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## **NQ's US Veneer: Withholding Facts, Conned Men, and a Convicted Racketeer**

The veneer of U.S. management has been integral to taking NQ's fraud to a one-time value of \$1.1 billion. Matthew Mathison, NQ's vice president of capital markets, has recently led the effort to try to deflect fraud charges from both Muddy Waters and a China-based research firm called J Capital Research. However, Mr. Mathison has failed to disclose to investors his professional history with J Capital Research. He further seems not to have attempted to dispel misconceptions some investors might have about why he joined NQ. At the same time, Mr. Mathison has told investors contradicting stories about NQ's largest purported revenue source, and undisclosed related party, Yidatong.

NQ has clearly needed Mr. Mathison's aggression, as NQ's "Co-CEO" Omar Khan has turned into the man who knew too little. Perhaps Mr. Khan's memories of the feeling of having almost \$100 million in NQ shares drive him to stick his neck out in defense of a company that he clearly does not understand.

However, before NQ went public and was able to offer a Samsung manager a pay package worth close to \$100 million at peak and bring in a struggling hedge fund manager to inspire confidence in US investors, NQ's US veneer was built around Justin Bieber, a Boca Raton, FL-based penny stock disaster, and a convicted racketeer.

### **The Myth of Matt Mathison and What He Withholds from Investors**

Matt Mathison, who was appointed NQ's Director of Capital Markets in July 2013, anchors NQ's US veneer. Based on our conversations with investors, there seems to be a confidence-inspiring narrative that Mr. Mathison and his former employer, Wedge Partners, had a keen eye for identifying China frauds; and, that Mr. Mathison shut down a successful hedge fund to join NQ because NQ was such a compelling opportunity. The truth belies this narrative.

The fraud-busting prowess ascribed to Wedge and Mr. Mathison really belonged to J Capital Research ("JCAP"). Wedge and JCAP had a China research joint venture that broke apart in mid-2010. JCAP provided the bulk of the fraud-spotting expertise. Mr. Mathison was from the Wedge side of the house, and worked closely with the JCAP team during the joint venture. We believe that Mr. Mathison excelled in his sales role, but was less notable as a researcher. We understand that there was some acrimony between JCAP and Wedge when the joint venture broke apart.

One of Mr. Mathison's first acts upon joining NQ was to author a 12-page rebuttal to a July 31, 2013 report by JCAP that concluded NQ is a fraud. Mr. Mathison excoriated the JCAP report, and wrote that JCAP lacked the most basic understanding of NQ's business,

had done limited research, confused various metrics, and came to baseless and false conclusions. At no time did Mr. Mathison publicly discuss his professional history with JCAP.

The hedge fund that Mr. Mathison managed appears to have been struggling. It commenced business in 2007, and according to its latest Form ADV (filed with the State of Colorado), five years later, it only had five client accounts and assets under management of \$10.4 million.<sup>1</sup> One wonders whether NQ was really that great of an opportunity, or whether Mr. Mathison just had little to lose by joining NQ.

In the short time that Mr. Mathison has been with NQ, he has already managed to tell three contradicting versions of Rong Xu's history with NQ:

- Rong Xu consulted for NQ for less than six months in 2007, and bought 75% of YDT at the time she left NQ – NQ August 1, 2013 response to J Capital report.
- Rong Xu was an employee of NQ from September 1, 2006 to December 31, 2008. She bought 75% of YDT after she left NQ – October 25, 2013 conference call.
- Rong Xu was a NQ consultant from spring 2007 until the end of 2007; she was then a NQ employee (Director of Marketing) from December 2007 to August 2008 – Matt Mathison November 2, 2013 narrowly circulated email.

Mr. Mathison has not attempted to explain these contradictions. These stories are attempts to perpetuate the lie that Yidatong is not an undisclosed related party of NQ. Whatever Mr. Mathison's motivations for joining NQ and saying what he has, it is clear that investors should not find him credible.

#### Omar Khan: The Man Who Knew Too Little

In January 2012, Omar Khan became NQ's US front man. In our original report, we stated that Mr. Khan does not seem to be in a position to be informed about NQ's China "business". Despite claiming to be a CEO of equals, Mr. Khan has twice demonstrated that he is unaware of the identities of NQ's largest purported revenue sources (other than Yidatong), and of the provinces that constitute NQ's largest markets in China. This lack of knowledge was clear on the October 25, 2013 conference call in which Mr. Khan needed Mr. Lin to answer these questions. (As we explain in our October 29, 2013 update, Mr. Lin was clearly lying about the volumes these purported second and third largest revenue sources provide.)

