude by thanking everyone for joining us on the call. We welcome you to reach out to us directly by emailing Investors@nq.com should you have any questions or requests for additional information, and encourage you to visit our investor relation site at ir.nq.com, where you can find numerous resources and materials including the recording of this and previous earnings webcasts.

This concludes NetQin's earning call.