

KONGZHONG CORP
Form 6-K
March 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the Month of March 2011

Commission File Number: 000-50826

KONGZHONG CORPORATION
(Translation of registrant's name into English)

35/F, Tengda Plaza, No. 168 Xizhimenwai Street
Beijing, China 100044
(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F

Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):)

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):)

(Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes

No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82- .)

EXHIBITS

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FORWARD-LOOKING STATEMENTS

The press release and presentation of KongZhong Corporation (the “Company”), constituting Exhibits 1.1 to this Form 6-K, contain statements that may be viewed as “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. Such forward-looking statements are, by their nature, subject to significant risks and uncertainties that may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations expressed or implied by such forward-looking statements. Such forward-looking statements include, without limitation, statements regarding trends in the wireless value-added services, wireless media and mobile games industries and our future business, financial conditions, results of operations and prospects.

Although such statements are based on the Company’s own information and information from other sources it believes to be reliable, you should not place undue reliance on them. These statements involve risks and uncertainties, and actual market trends and the Company’s results may differ materially from those expressed or implied in these forward-looking statements for a variety of reasons. Potential risks and uncertainties include, but are not limited to, continued competitive pressures in China's wireless value-added services, wireless media and mobile games industries and the effect of such pressure on prices; unpredictable changes in technology, consumer demand and usage preferences in the market; the state of and any change in the Company’s relationship with China's telecommunications operators; the Company’s dependence on the billing systems of telecommunications operators for its performance; the outcome of the Company’s investment of operating income generated from the wireless value-added services segment into the development of its wireless Internet segment and mobile games segment; changes in the regulations or policies of the Ministry of Industry and Information Technology and other relevant government authorities in China or elsewhere; and changes in political, economic, legal and social conditions in China, including the government's policies with respect to economic growth, foreign exchange, foreign investment and entry by foreign companies into China's telecommunications market. For additional discussion of these risks and uncertainties and other factors, please see the Company’s most recent Annual Report on Form 20-F filed with the Securities and Exchange Commission. The Company assumes no obligation to update any forward-looking statements, which apply only as of the date of this report on Form 6-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KONGZHONG CORPORATION

Date: March 2, 2011

By: /s/ Leilei Wang
Name: Leilei Wang
Title: Chief Executive Officer

KongZhong Corporation Reports Unaudited Fourth Quarter 2010 Financial Results

Beijing, China, March 2nd, 2011 – KongZhong Corporation (NASDAQ: KONG), a leading mobile Internet company in China, today announced its unaudited fourth quarter 2010 and full year 2010 financial results.

Fourth Quarter 2010 Financial Highlights:

(Note: Unless otherwise indicated, all financial statement amounts used in this press release are based on United States Generally Accepted Accounting Principles (GAAP) and denominated in US dollars)

Revenues inline with guidance – Total revenues for the Fourth Quarter of 2010 (“4Q10”) increased 5% year-over-year (“YoY”) to US\$ 36.0 million (“mn”), inline with the Company’s 4Q10 revenue guidance range of US\$ 35.5 mn to US\$ 36.5 mn.

Gross profit inline with guidance – Total gross profit was US\$ 15.96 mn for 4Q10, inline with the Company’s 4Q10 guidance range of US\$ 15.5 mn to US\$ 16.5mn.

Net income grew quarter-over-quarter (“QoQ”) and YoY – Net income in 4Q10 was US\$ 5.01 mn a 330% increase compared to US\$ 1.17 mn in 3Q10 and a 149% increase compared to US\$ 2.0 mn in 4Q09. Basic net income per ADS was US\$ 0.13 based on 37.31 mn ADS while diluted net income per ADS was US\$ 0.13 based on 39.08 mn ADS outstanding as of December 31, 2010.

Non-GAAP net income exceeds guidance – Non-GAAP net income was US\$ 7.27 mn, exceeding the Company’s guidance range of US\$ 5.5 mn to US\$ 6.5 mn, while Non-GAAP diluted net income per ADS was US\$ 0.18 (Non-GAAP Financial Measures are described and reconciled to the corresponding GAAP measures in the section titled “Non-GAAP Financial Measures.”)

Cash and cash equivalents – As of December 31, 2010, the Company had US\$ 157.17 mn in cash and cash equivalents or US\$ 4.21 per basic ADS in cash and cash equivalents.

Full Year 2010 Financial Highlights:

Total revenues were \$149.58 million for the full year 2010, or a 14% YoY increase. Of which WVAS revenues were \$83.28 mn, Mobile games revenues were \$49.17 mn and Internet games were \$17.13 mn.

