Use of Muddy Waters reports is limited by the Terms of Service on its website, which are as follows. To be authorized to access such reports, you must agree to these terms, regardless of whether you have downloaded its reports directly from this website or someone else has supplied the report to you without authorization from Muddy Waters.

Terms of Service:
By downloading from, or viewing material on, this website you agree to the following Terms of Service. You agree that use of Muddy Waters LLC’s research is at your own risk. In no event will you hold Muddy Waters LLC or any affiliated party liable for any direct or indirect trading losses caused by any information on this site. You further agree to do your own research and due diligence before making any investment decision with respect to securities covered herein. You represent to Muddy Waters that you have sufficient investment sophistication to critically assess the information, analysis and opinion on this site. You further agree that you will not communicate the contents of this report to any other person unless that person has agreed to be bound by these same terms of service. If you download or receive the contents of this report as an agent for any other person, you are binding your principal to these same Terms of Service.

You should assume that as of the publication date of our reports and research, Muddy Waters, LLC (possibly along with or through our members, partners, affiliates, employees, and/or consultants) along with our clients and/or investors and/or their clients and/or investors has a short position in all stocks (and/or options, swaps, and other derivatives related to the stock) and bonds covered herein, and therefore stands to realize significant gains in the event that the price of either declines. We intend to continue transacting in the securities of issuers covered on this site for an indefinite period after our first report, and we may be long, short, or neutral at any time hereafter regardless of our initial recommendation.

This is not an offer to sell or a solicitation of an offer to buy any security, nor shall Muddy Waters offer, sell or buy any security to or from any person through this site or reports on this site. Muddy Waters, LLC is not registered as an investment advisor in any jurisdiction.

If you are in the United Kingdom, you confirm that you are accessing research and materials as or on behalf of: (a) an investment professional falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO"); or (b) high net worth entity falling within Article 49 of the FPO.

Our research and reports express our opinions, which we have based upon generally available information, field research, inferences and deductions through our due diligence and analytical process. To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. However, such information is presented “as is,” without warranty of any kind, whether express or implied. Muddy Waters, LLC makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. Further, any report on this site contains a very large measure of analysis and opinion. All expressions of opinion are subject to change without notice, and Muddy Waters, LLC does not undertake to update or supplement any reports or any of the information, analysis and opinion contained in them.

You agree that the information on this website is copyrighted, and you therefore agree not to distribute this information (whether the downloaded file, copies / images / reproductions, or the link to these files) in any manner other than by providing the following link: http://www.muddywatersresearch.com/research/. If you have obtained Muddy Waters research in any manner other than by download from that link, you may not read such research without going to that link and agreeing to the Terms of Service. You further agree that any dispute arising from your use of this report and / or the Muddy Waters Research website or viewing the material hereon shall be governed by the laws of the State of California, without regard to any conflict of law provisions. You knowingly and independently agree to submit to the personal and exclusive jurisdiction of the superior courts located within the State of California and waive your right to any other jurisdiction or applicable law, given that Muddy Waters, LLC has offices in California. The failure of Muddy Waters, LLC to exercise or enforce any right or provision of these Terms of Service shall not constitute a waiver of this right or provision. If any provision of these Terms of Service is found by a court of competent jurisdiction to be invalid, the parties nevertheless agree that the court should endeavor to give effect to the parties’ intentions as reflected in the provision and rule that the other provisions of these Terms of Service remain in full force and effect, in particular as to this governing law and jurisdiction provision. You agree that regardless of any statute or law to the contrary, any claim or cause of action arising out of or related to use of this website or the material herein must be filed within one (1) year after such claim or cause of action arose or be forever barred.
Muddy Waters, LLC  
October 29, 2013  
Reiterating price target <$1

NQ’s Top Ten Lies Since Friday

Muddy Waters noted numerous lies and deceptions in NQ’s responses to our October 24, 2013 report. This report lists the ten most egregious falsehoods we noted from the October 25th conference call, and Co-CEO Omar Khan’s television interviews that same day with Fox Business News and Bloomberg.

