

KONGZHONG CORP  
Form 20-F  
April 16, 2013

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

FORM 20-F

**£ REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

**S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**For the fiscal year ended December 31, 2012**

**OR**

**£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**OR**

**£ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

Commission file number: 000-50826

KONGZHONG CORPORATION

(Exact name of registrant as specified in its charter)

N/A

*(Translation of registrant's name into English)*

Cayman Islands  
35th Floor, Tengda Plaza  
No. 168 Xizhimenwai Street  
Beijing, China 100044  
*(Jurisdiction of incorporation or organization) (Address of principal executive offices)*

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Beijing, China 100044

The People's Republic of China

*(Name, Telephone, E-mail and /or Facsimile number and Address of Company Contact Person)*

Securities registered or to be registered pursuant to Section 12(b) of the Act

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Ordinary shares, par value US\$0.0000005 per share*	The NASDAQ Stock Market LLC
American Depositary Shares, each representing 40 ordinary shares	(The NASDAQ Global Select Market)

\* Not for trading, but only in connection with the listing on The NASDAQ Global Select Market of American Depositary Shares, or ADSs, each representing 40 ordinary shares.

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

**None**  
(Title of Class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

**None**  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2012, 1,678,097,663 ordinary shares, par value US\$0.0000005 per share, were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

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If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP <input type="checkbox"/>	International Financial Reporting Standards as issued by the International Accounting Standards Board <input type="checkbox"/>	Other <input type="checkbox"/>
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If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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## FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such forward-looking statements include, without limitation, statements that are not historical facts relating to:

our ability to successfully execute our business strategies and plans;

our financial performance and business operations;

our development and capital expenditure plans;

the expected benefit and future prospects of our strategic alliances and acquisitions, and our ability to cooperate with our alliance partners or integrate acquired businesses;

management estimations with respect to revenues from our wireless value-added services, or WVAS, mobile games and Internet games businesses;

the development of our latest product offerings, including, but not limited to, offerings in our WVAS, mobile games and Internet games businesses;

our ability to anticipate and launch games that respond to changing consumer tastes and preferences and predict trends in the Internet games market in the People's Republic of China, or the PRC;

our ability to license quality Internet games from the PRC and overseas Internet game developers that complement our internally developed Internet games;

our dependence on a small number of Internet games developed by third party Internet games developers for a significant portion of our Internet games revenues;

the development of the regulatory environment and changes in the policies or guidelines of the telecommunications operators in the PRC;

the development of the PRC smartphone mobile games market and the regulatory environment and changes in policies or guidelines relating to those markets;

the state of our relationship with telecommunications operators in the PRC;

our dependence on the substance and timing of the billing systems of the telecommunications operators in the PRC for our performance; and

competitive pressures and future growth in the WVAS, mobile games, telecommunications, Internet games and related industries in the PRC.

The words “forecast,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “seek,” “will,” “would” expressions, as they relate to us, are intended to identify a number of these forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in “Item 3 — Key Information — Risk Factors” and the following:

- any changes in our relationship with telecommunications operators in the PRC;
- the effects of competition on the demand for or the price of our products or services;
- any changes in customer demand or usage preference for our products or services;

any changes in the telecommunications operators' systems for billing users of our WVAS or mobile games or remitting payments to us;

any changes in technologies related to telecommunications, WVAS, mobile games or Internet games or applications based on such technologies;

any changes in our relationships with our Internet games licensors whose games we have the rights to operate in the PRC or other markets;

future developments, trends, regulatory environment and consumer preferences in China with respect to mobile and Internet games and means by which these games are distributed;

any changes in the regulatory regime or the policies for the PRC telecommunications industry, including changes in the structure or functions of the primary industry regulator, the Ministry of Industry and Information Technology, or the MIIT (formerly the Ministry of Information Industry), or its policies, or the policies or other regulatory measures of other relevant government or industry authorities relating to, among other matters, the granting and approval of licenses, procedures for customers to access and subscribe to WVAS or mobile games, restrictions on Internet content, or the introduction of new technology platforms, products and services;

any changes in the regulatory regime or the policies for the Internet games industry in the PRC, including changes in the structure, functions or policies of the regulators, which include (i) the MIIT, (ii) the State Administration for Industry and Commerce, or the SAIC, (iii) the Ministry of Culture, or the MOC, (iv) the General Administration of Press and Publication, or the GAPP, (v) the State Administration of Radio, Film and Television, or the SARFT, and (vi) the Ministry of Public Security, or the MPS;

any changes in political, economic, legal or social conditions in the PRC, including the PRC government's specific policies with respect to (i) foreign investment and entry by foreign companies into the telecommunications, WVAS, mobile games or Internet games market, (ii) economic growth, (iii) inflation, (iv) foreign exchange or (v) the availability of credit; and

changes in population growth or gross domestic product, or GDP, growth or the impact of those changes on the demand for our products or services.



We do not intend to update or otherwise revise the forward-looking statements in this annual report, whether as a result of new information, future events or otherwise. Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this annual report might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this annual report are qualified by reference to the cautionary statements set out in this section.

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**PART I**

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements, the notes thereto and “Item 5 — Operating and Financial Review and Prospects.” The selected consolidated statement of operations data for the years ended December 31, 2010, 2011 and 2012 and the selected consolidated balance sheet data as of December 31, 2011 and 2012 set forth below are derived from our audited consolidated financial statements and the notes thereto, which are included elsewhere in this annual report. The selected consolidated statement of operations data for the years ended December 31, 2008 and 2009 and the historical consolidated balance sheet data as of December 31, 2008, 2009 and 2010 set forth below are derived from our audited consolidated financial statements and the notes thereto, which are not included in this annual report.

