

KONGZHONG CORP  
Form F-3/A  
May 30, 2012

**As filed with the Securities and Exchange Commission on May 30, 2012.**

**Registration No. 333-181459**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**AMENDMENT NO. 1**

**TO**

**FORM F-3**

**REGISTRATION STATEMENT**

**UNDER**

**THE SECURITIES ACT OF 1933**

**KongZhong Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Not Applicable**

(Translation of Registrant's Name into English)

**Cayman Islands**

(State or Other Jurisdiction of Incorporation or Organization)

**Not applicable**

(I.R.S. Employer Identification Number)

**35th Floor, Tengda Plaza**

**No. 168 Xizhimenwai Street**

**Beijing 100044**

**People's Republic of China**

**(+86-10) 8857-6000**

*(Address and telephone number of Registrant's principal executive offices)*

**CT Corporation System**

**111 Eighth Avenue**

**New York, New York 10011**

**(+1-212) 894-8940**

*(Name, address and telephone number of agent for service)*

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**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this Registration Statement.

If only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.



**The information in this preliminary prospectus is not complete and may be changed. No person may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

SUBJECT TO COMPLETION, DATED MAY 30, 2012

## **PROSPECTUS**

### **KONGZHONG CORPORATION**

#### **80,000,000 ORDINARY SHARES**

On March 18, 2009, we issued and sold, in a private transaction, a warrant to purchase up to 80,000,000 of our ordinary shares, exercisable within five years, or the warrant. The warrant is exercisable on or before March 18, 2014. We may issue ordinary shares upon the exercise of the warrant. The recipient of such ordinary shares, or the selling shareholder, may use this prospectus to resell, from time to time, the ordinary shares that we may issue to it upon the exercise of the warrant.

The registration of our ordinary shares covered by this prospectus does not necessarily mean that the selling shareholder will exercise the warrant or that any of our ordinary shares received upon the exercise of the warrant will be sold by the selling shareholder.

We will receive an aggregate amount equal to US\$10,000,000 (US\$0.125 per ordinary share) upon the exercise of the warrant by the selling shareholder. We have agreed to pay the expenses relating to the registration of our ordinary shares. The selling shareholder may, from time to time, offer and sell the ordinary shares held by it directly or through agents or broker-dealers on terms to be determined at the time of sale, as described in more detail in this prospectus and any accompanying prospectus supplements. We will receive no proceeds from any sale of such ordinary shares by the selling shareholder.

Our American depositary shares, or ADSs, each representing 40 ordinary shares, are traded on the Nasdaq Global Select Market under the symbol "KONG." On May 29, 2012, the last reported sale price of our ADSs was US\$6.88 per ADS.

Our principal executive offices are located at 35th Floor, Tengda Plaza, No. 168 Xizhimenwai Street, Beijing 100044, People's Republic of China, and our telephone number is (+86-10) 8857-6000.

**Investing in these securities involves certain risks. See "Risk Factors" on page 3.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

Prospectus dated

## TABLE OF CONTENTS

	Page
Risk Factors	3
About this Prospectus	3
Forward-Looking Statements	3
Offering Statistics and Expected Time Table	5
Selling Shareholder	5
Recent Development	6
Plan of Distribution	6
Use of Proceeds	8
Capitalization	8
Description of Share Capital	9
Price Range of American Depositary Shares	18
Material Changes	18
Expenses	18
Where You Can Find More Information	19
Incorporation of Certain Information by Reference	19
Disclosure of the SEC's Position on Indemnification for Securities Act Liabilities	19
Validity of the Ordinary Shares	19
Experts	20

## Risk Factors

You should carefully consider the risk factors incorporated by reference herein from our most recent Annual Report on Form 20-F (File No. 000-50826) for the fiscal year ended December 31, 2011, or our 2011 20-F, and other information contained or incorporated by reference in this prospectus and any accompanying prospectus supplements, as the same may be updated from time to time by our future filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act. For more information, see “Where You Can Find More Information” in this prospectus.

## About this Prospectus

This prospectus is part of a shelf registration statement that we filed with the Securities and Exchange Commission, or the SEC, using a “shelf” registration process for the delayed offering and sale of securities pursuant to Rule 415 under the Securities Act of 1933, as amended, or the Securities Act. Under the shelf process, the selling shareholder may, from time to time, sell the offered securities described in this prospectus in one or more offerings. In addition, under the shelf process, in certain circumstances, we may provide a prospectus supplement that will contain specific information about the terms of a particular offering by the selling shareholder. We may also provide a prospectus supplement to add, update or change information contained in this prospectus.

