

GRAVITY CO., LTD.

FORM 6-K (Report of Foreign Issuer)

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Sector	Technology
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**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 April, 2010

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 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 the registrant by furnishing the information contained in this Form 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): n/a

Samil PricewaterhouseCoopers, our independent auditors, has conducted audits and expressed an opinion with regards to the non-consolidated Statements of financial position of Gravity Co., Ltd. (the "Company") as of December 31, 2009 and 2008, and the related non-consolidated statements of income, appropriation of retained earnings, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean Won in conformity with accounting principles generally accepted in the Republic of Korea ("K-GAAP"). A copy of the audited non-consolidated financial statements is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

About GRAVITY Co., Ltd.

Based in Korea, Gravity is a developer and publisher of online games. Gravity's principal product, *Ragnarok Online*TM, is a popular online game in many markets, including Japan, Taiwan and Thailand, and is currently commercially offered in 58 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 negative thereof or 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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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.

Date: April 8, 2010

By: /s/ Heung Gon Kim

Name: Heung Gon Kim

Title: Chief Financial Officer

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
99.1	The Company's non-consolidated K-GAAP financial statements as of and for the years ended December 31, 2009 and 2008 and the independent auditor's report.

GRAVITY Co., Ltd.
Non-Consolidated Financial Statements
December 31, 2009 and 2008

GRAVITY Co., Ltd.
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December 31, 2009 and 2008

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Report of Independent Auditors

To the Shareholders and Board of Directors of
GRAVITY Co., Ltd.

We have audited the accompanying non-consolidated statements of financial positions of GRAVITY Co., Ltd. (the "Company") as of December 31, 2009 and 2008, and the related non-consolidated statements of income, appropriations of retained earnings, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of GRAVITY Co., Ltd. as of December 31, 2009 and 2008, and the results of its operations, the changes in its retained earnings, the changes in its shareholders' equity and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Samil PricewaterhouseCoopers is the Korean member firm of PricewaterhouseCoopers. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Samil PricewaterhouseCoopers

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in retained earnings, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea
March 19, 2010

This report is effective as of March 19, 2010, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

GRAVITY Co., Ltd.
Statements of Financial Position
December 31, 2009 and 2008

(in thousands of Korean won)

	2009	2008
Assets		
Current assets		
Cash and cash equivalents (Notes 3 and 16)	₩ 47,667,921	₩47,877,966
Short-term financial instruments (Note 3)	11,500,000	4,000,000
Short-term available-for-sale securities (Note 5)	4,973,185	—
Trade accounts receivable, net (Notes 16 and 24)	6,327,483	6,148,368
Other accounts receivable, net (Note 16)	162,358	487,294
Advances payments (Note 14)	1,034,496	1,587,956
Prepaid income taxes	1,227,228	1,296,107
Other current assets (Notes 4)	1,629,563	1,082,156
Total current assets	<u>74,522,234</u>	<u>62,479,847</u>
Equity method investments (Note 6)	9,409,490	9,454,346
Available-for-sale securities (Note 5)	1,518,526	6,074,336
Long-term loans receivable, net (Notes 6, 7, 16 and 24)	20,555	988,001
Guarantee deposits (Note 10)	1,183,983	1,176,550
Property and equipment, net (Notes 8 and 9)	1,453,968	2,778,127
Intangible assets, net (Note 11)	11,831,295	12,510,310
Other non-current assets	1,026,706	1,004,714
Total assets	<u>₩100,966,757</u>	<u>₩96,466,231</u>

Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable (Note 16)	₩ 2,972,889	₩ 3,064,182
Deferred income (Notes 12 and 23)	3,037,021	2,724,061
Withholdings	153,308	146,756
Advances received	1,885,837	68,747
Income tax payable (Note 15)	288,651	362,989
Total current liabilities	<u>8,337,706</u>	<u>6,366,735</u>
Long-term deferred income (Note 24)	9,679,062	9,900,522
Asset retirement obligation (Note 8)	99,000	99,000
Leasehold deposit received (Note 24)	64,090	50,518
Total liabilities	<u>18,179,858</u>	<u>16,416,775</u>

Commitments and contingencies (Note 14)