Our audited consolidated financial statements have been prepared and presented in accordance with the generally accepted accounting principles in the United States, or U.S. GAAP.

<b>Consolidated statements of operations data</b>	<b>For the year ended December 31,</b>				
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>(in thousands of U.S. dollars, except shares and per share data)</b>				
Revenues	US\$ 96,689.7	US\$ 131,298.2	US\$ 149,583.4	US\$ 160,008.4	US\$ 186,379.7

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WVAS	88,946.4	104,001.6	83,280.3	80,265.9	77,765.5
Mobile games	7,743.3	27,296.6	49,171.5	40,850.5	21,190.3
Internet games	—	—	17,131.6	38,892.0	87,423.9
Sales tax(1)	(2,839.6 )	(2,885.1 )	(3,209.0 )	(3,827.8 )	(5,793.6 )
WVAS	(2,583.0 )	(2,273.6 )	(1,584.4 )	(1,390.9 )	(1,053.2 )
Mobile games	(256.6 )	(611.5 )	(925.1 )	(621.1 )	(219.3 )
Internet games	—	—	(699.5 )	(1,815.8 )	(4,521.1 )
Net revenues	93,850.1	128,413.1	146,374.4	156,180.6	180,586.1
WVAS	86,363.4	101,728.0	81,695.9	78,875.0	76,712.3
Mobile games	7,486.7	26,685.1	48,246.4	40,229.4	20,971.0
Internet games	—	—	16,432.1	37,076.2	82,902.8
Cost of revenues	(51,612.5)	(65,946.8 )	(80,238.6 )	(91,930.2 )	(103,130.3 )
WVAS	(48,132.7)	(54,258.5 )	(48,329.5 )	(50,758.6 )	(52,655.5 )
Mobile games	(3,479.8 )	(11,688.3 )	(29,570.8 )	(25,248.0 )	(10,935.0 )
Internet games	—	—	(2,338.3 )	(15,923.6 )	(39,539.8 )
Gross profit	42,237.6	62,466.3	66,135.8	64,250.4	77,455.8
WVAS	38,230.7	47,469.5	33,366.5	28,116.4	24,056.8
Mobile games	4,006.9	14,996.8	18,675.4	14,981.4	10,036.0
Internet games	—	—	14,093.9	21,152.6	43,363.0
Operating expenses:					
Product development	(15,180.8)	(18,272.0 )	(23,964.7 )	(15,416.9 )	(18,382.4 )
Selling and marketing	(21,338.9)	(17,821.2 )	(18,975.6 )	(20,891.6 )	(24,586.0 )
General and administrative	(8,800.4 )	(10,186.9 )	(10,481.8 )	(11,582.2 )	(11,629.3 )
Impairment loss on goodwill	—	—	(2,998.3 )	(20,255.3 )	—
Impairment loss on intangible assets	(21,623.3)	—	(5,730.6 )	(3.9 )	—
Total operating expenses	(66,943.4)	(46,280.1 )	(62,151.0 )	(68,149.9 )	(54,597.7 )
Change in fair value of contingent consideration for business acquisition	—	—	10,894.5	(3,729.5 )	—
Government subsidies	—	—	337.7	319.2	301.4

Consolidated statements of operations data	For the year ended December 31,			
	2008	2009	2010	2011
	(in thousands of U.S. dollars, except shares and per share data)			
Income (loss) from operations	(24,705.8 )	16,186.2	15,217.0	(7,309.8 )
Interest income	4,897.4	3,114.3	2,342.8	3,569.2
Interest income from loans to third party	—	—	—	1,193.2
Interest expense	—	(725.9 )	(1,059.9 )	(487.8 )
Impairment loss on cost method investment	—	(1,500.0 )	(1,509.9 )	—
Loss on extinguishment of debt upon prepayment of convertible senior note	—	—	—	(1,567.5 )
Exchange gain	—	—	—	—
Investment income	—	206.9	883.2	85.6
Net income (loss) before income taxes	(19,808.4 )	17,281.5	15,873.2	(4,517.1 )
Income taxes expense	(851.9 )	(4,698.1 )	(3,950.0 )	(3,137.8 )
Net income (loss)	US\$ (20,660.3)	US\$ 12,583.4	US\$ 11,923.2	US\$ (7,654.9)
Net income (loss) per share:				
Basic	US\$ (0.01)	US\$ 0.01	US\$ 0.01	US\$ (0.00)
Diluted	US\$ (0.01)	US\$ 0.01	US\$ 0.01	US\$ (0.00)
Weighted average shares used in calculating net income (loss) per share:				
Basic	1,424,581,293	1,385,201,479	1,466,947,693	1,607,110,119
Diluted (2)	1,424,581,293	1,537,771,051	1,547,870,678	1,607,110,119

(1) Prior to October 1, 2009, we presented sales tax on a gross basis (included in revenues and general and administrative expenses). Since October 1, 2009, we have presented sales tax on a net basis (excluded from net revenues) in order to provide better comparability of our financial statements to those of our peer companies. We have applied this change in accounting principles retrospectively to all prior periods presented.

(2) As of December 31, 2008, 2009, 2010, 2011 and 2012, we had 137 million, 76 million, 76 million, 210 million and 285 million ordinary share equivalents, respectively, outstanding that could potentially dilute income per share in the future, but that were excluded in the computation of diluted income per share in the periods as their effect would have been anti-dilutive.

Consolidated balance sheet data	As of December 31,				
	2008	2009	2010	2011	2012
Cash and cash equivalents	US\$ 136,054.3	US\$ 139,289.5	US\$ 157,170.8		