This prospectus and any accompanying prospectus supplements do not contain all of the information included in the registration statement. We have omitted parts of the registration statement in accordance with the rules and regulations of the SEC. For further information, we refer you to the registration statement on Form F-3, including its exhibits, of which this prospectus is a part. Statements contained in this prospectus and any accompanying prospectus supplements about the provisions or contents of any agreement or other document are not necessarily complete. If the SEC rules and regulations require that an agreement or document be filed as an exhibit to the registration statement, please see that agreement or document for a complete description of these matters. You should not assume that the information in this prospectus, any prospectus supplements or in any documents incorporated herein or therein by reference is accurate as of any date other than the date on the front of each of such documents.

You should read both this prospectus and any prospectus supplements together with the additional information described under the heading “Where You Can Find More Information” in this prospectus.

You should rely only on the information contained in this prospectus or incorporated by reference in this prospectus and any prospectus supplements. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are not making an offer to sell, or seeking offers to buy, these securities in any jurisdictions where offers or sales are not permitted.



Unless otherwise noted or unless the context otherwise requires, all references to “KongZhong,” “the company,” “our company,” “we,” “us” or “our” include KongZhong Corporation and its subsidiaries and consolidated variable interest entities as a combined entity. All references to and statements regarding China, or the People’s Republic of China, or the PRC, in this prospectus do not apply to Hong Kong, Macau or Taiwan. All references to “RMB” or “Renminbi” are to the legal currency of China and all references to “US\$” are to the legal currency of the United States.

#### Forward-Looking Statements

This prospectus, any accompanying prospectus supplements and the documents incorporated by reference herein, may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of 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 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 polices 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” of our 2011 20-F 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 and for 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 the licensors of Internet 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 wireless 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, (iii) the Ministry of Culture, (iv) the General Administration of Press and Publication, (v) the State Administration of Radio, Film and Television, and (vi) the Ministry of Public Security;

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 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 prospectus, 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 prospectus 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 prospectus are qualified by reference to the cautionary statements set out in this section.

#### Offering Statistics and Expected Time Table

We issued an adjustable rate convertible senior note due in 2014 with an aggregate principal amount of US\$6,775,400, or the note, and the warrant to Nokia Growth Partners II, L.P., or NGP, on March 18, 2009. On February 25, 2011, we prepaid 70% of the aggregate principal amount of the note, plus any accrued but unpaid interest. Subsequently, on March 1, 2012, NGP fully converted the note into 22,800,000 of our ordinary shares, and, as a result, the note was no longer outstanding. The warrant is exercisable on or before March 18, 2014 for up to 80,000,000 of our ordinary shares. The number of ordinary shares that may be issued upon the exercise of the warrant may be subject to adjustments in the event of stock dividends, splits, subdivisions, reclassifications or combinations or a merger, sale of substantially all of our assets or shares or similar transactions that require the approval of our shareholders or other transactions or series of transactions that otherwise result in a change in control of our company.

Further information on the method and expected time table for distribution is set forth under "Selling Shareholder" and "Plan of Distribution" below.

#### Selling Shareholder

The warrant was originally issued and sold by us to NGP on March 18, 2009 in a transaction exempt from the registration requirements of the Securities Act pursuant to Rule 506 of Regulation D thereunder. The warrant is exercisable, in whole but not in part, on or before March 18, 2014 for, and we will issue upon exercise of the warrant by NGP, up to 80,000,000 of our ordinary shares. In such circumstances, NGP as well as any of its successors, including its transferees, pledgees or donees or other successors, whom we also refer to as the "selling shareholder," may use this prospectus and any accompanying prospectus supplements to resell or offer to resell, from time to time, the ordinary shares that may be issued to it upon the exercise of the warrant.

The following table sets forth the maximum number of our ordinary shares that we expect could become beneficially owned and offered by the selling shareholder pursuant to this prospectus should the selling shareholder exercise the warrant. The information is based on information provided by or on behalf of the selling shareholder assuming the exercise of the warrant, without taking into account any adjustments. The number of ordinary shares issuable upon exercise of the warrant are subject to adjustments. Accordingly, the number of our ordinary shares issuable upon the exercise of the warrant may increase or decrease from time to time. Any changed information given to us by the selling shareholder will be set forth in prospectus supplements or amendments to this prospectus if and when necessary.