Lie # 1: Xu Rong was a consultant who worked at NQ for about six months before she joined Yidatong in 2007.

This is an enormous lie because it goes to the heart of our conclusion that NQ’s largest customer is really NQ, dressed up in a shell company called Yidatong (“YDT”) that is nominally 75% owned by Xu Rong.

NQ wrote the below on July 31, 2013 (emphasis added):

“How did Xu Rong come to own Yidatong?
In 2007 she bought 75% of Yidatong.

Did Xu Rong work at NQ?
Yes, in 2007, when NQ was a very small company, they did not have a good person running marketing. They asked Xu Rong to join as an advisor directing the marketing of the business. She was with NQ for less than six months before leaving and buying her interest in Yidatong.”

That was a repeat of a lie dating back at least as far as NQ’s prospectus:

“The principal shareholder of Yidatong was our consultant in 2006 and 2007 and received certain share options and consulting fees in connection with her services. In addition, we provided Yidatong with an interest-free advance in order to fund Yidatong’s short-term liquidity needs and to further cultivate our long-term commercial relationship with Yidatong.”

On the conference call, NQ was forced to admit it had lied about her departure date after we had showed she was still with the company in 2008. Note that Matt Mathison is now referring to her as an “employee”, rather than a “consultant”.

Matt Mathison on conference call: “Yes, Xu Rong, I can get you the exact details, but she was an employee of NQ. In fact, on a previous short report that came out, I provided a very detailed look at her employment. I can give you the exact start date, end date. I can

---

1 NQ IPO Prospectus, May 4, 2011, p. 20
give you all the details that you want. If you just hold, I’ll pull that up for you, if you want it right now. Just give me a moment.

So, Xu Rong became an employee on September 1, 2006. She resigned from NQ on December 31, 2008. I know the report hinted at some large ownership in NQ, which was not true…. But when she left NQ, she became a majority owner of Yidatong and owned 75% of that business now.”

NQ was completely unrepentant about being caught in its prior lie – even when two investors asked for explanations on the call. No explanation was given. Note that there is another lie nested in Matt Mathison’s response on the call – the new claim that Xu Rong did not become a majority owner of Yidatong until after December 31, 2008.

As we showed in our report, Ms. Xu became the Executive Director of YDT in February 2006, so YDT was clearly a related party during that time period. It is highly likely that she was an owner of YDT as of February 2006; however, YDT was an undisclosed related party at those times (and later, as we showed in our report).

**Lie #2: YDT’s provision of NQ’s contact information to China Mobile does not mean NQ and YDT are the same company.**

NQ was extremely sloppy in concealing that YDT is actually NQ. In our report, we noted numerous instances in which YDT provided NQ contact information to carriers and various Chinese government agencies (including MIIT). YDT even uses NQ’s email server. NQ further lied about this on the conference call.

Matt Mathison on conference call: “One factor of the business that the report shows clear lack of knowledge about is related to the relationships between the content partner and service provider. NQ has a very deep and good relationship with Shenzhen and Shanghai carriers. As one of the biggest content partners for Yidatong as clearly disclosed, NQ is required to be notified when there are customer complaints. In order to better facilitate customer support via those channels we leave our contact information with the carriers, in addition to Yidatong.”

In reality:

- The MW report provides examples of NQ’s contact information being provided in place of, not in addition to Yidatong’s. The first was noted in the report on pp. 14-15. One such example from China Mobile’s list of service providers is below.\(^2\) Those numbers are NQ’s, and are the only numbers shown for YDT.

---

NQ’s attempt to explain away this inconvenient listing with a carrier does not address several problems, including that in Yidatong’s Shanghai SAIC filing (the corporate registration) the contact person provided has an NQ email address (Netqin was NQ’s former name).

Lie #3: YDT’s SAIC financials, which show revenue that is a fraction of what would be required for NQ to generate $20.2 million in revenue through YDT, are reported net of payments to NQ.

