

GRAVITY Co., Ltd.

Form 20-F

April 27, 2018

As filed with the Securities and Exchange Commission on April 27, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20 F

(Mark One)

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 1934

For the fiscal year ended December 31, 2017

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

Commission file number: 000 51138

GRAVITY CO., LTD.

(Exact name of registrant as specified in its charter)

N/A

(Translation of registrant's name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

15F, 396 World Cup buk ro, Mapo gu,

Seoul 121 795, Korea

(Address of principal executive offices)

Heung Gon Kim

Chief Financial Officer

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Seoul 121 795, Korea

Telephone: 82 2 2132 7000

Fax: 82 2 2132 7070

(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
Common stock, par value Won 500 per share*	The NASDAQ Capital Market
American depositary shares, each representing two shares of common stock	

\*Not for trading, but only in connection with the listing of American depositary shares on the NASDAQ Capital Market pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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: Shares, par value Won 500: 6,948,900

Indicated 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 15(d) of the Securities Exchange Act of 1934. Yes No

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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 (§ 232.405 of this chapter) 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, a non-accelerated filer, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer  
Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

<sup>†</sup>The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

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CERTAIN DEFINED TERMS

Unless the context otherwise requires, references in this annual report on Form 20-F (this “Annual Report”) to:

- “ADRs” are to the American depositary receipts that evidence our ADSs;
- “ADSs” are to our American depositary shares, each of which represents two shares of our common stock;
  - “China” or the “PRC” are to the People’s Republic of China (excluding, for the purposes of this annual report on Form 20-F, Taiwan, Hong Kong and Macau, unless specifically indicated otherwise);
- “Chinese Yuan” are to the currency of China;
- “EUR” or “Euro” are to the currency of the Eurozone consisting of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain;
- “Gravity,” “the Company,” “we,” “us,” “our,” or “our company” are to Gravity Co., Ltd. and our subsidiaries, except as otherwise indicated or required by context;
- “Hong Kong” are to the Hong Kong Special Administrative Region of the PRC;
- “Japanese Yen” or “JPY” are to the currency of Japan;
- “Korea” are to the Republic of Korea;
- “Macau” are to the Macau Special Administrative Region of the PRC;
- “NT dollar” or “NT\$” are to the currency of Taiwan;
- “Taiwan” or the “ROC” are to Taiwan, the Republic of China;
- “Thai Baht” are to the currency of the Kingdom of Thailand;
- “US\$,” “U.S. dollar,” or “Dollar” are to the currency of the United States of America; and
- “Won,” “Korean Won,” or “W” are to the currency of Korea.

For your convenience, and unless otherwise stated, this Annual Report contains translations of certain Won amounts into U.S. dollars at the noon buying rate in New York City for cable transfers in Korean Won as certified by the Federal Reserve Bank of New York for customs purposes in effect on December 29, 2017, which was Won 1,067.42 to US\$1.00. No assurance is given that any Won or Dollar amounts could have been or may now be converted into Dollars or Won, as the case may be, at such rate, or any other rate, or at all.

Discrepancies in tables between totals and sums of the amounts listed are due to rounding.

## FORWARD LOOKING STATEMENTS

This Annual Report for the year ended December 31, 2017 contains “forward looking statements,” as defined in Section 27A of the U.S. Securities Act of 1933, as amended, or the “Securities Act,” and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the “Exchange Act.” The forward looking statements are based on our current expectations, assumptions, estimates and projections about us and our industry, and are subject to various risks and uncertainties. Generally, these forward looking statements can be identified by the use of forward looking terminology such as “anticipate,” “believe,” “considering,” “depends,” “estimate,” “expect,” “intend,” “plan,” “planned,” “predict,” “project,” “continue” and variations of these words, similar expressions, or that certain events, actions or results “will,” “may,” “might,” “should,” “would” or “could” occur, be taken or be achieved.

Forward looking statements include, but are not limited to, the following:

- future prices of and demand for our products;
- future earnings and cash flow;
- estimated development and commercial launch schedule of our games in development;
- our ability to attract new customers and retain existing customers;
- the expected growth of the Korean and worldwide online gaming industry;
- the effect that economic, political or social conditions in Korea have on the revenue generated from our online or mobile game products and our results of operations;
- the effect that any global financial crisis or global economic recession will or may have on our business prospects, financial condition and results of operations; and
- our future business development and prospects, results of operations and financial condition.

We caution you not to place undue reliance on any forward looking statement, each of which involves risks and uncertainties. Although we believe that the assumptions on which our forward looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward looking statements based on those assumptions could be incorrect. All forward looking statements are based on our management’s current expectations, assumptions, estimates and projections of future events and are subject to a number of factors that could cause actual results to differ materially from those described in the forward looking statements. Risks and uncertainties associated with our business include, but are not limited to, risks related to changes in the regulatory environment; technology changes; potential litigation and governmental actions; changes in the competitive environment; changes in customer preference and popular culture and trends, including the online or mobile gaming culture; political changes; global economic events including, but not limited to, a significant downturn in the global economic and financial markets and a tightening of the global credit markets; changes in business and economic conditions; fluctuations in foreign exchange rates; fluctuations in the prices of our products; decreasing consumer confidence and slowing of economic growth generally; and other risks and uncertainties that are more fully described under the heading “Risk Factors” in this Annual Report, and elsewhere in this Annual Report. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward looking statements. Except as required by law, we undertake no obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise. All subsequent forward looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.



