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NQ - Q4 2013 NQ Mobile Inc. Earnings Conference Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the NQ Mobile Q4 2013 earnings conference call. At this time, all participants are in a listen-only mode. (Operator Instructions). I must advise you that this conference is being recorded today, April 11, 2014.

I would now like to hand the conference over to your speaker today, Ms. Michelle Ma, Director of Investor Relations and Corporate Development for NQ Mobile. Thank you and please go ahead.

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**Michelle Ma** - *NQ Mobile Inc. - Director, IR & Corporate Development*

Thank you. Good evening and good morning, Asia. We welcome you to NQ Mobile's 2013 fourth quarter and full-year earnings conference call. On today's call, we will have NQ Mobile's Co-Founder and Co-CEO Dr. Henry Lin; Co-CEO Omar Khan; CFO K.B. Teo and Vice President Matt Mathison. We thank you for joining us.

Before we begin, let me read you the Safe Harbor disclaimer. Please note that the discussion today will contain certain forward-looking statements, made under the Safe Harbor provision 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 obligations 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 direct comparable US GAAP financial measures and the information reconciling those non-GAAP financial measures to NQ Mobile's financial results prepared in accordance with US GAAP will be included in NQ Mobile's regular earning release and filing.

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

With that said, I would also like to point everyone on this call to our presentation on our Investor Relations website. We will be following that presentation on our call today and we encourage you to view that with us.

Now I would like to turn the call over to our Co-CEO, Omar Khan.



**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Thank you, Michelle. Hello everyone, and thank you for joining our call. Before we discuss our record year and strong position for 2014 and beyond, I'd like to take a few moments to clear the air or perhaps more appropriately, clear the waters.

The American statesman, Daniel Patrick Moynihan, once said, 'Everyone is entitled to their own opinions, but they are not entitled to their own facts.'

Ladies and gentlemen, I want to share a few facts. The fact is, the work of the Special Committee, the attorneys, the forensic accountants they hired is independent.

It is not management's place to speak directly to the many questions you may have about the Special Committee's work. The special committee will speak for itself in due course, as highlighted in our statement in the earnings release, in conjunction with the filing of our annual 20-F Form.

However, the fact is that management, our entire organization, our Board of Directors, and our independent auditors are here and remain focused on our respective responsibilities.

As an organization, we are addressing the sizable opportunities in the market every single day. By the way we continue to run our business, by the way our products and services continue to solve problems, provide entertainment, and create value for our platform partners and our end-users, and demonstrated by the way we position -- our position in the market is stronger than ever before.

The fact is your management has unrelenting resolve and commitment to continue expanding and accelerating our business partnerships and relationships, to drive results and achieve robust growth. Every employee at NQ Mobile is working tirelessly to hit our goals and to make our vision and strategy a reality.

The fact is in the past five months alone we have added more than 10 new major partnerships and business deals, from mobile giants and industry leaders, including Sprint, Samsung, Ubisoft, China Mobile, Huawei, The National Bureau of Statistics in China and Telkomsel, among others.

We have introduced new products and services that are solving pain points and enhancing and delighting customers and businesses alike.

We have grown the monetization of our engaged user base dramatically. And we have taken, in only two quarters, our annualized revenue run rate from just over \$160m to now over \$300m, with our Q1 guidance.

The fact is, as a management team and as a Company, we remain confident in our business, our financials, our competitive position and our business strategy.

Now that you've heard the facts, I invite you to share the opinions held by your management, the Company, employees and everyone who partners and works with us, that NQ Mobile is poised for continued, unprecedented growth.

Now let's move on to our record results and strong positioning for 2014. Matt.

**Matt Mathison** - *NQ Mobile Inc. - VP*

Thank you, Omar. And again, thank you everyone, for joining us. With that said, we are definitely ready to move forward. Let's turn our attention to the fourth quarter results and I'll update you with our strong outlook for 2014.

On the call today, you will hear first from our Co-Founder and Co-CEO, Dr. Henry Lin. We will then hear again from our Co-CEO, Omar Khan. Our CFO, K.B. Teo will then review the financials, as well as provide commentary on the financial outlook for NQ. We will then have time for Q&A.

Now before I turn the call over to Dr. Lin, I want to highlight three key points up front that you should get out of this call, in addition to a good, comprehensive update on our business and strategic focus.

Number one, as described in our earnings release, there were extraordinary costs associated with the special circumstances the Company had to manage, associated with the manufactured volatility and the Special Committee's work. In addition, there were one-time costs from the convertible bond offering.

These costs impacted our profitability and margins. And even though some of these costs will continue in Q1, these items are not a reflection of our operating model, going forward.

But even including these extraordinary costs and the business mix in Q4, which included incredible growth in our enterprise and advertising segments, which both have a lower margin profile, we were still able to achieve our stated profitability targets for the 2013 full year.

Looking ahead, while there are quarterly fluctuations, related to investing and the expansion of our platform business and emerging products, as well as revenue mix shifts, we remain confident in our long-term operating model, even if quarterly fluctuations will continue in the near term.

I would also like to just point out that in the recently concluded Q4 period, our DSOs in the quarter fell below 100 days and came in at 97 days.

Number two, our revenue outlook is something that should highlight the significant power of our platform and specifically how it is meaningfully taking hold. Q1 is typically seasonally lower in enterprise and advertising. Yet we are seeing continued strength in these businesses, sequentially. Our revenue trajectory is well ahead of even our own expectations.

Number three, we will provide additional details later in this call about our operating metrics. But we do continue to see accelerating user and traffic growth, both within our own products, as well as part of our platform of traffic and advertising.

The operating metrics detailed in today's earnings release do not include some very important products and traffic users, as well as premium user totals. We will begin reporting these user metrics, to more accurately reflect this platform in the future. And in a few moments, we'll provide you with some of the details, so that you'll be able to accurately analyze our important user acquisition, engagement and monetization trends.

