

GRAVITY Co., Ltd.
Form 6-K
November 20, 2013

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 UNDER THE
SECURITIES EXCHANGE ACT OF 1934**

For the month of November 2013

Commission File Number 000-51138

GRAVITY CO., LTD.

(Translation of registrant's name into English)

Nuritkum Square Business Tower 15F, 1605 Sangam-Dong, Mapo-Gu, Seoul, Korea 121-795

(Address of principal executive office)

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 x Form 40-F o

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): o

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): o

GRAVITY REPORTS THIRD QUARTER OF 2013 RESULTS AND BUSINESS UPDATES

Seoul, South Korea November 20, 2013 GRAVITY Co., Ltd. (NasdaqGM: GRVY) (Gravity or the Company), an online game developer and publisher based in South Korea, today announced its unaudited financial results for the third quarter ended September 30, 2013, prepared in accordance with generally accepted accounting principles in the United States, and business updates.

FINANCIAL RESULTS FOR THE THIRD QUARTER OF 2013

Revenues for the third quarter ended September 30, 2013 were KRW 12,807 million (US\$12,072 thousand), representing a 0.1% increase from KRW 12,788 million for the second quarter ended June 30, 2013 (QoQ) but a 8.6% decrease from KRW 14,012 million for the third quarter ended September 30, 2012 (YoY). While the decrease YoY was mostly attributable to the decrease in revenues from online game business, the decrease was substantially offset by the increase in revenues from mobile game business.

Review of financial results

Revenues

Royalties and license fee revenues for the third quarter of 2013 were KRW 4,708 million (US\$4,438 thousand), representing a 15.1% decrease QoQ from KRW 5,543 million and a 42.8% decrease YoY from KRW 8,225 million. The decreases in royalty and licensing fee revenues QoQ and YoY were due mostly to decreased revenues from *Ragnarok Online* in Japan and strengthening of the Korean Won against the Japanese Yen.

Subscription revenues for the third quarter of 2013 were KRW 2,511 million (US\$2,367 thousand), representing a 11.5% decrease QoQ from KRW 2,836 million but a 33.3% increase YoY from KRW 1,884 million. The increase YoY primarily resulted from revenues from *Ragnarok Online II* in the United States, Canada and 28 European countries and markets where the game was launched in May 2013 but the revenues from *Ragnarok Online II* in these countries and markets decreased in the third quarter of 2013, which resulted in the decrease QoQ in subscription revenues for the quarter.

Mobile game revenues were KRW 5,401 million (US\$5,091 thousand) for the third quarter of 2013, representing a 35.2% increase QoQ from KRW 3,996 million and a 65.4% increase YoY from KRW 3,266 million. The increase QoQ was mainly driven by revenues from our services for third parties and the increase YoY was mostly attributable to revenues from NeoCyon's mobile game operation service for a third party.

Character merchandising and other revenues were KRW 187 million (US\$176 thousand) for the third quarter of 2013, representing a 54.7% decrease QoQ from KRW 413 million and a 70.6% decrease YoY from KRW 637 million. The decreases QoQ and YoY mostly resulted from decrease in revenues from *Ragnarok Odyssey*, a PS Vita game, and from game character merchandising.

Cost of Revenues and Operating Expenses

Cost of revenues was KRW 9,118 million (US\$8,595 thousand) for the third quarter of 2013, representing a 8.0% increase QoQ from KRW 8,439 million and a 0.6% increase YoY from KRW 9,061 million. The increase QoQ and YoY were primarily attributable to increase in commission paid. The increase QoQ was also due to outsourcing fees mostly related to our services for third parties.

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Operating expenses were KRW 5,006 million (US\$4,718 thousand) for the third quarter of 2013, representing a 15.6% decrease QoQ from KRW 5,930 million and a 32.8% decrease YoY from KRW 7,451 million. The decrease QoQ mainly resulted from decrease in research and development expenses mostly related to *Ragnarok Odyssey Ace*, a PS Vita game released in August 2013, but such decrease was substantially offset by gain on disposal of investments related to liquidation of Online Game Revolution Fund No. 1 in the second quarter of 2013, which did not occur in the third quarter of 2013. The decrease YoY was mostly due to impairment loss on intangible assets for *Dragonica* in the third quarter of 2012, which did not occur in the third quarter of 2013.