Our report anticipated the lie that YDT’s financial statements show net revenue, as opposed to gross. NQ was hoping that investors would not read the report clearly enough to read the proof that the sales number is a gross number.

NQ management during Q&A on conference call: “Yidatong reports net revenues associated to a portion that would be earned by them for their services, and not the gross amount that is being passed to the carriers on behalf of the developers like NQ”.

There are three ways of knowing that NQ is lying:
1) China SPs are required to pay Business Tax (i.e. the form of sales tax applicable to YDT’s services) on gross sales. YDT’s SAIC file shows that it paid Business Tax commensurate with gross sales of only $2.9 million.

2) YDT’s A/P balance was $3.4 million at the end of 2012. Regardless of net or gross revenue recognition, the A/P balance on YDT’s books should match the $9.3 million A/R NQ reported from YDT at the end of 2012.


Lie #4: NQ’s second and third largest customers are UMPay and Info2Cell, respectively.

NQ was asked to provide the names of its second and third-largest customers from the 2012 20-F, which accounted for 11% and 8% of revenue, respectively. NQ had to translate the question to Chairman Lin and then translate his response. Note that Mr. Khan did not know the answer, which further evidences that he is at best clueless about much of NQ’s operations.

Chairman Lin via Gavin Kim stated that NQ’s second and third largest customers are “UMPay” and “Info2Cell”.

We assume that Mr. Kim meant UMPay, which is the SP that China Mobile jointly owns, and is the same SP we saw for all China Mobile SIMs we tried.\(^3\) Info2Cell is an international processor for carrier payments.\(^4\)

It is clear that NQ, which has always been reluctant to disclose this information, and seemed to do so only because an investor put it on the spot on the conference call, lied about its second and third largest customers. Based on NQ’s own disclosures, its second and third largest customers could not be UMPay or Info2Cell. NQ had to lie on the fly, and made a mistake.

NQ disclosed that a total of 30.4% of 2012 revenue “were collected from wireless carriers and mobile payment service providers”, which is $27.9 million.\(^5\) Purported revenue from YDT was $20.2 million. China Mobile accounted for $1.8 million in 2012.\(^6\) There is therefore only $5.9 million allocable to carriers or mobile payment service providers. The second largest 2012 source would have accounted for $10.1 (11% of total net revenue) million by itself, which means it is too large to fit into this category. The third largest 2012 source would have accounted for $7.3 million (8% of total net revenue), which means it is also too large to fit into this category. NQ was forced to quickly lie about the identities of its second and third largest customers, and it stated the impossible.

---

\(^3\) [http://www.umpay.com/englishumpay/overview/introduction.html](http://www.umpay.com/englishumpay/overview/introduction.html)

\(^4\) [http://info2cell.com/aboutus/](http://info2cell.com/aboutus/)

\(^5\) NQ 2012 20-F, p. 63.

\(^6\) In the F-1/A-7 p. F-23, NQ discloses that Client “A” is China Mobile. From there, one can track China Mobile through the 2011 and 2012 20-Fs.
Lie #5: Muddy Waters believes there are no problems with NQ’s SAIC financials.

On pp. 32-33 and in Appendix B of our initial report, we describe in detail the numerous signs of fraud present in NQ’s various SAIC financial statements, including those of recently acquired companies FL Mobile and NationSky. Matt Mathison attempted to revise very recent history.

Matt Mathison on conference call: “[Muddy Waters] said that NQ’s SAIC filings match appropriately with US GAAP. So I don’t think there’s anything to address there.”

Matt Mathison should have known that what he said about our discussion of NQ’s financials was not accurate.

Lie # 6: Chinese companies commonly classify all cash as Level 2 assets.

KB Teo on conference call: “Actually this practice of classifying some assets as Level 2. It’s actually – had been adopted by quite a number of Chinese companies listed in the U.S. from our perspective…a number of other companies have also adopted Level 2…. Mainly those are Perfect World, Sina, and Sohu.”