Now I am pleased to turn the call over to our Co-Founder and Co-CEO, Dr. Henry Lin. Henry, go ahead, please.

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**Henry Lin** - *NQ Mobile Inc. - Co-Founder and Co-CEO*

Thank you, Matt. Hello everyone and thank you for joining us today. I want to take the opportunity to thank our employees and managers for your hard work, effort and results.

We just completed a record year for revenues and earnings. More important, NQ Mobile is now positioned to not just participate in the evolution of mobile platform, but to lead the way globally.

We already have one of the world's leading mobile user acquisition engines. And we're not just acquiring users, but we have an expanded product and service offerings to engage and ultimately to monetize these users.

We have many new technologies in the pipeline to improve mobile discovery and user engagement for both consumers and businesses. The opportunity in front of NQ Mobile is huge.

We are proud of our record year. Yet we're much more focused on making the future years even better. Mobility trends are changing the way consumers interact with their devices. These same trends are also changing the demands and needs on how enterprises work with employees and data.



We're seeing a complete transformation of everyday life. And, we are prepared to lead this transformation. Our journey is just beginning.

Now, before I turn the call over to my partner and Co-CEO, Mr. Omar Khan, let me spend several minutes talking about our enterprise business.

Since the last time we spoke, we announced and delivered one of the most ground-breaking enterprise deals in China. We have now deployed and are supporting more than 700,000 seats with the National Bureau of Statistics in China, and that deal will grow further.

This deal alone has positioned us as the go-to enterprise mobility provider in the China market. The effects of this relationship are showing up in many ways, including the busiest business development pipeline we have seen so far. In fact, our pipeline has grown from just a couple hundred thousand seats a couple of quarters ago, to now over 1m seats in our current pipeline.

We are rapidly growing our headcount in this business and believe that there is a very long runway of growth ahead. We have already demonstrated success in financial services, insurance and government segments of the market.

While these continue to be important sectors, I want to spend a few minutes talking about some of the early success stories in one of our emerging verticals, in the healthcare industry, one that we believe will become our largest vertical.

In a developed market, like the United States, healthcare represents almost 18% of GDP, according to the most recent data from World Bank. In China, healthcare only represents 5%. Yet it still accounts for a large portion of all Internet search traffic.

There is tremendous growth ahead in the healthcare sector in China. Our services and solutions in the healthcare vertical currently include mobile enterprise application development and deployment, mobile search [management], healthcare provider/patient communication and monitoring, and device management.

One success story I would like to highlight is at West China Hospital in Sichuan Province, which is one of the largest -- the world's largest single-point hospital. NQ Mobile is working with the hospital to develop a dedicated mobile healthcare platform.

This platform will be tailored initially for stroke recovery, providing tracking and guidance for patients and their doctors. This innovation has been designated for a national demonstration project by China's Ministry of Health.

NQ is also working with West China Hospital as a provider of MDM solutions. We beat out industry giants like IBM and Hitachi for this significant contract. This is a 30,000 device deal and represents the beginning of a very rewarding business opportunity.

So you can see the opportunities in mobile enterprise management for verticals such as healthcare and financial services are enormous for NQ Mobile. The market size and opportunity is huge.

This is also especially exciting personally, as I have a passion to use mobile technology to improve accessibility and affordability of healthcare services to the broader Chinese population.

I would now like to turn the call over to my partner and Co-CEO, Mr. Omar Khan.

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Thank you, Henry. I would also like to congratulate the team for a record-setting year, across the board. Henry just gave us a great summary of the performance and potential of our enterprise business. I will now do the same for our consumer business.

When we set out our 2013 operating plans and objectives back in November of 2012, in addition to our financial goals and targets that we set and surpassed, we also communicated the following fundamental operating goals.



One, we wanted to build credibility and scale in executing against our platform strategy.

Two, we wanted to begin commercialization of our R&D investment.

Three, we wanted to secure at least one additional tier-one global carrier.

Four, we wanted to broaden our monetization opportunities.

And finally, we wanted to drive deeper engagement with our users.

I'm proud to say that we not only accomplished but significantly exceeded all of these goals and objectives for 2013. All that being said, it's still just the beginning.

The vision for our Company, going forward, is to continue being a leading mobile Internet platform company on a global scale that is unparalleled in operating and financial performance.

To put this in the simplest of terms, first, we must have compelling and engaging products and services, products and services that address user needs and delight them.

Second, we must have dominant user acquisition channels and an ability to distribute products and services directly to end users, and on behalf of third-party carriers and our manufacturing partners.

Finally, we must be able to monetize for ourselves and for our platform partners.

Everything we do as a Company fits into one of these three main focus areas, including our R&D priorities, partnerships and corporate relationships, our business development efforts, talent acquisition and hiring, and our investments in M&A.

If you review some of the strategic and important new relationships as well as newly introduced products and updates, you can see how each one strengthened and better positioned our Company in one of these three main areas, products and services, user acquisition and engagement, and monetization.

It's hard to believe it's only been 17 months since we first unveiled this platform strategy. Many people looked at us and said, 'Why you?' Five months ago, at our second Analyst and Investor Day, I opened the presentation with numerous slides, illustrating recent tangible results and facts validating our ability to execute this platform strategy and answer all of those questions.

Over the last five months, we got a lot of visitors who have come and spent a considerable amount of time with the team. They have all remarked about the energy, excitement level and vision of our organization. This is the most exciting time to be at NQ. Personally, I'm having more fun than I've ever had at any time in my entire career.

We have more tools at our disposal that make us more relevant to a broader set of constituents than the days when I was at Samsung or Motorola. We are relevant to and engaging in business discussions today, with enterprises, carriers, manufacturers, consumers, advertisers, developers and others, on a global playing field. It's hard not to be confident and excited about the future.