We have prepared the table below based on information given to us by the selling shareholder on or before May 30, 2012. As the selling shareholder may offer, pursuant to this prospectus, all or some portion of the ordinary shares listed below, no estimate can be given as to the amount of ordinary shares that will be held by the selling shareholder upon consummation of any sales. In addition, the selling shareholder may have sold, transferred or otherwise disposed of, in transactions exempt from registration requirements of the Securities Act, some or all of the ordinary shares since the date as of which such information was provided to us.

In addition to the warrant described above, we also issued a convertible note to NGP on March 18, 2009. We subsequently issued ordinary shares to NGP upon the conversion of the note. Such ordinary shares are not being registered under this Registration Statement. NGP may resell or offer to resell, from time to time, such ordinary shares in transactions exempt from the registration requirements of the Securities Act.

Pursuant to the note and warrant purchase agreement that we entered into with NGP on March 18, 2009, the selling shareholder had the right to appoint, and had appointed, one representative to attend our board meetings as a non-voting observer. On May 24, 2012, the selling shareholder waived its rights to exercise, for the remainder of 2012, its non-voting board observation rights, including its rights to information, under the note and warrant purchase agreement.

Based on the information provided to us by the selling shareholder, other than NGP's rights as set forth above, the selling shareholder has not had any material relationship with us or any of our affiliates within the past three years.

Name of Selling Shareholder	Maximum Number of Ordinary Shares Issuable upon Exercise of the Warrant	Number of Ordinary Shares That May Be Sold	Percentage of Ordinary Shares Outstanding <sup>(1)</sup>
Nokia Growth Partners II, L.P. <sup>(2)</sup>	80,000,000	80,000,000	4.7 %

Calculated based on Rule 13d-3(d)(1)(i) under the Exchange Act, using 1,713,257,743 ordinary shares outstanding <sup>(1)</sup>as of April 30, 2012. In calculating this amount, we treated as outstanding the number of ordinary shares issuable upon the exercise of the warrant.

We have been informed by the selling shareholder that N.G. Partners II, L.L.C., the general partner of NGP, and <sup>(2)</sup>John Gardner and Paul Asel, the managing members of N.G. Partners II, L.L.C., may be deemed to have sole voting and dispositive power over the ordinary shares that would be beneficially owned by the selling shareholder upon the exercise of the warrant.

## Recent Developments

In May 2012, we entered into a series of agreements with Wargaming.net, or WGN, a developer of Internet games, to create a strategic partnership for all of WGN's existing and future games in the PRC market, including but not limited to World of Tanks, World of Warplanes and World of Battleships games. As part of this strategic partnership, WGN has granted us (i) exclusive and long-term operating rights for World of Tanks, World of Warplanes and World of Battleships in the PRC and (ii) the right of first offer over the operating rights of any future WGN games (including mobile games) in the PRC. In addition, we have granted WGN warrants to acquire our ordinary shares. See "Description of Share Capital – General."

Plan of Distribution

The selling shareholder and any of its successors may sell our ordinary shares issuable upon the exercise of the warrant directly to purchasers or through broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions from the selling shareholder or the purchasers.

The ordinary shares may be sold in one or more transactions at:

- fixed prices;
- prevailing market prices at the time of sale;
- prices related to the prevailing market prices;
- varying prices determined at the time of sale; or
- negotiated prices.

These sales may be effected in transactions:

· on any national securities exchange or quotation service on which our ordinary shares may be listed or quoted at the time of sale, including the Nasdaq Global Select Market;

· in the over-the-counter market;

· otherwise than on such exchanges or services or in the over-the-counter market, including in transactions that are privately negotiated;

through the writing of options, whether the options are listed on an options exchange or otherwise (including the issuance by the selling shareholder of derivative securities);

through the settlement of short sales; or

any combination of the foregoing.

These transactions may include block transactions or crosses. Crosses are transactions in which the same broker acts as agent on both sides of the trade. Neither we nor the selling shareholder currently expects the method of distribution to take the form of an underwritten offering.