Full year gross margin was 44%. Of which WVAS gross margin was 40%, Mobile games gross margin was 38% and Internet games gross margin was 82%.

Full year net income was stable – Net income in 2010 was US\$ 11.92 mn, compared to 2009 net income of US\$ 12.58 mn.

Full year Non-GAAP net income increased – Non-GAAP net income was US\$22.85 mn, a 13% increase compared to 2009 full year Non-GAAP net income of US\$ 20.15 mn

Commenting on the results, the Company's Chairman and Chief Executive Officer, Leilei Wang, said, "KONG achieved our highest quarterly net profit and non-GAAP net profit since I joined the Company, driven by our diversification into Internet games, cost efficiencies and a stabilizing WVAS market. With the strong performance from Internet games helping to balance the challenges in WVAS, I believe our diversification into Internet games has been a success.

“In 4Q, we launched Shengmozhixue, (or Shengmo) our self-developed 3D MMORPG game with a Western-style fantasy theme. Shengmo outperformed our expectations as we have begun to introduce more console game quality action special effects into our games, differentiating ourselves from other Chinese online games, which helped lead to better player acceptance and retention during the quarter.

“At the end of February 2011, World of Tanks (“WoT”) in China had over 900k registered users and exceeded 90k PCUs during the closed beta testing stage. With a stronger than expected response from Chinese gamers we have moved up the open beta test period to begin on March 15th.

“Already one of the top games in it’s home market of Russia, we believe WoT has the potential to be one of the top online team-based shooters in the China market and a significant contributor to KONG's profitability beginning in the 2nd quarter of 2011.”

Noteworthy Items:

- World of Tanks - During closed beta testing stage, achieved over 900k registered users and over 90k PCUs as of February 28th.
- Kung Fu Hero (Self-developed 3D MMORPG) - Technical closed beta testing began on February 28th. Open beta test planned for 3Q 2011.
- Emofaze 2 (Self-developed 3D MMORPG) – Second title in Emofaze series. Open beta test planned by end of 2011.
- KongZhong prepaid 70% of the aggregate principal amount of the 5-year convertible senior note for US\$ 9.31 million in cash, plus any accrued but unpaid interest on the note in February 2011. The prepaid portion of the note has rights to be converted into 1.33 million American Depositary Shares (ADS) equivalent to 53.2 million ordinary shares, representing about 3.6% of KongZhong’s total shares outstanding as of December 31, 2010.

Financial Results:

	For the Three Months Ended December 31, 2009 (US\$ thousands)*	For the Three Months Ended September 30, 2010 (US\$ thousands)*	For the Three Months Ended December 31, 2010 (US\$ thousands)*
Revenues	\$ 34,334	\$ 37,669	\$ 36,009
WVAS	26,985	20,779	17,323
Mobile Games	7,349	13,931	12,763
Internet Games	-	2,959	5,923
Sales Tax	\$ 641	\$ 694	\$ 896
WVAS	493	407	228
Mobile Games	148	225	195
Internet Games	-	62	473
Cost of Revenue	\$ 18,037	\$ 21,366	\$ 19,157
WVAS	14,526	11,947	10,389
Mobile Games	3,511	8,659	8,109
Internet Games	-	760	659
Gross profit	\$ 15,656	\$ 15,609	\$ 15,956
WVAS	11,966	8,425	6,706
Mobile Games	3,690	5,047	4,459
Internet Games	-	2,137	4,791
Gross profit ratio	46	41	44
WVAS	44	41	39
Mobile Games	50	36	35
Internet Games	-	72	81

* During the 3rd quarter 2010, we consolidated the majority of our Wireless Internet Services (WIS) business line into our WVAS. The financial information for each business line has been adjusted retrospectively to reflect this change in business lines.

Revenues

WVAS Revenues

WVAS revenues in 4Q10 were US\$ 17.32 mn, a 17% decrease from 3Q10 and a 36% decrease from the same period last year. WVAS revenues declined due to the ongoing implementation of WVAS policy restrictions from our mobile operator partners. Relative to our prior US\$ 18.5 mn guidance for WVAS revenues in 4Q10, the shortfall was due to a slightly more restrictive policy environment than we had previously estimated in 4Q10, however, we now expect a recovery in our WVAS business in the coming quarters as the WVAS operating environment has stabilized.

In 4Q10, 2G revenues represented 89% of total newly reported WVAS revenues, while 2.5G services made up 11% of total WVAS revenues.