Barron’s exposed this statement as being false. A Hong Kong-based accounting professor Barron’s consulted refuted this statement with respect to PWRD, SINA, SOHU, and QIHU (which NQ also cited as an example of classifying all cash as Level 2). Management made false statements because it is still unable to explain why all of its cash was classified as Level 2. ⁷,⁸

Lie #7: NQ’s payment portal works fine.

NQ rejected our statement that we had attempted to use its payment portal 59 times – all without success. If NQ’s payment portal is now functioning, it is solely because NQ is trying to salvage its fraud.

Gavin Kim on conference call: “During our test, we’re able to successfully subscribe to our service using Alipay on exactly the website that Muddy Waters referred to.”

---

We have video of all 59 unsuccessful payment attempts, which we intend to share with the SEC. Alipay customer service was unable to pay through NQ’s payment portal.

Our attempts to pay through Alipay caught NQ in another lie. NQ has listed Alipay as a partner:

However, Alipay denied having any cooperation with NQ. The call transcript follows.

<table>
<thead>
<tr>
<th>MW:</th>
<th>我在你们的一个合作商买东西但是每次付款的时候付款都不成功，所以我想查询一下他们是不是你们的合作商户***</th>
<th>I was trying to buy something from one of your vendors and every time I try to pay it is not successful. So I want to check to see if this is really one of your vendors.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alipay:</td>
<td>你这边现在需要我们查询什么东西啊？</td>
<td>What is it that you are asking us to check?</td>
</tr>
<tr>
<td>MW:</td>
<td>要查询这个，就是，是你们，就是外面的，不是淘宝上面的，是完全就是独立的一个公司***</td>
<td>I want to check, that is, its your, its an outside vendor, its not on Taobao, it’s a completely independent company.</td>
</tr>
<tr>
<td>Alipay:</td>
<td>那我们这边要通过你的支付宝的账户里面查询，才能核查到对方的单子的一个情况呢。</td>
<td>We need to go through your Alipay account to check, only this way can we check the other parties details.</td>
</tr>
<tr>
<td>Alipay:</td>
<td>你们这边有没有下订单？</td>
<td>So you do you have a purchase order?</td>
</tr>
<tr>
<td>MW:</td>
<td>我这边不是下订单的形式，我就是在他们的网上跟着他们的步骤一骤骤来，或者是你帮我看一下他们的网站行吗？</td>
<td>I'm not using a purchase order, I'm on their website, following their payment process step by step, or can you just help me to check their website?</td>
</tr>
<tr>
<td>Alipay:</td>
<td>网站的话，我们***</td>
<td>Website? We…</td>
</tr>
<tr>
<td>MW:</td>
<td>你记一下pay.nq.com</td>
<td>Please note it, its pay.nq.com</td>
</tr>
<tr>
<td>Alipay:</td>
<td>是pay吗？</td>
<td>Its &quot;pay&quot;?</td>
</tr>
</tbody>
</table>

---

9 NQ_Mobile_Investor_Presentation_20130528, p. 13
<table>
<thead>
<tr>
<th>MW:</th>
<th>对， pay.</th>
<th>Yes, &quot;pay&quot;.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alipay:</td>
<td>然后呢？</td>
<td>and afterwards?</td>
</tr>
</tbody>
</table>

[MW provides exact website to Alipay Customer Service. Alipay Customer Service spends sometime looking into her computer]