GRAVITY Co., Ltd.
Statements of Financial Position
December 31, 2009 and 2008

<i>(in thousands of Korean won)</i>	2009	2008
Shareholders' equity		
Capital stock (Notes 1 and 17)		
Common stock	3,474,450	3,474,450
Capital surplus		
Paid in capital in excess of par value (Note 17)	73,255,073	73,255,073
Other capital surplus (Note 18)	1,679,930	1,198,324
Capital adjustments		
Stock options (Note 18)	445,206	893,302
Accumulated other comprehensive income and expenses (Note 21)		
Unrealized loss on available-for-sale securities	(1,120)	(1,120)
Net accumulated comprehensive income of equity method investees (Note 6)	2,052,968	2,385,162
Net accumulated comprehensive expense of equity method investees (Note 6)	(46,370)	—
Retained earnings (Accumulated deficit)		
Unappropriated retained earnings		
(Undisposed accumulated deficit)	1,926,762	(1,155,735)
Total shareholders' equity	<u>82,786,899</u>	<u>80,049,456</u>
Total liabilities and shareholders' equity	<u>₩100,966,757</u>	<u>₩96,466,231</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

GRAVITY Co., Ltd.
Statements of Income
Years Ended December 31, 2009 and 2008

(in thousands of Korean won)

	2009	2008
Revenues (Notes 14 and 24)	₩43,945,590	₩41,982,912
Cost of sales (Note 24)	13,775,721	15,943,744
Gross profit	30,169,869	26,039,168
Selling and administrative expenses (Notes 19 and 24)	18,399,549	18,647,985
Operating income	11,770,320	7,391,183
Non-operating income		
Interest income (Note 24)	2,272,866	2,641,999
Gain on foreign exchange transactions	1,786,137	3,929,581
Gain on foreign exchange translation (Note 16)	82,328	453,241
Gain on valuation of equity method investments (Note 6)	1,635,795	1,168,261
Other income	150,200	169,422
	<u>5,927,326</u>	<u>8,362,504</u>
Non-operating expenses		
Loss on foreign exchange transactions	1,455,376	417,354
Loss on foreign exchange translation (Note 16)	660,694	473,369
Loss on valuation of equity method investments (Note 6)	1,978,966	7,944,124
Loss on impairment of available-for-sale securities (Note 5)	4,784,890	657,364
Loss on disposal of property and equipment	6,724	55,852
Loss on valuation of available-for-sale securities	26,815	—
Loss on impairment of intangible assets (Note 11)	39,013	1,807,484
Settlement cost of litigation (Note 14)	1,648,615	—
Other losses	26,934	3,880
	<u>10,628,027</u>	<u>11,359,427</u>
Income before income taxes	7,069,619	4,394,260
Income tax expenses (Note 15)	3,987,122	3,473,320
Net income	<u>₩ 3,082,497</u>	<u>₩ 920,940</u>
Basic earnings per share (Note 22)	₩ 444	₩ 133

The accompanying notes are an integral part of these non-consolidated financial statements.

GRAVITY Co., Ltd.

Statements of Appropriations of Retained Earnings

Years Ended December 31, 2009 and 2008

(Date of appropriations: March 26, 2010 and March 31, 2009, for the years ended December 31, 2009 and 2008, respectively)

(in thousands of Korean won)

	<u>2009</u>	<u>2008</u>
Retained earnings before appropriations		
(Accumulated deficit before disposition)		
Undisposed accumulated deficit carried over from prior year	₩ (1,155,735)	₩ (2,076,675)
Net income	<u>3,082,497</u>	<u>920,940</u>
	1,926,762	(1,155,735)
Appropriations of retained earnings	<u>—</u>	<u>—</u>
Unappropriated retained earnings (Undisposed accumulated deficit) carried forward to subsequent year	<u>₩ 1,926,762</u>	<u>₩ (1,155,735)</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

GRAVITY Co., Ltd.
Statements of Changes in Shareholders' Equity
Years Ended December 31, 2009 and 2008