The same lack of knowledge was also in evidence in Mr. Khan's November 1<sup>st</sup> interview with Emily Chang of Bloomberg (<http://tinyurl.com/le7q32r>):

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[http://www.adviserinfo.sec.gov/iapd/content/viewform/adv/sections/iapd\\_AdvIdentifyingInfoSection.aspx?ORG\\_PK=144270&RGLTR\\_PK=50014&STATE\\_CD=CO&FLNG\\_PK=05425EB40008016D01820C20047D6D59056C8CC0](http://www.adviserinfo.sec.gov/iapd/content/viewform/adv/sections/iapd_AdvIdentifyingInfoSection.aspx?ORG_PK=144270&RGLTR_PK=50014&STATE_CD=CO&FLNG_PK=05425EB40008016D01820C20047D6D59056C8CC0)

Q: Within China where does NQ have the most users? What cities, what provinces in China? Where do you have the most users?

Khan: We actually...we actually...we've actually have gone through the top five provinces...um...you know...including Hunan...uh...um...and um...and I can't actually remember them off the top of my head, but actually well, we actually published those earlier this week in a r...report. Uh...And we actually named the top five provinces where our customers are at...uh...and would be happy to provide that list to you...uh...I just, honestly, just didn't bring it with me.

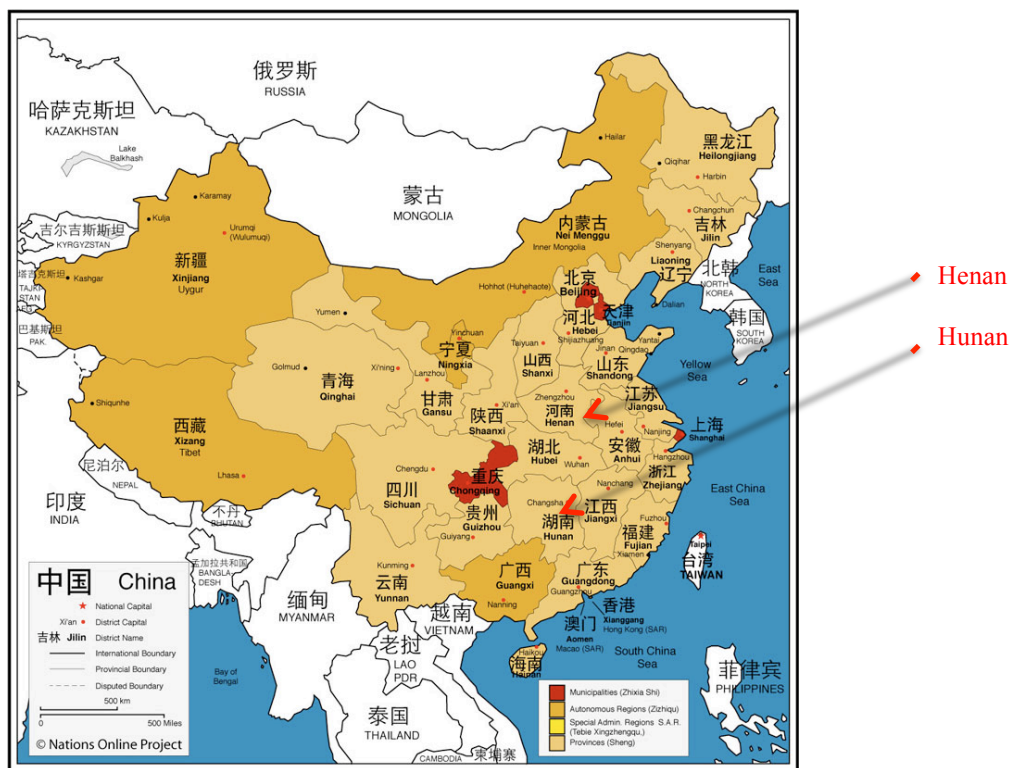


Mr. Khan might as well have answered by saying “P.F. Chang”.<sup>2</sup>

On the October 25<sup>th</sup> conference call, Mr. Khan was so clueless about NQ’s China business that Chairman Lin had to answer the same question for him. However, Chairman Lin named only four provinces – not five. Hunan was not among the provinces Chairman Lin named. Mr. Khan was likely trying to recall Henan province.