<table>
<thead>
<tr>
<th>Alipay:</th>
<th>不好意思小姐，这个帐户，哦，这个公司不是我们这边的合作商户的。</th>
<th>Miss, I'm sorry, this account, um, this company is not one of our partnering merchants.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MW:</td>
<td>能看到什么？那个网站是显示网秦对吧？</td>
<td>What do you see? Is the website showing it is NetQin's?</td>
</tr>
<tr>
<td>Alipay:</td>
<td>网站啊？</td>
<td>Website?</td>
</tr>
<tr>
<td>MW:</td>
<td>对网站名字，是网秦吗？</td>
<td>Right, the website, is it NetQin's?</td>
</tr>
<tr>
<td>Alipay:</td>
<td>我这边查不到网站，前面有三个w的吗？</td>
<td>I cannot find the website, are there three w's in the front?</td>
</tr>
<tr>
<td>MW:</td>
<td>前面没有，是<a href="http://pay">http://pay</a>.</td>
<td>Not in the front, the front is <a href="http://pay">http://pay</a>.</td>
</tr>
<tr>
<td>Alipay:</td>
<td>哦，网秦，我看到‘网秦不是我们这边的’。</td>
<td>Oh, NetQin, I see it. NetQin is not one of ours.</td>
</tr>
<tr>
<td>MW:</td>
<td>哦，不是合作商户，是吗？</td>
<td>Oh, its not one of your partnering merchants, is that right?</td>
</tr>
<tr>
<td>Alipay:</td>
<td>这个不是合作商户。</td>
<td>Its not one of our partnering merchants.</td>
</tr>
<tr>
<td>MW:</td>
<td>但是，就是能看到你们的logo上面，你看你点击套餐，然后进，随便店一个立即购买，然后在望后只能看到你们的logo在下面。</td>
<td>But, it’s just that you can see your logo on their page, you click &quot;purchase packages&quot; then go in, just pick one of the items, and then next you can see your logo on the bottom.</td>
</tr>
<tr>
<td>Alipay:</td>
<td>那一个logo啊？</td>
<td>Which logo?</td>
</tr>
<tr>
<td>MW:</td>
<td>就是你们支付宝的logo，你看你已经点击进去对吧？然后你就点，点击套餐购买，购买套餐。</td>
<td>Your Alipay logo, did you already click through? Afterwards you pick &quot;purchase package&quot;, &quot;buy a package&quot;</td>
</tr>
<tr>
<td>Alipay:</td>
<td>这个应该是他们自己的网站，不是我们的业务。</td>
<td>This is the company's own website, it is not part of our business.</td>
</tr>
<tr>
<td>MW:</td>
<td>哦，对，我知道，这个跟你们一点关系没有，你能顺着我的那个，在点两步吗？就是购买套餐和立即购买。</td>
<td>Oh, yes, I know, this issue has nothing to do with you, just can you follow along with me, just click through these two steps, that is &quot;purchase a package&quot; and &quot;buy now&quot;?</td>
</tr>
<tr>
<td>Alipay:</td>
<td>我这边点了，但没有反应。</td>
<td>I clicked it, but I don’t see any result.</td>
</tr>
<tr>
<td>MW:</td>
<td>没反应，然后拉到最后，就是出现很多网站银行支付还有其他支付的时候，就有你们的支付宝，他不是商户但是把logo放到网站上了？</td>
<td>No result? Than go to the end, when you get to a lot of online banking payment and other payment options, then you can see your Alipay. They are not your vendor but they have your logo on their site?</td>
</tr>
</tbody>
</table>
Ah, they shouldn’t be one of ours, although this is our "Alipay", but this is not one of our accounts.

Then that’s to say using Alipay absolutely will not work to make a payment, they are not one of your partnering merchants?

That right.

Oh. I understand. Thank you.

**Lie #8: NQ Antivirus 7.0 is not Scare Ware.**

NQ lied about AV 7.0 and its false virus discovery messages. The fact is that NQ’s 3-15 DNA permeates everything it does (as DNA has a tendency to do). NQ is attempting to trick consumers into thinking its product is useful.

Gavin Kim on conference call: “Next I’ll turn my attention to Virus Broadcast data. The report claims that NQ is attempting to trick users by sharing the latest two viruses reported in a feature called Virus Broadcast. Unfortunately, the report simply does not understand what the function is intended to do. To be clear, on installation, NQ Mobile Security 7.0 preinstalls a virus database on the device. With that installation, NQ also prepackages the latest Virus Broadcast feed which is for informational purposes as well. Packaging this with the installation file avoids then for the user to have to separately download another file after install. This is a free service for users to see what the latest viruses are that have been recorded in our database globally. It is not specific to any particular users’ device. So on installation, Virus Broadcast will the show the user the latest two viruses in the Virus Broadcast at the point of installation. After the database is updated, the Virus Broadcast will update as well with the latest information.”