We continue to expand our products and services, and are achieving this as we move up the engagement ladder of things that are front-of-mind to consumers and enterprises. Over the last two years, we have significantly elevated our product portfolio, in terms of user engagement and delight. We've realized this, while continuously expanding our channel partnerships and monetization capabilities.

This started nearly two years ago, with our productivity applications, when we rolled out Vault and Family Guardian, both of which uniquely address consumer pain points and drive higher engagement beyond mobile security.

In the past year alone, we've expanded our user acquisition partners for these productivity applications to include America Movil, Telkomsel, China Unicom, just to name a few. We expect to be able to share new announcements of tier-one partners soon.

In addition, we expanded our monetization capabilities beyond direct consumer service revenue, to include advertising. Our retail business continues to successfully build out and we are actively working with our insurance partners to drive new insurance bundled offerings.

In fact, we will be commercializing our first insurance and security bundle in the next two quarters, and are planning an aggressive migration of our retail footprint to this new model. We're not moving completely away from our standalone retail business, but rather adding insurance bundling into the retail mix and carrier partners.

The benefits to NQ are very simple. While we continue to see 20% attach rate in retail locations where proper sales and support training exist, we believe that the insurance bundling will move our attach rate to as much as 50%, on a more consistent basis.

We continued moving up the user engagement ladder, with the addition and growth of our mobile gaming portfolio. Our FL Mobile business continues to shine. For the fourth quarter, our FL Mobile business collectively, including gaming and advertising, achieved record revenues of \$14m. Besides now being on annualized run rate of almost \$60m, we're excited about the accelerating engagement metrics. I

In the fourth quarter, we saw our largest quarter-over-quarter increase in DAU, from 127,000 in Q3 to now more than 160,000 at the end of Q4.

We also continued to extend important key relationships, like Tencent. And we signed a new strategic deal with Ubisoft. We have a strong pipeline of games to be operated over the next few quarters, and we'll continue to bring the best content to our users and the best platform for a strong -- for the strongest mobile content developers.

But we didn't stop thinking about consumers, their evolving desires and engagement with just mobile gaming. We have begun rolling out the two most exciting consumer products in the history of NQ, our audio search technology, packaged into the Music Radar application, and NQ Live.

Since Music Radar launched, we've had approximately 20m downloads. And the Music Radar search technology has been licensed and integrated into third-party services, including China Mobile's Migu music player, Kugou, TTPod, and most recently with Huawei ring back tone services. All of which today drive more than 7m unique daily search queries, which is higher than the 6m number we reported just a few weeks ago.

We expect to exceed 10m daily search queries later this year. This is an enormous milestone, and we are excited to share with you the progress of this impressive traffic, going forward. There will be more partnership announcements from Music Radar in the near future.

While mobile music is definitely a passion point for consumers and has raised the engagement level of our offering, NQ Live goes even further. Consumers pick up and look at their phone, on average, 150 times per day. As we have previously discussed, NQ Live is an innovative platform that enables content developers and partners, including ourselves, to engage users on a real-time basis, through the home screen.

As a reminder, we have recently announced -- we have already announced partnerships and pre-load relationships with Sprint, China Telecom, VTE, and numerous other manufacturers. Since we announced NQ Live, we are excited to share with you today that we have already exceeded 8m monthly active users, with daily active user accounts exceeding 2m.

Even in this early stage, NQ Live has been shipped on more than 35m devices, and the rollout will accelerate in the second half of this year. It has been an incredibly fast ramp thus far and has exceeded our own projection. We expect that the number of monthly active users on our NQ Live platform will reach 60m users next year.

Once again, we have a strong pipeline of still unannounced channel and content partners, and we look forward to updating you on our progress in the coming quarters.



Further up the user engagement curve still is our mobile messaging product, iSMS in our joint venture, Hissage with MediaTek. While still in the very early stages of commercialization, early results have been very positive.

As we have previously stated, we have nearly 2m daily active users, currently, and expect this number to grow quickly in the future, as this messaging client is preloaded on more of MediaTek's most successful smartphone chipset solutions. We will share more details about this product, as the rollout continues.

These emerging high engagement consumer technologies present an extremely exciting and lucrative opportunity for our Company and our partners.

In recent history, there are very few products or platforms that have seen this type of early stage growth and engagement. To think that we have two emerging products, NQ Live and Music Radar that are already seeing active user totals that I described is staggering.

Our focus for products such as NQ Live, Music Radar and iSMS is to invest in continued innovation, user experience optimization and growth of the engaged user base.

At NQ, similar to other large, diversified Internet players, we have the ability to incubate, grow and focus on scaling the user base, while also maintaining a healthy balance between investment and profitability.

Like these companies, our investment capacity is provided by our existing businesses, growth and profitability. However, NQ is unique, in that we do not bear the full burden of investing, in scaling these new businesses alone. Our products and services are critical to a broad set of channel partners, who invest alongside us, in product customization and user acquisition.

Someone we all know very well recently said, 'Services in the world that have 1b people using them are incredibly valuable.' Now whether or not we get to post that on our Facebook page or not remains to be seen. But make no mistake. The opportunity we see before us at NQ is huge. And we will continue to invest behind these (inaudible), these next-generation products and services, as well as their channels.

In addition to our own products and services, and user acquisition channels that comprise our platform, I mentioned earlier the ability to open that platform to enable third parties to acquire users and generate traffic for their own products and services. This becomes extremely valuable for our advertising partners.

The advertising business performed incredibly well in the fourth quarter 2014 and represented a quarter of our overall revenues in the period, and is growing rapidly.

As we entered 2013, we faced a lot of questions about our ability to find success, offering third-party application referrals via advertising channels. We exited 2013 in the fourth quarter, already with a greater than \$65m annualized run rate. We believe we'll be on a \$100m annualized run rate within the next year. This is very exciting and still early in our execution.