In connection with sales of the ordinary shares or otherwise, the selling shareholder may (A) enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the ordinary shares in the course of hedging positions they assume, (B) sell the ordinary shares short and deliver the ordinary shares to close out short positions, (C) loan or pledge the ordinary shares to broker-dealers or other financial institutions that in turn may sell the ordinary shares or (D) enter into option or other transactions with broker-dealers or other financial institutions that require the delivery to the broker-dealer or other financial institution of the ordinary shares, which the broker-dealer or other financial institution may resell pursuant to this prospectus. The selling shareholder may also enter into transactions in which a broker-dealer makes purchases of the ordinary shares as a principal for resale for its own account or through other types of transactions.

The aggregate proceeds to the selling shareholder from the sale of the ordinary shares offered by it hereby will be the purchase price of such ordinary shares less discounts, concessions or commissions, if any. The selling shareholder reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of ordinary shares to be made directly or through agents. We will not receive any of the proceeds from such sale.

Our ADSs are listed for trading on the Nasdaq Global Select Market under the symbol “KONG.”

In order to comply with the securities laws of some States, if applicable, our ordinary shares may be sold in these jurisdictions only through registered or licensed brokers or dealers.

The selling shareholder and any broker-dealers or agents that participate in the sale of our ordinary shares may be deemed to be “underwriters” within the meaning of Section 2(11) of the Securities Act. Profits on the sale of our ordinary shares by the selling shareholder and any discounts, concessions or commissions received by any



broker-dealers or agents might be deemed to be underwriting discounts and commissions under the Securities Act. Any selling shareholder who is deemed to be an “underwriter” within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. To the extent the selling shareholder may be deemed to be an “underwriter,” it may be subject to statutory liabilities, including, but not limited to, Sections 11, 12 and 17 of the Securities Act and Section 10 and Rule 10b-5 under the Exchange Act.

The selling shareholder and any other person participating in a distribution will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder. Regulation M of the Exchange Act may limit the timing of purchases and sales of any of the securities by the selling shareholder and any other persons. In addition, Regulation M may restrict the ability of any person engaged in the distribution of the securities to engage in market-making activities with respect to the particular securities being distributed for a period of up to five business days before the distribution.

To our knowledge, there are currently no plans, arrangements or understandings between the selling shareholder and any underwriter, broker-dealer or agent regarding the sale of our ordinary shares issuable upon the exercise of the warrant.

The selling shareholder may decide not to sell any of our ordinary shares described in this prospectus. There is no assurance that the selling shareholder will use this prospectus to sell any or all of our ordinary shares. Any securities covered by this prospectus which qualify for sale pursuant to Rule 144 of the Securities Act may be sold under Rule 144 rather than pursuant to this prospectus. In addition, the selling shareholder may transfer, devise or gift the ordinary shares by other means not described in this prospectus.

With respect to a particular offering of our ordinary shares, to the extent required, an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement of which this prospectus is a part will be prepared and will set forth the following information:

the ordinary shares to be offered and sold;

the name(s) of the selling shareholder(s);

the respective purchase prices and public offering prices and other material terms of the offering;

the names of any participating agents, broker-dealers or underwriters; and

any applicable discounts, concessions and commissions and other items constituting compensation from the selling shareholder.

We will pay all of our expenses incidental to the registration of the ordinary shares issuable upon the exercise of the warrant, but the selling shareholder will be responsible for payment of discounts, concessions and commissions and other fees of underwriters, broker-dealers, agents and advisers, if any, in connection with the sale of the ordinary shares.

Pursuant to the registration rights agreement we entered into with NGP on March 18, 2009, we and NGP will be indemnified by the other against certain liabilities, including certain liabilities under the Securities Act, or will be entitled to contribution for payments required to be made as a result of these liabilities.

Also pursuant to the registration rights agreement, we may, in accordance with the terms of such agreement, delay the filing or effectiveness of a registration statement, including its amendments or prospectus supplements, or, prior to the pricing of any offering of the ordinary shares pursuant to a registration statement, delay such offering (or withdraw any registration statement that has been filed), if we determine in our sole discretion that (i) proceeding with the offering would require us to disclose material information that we would not otherwise be required to disclose at that time and that the disclosure of such information would not be in the best interests of us or our shareholders or (ii) that the registration or offering to be delayed would, if not delayed, materially and adversely affect us or materially interfere with, or jeopardize the success of, any pending or proposed material transaction, including any debt or equity financing, any acquisition or disposition, any recapitalization or reorganization or any other transaction, whether due to commercial reasons, a desire to avoid premature disclosure of information or any other reason. Any time we delay a filing, an effective date or an offering pursuant to this provision of the registration rights agreement, we will notify the selling shareholder of the commencement and termination of such suspension period and any withdrawal of a registration statement.