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

ITEM 3.A. SELECTED FINANCIAL DATA

We adopted International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board starting from the fiscal year ended December 31, 2017. Prior to the fiscal year ended December 31, 2017, we prepared our consolidated financial statements in accordance with generally accepted accounting principles accepted in the United States (“U.S. GAAP”). In accordance with the First Time Adoption of International Reporting Standards (“IFRS 1”), our financial results for the year ended December 31, 2016 have been adjusted with IFRS and differ from such results reported previously. An explanation of how the transition to IFRS from U.S. GAAP has affected our reported financial results is included in Note 4 to our consolidated financial statements.

Pursuant to the transitional relief granted by the U.S. Securities and Exchange Commission (the “SEC”) in respect of the first-time adoption of IFRS, we have provided in this Annual Report the financial statements as of and for the years ended December 31, 2016 and 2017 in accordance with IFRS.

You should read the selected financial data below in conjunction with our audited consolidated financial statements as of December 31, 2016 and 2017 and for the years ended December 31, 2016 and 2017, and the related notes included elsewhere in this Annual Report and ITEM 5. “OPERATING AND FINANCIAL REVIEW AND PROSPECTS,” The selected financial data presented below has been derived from our audited consolidated financial statements which are included elsewhere in this Annual Report. Our historical results do not necessarily indicate expected results for any future periods.

As of and for the Years Ended December 31,  
 2016                      2017                      2017<sup>(1)</sup>  
 (In millions of Korean Won and thousands of US\$, except share and

per share data, operating data and percentages)

Statements of operations			
Revenues:			
Online games-subscription revenue	₩ 23,065	₩ 36,428	US\$ 34,127
Online games-royalties and license fees	12,867	16,244	15,218
Mobile games and applications	12,041	82,624	77,406
Character merchandising, animation and other revenue	3,423	6,327	5,927
Total revenues	51,396	141,623	132,678
Cost of revenues	29,587	94,234	88,282
Gross profit	21,809	47,389	44,396
Operating expenses:			
Selling, general and administrative expenses	(15,977 )	(28,012 )	(26,243 )
Research and development	(1,973 )	(5,239 )	(4,908 )
Other income	44	165	155
Other expenses	(69 )	(268 )	(251 )
Total operating expenses	17,975	33,354	31,247
Operating profit	3,834	14,035	13,149
Finance income (costs)			
Finance income	1,666	1,875	1756
Finance costs	(1,673 )	(1,452 )	(1,360 )
Net finance income(costs)	(7 )	423	396
Profit before income tax	3,827	14,458	13,545
Income tax expenses	3,240	1,144	1,072
Profit for the year	587	13,314	12,473
Profit (loss) attributable to:			
Non-controlling interest	(70 )	(5 )	(5 )
Owners of the Parent Company	₩ 657	₩ 13,319	US\$ 12,478
Other comprehensive income (loss)			
Foreign currency translation adjustment	(77 )	37	35
Total comprehensive income for the year	510	13,351	12,508
Total comprehensive income attributable to:			
Non-controlling interest	(70 )	(5 )	(5 )
Owners of the Parent Company	₩ 580	₩ 13,356	US\$ 12,513
Balance sheet data:			
Cash and cash equivalents	₩ 16,720	₩ 39,095	US\$36,626
Total current assets	53,593	108,871	101,995
Property and equipment, net	478	946	886
Total assets	55,744	115,883	108,564
Total current liabilities	20,686	64,744	60,655
Total liabilities	25,097	71,885	67,345
Equity attributable to owners of the Parent Company			
Non-controlling interest	(557 )	(562 )	(527 )

Total equity	30,647	43,998	41,219
Selected operating data and financial ratios (unaudited):			
Gross profit margin <sup>(2)</sup>	42.4%	33.5%	33.5%
Operating profit margin <sup>(3)</sup>	7.5%	9.9%	9.9%
Net profit margin <sup>(4)</sup>	1.3%	9.4%	9.4%

## Notes:

(1) For convenience only, the Won amounts are expressed in U.S. dollars at the rate of Won 1,067.42 to US\$1.00, the noon buying rate in effect on December 29, 2017 as certified by the Federal Reserve Bank of New York for customs purposes.

(2) Gross profit margin for each period is calculated by dividing gross profit by total revenues for each period.

(3) Operating profit margin for each period is calculated by dividing operating income by total revenues for each period.

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(4) Net profit margin for each period is calculated by dividing net profit attributable to owners of the parent company by total revenues for each period.

Exchange Rate Information

The following table sets forth information concerning the noon buying rate as certified by the Federal Reserve Bank of New York for customs purposes for the years 2013 through 2017 and for each month and period indicated, expressed in Won per U.S. dollar.

	At End of	Average		
Period	Period	Rate <sup>(1)</sup>	High	Low
2013	1,055.3	1,094.6	1,161.3	1,050.1
2014	1,090.9	1,054.0	1,117.7	1,008.9
2015	1,169.3	1,133.7	1,196.4	1,063.0
2016	1,203.7	1,161.5	1,242.6	1,090.0
2017	1,067.4	1,121.1	1,207.2	1,067.4
October	1,115.7	1,130.1	1,143.5	1,115.7
November	1,084.8	1,099.8	1,120.0	1,079.3
December	1,067.4	1,082.9	1,094.6	1,067.4
2018				
January				