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KZ - Q3 2015 KongZhong Corp Earnings Call

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## CORPORATE PARTICIPANTS

**Jay Chang** *KongZhong Corp. - CFO*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Third Quarter 2015 KongZhong Corporation Earnings Conference Call. At this time, all participants are in a listen-only mode. Please note that this conference today is being recorded.

Now, I would like to turn the call over to Mr. Jay Chang, Chief Financial Officer of the company. Thank you, Mr. Chang. Please go ahead.

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**Jay Chang** - *KongZhong Corp. - 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.

For the third quarter of 2015, total revenues were \$38.58 million. Net-income was \$3.9 million, or diluted net-income per ADS, or \$0.8, while non-GAAP net-income was \$4.54 million, or non-GAAP diluted net-income per ADS, or \$0.10. As of September 30, 2015, the company had a \$138 million in cash and cash equivalents, term deposits, held-to-maturity securities, available-for-sale securities and restricted cash, equivalent to US\$2.95 per ADS.

Turning to our each business unit. Internet Games revenues were \$23.74 million in the third quarter of 2015, a decrease of 2.9% from the second quarter of 2015. World of Tanks continued to demonstrate stable performance, but user activity and purchases in Guild Wars 2 and World of Warplanes continued to moderate during the period.

For the third quarter of 2015, Mainland China online game operations achieved average monthly active users, or MAUs, of 1.8 million users and aggregated monthly paying accounts of 307,000, with monthly average revenue per user of RMB 160.

Internet game revenues made up 61.5% of total revenues in the third quarter of 2015.

Total mobile game revenues were \$2.68 million, a 71.6% decrease from the second quarter of 2015 and a 76.3% decrease from the same period last year. The sharp reduction in mobile game revenues was due to the shorter life cycle and high churn of recently launched smart phone games, as well as the company's recent pivot to concentrate mobile game development and licensing towards military genre mobile games to bolster our War Saga brand. We expect this transition to influence mobile game revenues for the near future.

Total mobile game revenues made up 7% of total revenues in the third quarter of 2015. WVAS revenues were \$12.16 million, an 11% decrease from the second quarter and a 25% decrease from the same period last year, while WVAS revenues made up 31.5% of total revenues in the third quarter.

Total gross profit for the third quarter was \$16.9 million, a 15.2% decrease from our non-GAAP gross profit in the second quarter of 2015 and a 29.1% decrease from the same period last year.

Total gross margins were 43.8% in the third quarter compared to non-GAAP gross margins of 41.9% in the second quarter of 2015. Total operating expenses in the third quarter were \$13.17 million compared to \$17.41 million in the second quarter.



Product development expenses in the third quarter were \$5.77 million compared to \$6.12 million in the second quarter, while sales and marketing expenses in the third quarter were \$5.2 million compared to \$8.11 million in the second quarter. While sales and marketing expenses declined, as we did not release any major Internet or new games in the third quarter.

G&A expenses in the third quarter were \$2.2 million compared to \$3.18 million in the second quarter of 2015.

The company's total headcount in the third quarter ended up 913 staff compared to 1,022 staff at the end of the second quarter, as the company has begun to optimize our cost structure for the lower amount of business in mobile games and WVAS.

Turning to our outlook for the fourth quarter 2015. We expect total revenues for the fourth quarter to be within the range of \$41 to \$42 million, and we expect total gross profit to be within the range of \$19 million to \$20 million. While we expect net-income to be within the range of \$3 million to \$4 million and non-GAAP net-income to be within the range of \$4 million to \$5 million.

Our fourth quarter guidance reflects partial quarterly contribution from the open beta release of World of Warships and the expansion pack of Guild Wars 2 offset by increased marketing for those game releases, as well as a small rebound in mobile games due to new mobile games releases in the fourth quarter and continued moderation in our WVAS business.

Moving forward, the company intends to concentrate its efforts in Internet Games and Mobile games around its War Saga game platform, China's leading military genre online game platform. As part of War Saga, we expect to release World of Warships to Open Beta on November 27, 2015, while World of Warships is currently one of the most anticipated new PC games in China per-mainstream media rankings.

The company also released Heart of Thorns, the first expansion pack for Guild Wars 2 to the mainland China market on November 20, 2015. And we also recently licensed our self-developed martial arts MOBA PC game, Master of Meteor Blades, to Tencent Games, with beta testing to begin in the near future.

We also continue to internally test Blitzkrieg 3 and other PC as well as mobile military genre games for potential release in 2016. In addition, the company's co-developed mobile game with a Korean studio partner, which we have called Castle of Heroes, a Western Fantasy themed 3D Action RPG mobile game is expected to begin open beta testing during the fourth quarter of 2015.

Thank you for your continued interest in KongZhong, and we look forward to speaking to you in the near future.

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