At our analysts meeting in November, we cited some interesting metrics of our -- about our advertising business. Let me provide you with an update on some of the key trends we're focused on in our advertising business.

First, we had more than 40m successful click-through activations across our ads platform. That means more third-party developers saw successful use of advertising dollars. We also have more than 11,000 developers and more than 1,000 advertisers now, who have access to advertise and deploy to over 200m users.

This business segment is no longer just a desire to get some extra monetization from our user traffic. Rather, this is a compelling ad networking platform that is strongly positioned to grow materially over time.





Before I turn the call over to KB, I wanted to address something that Matt already touched on. We are currently not counting the majority of our advertising users and traffic, as well as numerous new products, like NQ Live, Music Radar and iSMS in any of our operating metrics.

We are in the process of determining the best way to demonstrate our direct users, along with our platform traffic user metrics and premium total, and we will do that in the future.

If we did include these metrics, based on the data that I just shared with you, about these various emerging products and platform traffic, it's easy to see that we are beginning to accelerate our monthly active users and premium user total. This is a reflection that our platform strategy is clearly working.

Now let me turn the call over to our CFO, KB.

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**K.B. Teo** - NQ Mobile Inc. - CFO

Thank you, Omar. We had another great quarter, and again exceeded the high end of our revenue guidance.

Net revenue in the fourth quarter of 2013 was \$67.9m.

Mobile value-added services revenues, which include consumer mobile security revenues and mobile games revenues, increased to \$27.1m in the fourth quarter. The increase in mobile value-added service revenues was primarily due to the growth of mobile games revenues, and partially offset by the decline of mobile security subscription revenues, as we migrate the monetization of security and productivity applications into advertising.

Advertising revenues were \$16.7m for the fourth quarter. The robust growth was due to increased monetization, through advertising and promotional revenue in the form of third-party application referrals through our mobile security products, mobile games and our advertising network platforms.

Enterprise mobility revenues increased to \$23.5m in the fourth quarter, due to the strong growth in the enterprise business and new customer gains.

Other revenues in the fourth quarter was \$0.5m. Other revenues are generated primarily by providing technical contract services to third parties and thus the revenues fluctuate as such, since the business is driven by individual projects.

Cost of revenues in the fourth quarter were \$34.7m.

Gross profit in the fourth quarter was \$33.1m.

Gross margin, or gross profit as a percentage of net revenues was 48.8% in the fourth quarter, compared to 67.8% in the same quarter a year ago and 59.5% in the previous quarter.

Excluding the impact from NationSky, gross margin was 63.6% in the fourth quarter, compared with 73.3% in the previous quarter. The decline of the gross margin was mainly due to increased revenue contribution of mobile games and advertising, which have lower growth margins in the mobile security subscription revenues.

NationSky's gross margin in the fourth quarter was approximately 20.6%, compared with 24.8% in the previous quarter. And the cost of revenues for NationSky primarily consists of hardware device procurement costs.

The decline of NationSky's gross margin in this quarter was mainly due to the higher percentage of hardware sales revenue, which has lower gross margin.

Total operating expenses in the fourth quarter were \$37.8m.



Non-GAAP operating expenses were \$20.5m in the fourth quarter.

Non-GAAP selling and marketing expenses were \$7.5m.

Non-GAAP general and administrative expenses were \$7.3m.

Non-GAAP R&D expenses were \$5.7m.

Operating loss in the fourth quarter of 2013 was \$4.7m, compared with operating income of \$0.4m in the same quarter a year ago, and an operating loss of \$2.7m in the previous quarter.

Non-GAAP operating income was \$12.6m in the fourth quarter of 2013.

Non-GAAP operating margin was 18.6% in the fourth quarter, compared with 26.2% in the same quarter a year ago, and 31.5% in the previous quarter.

Excluding the impact from NationSky, non-GAAP operating margin was 22% in the fourth quarter.

The total share based comp for this quarter was \$14.9m. And the expenses relating to handling short seller allegations was \$2.4m.

NationSky GAAP operating margin in the fourth quarter was 12.1%, compared with 12.3% in the previous quarter.

Now let me take a moment and walk you through our operating model and [proforma], as there are separate things to highlight. As Matt has already mentioned, while we still feel confident in our long-term model for our consumer enterprise business target, there are really three things that impacted the fourth quarter and will continue to do so in the near term.

First, there are numerous extraordinary costs associated with managing the manufactured volatility and the Special Committee's work. The direct extraordinary measures totaled [\$2.4m] in the fourth quarter, as broken out in our non-GAAP figures.

There will also be indirect costs tied to the extraordinary measures in sales and marketing items that were not broken out in the non-GAAP figures totaling roughly \$1m.

These costs will continue in the first quarter and will be higher as there will be [two quarters worth] if you adjust the partial impact like Q4. These are easy to understand and will not have any impact on the ongoing operating model.

The next big factor is revenue mix. Our enterprise business is well defined and operating in the 10% to 12% range and we are pleased with the performance. As the business segment continues to grow even faster than we anticipated, the blended operating margin impact will be obvious.

The other business segment that is impacting our mix is our advertising business. Advertising has a lower margin profile than the other components of the consumer business and does impact our blended ratio. In the fourth quarter alone, enterprise and advertising make up [60%] of our total revenues.

This strength in those business lines will continue in the near term and especially as our emerging platform products like NQ Live and Music Radar scale up to a [state of] monetization. We expect the revenues generated by emerging products like NQ Live and Music Radar to be accretive to the consumer business once they are being monetized.

Therefore, as we monetize this consumer product, we see the revenue contribution mix normalizing in the future. And as that happens, we expect to see our operating margin normalize in line with our long-term model.



Importantly for the year, we feel confident in the absolute profit generation of the business as the strength in our top line will help offset the near-term business mix.