Loss before income tax expenses and others was KRW 1,427 million (US\$1,345 thousand) for the third quarter of 2013, compared with loss before income tax expenses and others of KRW 1,020 million for the second quarter of 2013 and loss before income tax expenses and others of KRW 2,259 million for the third quarter of 2012.

As a result of the foregoing factors, Gravity recorded a net loss attributable to parent company of KRW 1,804 million (US\$1,700 thousand) for the third quarter of 2013 compared with a net loss attributable to parent company of KRW 1,617 million for the second quarter of 2013 and a net loss of attributable to parent company of KRW 1,393 million for the third quarter of 2012.

The balance of cash and cash equivalents and short-term financial instruments was KRW 49,709 million (US\$46,855 thousand) as of September 30, 2013.

Note: For convenience purposes only, the KRW amounts have been expressed in the U.S. dollars at the exchange rate of KRW 1,060.91 to US\$ 1.00, the noon buying rate in effect on November 1, 2013, as quoted by the Federal Reserve Bank of New York.

BUSINESS UPDATES

- Termination of the license and distribution agreement for *Ragnarok Online II* in China

The Company and Shanghai The9 Information Technology Co., Ltd. (The9), a Chinese online game developer and operator, have entered into an agreement to terminate a license and distribution agreement dated January 8, 2007 between the two parties, under which the Company had granted The9 an exclusive right to distribute *Ragnarok Online II* in China.

While the Company disclosed in its latest annual report that the total value of the license and distribution agreements for *Ragnarok Online II* in nine countries, including Thailand, Japan, the Philippines, Singapore, Malaysia, Vietnam, China, Indonesia and Brazil was US\$43,390 thousand as of December 31, 2012, the total value of the currently valid license and distribution agreements for *Ragnarok Online II* for the other eight countries is US\$23,390 thousand after the termination of the agreement with The9. Among the US\$23,390 thousand, the Company has been paid US\$6,840 thousand as license fees and guaranteed minimum payments as of the date of filing of this Form 6-K.

The Company is in discussions with some potential partners to distribute *Ragnarok Online II* in China.

- Suspension of the *Ragnarok Online II* game service in Korea

The Company has decided to suspend the Korean service of *Ragnarok Online II* from December 23, 2013 due to the game's performance being below expectations in Korea. Korean users may play the English version of the game on Steam, a digital game distribution platform. Gravity will be focused on the game service in the overseas markets and examine the resumption of the Korean service after releasing the game in more markets.

- *Tower of Ascension* for iOS to be launched globally in December 2013

The English version of *Tower of Ascension*, a mobile multiplayer online role playing game developed by the Company, will be released on the Apple's App Store in December 2013. The game will be available globally except for Japan. The Korean version of the game was released on the App Store in Korea in August 2013.

About GRAVITY Co., Ltd.

Based in Korea, Gravity is a developer and publisher of online games. Gravity's principal product, *Ragnarok Online*, is a popular online game in many markets, including Japan, Taiwan and Thailand, and is currently commercially offered in 60 markets. For more information about Gravity, please visit <http://www.gravity.co.kr>.

Forward-Looking Statements:

Certain statements in this press release may include, in addition to historical information, forward-looking statements within the meaning of the safe-harbor provisions of the U.S. Private Securities Litigation Reform Act 1995. Forward-looking statements can generally be identified by the use of forward-looking terminology, such as may, will, expect, intend, estimate, anticipate, believe project, or continue or the use of other similar words, although not all forward-looking statements contain these words. Investors should consider the information contained in our submissions and filings with the United States Securities and Exchange Commission (the SEC), including our registration statement on Form F-1, as amended, and our annual reports on Form 20-F, together with such other documents and we may submit to or file with the SEC from time to time, on Form 6-K. The forward-looking statements speak only as of this press release and we assume no duty to update them to reflect new, changing or unanticipated events or circumstances.