WVAS made up 48.1% of total revenues in 4Q10.

Mobile Games Revenues

Total mobile game revenues in 4Q10 were US\$ 12.76 mn, a 74% increase from the same period last year but an 8% decrease from 3Q10.

Revenues from downloadable mobile games were US\$ 12.32 mn representing an 89% increase from the same period last year but a decrease of 6% from 3Q10. 4Q10 downloadable mobile game revenues were impacted by the ongoing reduction in marketing activities by our mobile operator partners as well as year-end subscriber confirmation notices, which led to higher than prior period churn rates. In 4Q10, average monthly mobile game subscribers were maintained at roughly 2.0 mn per month, at a similar level compared to 3Q10.

Revenues from mobile multi-player online games ("MMO" or "online mobile games") were US\$ 0.45 mn, a decrease of 49% from 3Q10, and a decrease of 46% from the same period last year. All three of our online mobile games experienced a sequential decline in revenues due to product lifecycle and competitive issues.

Revenues from downloadable mobile games made up 97% of total mobile game revenues compared to 94% in 3Q10. Revenues from online mobile games made up roughly 3% of total mobile game revenues compared to 6% in 3Q10.

Mobile game revenues made up 35.4% of total revenues in 4Q10.

Internet Games Revenues

Internet Game ("Net Game") revenues were US\$ 5.92 mn in 4Q10, a 100% increase from 3Q10. Net Game revenues outperformed our expectations due to the strong performance of Shengmozhixue, our self-developed 3D MMORPG title and also from the licensing of our online games to overseas markets such as Taiwan, SE Asia, Hong Kong, Korea, Japan and North America. During the quarter, Loong, Xiakexing and Shengmozhixue license fees all contributed to overseas revenues.

Specific to Shengmozhixue, our in-house development team had begun to improve the action gameplay component of this 3D MMORPG title, which led to better than expected user acceptance and retention. The Company expects that in the future, another key differentiator of 3D online games in China will be the ability for game developers to incorporate more and more complex action special effects into MMORPG games and have begun to focus our future development efforts towards this.

Total overseas revenues as a percentage of total Net game revenues in 4Q10 were 39% compared to 18% in 3Q10.

For the 4Q10 3-month period, mainland China online game operations achieved average concurrent users (“ACUs”) of 81k compared to 69k in 3Q10 and aggregate paying accounts (“APAs”) of 120k with quarterly ARPU of RMB 201 compared to 69k APAs with quarterly ARPU of RMB 240 in 3Q10.

Net game revenues made up 16.5% of total revenues in 4Q10.

Gross Profit

Total gross profit was US\$ 15.96 mn in 4Q10, a 2% increase compared to 3Q10, and a 2% increase compared to the same period last year. Total gross margin was 44% in 4Q10 compared to 41% in 3Q10.

WVAS Gross Profit

WVAS gross profit in 4Q10 was US\$ 6.71 mn, a 20% decrease from 3Q10 and a 44% decrease compared to the same period last year. 4Q10 WVAS gross margin was 39% compared to 41% in 3Q10 as ongoing policy measures led us to rely more on higher cost distribution channels as a percentage of WVAS revenues compared to previous periods.

Mobile Game Gross Profit

Mobile games gross profit in 4Q10 was US\$ 4.46 mn, a 21% increase compared to the same period last year but a 12% decrease from 3Q10. 4Q10 mobile games gross margin was 35% compared to 36% in 3Q10. We had previously expected mobile game gross margins to improve from 3Q10 levels, but the higher margin distribution channels we had expected to promote our mobile game services through during the period were impacted by certain mobile operator policies and churn rates.

Internet Game Gross Profit

Internet game gross profit in 4Q10 was US\$ 4.79 mn, a 124% increase from 3Q10. Internet game gross margin was 81% in 4Q10, an increase from the 72% gross margin level in 3Q10. Net game gross profit improved significantly from 3Q10 due to the better than expected performance of Shengmozhixue and the higher contribution from overseas license fees which were recognized in the quarter.

Operating Expenses

	For the Three Months Ended December 31, 2009 (US\$ thousands)	For the Three Months Ended September 30, 2010 (US\$ thousands)	For the Three Months Ended December 31, 2010 (US\$ thousands)
Product development	\$ 4,221	\$ 6,209	\$ 4,771
Sales and marketing	4,953	5,302	4,125
General and administrative	2,856	2,859	2,134
Provision for impairment of goodwill and intangibles	-	-	8,729
Total Operating Expenses	\$ 12,030	\$ 14,370	\$