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<sup>2</sup> This photo is from the exact moment he was stumbling through his attempt to name NQ’s largest China markets.



Mr. Khan’s stock package was worth close to \$100 million at the time we published our initial report. We otherwise remain puzzled as to why Mr. Khan would continue to insist NQ is not a fraud at the same time he demonstrates he has no command of NQ’s inner workings.

#### Before Omar was Conned: Anthony Sasso and the Penny Stock

NQ has always been a bit player in mobile security with a tiny amount of real revenue. When NQ first became involved with the convicted racketeer, Anthony Sasso, in 2009 (two years before NQ’s IPO), there is no reason that any people or companies in the US mobile industry would have taken NQ seriously. Moreover, as a fraud in the making, it is not surprising that NQ would be dealing with convicted criminals and penny stock companies.

Anthony Sasso was convicted of racketeering for his role in a nationwide multi-million dollar car theft and VIN cloning ring.<sup>3,4</sup> Police broke up the ring in 2005. Mr. Sasso was therefore a curious choice to incorporate Netqin Holdings, Inc. in Florida in May 2010 – only one year before NQ’s IPO.<sup>5</sup>

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[http://blogs.browardpalmbeach.com/pulp/2011/05/justin\\_bieber\\_phoneguard\\_options\\_media\\_group\\_holdings\\_inc.php](http://blogs.browardpalmbeach.com/pulp/2011/05/justin_bieber_phoneguard_options_media_group_holdings_inc.php)

<sup>4</sup> <http://sheriff.org/posts/post.cfm?id=f71c3bd8-0a7b-4cbc-a5f5-1fe916c4fe25>

<sup>5</sup> <http://search.sunbiz.org/Inquiry/CorporationSearch/SearchResultDetail/EntityName/domp10000041656-c4316e96-c661-414f-be99-65250ce082ea/netqin/Page1>

NQ entered into a Master License Agreement in August 2009 with a company called Cellular Spyware Inc. (“CSI”) d/b/a PhoneGuard.<sup>6,7</sup> CSI’s president, and the signatory to the agreement with NQ, was Anthony Sasso. Pursuant to the agreement, NQ licensed cell phone antivirus software to CSI for Canada and the United States. It appears as though CSI also became NQ’s licensee for Brazil.

NQ and CSI lengthened the original agreement one year later, in July 2010. The amendment authorized CSI to sublicense the software to Options Media Group, Inc. (“OPMG”). OPMG was traded on the Pink Sheets at the time. OPMG issued CSI and Mr. Sasso preferred shares convertible into common shares totaling 154.5 million shares.<sup>8</sup> It is unclear whether NQ or any NQ-affiliated parties received OPMG shares.

OPMG now trades for less than one cent per share.

In another NQ reality is stranger than fiction twist, Justin Bieber agreed to endorse OPMG’s Drive Safe product, which incorporated NQ’s technology.<sup>9</sup> (For other bizarre aspects of the NQ fraud, see the discussion in our October 24, 2013 report discussion of NQ’s knockoff Segway scooter (called the NQ InMotion); NQ’s registration of domains that infringe the trademarks of Samsung, Apple, and other companies; and, NQ’s sale in China of legally questionable anonymizing calling cards.)<sup>10</sup>

We are unsure of the ultimate fate of NQ’s agreement with CSI and the sublicense to OPMG. (NQ’s F-1 does not mention CSI or OPMG.) We do note that the substantial shares OPMG issued for the sub-license is a blueprint that NQ seems to follow with its repeated prodigious issuances of shares for compensation and as consideration for its numerous (seemingly corrupt) acquisitions.

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<sup>6</sup> [https://www.sec.gov/Archives/edgar/data/1413993/000135448811001601/opmg\\_ex1021.htm](https://www.sec.gov/Archives/edgar/data/1413993/000135448811001601/opmg_ex1021.htm)

<sup>7</sup> [https://www.netqin.com/en/security/newsinfo\\_1751\\_1.html](https://www.netqin.com/en/security/newsinfo_1751_1.html)

<sup>8</sup> OPMG 2010 10-K (filed May 17, 2011), pp. 5-6.

<sup>9</sup> OPMG 2010 10-K (filed May 17, 2011), p. 2.

<sup>10</sup> NQ has not commented on the Segway knockoff or the anonymous calling cards. We believe NQ has particular sensitivity regarding the anonymous cards. In our Oct. 29, 2013 update, we showed that NQ’s claim it does not own the infringing domains is yet another lie.