#### Use of Proceeds

This prospectus relates to the potential sale by the selling shareholder of up to 80,000,000 of our ordinary shares, which are issuable upon the selling shareholder's exercise of the warrant. We are registering the ordinary shares for

potential sale by the selling shareholder pursuant to our commitment to the selling shareholder as set forth in the registration rights agreement we entered into with the selling shareholder on March 18, 2009.

The proceeds from the sale of the ordinary shares offered by this prospectus are solely for the account of the selling shareholder. Accordingly, we will not receive any of the proceeds from the sale of the ordinary shares offered by this prospectus.

### Capitalization

The following table sets forth our capitalization as of March 31, 2012:

on an actual basis; and

on a pro forma basis, to reflect the exercise of the warrant.

The information in this table should be read in conjunction with “Selected Financial Data” and our consolidated financial statements and related notes included in our 2011 20-F.

	As of March 31, 2012	
	Actual	Pro Forma
	(Unaudited)	
	(In U.S. dollars)	
<b>Shareholders' equity :</b>		
Ordinary shares (US\$0.0000005 par value; 1,000,000,000,000 shares authorized; 1,673,257,743 issued and outstanding as of March 31, 2012) (1,753,257,743 shares issued and outstanding on a pro forma basis as of March 31, 2012) <sup>(1)</sup>	834	874
Additional paid-in capital	132,020,309	142,697,601
Warrant	677,332	-
Accumulated other comprehensive income	46,395,351	46,395,351
Statutory reserve	10,341,491	10,341,491
Retained earnings	64,688,923	64,688,923
Total shareholders' equity	254,124,240	264,124,240
Total capitalization	254,124,240	264,124,240

(1) The actual and pro forma numbers of ordinary shares issued and outstanding as of March 31, 2012 included 596,840 shares that had been repurchased by the company but not yet canceled.

#### Description of Share Capital

Set forth below is information concerning our share capital and a brief summary of the material provisions of (i) our amended and restated memorandum of association, as adopted on June 11, 2004 and effective on July 9, 2004, or memorandum of association, and our amended and restated articles of association, as adopted on June 11, 2004 and effective on July 9, 2004, and as amended by special resolution on September 6, 2005, or articles of association, (ii) the material applicable laws of the Cayman Islands and (iii) certain other applicable laws, rules and regulations. You and your advisers should refer to the text of our memorandum and articles of association and to the texts of applicable laws, rules and regulations for further information.

#### GENERAL

We were incorporated in the Cayman Islands in May 2002 as Communication Over The Air Inc., an exempted limited liability company, and we are governed by the Companies Law (2011 Revision) Cap. 22 of the Cayman Islands, or the

Companies Law, and the common law of the Cayman Islands. An exempted company under Cayman Islands law is a company that conducts its business outside of the Cayman Islands, is exempted from certain requirements of the Companies Law, including a filing of an annual return of its shareholders with the Registrar of Companies, does not have to make its register of shareholders open to inspection and may obtain an undertaking against the imposition of any future taxation. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares. In March 2004, we changed our name to KongZhong Corporation. Our memorandum of association sets forth objects for which the company was established. Those objects are unrestricted, and we have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

As of each of December 31, 2011 and the date hereof, our authorized share capital consists of 1,000,000,000,000 ordinary shares, par value US\$0.0000005 per share. As of April 30, 2012, we had 1,713,257,743 ordinary shares issued and outstanding. Other than the 596,840 ordinary shares that had been repurchased by our company for a total of US\$73,843.80 but not yet canceled, all of the outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form.

As of December 31, 2008, we had 1,434,232,520 ordinary shares issued and outstanding. In 2009, under the KongZhong Corporation 2002 Equity Incentive Plan, or the 2002 Plan, we granted options to purchase 13,240,000 of our ordinary shares and issued 13,398,120 ordinary shares upon exercise of employee stock options. Also in 2009, under the KongZhong Corporation 2006 Equity Incentive Plan, or the 2006 Plan, we granted restricted share units covering 52,400,000 of our ordinary shares and restricted share units covering 31,260,833 of our ordinary shares became vested. During 2008 and 2009, we repurchased 74,759,760 ordinary shares, which were subsequently canceled.

