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KZ - Q2 2015 KongZhong Corp Earnings Call

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CORPORATE PARTICIPANTS

Jay Chang *KongZhong Corporation - CFO*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the second quarter 2015 KongZhong Corporation's earnings conference call. At this time, all participants are in a listen-only mode. Please note that today's conference call is being recorded. I would now like to turn the call over to Mr. Jay Chang, Chief Financial Officer of the Company. Thank you, Mr. Chang. Please go ahead.

Jay Chang - *KongZhong Corporation - CFO*

Thank you, Operator. This conference call may contain forward-looking statements. Although such statements are based on our own information, and information from sources we believe to be reliable, you should not place undue reliance on them.

For additional discussions of risks and uncertainties relating to forward-looking statements, and other factors, please see the documents we file from time to time with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statements, which apply only as of the date of this conference call. Thank you for your interest in KongZhong.

Total revenues for the second quarter 2015 were \$47.55 million. Total gross loss was \$15.29 million. The total gross profit, excluding the effect of the impairment loss on intangible assets related to the full carrying value of our licensing agreements relating to Guild Wars 2, would have been \$19.92 million, within our prior guidance range of \$19 million to \$20 million.

GAAP net loss was \$30.42 million. Diluted net loss per ADS was \$0.65. Although this included the same \$35.21 million impairment loss on intangible assets. Non-GAAP net income was \$5.62 million, with non-GAAP diluted net income per ADS of \$0.12, exceeding our prior guidance level of around \$5 million.

At the end of June, the Company had \$200 million in cash and cash equivalents, term deposits, held-to-maturity securities, available-for-sale securities, and restricted cash, were equivalent to \$4.29 per ADS in cash and cash equivalents, which is net of a \$50 million short-term bank loan, which was utilized for the purpose of last year's dividend payment

Turning to each business line. Internet game revenues were \$24.46 million in the second quarter of 2015. A decline of 7.2% from the first quarter. Although World of Tanks continued to demonstrate stable performance, user activity and purchases in Guild Wars 2 and World of Warplanes continues to be moderate during the period.

We expect performance and player purchases in Guild Wars 2 to remain depressed until the release of the upcoming expansion. For the second quarter of 2015, mainland China online game operations achieved average monthly active users, or MAU's, of 1.8 million users, an aggregate of monthly paying accounts of 327,000, with a monthly average revenue per use, ARPU, or RMB152.

Total mobile game revenues were \$9.43 million, a 10.7% decrease from the first quarter. The decline in mobile game revenues was due to a decline in revenues from legacy self-developed and licensed games on Chinese smartphone game platforms, as well as lower than expected profits of the new game launch at the end of the second quarter.

WVAS revenues were \$13.66 million, a 0.5% increase from the first quarter, but a 9.7% decrease from the same period last year. Total gross loss for the second quarter was \$15.29 million, and this included the impairment loss on the tangible assets.



During the period, the Company recognized a \$35.2 million impairment loss, which is equal to the full carrying amount of intangible assets related to our licensing arrangement for Guild Wars 2. However, the Company continues to operate Guild Wars 2, and intends to release the upcoming expansion pack in China in the near future.

Other than the effective impairment on intangible assets, gross profit would have been \$19.92 million, a 4.2% increase from the first quarter, but a 18.7% decrease from the same period last year. Excluding the effect of impairments on tangible assets, total gross margin would have been 42% from the second quarter.

Total operating expenses in the second quarter were \$17.41 million, compared to \$16.19 million in the first quarter, a slight increase relating to the smartphone game launch at the end of 2Q.

Now turning to our business outlook, the third quarter ending September 30th, 2015, we expect total revenues for the third quarter to be within the range of \$40 million to \$41 million. We expect total gross profit to be within the range of \$18 million to \$19 million, and we expect U.S. GAAP net income to be \$4 million, and non-GAAP net income is expected to be around \$5 million.

Our third quarter 2015 revenue guidance reflects stable quarter-over-quarter performance in our internet game business, but a decline in our mobile game business due to a delay of new mobile game launches, and a decline in our WDS business due to impacts of mobile operator policies. Due to the pause in new mobile game launches, we expect sales and marketing expenses in 3Q to moderate compared to 2Q levels.

Thank you for your interest in KongZhong. Operator?

Operator

Ladies and gentlemen, that does conclude our conference for today. We thank you all for your participation. You may now disconnect.

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