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GRAVITY Co., Ltd.

Consolidated Balance Sheet

(In millions of KRW and in thousands of US\$)

| | 31-Dec-12 | | As of 30-Sep-13 | |
|---|------------------|---------------------|--------------------|---------------------|
| | KRW (audited) | US\$ (unaudited) | KRW (unaudited) | US\$ (unaudited) |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | 36,455 | 34,362 | 22,209 | 20,934 |
| Short-term financial instruments | 17,500 | 16,495 | 27,500 | 25,921 |
| Accounts receivable, net | 7,116 | 6,707 | 6,691 | 6,307 |
| Other current assets | 6,858 | 6,465 | 6,672 | 6,289 |
| Total current assets | 67,929 | 64,029 | 63,072 | 59,451 |
| Property and equipment, net | 3,524 | 3,322 | 2,814 | 2,652 |
| Leasehold and other deposits | 5,767 | 5,436 | 5,573 | 5,253 |
| Intangible assets | 24,270 | 22,877 | 20,786 | 19,593 |
| Equity method investments | 647 | 610 | | |
| Other non-current assets | 8,418 | 7,934 | 8,484 | 7,997 |
| Total assets | 110,555 | 104,208 | 100,729 | 94,946 |
| Liabilities and Equity | | | | |
| Current liabilities: | | | | |
| Accounts payable | 5,115 | 4,821 | 3,335 | 3,144 |
| Deferred revenue | 3,006 | 2,833 | 4,112 | 3,876 |
| Other current liabilities | 2,254 | 2,125 | 1,174 | 1,106 |
| Total current liabilities | 10,375 | 9,779 | 8,621 | 8,126 |
| Long-term deferred revenue | 9,172 | 8,645 | 8,495 | 8,007 |
| Accrued severance benefits | 683 | 644 | 275 | 259 |
| Other non-current liabilities | 247 | 233 | 266 | 251 |
| Total liabilities | 20,477 | 19,301 | 17,657 | 16,643 |
| Common shares | 3,474 | 3,275 | 3,474 | 3,275 |
| Additional paid-in capital | 75,395 | 71,066 | 75,030 | 70,722 |
| Retained earnings | 7,699 | 7,257 | 2,649 | 2,497 |
| Accumulated other comprehensive income | 3,001 | 2,829 | 1,673 | 1,577 |
| Total parent company shareholders' equity | 89,569 | 84,427 | 82,826 | 78,071 |
| Non-controlling interest | 509 | 480 | 246 | 232 |
| Total equity | 90,078 | 84,907 | 83,072 | 78,303 |
| Total liabilities and equity | 110,555 | 104,208 | 100,729 | 94,946 |

* For convenience purposes only, the KRW amounts are expressed in U.S. dollars at the rate of KRW 1,060.91 to US\$ 1.00, the noon buying rate in effect on November 1, 2013 as quoted by the Federal Reserve Bank of New York.

GRAVITY Co., Ltd.

Consolidated Statements of Operations

(In millions of KRW and in thousands of US\$, except for share and ADS data)