As of December 31, 2009, we had 1,409,396,360 ordinary shares issued and outstanding. In 2010, under the 2002 Plan, we granted options to purchase 6,800,000 of our ordinary shares and issued 5,498,560 ordinary shares upon exercise of employee stock options. Also in 2010, under the 2006 Plan, we granted restricted share units covering 14,000,000 of our ordinary shares and restricted share units covering 43,130,834 of our ordinary shares became vested.

As of December 31, 2010, we had 1,510,906,573 ordinary shares issued and outstanding. In 2011, under the 2002 Plan, we granted options to purchase 19,800,000 of our ordinary shares and options to purchase 6,566,880 of our ordinary shares were exercised. Also in 2011, under the 2006 Plan, we granted restricted share units covering 16,160,000 of our ordinary shares and restricted share units covering 35,303,333 of our ordinary shares became vested. In addition, we repurchased 24,299,120 ordinary shares, all of which were subsequently canceled. For additional information on our employee incentive plans, see “— Stock Options and Restricted Share Units.” As of December 31, 2011, we had 1,661,939,143 ordinary shares issued and outstanding.

On March 16, 2009, our board of directors approved written resolutions authorizing the issuance of the note and the warrant, which together may be convertible into and exercisable for up to 156,000,000 of our ordinary shares, subject to certain adjustments. On February 25, 2011, we prepaid 70% of the aggregate principal amount of the note, plus any accrued but unpaid interest. Subsequently, on March 1, 2012, the note was fully converted into 22,800,000 of our ordinary shares, and, as a result, was no longer outstanding. The warrant is exercisable, in whole but not in part, on or before March 18, 2014 for up to 80,000,000 of our ordinary shares.

On May 11, 2012, in connection with a series of licensing agreements with WGN, we granted WGN warrants for the issuance of up to 200,000,000 of our ordinary shares, with an exercise price of US\$0.1485 per ordinary share. The warrants have a duration ranging from one to six years, and the exercise of the warrants is subject to various conditions, including the commercial launch of WGN's future games in the PRC market.

### **Stock Options and Restricted Share Units**

Our 2002 Plan and 2006 Plan are intended to provide incentives to our directors, officers and employees as well as consultants and advisers of our company and its present or future parent company or subsidiaries, or any related corporations.

#### ***KongZhong Corporation 2002 Equity Incentive Plan***

The 2002 Plan was approved by our shareholders at a meeting held on June 6, 2002. Pursuant to the 2002 Plan, we originally reserved a total of 70,000,000 ordinary shares for issuance under two categories of options: incentive stock options, which may be granted to officers and employees of our company and any present or future parent or subsidiary of our company, or the related corporations, and non-qualified options, which may be granted to any employee, officer, director, consultant or adviser of our company and the related corporations. We increased the number of ordinary shares reserved for issuance under the 2002 Plan to 105,000,000 on February 15, 2004, and to 137,000,000 on September 6, 2005. Both increases were approved by our shareholders.

As of December 31, 2011, under the 2002 Plan, we had granted options to purchase an aggregate of 275,930,280 of our ordinary shares, of which options to purchase 151,919,623 ordinary shares have lapsed and 19,389,427 were exercisable at exercise prices ranging from US\$0.0025 to US\$0.1508 per ordinary share. The exercise prices represent the fair market values of the underlying ordinary shares on the dates the options were granted.

During 2011, under the 2002 Plan, we granted options to purchase 19,800,000 of our ordinary shares, options to purchase 5,034,283 of our ordinary shares lapsed, and options to purchase 6,566,880 of our ordinary shares were exercised. For the options granted in 2011, the vesting schedule provides for 25% of the options to vest on the first anniversary of the date of the grant, and the remaining 75% to vest in 12 equal quarterly tranches beginning one calendar quarter after the date of such anniversary.

During 2010, under the 2002 Plan, we granted options to purchase 6,800,000 of our ordinary shares, options to purchase 6,926,580 of our ordinary shares lapsed and options to purchase 5,498,560 of our ordinary shares were exercised. For the options granted in 2010, the vesting schedule provides for 25% of the options to vest on the first anniversary of the date of the grant, and the remaining 75% to vest in 12 equal quarterly tranches beginning one calendar quarter after the date of such anniversary.