Net loss attributable to NQ Mobile was \$5.2m in the fourth quarter, compared with a net income of \$4.9m in the same quarter a year ago, and a loss of \$2.4m in the previous quarter.

Non-GAAP net income attributable to NQ Mobile was \$14.9m in the fourth quarter.

The interest expenses and fair value changes of the embedded call options of convertible debt was \$2.8m and the forfeited interest income due to early termination of the term deposits was \$1.6m in the fourth quarter.

Net cash flow used in operation for the fourth quarter was \$13.4m. The negative cash flow from operations was mainly the result of prepayment for game content and titles, prepayments for marketing and to our business partners in this quarter as well as the significant pay down of accounts payable to suppliers during the quarter.

As of December 31, 2013, the Company's total cash position is \$283m, mainly comprised of RMB756m in Mainland China and \$158m in Hong Kong. The significant increase of cash position in Q4 is mainly due to the issue of convertible debt of \$166m.

Now for the results of the full fiscal year 2013.

For the fiscal year 2013, net revenues were \$196.7m, up from \$91.8m in 2012.

Mobile value-added services revenues was \$103.5m in 2013 compared with the revenues of \$68.3m in 2012. The increase was mainly due to increase in the mobile -- consumer mobile securities revenues and mobile games revenues.

Advertising revenues were \$36.6m for 2013, up from \$8.9m in 2012. The robust growth was due to increased monetization through advertising and promotional revenue in the form of third party application referrals through our mobile security products, mobile games and our advertising network platforms.

Enterprise mobility revenues increased to \$53m in 2013, up from \$12.6m for the three quarters of 2012, due to the strong growth in the enterprise business and new customer gains.

Other revenues in fiscal year 2013 was \$3.6m, up from \$2m in 2012. Other revenues are generated primarily by providing technical contract services to third parties and thus the revenues fluctuate as such since the business is driven by individual projects.

Cost of revenue in fiscal year 2013 was \$80.9m, up from \$25.7m in 2012.

Gross profit in fiscal year 2013 was \$115.8m, up from \$66m in 2012.

Gross margin was 58.9% -- 58.9% in fiscal year 2013, compared to the 72% in 2012.

Excluding the impact from NationSky, gross profit for NQ Mobile in 2013 was \$102.3m and the gross margin was 71.2%.

Total operating expenses in fiscal year 2013 was \$120.3m, up from \$63.8m in 2012.

Non-GAAP operating expenses were \$62.9m in fiscal year 2013, up from \$39.4m in 2012.

Non-GAAP selling and marketing expenses were \$23.5m in 2013, up from \$15.1m in 2012.



Non-GAAP general and administrative expenses was \$23.9m in 2013, up from \$16.2m in 2012.

Non-GAAP R&D expenses was \$15.4m in 2013, up from \$8.1m in 2012.

Loss from operations or operating loss for 2013 was \$4.5m down from income of \$2.3m in 2012.

Non-GAAP operating income for 2013 increased to \$53.3m from \$26.8m in 2012.

Excluding operating income contribution of \$6.5m from NationSky, non-GAAP operating income increased to \$46.8m with a margin of 32.5%.

The total share based comps for 2013 were \$55.4m.

Net loss attributable to NQ Mobile for 2013 was \$2.8m, down from net income of \$9.4m in 2012 mainly due to the significant increase in share based compensation expense recorded in 2013.

Non-GAAP net income attributable to NQ Mobile for 2013 increased 70% year over year to \$57.8m from \$34m in 2012.

Now, let me conclude my remarks by stating our revised guidance for the first quarter of 2014 and for the full year.

We expect net revenue to be between \$75m and \$76m for Q1 2014. And we now see the full year 2014 to be between \$320m and \$325m up from the previously stated guidance of \$305m to \$310m.

I will now turn the call back to Matt.

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**Matt Mathison** - NQ Mobile Inc. - VP

Thank you, KB.

Now, as we turn the call back over to the operator to open it up for Q&A, let me just reiterate two things. Number one, the management is confident and moving forward past all the manufactured volatility with resolve, determination, and excitement about the future.

And number two, the solid revenue trajectory that we are now on has exceeded even our own expectations as we laid them out as recently as our analysts meeting in November. The trends in our platform and the monetization that is ramping our top line and our revenue trend is very exciting and just getting started.

Now, with that, Leah, we would like to open up the call for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Jiong Shao, Macquarie.

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**Jiong Shao** - Macquarie - Analyst

Congratulations on a very strong Q4 and 2013 results. I have a few questions.



Firstly, on your guidance for Q1, as you talk about the Q1, typically it's a seasonally weaker quarter for advertising and enterprise. But you are still providing I think very strong double-digit sequential growth. Could you talk about some of the key drivers behind that Q1 revenue guidance?

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Hi, Jiong. Thanks for the question.

So actually, Q1, despite it being seasonally weak on advertising for us, we're actually carrying -- from our guidance, you can see we are carrying through the strength of both the enterprise business and the advertising business into Q1. So the majority of the upside or increase in Q1 is definitely coming from both the advertising business and the enterprise. So we're seeing continued strength into Q1 from both of those businesses.

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**Jiong Shao** - *Macquarie - Analyst*

Okay. Should we expect a sequential growth for your Feiliu business as well in Q1?

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Yes, you should. Because there's two components of the Feiliu business, right? Both from gaming and from advertising.

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**Jiong Shao** - *Macquarie - Analyst*

Okay, that's great. Thanks, Omar.

And also, you mentioned in your prepared remarks about 2m DAU and 8m MAU for the NQ Live products, which is great. Could you talk about the sort of regional and geographic breakdown for those operating metrics? Where are you having these users and what's your projection, if you can share with us? So what are the numbers for these two metrics we should be looking at by the end of the year and how are they going to be subdivided along the regional lines?