| | 30-Jun-13 (KRW) (unaudited) | Three months ended 30-Sep-12 (KRW) (unaudited) | 30-Sep-13 (KRW) (unaudited) | (US\$) (unaudited) | 30-Sep-12 (KRW) (unaudited) | Nine months ended 30-Sep-13 (KRW) (unaudited) | (US\$) (unaudited) |
|--|-----------------------------------|---|-----------------------------------|-----------------------|-----------------------------------|--|-----------------------|
| Revenues: | | | | | | | |
| Online games-subscription revenue | 2,836 | 1,884 | 2,511 | 2,367 | 8,276 | 7,295 | 6,876 |
| Online games-royalties and license fees | 5,543 | 8,225 | 4,708 | 4,438 | 25,044 | 16,905 | 15,934 |
| Mobile games | 3,996 | 3,266 | 5,401 | 5,091 | 7,549 | 12,150 | 11,452 |
| Character merchandising and other revenue | 413 | 637 | 187 | 176 | 3,584 | 1,041 | 982 |
| Total net revenue | 12,788 | 14,012 | 12,807 | 12,072 | 44,453 | 37,391 | 35,244 |
| Cost of revenue | 8,439 | 9,061 | 9,118 | 8,595 | 25,579 | 24,954 | 23,521 |
| Gross profit | 4,349 | 4,951 | 3,689 | 3,477 | 18,874 | 12,437 | 11,723 |
| Operating expenses: | | | | | | | |
| Selling, general and administrative | 4,512 | 3,718 | 3,868 | 3,646 | 15,231 | 12,787 | 12,053 |
| Research and development | 2,061 | 1,572 | 1,138 | 1,072 | 4,359 | 4,591 | 4,327 |
| Impairment loss on intangible assets | 582 | 2,161 | | | 2,161 | 734 | 692 |
| Gain on disposal of investments | (1,225) | | | | | (1,225) | (1,155) |
| Total operating expenses | 5,930 | 7,451 | 5,006 | 4,718 | 21,751 | 16,887 | 15,917 |
| Operating loss | (1,581) | (2,500) | (1,317) | (1,241) | (2,877) | (4,450) | (4,194) |
| Other income (expenses) | | | | | | | |
| Interest income | 345 | 436 | 320 | 301 | 1,370 | 1,035 | 976 |
| Interest expense | (14) | (14) | (12) | (11) | (39) | (37) | (35) |
| Foreign currency gain (loss), net | 230 | (181) | (418) | (394) | (171) | (128) | (121) |
| Others, net | | | | | 66 | | |
| Loss before income tax expenses and equity loss on investments | (1,020) | (2,259) | (1,427) | (1,345) | (1,651) | (3,580) | (3,374) |
| Income tax expenses | 720 | 279 | 479 | 451 | 1,628 | 2,074 | 1,955 |
| Loss before equity loss on investments | (1,740) | (2,538) | (1,906) | (1,796) | (3,279) | (5,654) | (5,329) |
| Equity loss on investments, net | | (193) | | | (232) | (23) | (22) |
| Net loss | (1,740) | (2,731) | (1,906) | (1,796) | (3,511) | (5,677) | (5,351) |
| Net loss attributable to: | | | | | | | |
| Non-controlling interest | (123) | (1,338) | (102) | (96) | (2,120) | (627) | (591) |
| Parent company | (1,617) | (1,393) | (1,804) | (1,700) | (1,391) | (5,050) | (4,760) |
| Loss per share | | | | | | | |
| - Basic and diluted | (233) | (200) | (260) | (0.25) | (200) | (727) | (0.69) |
| Weighted average number of shares outstanding | | | | | | | |
| - Basic and diluted | 6,948,900 | 6,948,900 | 6,948,900 | 6,948,900 | 6,948,900 | 6,948,900 | 6,948,900 |
| Loss per ADS(1) | | | | | | | |

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|---------------------|------|------|------|--------|------|-------|--------|
| - Basic and diluted | (58) | (50) | (65) | (0.06) | (50) | (182) | (0.17) |
|---------------------|------|------|------|--------|------|-------|--------|

* For convenience purposes only, the KRW amounts are expressed in U.S. dollars at the rate of KRW 1,060.91 to US\$ 1.00, the noon buying rate in effect on November 1, 2013 as quoted by the Federal Reserve Bank of New York.

(1) Each ADS represents one-fourth of a common share.

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.

GRAVITY CO., LTD.

| | |
|--------|-------------------------|
| By: | /s/ Heung Gon Kim |
| Name: | Heung Gon Kim |
| Title: | Chief Financial Officer |

Date: November 20, 2013