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KZ - Q4 2015 KongZhong Corp Earnings Call

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CORPORATE PARTICIPANTS

Jay Chang *KongZhong Corporation - Director and CFO*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q4 2015 KongZhong Corporation Earnings Conference Call. At this time and for the duration of the conference, all participants are in a listen-only mode. Please be advised that this conference is being recorded today, Friday, March 25, 2016.

I would like to hand the conference over to your speaker today, Mr. Jay Chang. Thank you. Please go ahead.

Jay Chang - *KongZhong Corporation - Director and CFO*

Thank you, operator. This conference call may contain forward-looking statements. Although such statements are based on our own information and information from other sources we believe to be reliable, you should not place undue reliance on them. For additional discussion on 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 fourth quarter of 2015 were \$42.48 million, exceeding the guidance range of \$41 million to \$42 million. Total gross profit was \$19.02 million, within the guidance range of \$19 million to \$20 million; while net income was \$6.1 million or per ADS of \$0.13, exceeding our prior guidance range of \$3 million to \$4 million.

Non-GAAP net income was \$6.99 million or per ADS of \$0.15, also exceeding the guidance range of \$4 million to \$5 million. As of December 31, 2015, the company had a \$163.43 million in cash and cash equivalents, term deposits, held-to-maturity securities, available-for-sale securities, and restricted cash or equivalents of \$3.49 per ADS.

Turn to our full year 2015 financial highlights. Total revenues were \$179.11 million for the full year of 2015 compared to \$227.6 million in 2014, of which, Internet game revenues were \$105.04 million in 2015 compared to \$118.10 million in 2014 while mobile game revenues were \$24.65 million in 2015 compared to \$45.04 million in 2014 and WVAS revenues were \$49.42 million in 2015 compared to \$64.46 million in 2014.

Net loss in 2015 was \$16.23 million compared to a [\$22.59 million] (corrected by company after the call) net income in 2014. However, our 2015 net loss included a \$35.21 million impairment loss on intangible assets. Non-GAAP net income was \$22.31 million compared to 2014 full-year non-GAAP net income of \$29.9 million.

Now turning to each of our separate business units. Internet Game revenues were \$30.48 million in the fourth quarter, an increase of 28.3% from the third quarter, due to the release of World of Warships on November 27. For the fourth quarter, Mainland China online game operations achieved average monthly active users of 2.7 million users and aggregated monthly paying accounts of 448,000 with monthly average revenue per user or ARPU of RMB144.

Internet Game gross profit was \$16.11 million, a 26.8% increase from gross profits in the third quarter and an 18.9% increase from the same period last year. Internet Game gross margin was 52.9% compared to 53.5% in the third quarter.

Total Mobile Game revenues were \$1.98 million, a 26% decrease from the third quarter of 2015 and an 86.9% decrease from the same period last year. The continued reduction in Mobile Game revenues was due to the shorter life cycles and higher churn of recently launched smartphone games and the company's pivot to concentrate our mobile game development and licensing towards primarily military genre mobile games to



bolster the War Saga brand. We expect this transition to influence Mobile Game revenues for the foreseeable future. Total Mobile Game revenues made up 4.7% of total revenues in the fourth quarter.

WVAS revenues were \$10.02 million, a 17.6% decrease from the third quarter of 2015 and a 41.1% decrease from the same period last year. WVAS revenues continue to be impacted by the shift away from traditional WVAS services towards smartphone applications and mobile, as well as due to mobile operator policies. WVAS revenues made up 23.5% of total revenues in the fourth quarter.

Total gross profit for the fourth quarter was \$19.02 million, a 12.5% increase from the third quarter and a 28.7% decrease from the same period last year. Total gross margin was 44.8% in the fourth quarter compared to gross margins of 43.8% in the third quarter.

Total operating expenses in the fourth quarter of 2015 were \$16.8 million compared to \$13.17 million in the third quarter; while product development expenses in 4Q were \$6.18 million compared to \$5.77 million in the third quarter. Sales and marketing expenses in the fourth quarter were \$6.35 million compared to \$5.2 million in the third quarter. And sales and marketing expenses in the fourth quarter increased primarily due to the increased promotion activities surrounding our World of Warships launch in November.

G&A expenses in the fourth quarter were \$4.27 million compared to \$2.2 million in the third quarter. G&A expenses increased primarily due to the increased consulting and travel related expenses relating to our corporate investment activities, as well as additions to bad debt provision relating to our WVAS business. The company's total headcount in the fourth quarter was 793 staff compared to 913 staff at the end of the third quarter as the company continues to optimize our cost structure for the lower amount of business in Mobile Games and WVAS.

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

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

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