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Yes, I know, great question. I think you know, from the announcement for NQ Live as well as what we've announced publicly as well as the preload agreements, the majority of the users today are coming from the Greater China market due to the fact of both the timing as well as the partnerships that we have commercialized thus far.

You know also from our recent announcements that you know, probably one of the most exciting announcements was our Sprint partnership on NQ Live to power Sprint Live. We're in the process of commercializing that. So I think as we build that user base over the next year and commercialize Sprint and other partners that are in the pipeline, you will start to see a more global mix of that active user base for NQ Live.

But initially, just to answer your question, that's -- the concentration is in Greater China, but will globalize as we launch Sprint and then bring on content partners that are more relevant to US consumers, to Western European consumers and other you know, non-Greater China consumers.

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**Jiong Shao** - *Macquarie - Analyst*

Do you have a target by the end of the year for the MAU for these products?

**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

I mean I think the -- for us, what we have said was we expect [50m] active users for NQ Live in the next year. And you know, we are confident, both based on the pre-load relationships as well as the content partnerships and unannounced deals that we have in our pipeline that that trajectory -- I mean the current trajectory pretty much gets us there. So we are confident on both the target as well as the potential of that business.

It's a very unique opportunity. You know, the one thing we've talked about thus far is very much the channel partnerships. You know to be very relevant to carriers, to OEMs, and also from a consumer perspective.

But the other part of the ecosystem that I think is equally, if not more exciting about this is -- are the developers and the content partners that want to leverage this, to communicate with their users. And that's the simultaneous business development effort that is underway to bring that content into NQ Live along with our business development partners.

And I think, you know, Henry is probably going to add a few more thoughts to your question as well.

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**Henry Lin** - *NQ Mobile Inc. - Co-Founder and Co-CEO*

Jiong, hi, it's Henry. We think we can achieve [40m] monthly active user at the end of this year on NQ Live platform.

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**Jiong Shao** - *Macquarie - Analyst*

Okay, great. Thanks. And could you -- while we are talking on this topic, could you please sort of elaborate a bit more for the monetization model? I know you have talked in the past, I think, maybe perhaps remind us how you're going to work with the service providers and with content providers and when you'll sort of have a sizeable user base. So what's the primary monetization model for NQ Live?

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Yes, I mean the primary monetization -- there's multiple monetization methods for NQ Live. From a partnership perspective, obviously, there is you know, platform licensing, but it's not the primary revenue source, obviously. That's usually to offset R&D costs or to -- from an implementation and customization standpoint.

The two primary means are really advertising and also premium content revenue sharing to the extent that premium content is [exposed] and sold discovered through NQ Live. But the former, meaning advertising, will be the dominant revenue monetization model for NQ Live for our expectations and our partner's expectations.

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**Jiong Shao** - *Macquarie - Analyst*

Okay, great. And also you mentioned in your prepared remarks about -- very briefly, about a messaging product. And will you be able to elaborate a bit more on this product and how this -- how is your product different from the other like WhatsApp and WeChat type of product. What's the differentiation?

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Yes, I think -- you know, let me (inaudible) and then I think, Henry will also add in. Our product is unique from the perspective that we have partnered with a chipset manufacturer called MediaTek which has a very successful business and obviously, are growing their smartphone chipset business.



We have been working with them to develop, optimize, and certify the product to be preloaded on their smartphone chipsets. So the primary difference obviously is from a go-to-market model in terms of how it's integrated as the default messaging stack on the chipset and then how that gets integrated into OEM loads and gets exposed to the customer.

From a user experience perspective, obviously, we support both SMS as well as over the top IP messaging, as well as you know, nearly a dozen different attachment types within the product.

But really, the main primary differentiation is how we go to market in the partnership in terms of how deep in the stack it is embedded. And I think --

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**Henry Lin** - *NQ Mobile Inc. - Co-Founder and Co-CEO*

Yes, I think -- I mean iSMS is like I mean the iMessage service in iOS platform. We have integrated the short message service with the IP message service together in one application.

So I mean it has been bundled with MediaTek, the most popular chipset to the global market. So we can (inaudible) this service will get at least several hundred million users in the near future.

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**Jiong Shao** - *Macquarie - Analyst*

Okay. For this Mediatek chipset, do you have a sales estimate -- unit sales estimates for this year, for example, or for next year, when this chip with your messaging app embedded will become available to the handset manufacturers?

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**Henry Lin** - *NQ Mobile Inc. - Co-Founder and Co-CEO*

[Now it has been available]. I think for MediaTek smartphone chipset the sales this year, it will exceed 300m. So long term, I believe it will be nearly 500m per year.

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**Jiong Shao** - *Macquarie - Analyst*

Okay, great. Thanks. Okay, my last question (inaudible). My last question is on the financials.

I think, KB, I heard you explained about I think, \$2.4m extraordinary cost in Q4 due to these audits and (inaudible) related expenses. But I also thought you said something like \$1m something else maybe one time. And where the -- also the CD expenses is included in any of the figures or that's something separate?

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**K.B. Teo** - *NQ Mobile Inc. - CFO*

Just to clarify, I think the one is the \$2.4m expenses relating to handling the short seller allegation. And that is -- you know when we do the non-GAAP reconciliation that is taken out from the operating income.

And so the other indirect costs which have not been taken out (inaudible) includes some marketing and hiring of PR. And that we estimate roughly around \$1m.

And on the CB, there is a interest expense as well as in the fair value of the embedded options and that actually affects the net income line. And that's in total \$2.8m. So the first two actually impact the operating line and then the [CB] interest expense as well as the fair value of the embedded option hits the net income line.

**Jiong Shao** - *Macquarie - Analyst*

Okay, that's clear. Thank you so much, all.

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Thanks, Jiong.

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**Henry Lin** - *NQ Mobile Inc. - Co-Founder and Co-CEO*

Thank you.

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**Operator**

Michael Walkley, Cannacord Genuity.