When a user installs NQ, the app immediately tells the user that NQ just discovered two new viruses on the exact date of installation. However, its app has been broadcasting this message to users for months, giving them the impression that NQ’s virus analysis lab is always catching new viruses, and updating (paying) apps in real time. As we discussed in our report on pp. 44-45, the only reports on the internet of these two viruses are from NQ press releases, leading us to strongly suspect that they are not real.
Lie # 9: NQ is not responsible for enormously overstating its market share.

On the call, NQ fumbled quite a bit when challenged about our survey results that show it has only 1.4% market share. However, it clearly tried to distance itself from the huge overstatements of market share. We do not believe NQ can evade liability for these statements – it is clear to us that NQ deliberately materially misrepresented market share to investors, regardless of whether the estimates came from third parties that NQ engaged.

Gavin Kim on conference call: “Now going back to your earlier question about market shares, currently, our company don’t make independent assessment of our market share. In fact, we never disclosed a single report that’s coming from the company on our market share.”

In NQ’s prospectus, it cited a Frost & Sullivan study (that we are confident NQ paid for) as evidence that it had 67% market share at the time it went public. On its Q2 2013 conference call, management stated that NQ’s market share of the China mobile security marketplace was approximately 53%.

It turns out that our 1.4% market share results were pulled from three cities (one Tier 1, one Tier 3, and one Tier 4) in NQ’s best markets. On the conference call, NQ’s Chairman Lin revealed NQ’s strongest provincial markets: Guangdong, Jiangsu, Henan, and Zhejiang. We surveyed Shenzhen in Guangdong, and Ningbo and Huzhou in Zhejiang. We believe the previous market share misstatements alone are possibly 10b-5 violations.

Omar Khan seemed unable to identify these markets, so Chairman Lin spoke through a translator. Once again, Mr. Khan showed that he has no command of NQ’s core operations.

Lie # 10: NQ does not own the trademark infringing domains, such as www.samsungsecure.com.

On the call, NQ lied about not owning the six domains we identified as infringing the trademarks of Apple, Vodafone, NTT, HTC, Samsung, and Nokia. This is a clear lie.

Gavin Kim on conference call: “Next, I’ll return my attention to black hat search engine optimization. NQ unequivocally refutes the allegations filed in the report that NQ owns the domain addresses referenced in the report. NQ will share our complete list of domain addresses that NQ owns and uses in our business globally to those who would like to conduct their own due diligence on our business. The natural question that may be asked then is what is for owners of these domain names to redirect traffic to NQ? It is our hypothesis that individuals or companies are interested in selling these domain names to NQ after demonstrating that they are successfully delivering page views.”

We are comfortable that NQ owns those domains for three reasons.
1. Five of the six domains were registered by the same Beijing-based registrar: Hichina Zhicheng Technology Ltd. This is the same registrar NQ used for its website for the anonymous calling cards (unaddressed in the call), www.secretclothes.com. (Hichina is located in the same district of Beijing as NQ.) The person who registered the domains listed the same postal code as NQ.

2. As a security company, it would be unusual for NQ to not scan for redirects and identify these.

3. NQ would never be permitted to buy trademark infringing domains from someone trying to sell them. A company that is really trying to be respected in the mobile world would immediately notify Samsung (or whichever company) of the sale offer, and provide all information it has related to the domain owner. This process would actually be triggered by a routine scan that found the redirects.

**A final thought for the class action attorneys.** As you investigate NQ, it might be worthwhile to also look at Wedge Partners, Matt Mathison, Toro Investment Partners, and “Treasure Hunter” (SeekingAlpha.com handle).