

GRAVITY Co., Ltd.  
Form 20-F  
June 30, 2006

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**As filed with the Securities and Exchange Commission on June 30, 2006**

**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, 2005**

**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**

**For the transition period from        to**

**Commission file number:        -  
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)*

**14/ F Meritz Tower, 825-2 Yeoksam-Dong, Gangnam-Gu  
Seoul 135-934 Korea**

*(Address of principal executive offices)*

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common stock, par value Won 500 per share*	Nasdaq National Market

American depositary shares, each representing  
one-fourth of a share of common stock

\* Not for trading, but only in connection with the listing of American depositary shares on the Nasdaq National 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 last full fiscal year covered by this Annual Report: 6,948,900 shares of common stock, par value of Won 500 per share

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer  Accelerated filer  Non-accelerated-filer

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 to:

China or the PRC are to the People's Republic of China;

Government are to the government of the Republic;

GRAVITY, the Company, we, us, our, or our company are to GRAVITY Co., Ltd. and its subsidiaries.

Japanese Yen or JPY are to the currency of Japan;

Korea or the Republic are to The Republic of Korea;

Taiwan or the ROC are to Taiwan, the Republic of China;

US\$ and U.S. dollars are to the currency of the United States; and

Won or W are to the currency of the Republic of Korea.

For your convenience, this annual report contains translations of certain Won amounts into U.S. dollars at the noon buying rates of the Federal Reserve Bank of New York for Won in effect on December 31, 2005, which was Won 1,010.0 to US\$1.00.

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

**FORWARD-LOOKING STATEMENTS**

This annual report on Form 20-F for the year ended December 31, 2005 contains forward-looking statements, as defined in Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended ( Exchange Act ). All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. The words believe, intend, expect, anticipate, project, estimate, considering, depends, may, could, should or could and similar expressions are also intended to identify forward-looking statements.

These forward-looking statements address, among others, such issues as:

future prices of and demand for our products;

future earnings and cash flow;

expansion and growth of our business and operations; and

our prospective operational and financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including the risks set forth in Item 3. Key Information Risk Factors and the following:

fluctuations in prices of our products;

potential acquisitions and other business opportunities;

general economic, market and business conditions; and

other risks and factors beyond our control.

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements. We cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.



**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS****1.A. Directors and Senior Management**

Not applicable.

**1.B. Advisers**

Not applicable.

**1.C. Auditors**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****3.A. Selected Financial Data**

The following selected consolidated financial information is derived from our consolidated financial statements as of each of the dates and for each of the periods indicated below. This information should be read in conjunction with our audited consolidated financial statements and the related notes thereto, included in this annual report. Our consolidated financial statements and related notes thereto have been prepared in accordance with accounting principles generally accepted in the United States.

The balance sheet data as of December 31, 2003 and the statement of operations data for the years ended December 31, 2002 and 2003 have been derived from our audited financial statements and related notes thereto not included in this annual report. The balance sheet data as of December 31, 2002 are derived from our unaudited financial statements and related notes thereto, which are not included in this annual report.

**As of and for the Years Ended December 31,**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005(1)</b>
						<b>(Unaudited)</b>
						<b>(In millions of Won and thousands of US\$, except share and per share data, operating data and percentages)</b>

**Statement of operations:**

## Revenues:

Online games subscription revenue	W	W 7,310	W 18,560	W 16,253	W 11,249	US\$ 11,138
Online games royalties and license fees		2,330	29,727	45,101	37,375	37,005
Mobile games			43	376	1,664	1,648
Character merchandising, animation and other revenue		167	427	1,185	2,696	3,096
<b>Total revenues</b>		<b>167</b>	<b>10,067</b>	<b>49,515</b>	<b>64,426</b>	<b>53,384</b>
<b>Cost of revenues</b>			<b>1,738</b>	<b>6,958</b>	<b>10,116</b>	<b>16,038</b>
<b>Gross profit</b>		<b>167</b>	<b>8,329</b>	<b>42,557</b>	<b>54,310</b>	<b>37,346</b>

## Operating expenses:

Selling, general and administrative	354	4,870	11,360	13,660	30,795	30,490
Research and development	718	815	1,597	2,029	9,219	9,128

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	2001	2002	2003	2004	2005	2005(1)
						<b>(Unaudited)</b>
	<b>(In millions of Won and thousands of US\$, except share and per share data, operating data and percentages)</b>					
Operating income (loss)	(905)	2,644	29,600	38,621	(2,668)	(2,641)
Other expenses, net	(3)	(2,424)	(6,210)	(4,879)	(787)	(780)
Income (loss) before income tax expenses, minority interest, and equity in loss of related joint venture	(908)	220	23,390	33,742	(3,455)	(3,421)
Income tax expenses (benefit)		542	4,250	5,406	(817)	(809)
Income (loss) before minority interest and equity in loss of related joint venture	(908)	(322)	19,140	28,336	(2,638)	(2,612)
Minority interest				(17)	(2)	(2)
Equity in loss of related joint venture				296	394	390
Net income (loss)	W (908)	W (32)	W 19,140	W 28,057	W (3,030)	US\$ (3,000)
Earnings (loss) per share:						
Basic and diluted per share	W (492)	W (96)	W 3,730	W 5,056	W (445)	US\$ (0.44)
					(111)	(0.11)

