

KONGZHONG CORP
Form 20-F
April 16, 2015

UNITED STATES

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

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

For the fiscal year ended December 31, 2014

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
<i>(Jurisdiction of incorporation or organization)</i>	<i>(Address of principal executive offices)</i>

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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.

Title of each class	Name of each exchange on which registered
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, 2014, 1,882,073,063 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

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 International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

TABLE OF CONTENTS

	Page
<u>FORWARD-LOOKING STATEMENTS</u>	ii
<u>PART I</u>	1
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	1
Item 2. <u>Offer Statistics and Expected Timetable</u>	1
Item 3. <u>Key Information</u>	1
Item 4. <u>Information on the Company</u>	34
Item 4A. <u>Unresolved Staff Comments</u>	61
Item 5. <u>Operating and Financial Review and Prospects</u>	62
Item 6. <u>Directors, Senior Management and Employees</u>	93
Item 7. <u>Major Shareholders and Related Party Transactions</u>	99
Item 8. <u>Financial Information</u>	110
Item 9. <u>The Offer and Listing</u>	110
Item 10. <u>Additional Information</u>	111
Item 11. <u>Quantitative and Qualitative Disclosures About Market Risks</u>	116
Item 12. <u>Description of Securities Other than Equity Securities</u>	117
<u>PART II</u>	119
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	119
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	119
Item 15. <u>Controls and Procedures</u>	119
Item 16A. <u>Audit Committee Financial Expert</u>	121
Item 16B. <u>Code of Ethics</u>	121

Item 16C. <u>Principal Accountant Fees and Services</u>	121
Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u>	122
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	122
Item 16F. <u>Change in Registrant's Certifying Accountant</u>	123
Item 16G. <u>Corporate Governance</u>	123
Item 16H. <u>Mine Safety Disclosure</u>	123
<u>PART III</u>	124
Item 17. <u>Financial Statements</u>	124
Item 18. <u>Financial Statements</u>	124
Item 19. <u>Exhibits</u>	124

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;

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

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

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

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

the development of the regulatory environment and changes in the policies or guidelines of the telecommunications operators in the PRC, as well as our relationships with those operators;

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

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 Internet games, mobile games, WVAS, telecommunications and related industries in the PRC.

The words “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “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:

- the effects of competition on, as well as changes in, the demand for or the price of our products or services;
- any changes in our relationship with telecommunications operators in the PRC;
- any changes in our relationships with our Internet games licensors whose games we have the rights to operate in the PRC or other markets;
- any changes in the telecommunications operators’ systems for billing users of our mobile games or WVAS or remitting payments to us;
- any changes in technologies related to telecommunications, Internet games, mobile games, or WVAS or applications based on such technologies;
- future developments, trends, regulatory environment and consumer preferences in China with respect to Internet and mobile games and means by which these games are distributed;
- 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 Ministry of Industry and Information Technology, or the MIIT (formerly the Ministry of Information Industry), (ii) the State Administration for Industry and Commerce, or the SAIC, (iii) the Ministry of Culture, or the MOC, (iv) the State Administration of Press, Publication, Radio, Film and Television, or the SAPPRFT (formerly the General Administration of Press and Publication and the State Administration of Radio, Film and Television), and (v) the Ministry of Public Security, or the MPS;
- 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 MIIT, 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 mobile games or WVAS , restrictions on Internet content, or the introduction of new technology platforms, products and services;
- 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, Internet

games, mobile games or WVAS 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.

- iii -

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, 2012, 2013 and 2014 and the selected consolidated balance sheet data as of December 31, 2013 and 2014 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, 2010 and 2011 and the historical consolidated balance sheet data as of December 31, 2010, 2011 and 2012 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.

Consolidated statements of operations data	For the year ended December 31,				
	2010	2011	2012	2013	2014
	(in thousands of U.S. dollars, except shares and per share data)				
Revenues	US\$ 146,374.4	US\$ 156,180.6	US\$ 180,586.1	US\$ 173,653.8	US\$ 227,595.9
Internet games	16,432.1	37,076.2	82,902.8	93,792.3	118,099.8
Mobile games	48,246.4	40,229.4	20,971.0	16,908.3	45,036.4
WVAS	81,695.9	78,875.0	76,712.3	62,953.2	64,459.7

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Cost of revenues	(80,238.6)	(91,930.2)	(103,130.3)	(96,399.9)	(129,279.0)
Internet games	(2,338.3)	(15,923.6)	(39,539.8)	(45,534.4)	(61,443.1)
Mobile games	(29,570.8)	(25,248.0)	(10,935.0)	(7,780.3)	(22,977.3)
WVAS	(48,329.5)	(50,758.6)	(52,655.5)	(43,085.2)	(44,858.6)
Gross profit	66,135.8	64,250.4	77,455.8	77,253.9	98,316.9
Internet games	14,093.8	21,152.6	43,363.0	48,257.9	56,656.7
Mobile games	18,675.6	14,981.4	10,036.0	9,128.0	22,059.1
WVAS	33,366.4	28,116.4	24,056.8	19,868.0	19,601.1
Operating expenses:					
Product development	(23,964.7)	(15,416.9)	(18,382.4)	(26,401.7)	(25,107.4)
Selling and marketing	(18,975.6)	(20,891.6)	(24,586.0)	(26,674.0)	(42,522.7)
General and administrative	(10,481.8)	(11,582.2)	(11,629.3)	(8,976.2)	(12,564.6)
Impairment loss on goodwill	(2,998.3)	(20,255.3)	—	—	—
Impairment loss on intangible assets	(5,730.6)	(3.9)	—	(1,562.4)	(1,323.3)
Total operating expenses	(62,151.0)	(68,149.9)	(54,597.7)	(63,614.3)	(81,518.0)
Change in fair value of contingent consideration for business acquisition	10,894.5	(3,729.5)	—	—	—

- 1 -

Consolidated statements of operations data	For the year ended December 31,				
	2010	2011	2012	2013	2014
	(in thousands of U.S. dollars, except shares and per share data)				
Government subsidies	337.7	319.2	301.4	2,176.4	1,138.9
Income (loss) from operations	15,217.0	(7,309.8)	23,159.5	15,816.0	17,937.8
Interest income	2,342.8	3,569.2	5,231.3	6,764.0	8,864.7
Interest income from loans to third party	—	1,193.2	453.6	—	—
Interest expense	(1,059.9)	(487.8)	(262.7)	(693.3)	(895.0)
Impairment loss on cost method investment	(1,509.9)	—	—	(2,000.0)	(2,000.0)
Loss on extinguishment of debt upon prepayment of convertible senior note	—	(1,567.5)	—	—	—
Exchange gain (loss)	—	—	387.6	1,487.3	(271.6)
Investment income	883.2	85.6	261.5	—	—
Net income (loss) before income taxes	15,873.2	(4,517.1)	29,230.8	21,374.0	23,635.9
Income taxes expense	(3,950.0)	(3,137.8)	(3,490.8)	(712.4)	(1,048.0)
Net income (loss)	US\$11,923.2	US\$(7,654.9)	US\$25,740.0	US\$20,661.6	US\$22,587.9
Net income (loss) per share:					
Basic	US\$0.01	US\$(0.00)	US\$0.02	US\$0.01	US\$0.01
Diluted	US\$0.01	US\$(0.00)	US\$0.01	US\$0.01	US\$0.01
Weighted average shares us					