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**Michael Walkley** - *Cannacord Genuity - Analyst*

I was wondering if you could help us with some modeling with your updated 2014 revenue guidance. At your Analyst Day, you shared a revenue mix you expected for 2014, but it certainly seems like it is changing quite a bit. So I was hoping you could maybe share with us the revenue mix implied in your guidance. Thank you.

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**Matt Mathison** - *NQ Mobile Inc. - VP*

Sure. Hey, Mike, it's Matt. I'll take that question.

I think in our prepared remarks, we talked about kind of the linearity over the course of this year. You know, obviously, the first half of this year is likely going to exhibit the revenue mix trend that we saw in Q4 just because the rapid growth and strength of our enterprise business is continuing. Obviously, a couple of big high profile deals with the National Bureau of Statistics, as well as the hospital deal that Henry outlined earlier is going to have an impact to that continued growth in the first half of this year.

And our advertising business again is -- you know, on a torrid pace. And so that is going to continue in the first half of the year. It's going to start to moderate though as we get into the second half of the year in terms of revenue mix, back towards the consumer side for a couple of reasons.

I think the biggest part of that is obviously some of our new and emerging products, NQ Live and Music Radar being the most prominent. You know, we're focused on really driving and scaling up traffic right now. But the monetization will start to impact things and start to help moderate the consumer business mix in the second half of the year.

And secondly, even on the productivity application side, again, in the last half of last year, there were numerous carrier deals, whether it was Telkomsel, Smartfren, America Movil and we have a number of those deals that are obviously being, you know, worked on for commercialization and deployment. And those things will (inaudible) the productivity applications start to pick up in the back half of the year.

And so I think a similar trend to Q4 continuing in the first half and then moderating back towards the consumer side in the back half.

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**Michael Walkley** - *Cannacord Genuity - Analyst*

Okay Matt. That's helpful. Would you think you would exit the year closing back in on your longer term operating margin targets or is that more longer term just given some of these large enterprise deals and the changing mix of the business?

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**Matt Mathison** - *NQ Mobile Inc. - VP*

Yes, absolutely. We do believe that we will be on track to get back to those long-term operating margin targets as we exit the year yes.

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**Michael Walkley** - *Cannacord Genuity - Analyst*

Great. And just a clarification for me.

During the call, you mentioned some manufacturing volatility impacting the business this quarter. Can you elaborate on what that is?

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**Matt Mathison** - *NQ Mobile Inc. - VP*

Not manufacturing volatility, manufactured volatility, so the event that occurred in Q4. Obviously, there are extraordinary costs associated with addressing and dealing with those related to the Special Committee as well as you know, some additional sales and marketing costs related to that. So those will not impact the operating model, as KB said during his prepared remarks.

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**Michael Walkley** - *Cannacord Genuity - Analyst*

Okay, that's helpful. I thought I missed a new term that was (inaudible). I appreciate the clarification.

And then just on -- another modeling question. Just could you share with us or give us some direction on just the differentials between on your core mobile security gross margins and the advertising? I know advertising is lower but can you give us any hints on you know, the magnitude of how it's lower so we can flow that through the models correctly?

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Yes, so from a margin perspective, obviously, we historically have had operating margins on the consumer side that on a blended basis, we've talked about 30%. The advertising business operates in the 20s. And then the remainder part of the consumer business operates as we talked about you know, closer to the traditional operating margin. And so that's where the blended mix comes from.

Now, as we start to monetize NQ Live and Music Radar, we'll start to see that -- that was part of Matt's and KB's answers in terms of how it moderates is both by the growth in monetization of NQ Live and Music Radar, the emerging platforms and in addition to that, as we cascade in the growth coming from the recently announced deals for the productivity apps and they start to scale and launch from a commercialization perspective.

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**Michael Walkley** - *Cannacord Genuity - Analyst*

Okay, that's helpful.

And I guess just a last question from me and I'll pass it on, is any updated timing on just when the 20F might be filed? Is there a certain date in mind or is there a certain deadline you have to have that filed by? Just to get that would be helpful. Thank you.

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Yes, thanks, Mike.

So based on the current fully integrated schedule that all the parties associated with the process are working from, we are planning on meeting the statutory deadline for the 20-F.

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**Michael Walkley** - *Cannacord Genuity - Analyst*

And what is that date?

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

The end of the month. The end of April.

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**Michael Walkley** - *Cannacord Genuity - Analyst*

Okay. Great, thank you.

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**Operator**

Jun Zhang, Rosenblatt Securities.

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**Jun Zhang** - *Rosenblatt Securities - Analyst*

Thanks for taking my questions. So my first question is, does the 2014 revenue guidance include some of the revenues from the new products NQ Live or Music Radar? Thanks.

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Yes, so a couple of things, Jun.

So as you saw from the announcement today and our release today, we rolled through the strength that we found the enterprise and the advertising business into both Q1 and our full year raise. And that is really what accounts primarily for the raise in the guidance.

So the growth that we are planning on seeing and the trajectory that we are seeing from both the NQ Live and the Music Radar business is by and large not factored in yet.

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**Jun Zhang** - *Rosenblatt Securities - Analyst*

Okay, okay. And my second question is you know, as we -- there were a lot of concerns over you know, [independent] results and the auditing process in the past couple of weeks. So my question is if today's earnings numbers have been audited by the auditors and how could you comment on the third party investigation process? Should we expect that it is coming before the end of April? Thanks.

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

Okay. So, let me answer. I think there's two pieces and I think Mike also asked the latter part of your question as well.

The work that goes into the audit is you know, is normally very, very thorough and obviously, you know, the norm and it's actually encompassed within the Q4 earnings audit process. So the work that goes in for both the full year as well as the Q4 is the same from an auditing process.