Basic and diluted per ADS						
Weighted average number of shares outstanding (basic and diluted)	1,846,575	3,355,616	5,130,895	5,548,900	6,803,147	6,803,147
<b>Balance sheet data:</b>	<b>(Unaudited)</b>					
Cash and cash equivalents	W 1,820	W 560	W 5,405	W 16,405	W 25,874	US\$ 25,618
Total current assets	2,383	7,916	17,824	46,868	109,428	108,345
Property and equipment, net	522	2,254	5,417	14,760	11,863	11,746
Total assets	3,055	13,617	36,424	68,644	144,857	143,423
Total current liabilities	1,123	8,251	10,575	12,221	19,448	19,255
Total liabilities	2,912	13,707	13,960	18,209	24,073	23,835
Total shareholders equity	143	(90)	22,464	50,435	120,762	119,566
<b>Selected operating data and financial ratios:</b>						
Gross profit margin(2)	100.0%	82.7%	85.9%	84.3%	70.0%	70.0%
Operating profit margin(3)	N/M	26.3	59.8	59.9	(5.0)	(5.0)
Net profit margin(4)	N/M	(3.2)	38.7	43.5	(5.7)	(5.7)

*N/M = not meaningful*

*Notes:*

- (1) For convenience, the Won amounts are expressed in U.S. dollars at the rate of Won 1,010.0 to US\$1.00.
- (2) Gross profit margin for each period is calculated by dividing gross profit by total revenues for each such period.
- (3) Operating profit margin for each period is calculated by dividing operating income (loss) by total revenues for each such period.

- (4) Net profit margin for each period is calculated by dividing net income (loss) by total revenues for each such period.

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Fluctuations in the exchange rate between Won and U.S. dollar may affect the market price of our ADSs. These fluctuations will also affect the U.S. dollar conversion by the depository of any cash dividends paid in Won and the Won proceeds received by the depository from any sale of our common shares represented by our ADSs.

In certain parts of this annual report, we have translated Won amounts into U.S. dollars for convenience purposes only. The noon buying rate is the rate in The City of New York used for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, all translations from Won to U.S. dollars were made at Won 1,010.0 to US\$1.00, which was the noon buying rate announced on December 31, 2005. The translation is not a representation that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. The table below sets forth, for the periods indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar.

<b>Year Ended December 31,</b>	<b>At End of Period</b>	<b>Average(1)</b>	<b>High</b>	<b>Low</b>
	<b>(Won per US\$1.00)</b>			
2001	1,313.5	1,292.0	1,369.0	1,234.0
2002	1,186.3	1,250.4	1,332.0	1,160.6
2003	1,192.0	1,192.1	1,262.0	1,146.0
2004	1,035.1	1,139.3	1,195.1	1,035.1
2005	1,010.0	1,023.8	1,059.8	997.0
2006 (through June 29, 2006)	960.4	962.2	1,002.9	927.4
January	958.9	981.8	1,002.9	958.9
February	970.9	969.8	976.3	962.0
March	971.4	974.7	982.0	966.8
April	942.8	952.6	970.4	939.6
May	945.3	940.8	951.5	927.4
June (through June 29, 2006)	960.4	954.4	961.8	942.7

*Note:*

(1) Annual and monthly averages are calculated using the average of the daily rates during the relevant period.

**3.B. Capitalization and Indebtedness**

Not applicable.

**3.C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**3.D. Risk Factors****Risks Relating to Our Business**

*We currently depend on one product, Ragnarok Online, for substantially all of our revenues.*

Substantially all of our revenues have been and are currently derived from a single product, Ragnarok Online, which was commercially introduced in August 2002. In 2005, we derived approximately 88.3% of our revenues from Ragnarok Online. We expect to continue to derive a substantial portion of our revenues from Ragnarok Online. Our failure to maintain, improve, update or enhance Ragnarok Online in a timely manner or successfully enter new markets could reduce Ragnarok Online's user base, decrease its popularity, and reduce our revenues which would materially and adversely affect our business, financial condition and results of

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operations. In addition, we are currently developing Ragnarok Online II, the successor game to Ragnarok Online, as Ragnarok online has been in the market for close to four years and we believe that this game has reached relative maturity in our principal markets. Although we have indicated our plan to introduce Ragnarok Online II at various times in the past, the launch of this successor game has been delayed for various reasons, including technical difficulties. We currently intend to launch Ragnarok Online II by the end of 2006, althoug