With respect to the options that we have granted to our independent directors, the options are vested in 12 equal quarterly tranches beginning one calendar quarter after the grant date. The expiration date for each option is ten years from the date of grant.

#### ***KongZhong Corporation 2006 Equity Incentive Plan***

The 2006 Plan was approved by our shareholders at our annual general meeting on October 12, 2006. Pursuant to the 2006 Plan, we originally reserved a total of 40,000,000 ordinary shares for issuance in respect of stock options, restricted share units and other forms of equity compensation. We increased the number of ordinary shares reserved for issuance under the 2006 Plan to 180,000,000 on December 18, 2008. This increase was approved by our shareholders.

As of December 31, 2011, under the 2006 Plan, we had granted an aggregate of 224,440,000 restricted share units, of which 46,297,500 have lapsed. During 2011, under the 2006 Plan, we granted restricted share units covering 16,160,000 of our ordinary shares, restricted share units covering 1,975,000 of our ordinary shares lapsed and restricted share units covering 35,303,333 of our ordinary shares became vested. During 2010, under the 2006 Plan, we granted restricted share units covering 14,000,000 of our ordinary shares, restricted share units covering 29,450,000 of our ordinary shares lapsed and restricted share units covering 43,130,834 of our ordinary shares became vested.

With respect to the restricted share units that we have granted to our employees, the vesting schedule provides for 25% of the restricted share units to vest on the first anniversary of the date of the grant, and the remaining 75% to vest in 12 equal quarterly tranches beginning one calendar quarter after the date of such anniversary. With respect to the restricted share units granted to our independent directors and advisors, the restricted share units vest in 12 equal quarterly tranches beginning one calendar quarter after the grant date. The expiration date for each restricted share unit is ten years from the date of grant.





Our board administers the 2002 Plan and 2006 Plan and has wide discretion in awarding stock options, restricted share units and other forms of equity compensation. Subject to the provisions of the 2002 Plan and 2006 Plan, our board determines who will be granted equity compensation, the type and timing of equity compensation to be granted, the vesting schedule and other terms and conditions of the equity compensation, including the exercise price of the stock options. On December 30, 2005, our board, following the recommendation of the compensation committee, approved a resolution authorizing our chief executive officer to grant up to 8,000,000 stock options to non-officer employees without prior written approval by the compensation committee or our board.

Generally, if an outstanding equity compensation award granted under the 2002 Plan and 2006 Plan has not vested by the date of termination of the grantee's employment with us, no further tranches of the grantee's equity compensation award will become exercisable following the date of such cessation of employment, and the grantee's already vested but unexercised equity compensation awards will terminate after a period of 90 days from such cessation of employment.

Our board may terminate or amend the 2002 Plan and 2006 Plan at any time; provided, however, that our board must seek our shareholders' approval with respect to certain major modifications to the 2002 Plan and 2006 Plan, and if such amendment or termination would adversely affect the rights of a grantee under any option granted, the approval of such grantee would be required. Without further action by our board, the 2002 Plan will terminate on June 6, 2012 and the 2006 Plan will terminate on October 11, 2016.

The 2002 Plan and 2006 Plan provide for acceleration of awards upon the occurrence of certain consolidations, mergers, acquisitions or sale of all or substantially all assets or shares of our company. In any such case, our board shall take, among others, one or more of the following actions: accelerate the date of exercise of such options or any tranche of such options, provide a fixed period of time that the grantees must exercise such options or terminate all options in exchange for cash payment.

The following table sets forth information on stock options and restricted share units that have been granted and are outstanding as of December 31, 2011, pursuant to the 2002 Plan and the 2006 Plan.

	Ordinary shares underlying options			Exercise price per share (US dollars) <sup>(1)</sup>	Restricted Share Units		
	2011 option Grants	Pre-2011 option grants	Expiration date		2011 grants	Pre-2011 grants	Expiration date
Directors and Senior Officers							
Leilei Wang	—	—	—	—	—	12,000,000 <sup>(2)</sup>	Dec. 18, 2018
Xiaoxin Chen	—	—	—	—	480,000 <sup>(3)</sup>	—	Oct. 2, 2021

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Hope Ni	—	—	—	—	480,000 <sup>(4)</sup>	—	Oct. 2, 2021
Charles Xue	—	—	—	—	—	120,000	<sup>(5)</sup> Jul. 14, 2019
Jay Chang	2,000,000						