But when you release Q4, technically, they are unaudited financials and the audited comes out in association with the 20-F. And going back to the answer, based on the current schedule, the fully integrated schedule that all the parties that are associated with the process are working from, we are planning on -- we are currently planning on meeting the statutory deadline for the 20-F which is April 30th.

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**Jun Zhang** - *Rosenblatt Securities - Analyst*

Okay, thanks.

And also, regarding the gross margin, so in addition to the revenue mix towards -- more towards the (inaudible) in Q4, which affected the gross margin, anything else we should take into that might affect the gross margin going forward? Because I know the -- you know, the mobile gaming market is getting competitive and also you know, you have the mobile advertising business has lower gross margins. So how should we be modeling the gross margin going forward in 2014?

And also, you know, you just mentioned, you know, by the end of this year, we should expect the operating margin to get back to the normal trend. So could you also give some color on that? Thanks.

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**K.B. Teo** - *NQ Mobile Inc. - CFO*

This is KB here, Jun. I think on the mobile gaming business, one of the factors that impacts operating margins is the fact that when we operate games that we are exclusive publisher, we actually recognize this gaming revenue on the gross basis. So that results in lower gross profit margin.

And so for the fourth quarter, in [enterprise], we did operate a significant number of games where we are the exclusive publisher. So overall, I think that -- you know, that is one impact on the mobile games. So the mobile games gross margin could range between 40% to 50% of the (inaudible) and then the advertising also has a slightly lower gross margin in the 40s.

And so you know as the business mix change and subsequently the contribution of advertising and mobile games have increased -- to increase contribution to total revenue. And that will also impact the gross margin.

But I would also like to add that actually, you know, for our business, our focus remains on managing our businesses based on operating income margin line and less focused on the gross margin line.

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**Jun Zhang** - *Rosenblatt Securities - Analyst*

Okay. And on the operating cost side, do you expect the operating costs associated with the short sellers [tax] continue into the Q1? And also, you know, I saw the (inaudible) interest expense in Q4. Do you also expect the interest expense will remain at the same levels in the next couple of quarters? Thanks.

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**K.B. Teo** - *NQ Mobile Inc. - CFO*

In terms of the additional costs associated with the short seller allegations, there will be -- another \$5m to \$8m for the first quarter. And we expect additional expense. Again, it's what we mentioned earlier. This does not impact the long-term operating model.

And on the interest expense, as we return to normal treasury operations so we do want to put some of our excess cash into term deposits to generate interest. And as you know, we used to have generally, about \$1m of interest expense -- interest income based upon our excess cash. And that's because of the (inaudible) that we are in that we actually moved that up to terminate the deposit earlier. So going forward, we should expect a higher interest income from our excess cash.

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**Jun Zhang** - *Rosenblatt Securities - Analyst*

Great. Is that the main reason you transferred all the cash back to the local banks? Is that right?

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**K.B. Teo** - *NQ Mobile Inc. - CFO*

That's correct. That's correct.

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**Jun Zhang** - *Rosenblatt Securities - Analyst*

Okay. Okay, thanks a lot. That is all my questions.

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**Operator**

Frederick Ziegel, Topeka Capital Markets.

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**Frederick Ziegel** - *Topeka Capital Markets - Analyst*

Good morning, everybody. The first question, the breakdown of [FL] Mobile revenues between gaming and advertising is what?

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**Omar Khan** - *NQ Mobile Inc. - Co-CEO*

[I've got it] -- go ahead.

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**K.B. Teo** - *NQ Mobile Inc. - CFO*

Of the total \$14m, \$7.9m is mobile games and \$6.1m is advertising from -- for FL mobile.

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**Frederick Ziegel** - *Topeka Capital Markets - Analyst*

Just to clarify on the operating model going forward, when you say you'll return to the more normalized model, off of the third quarter call you were talking about 30% operating margins. Is that the number you are trying to get back to by the end of the year? Or is it -- that seems awfully aggressive. And there's a pretty big mixed shift going the other way from what has happened so could you talk a little bit about that?

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**Matt Mathison** - *NQ Mobile Inc. - VP*

Sure. Hey, Fred, it's Matt. Just to be clear, at the analysts meeting, we -- our operating margins guidance and really our long-term operating model is for the consumer related -- you know, we have businesses, one is consumer and enterprise. The consumer related business to being at the 40% range and at the enterprise side, you know, obviously, it is well defined in the 10% to 12% side. So that's the long-term operating model.



The revenue mix is the revenue mix between those two. But those are how we operate and manage the business.

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**Frederick Ziegel** - *Topeka Capital Markets - Analyst*

Okay. And then the last question for me, could you talk about the acquisition or the 58% partial acquisition relative to just the NQ Live technology? Why -- why not buy the whole thing?

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**Matt Mathison** - *NQ Mobile Inc. - VP*

Fred, I mean, as you have seen with us, historically, it's just a -- it's a capital equation for us how we do it. We obviously wanted to get control. We took the technology and helped [harden] it and really make that key interactive wallpaper technology. And that is really what made the NQ Live platform what it is becoming today.

But in terms of why we chose to buy the majority of it and not the whole thing, it's just a capital question.

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**Frederick Ziegel** - *Topeka Capital Markets - Analyst*

And that (inaudible) -- you know there were a couple of typos in the press release, I think. But was the total around \$80m?

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**K.B. Teo** - *NQ Mobile Inc. - CFO*

That's correct.

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**Matt Mathison** - *NQ Mobile Inc. - VP*

Yes, I think it was just under -- yes.

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**Frederick Ziegel** - *Topeka Capital Markets - Analyst*

Okay. All right, that's all I have.

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**Matt Mathison** - *NQ Mobile Inc. - VP*

Great. Leah, I think we just wanted to again, thank everyone for their time on this call. I know it's late in the US and we wish everyone a great day in Asia and a good evening in the US. Thank you and we'll talk to you soon.

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**Operator**

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

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