<i>(in thousands of Korean won)</i>	Capital Stock	Capital Surplus	Capital Adjustment	Accumulated Other comprehensive Income and expense	Retained Earnings (Accumulated Deficit)	Total
Balances as of January 1, 2008	₩3,474,450	₩73,851,580	₩ 1,597,605	₩ (53,591)	₩ (2,076,675)	₩76,793,369
Net income	—	—	—	—	920,940	920,940
Stock-based compensation expenses (Note 18)	—	—	(102,486)	—	—	(102,486)
Reclassification of expired stock options (Note 18)	—	601,817	(601,817)	—	—	—
Changes in equity method investees with net accumulated comprehensive income (Note 6)	—	—	—	2,179,189	—	2,179,189
Changes in equity method investees with net accumulated comprehensive expense (Note 6)	—	—	—	258,444	—	258,444
Balances as of December 31, 2008	<u>₩3,474,450</u>	<u>₩74,453,397</u>	<u>₩ 893,302</u>	<u>₩ 2,384,042</u>	<u>₩ (1,155,735)</u>	<u>₩80,049,456</u>
Balances as of January 1, 2009	₩3,474,450	₩74,453,397	₩ 893,302	₩ 2,384,042	₩ (1,155,735)	₩80,049,456
Net income	—	—	—	—	3,082,497	3,082,497
Stock-based compensation expenses (Note 18)	—	—	33,510	—	—	33,510
Reclassification of expired stock options (Note 18)	—	481,606	(481,606)	—	—	—
Changes in equity method investees with net accumulated comprehensive income (Note 6)	—	—	—	(332,194)	—	(332,194)
Changes in equity method investees with net accumulated comprehensive expense (Note 6)	—	—	—	(46,370)	—	(46,370)
Balances as of December 31, 2009	<u>₩3,474,450</u>	<u>₩74,935,003</u>	<u>₩ 445,206</u>	<u>₩ 2,005,478</u>	<u>₩ 1,926,762</u>	<u>₩82,786,899</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

GRAVITY Co., Ltd.
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

(in thousands of Korean won)

	2009	2008
Cash flows from operating activities		
Net income	₩ 3,082,497	₩ 920,940
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for severance benefits	—	125,725
Depreciation	1,533,173	2,267,624
Amortization of intangible assets	3,606,575	3,761,907
Loss on foreign exchange translation	231,174	309,129
Loss on valuation of equity method investments	1,978,966	7,944,124
Loss on valuation of short-term available-for-sale securities	26,815	—
Loss on impairment of available-for-sale securities	4,784,890	657,364
Bad debts expense	359,150	110,305
Loss on disposal of property and equipment	6,724	55,852
Loss on impairment of intangible assets	39,013	1,807,484
Stock-based compensation expense	33,510	—
Gain on foreign exchange translation	(82,328)	(395,601)
Gain on valuation of equity method investments	(1,635,795)	(1,168,261)
Reversal of allowance for doubtful accounts	(62,875)	—
Gain on disposal of property and equipment	(3,663)	(13,252)
Reversal of stock-based compensation expense	—	(102,485)
Changes in operating assets and liabilities		
Increase in trade accounts receivable	(839,651)	(2,177,124)
Decrease in other accounts receivable	338,537	260,271
Decrease(increase) in advance payments	467,018	(607,014)
Decrease in short-term prepaid expenses	206,791	77,676
Decrease(increase) in prepaid income taxes	(106,367)	34,454
Decrease in tax refund receivable	71,338	85,246
Increase in long-term prepaid expenses	(157,730)	(82,335)
Decrease in accounts payable	(710,911)	(1,604,645)
Increase in advance received	1,817,090	37,575
Increase(decrease) in withholdings	6,552	(74,320)
Increase in leasehold deposits received	13,572	9,598
Decrease in deferred revenue	(1,248,687)	(1,980,364)
Increase(decrease) in income tax payables	(74,338)	129,600
Increase in long-term deferred revenue	2,427,047	1,322,854
Payments of severance benefits	—	(350,499)
Decrease(increase) in other current assets	(143,085)	7,710
Net cash provided by operating activities	<u>15,965,002</u>	<u>11,369,538</u>

GRAVITY Co., Ltd.
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

(in thousands of Korean won)

	2009	2008
Cash flows from investing activities		
Proceeds from disposal of short-term financial instruments	—	2,539,121
Collection of short-term loans receivables	54,530	63,333
Collection of long-term loans receivable	—	1,459,522
Proceeds from disposal of property and equipment	21,241	65,485
Decrease in guarantee deposits	2,672	1,766,315
Increase in short-term financial instruments	(7,500,000)	—
Acquisition of short-term available-for-sale securities	(5,000,000)	—
Payment for short-term loans receivable	(360,857)	—
Acquisition of equity method investments	—	(1,981,017)
Acquisition of available-for-sale securities	(229,081)	(6,054,016)
Increase in long-term loans receivable	(40,000)	(345,001)
Acquisition of property and equipment	(233,317)	(907,527)
Acquisition of intangible assets	(2,880,130)	(5,301,109)
Payment for guarantee deposits	(10,105)	(588,313)
Increase in other non-current assets	—	(90)
Net cash used in investing activities	<u>(16,175,047)</u>	<u>(9,283,297)</u>
Cash flows from financing activities		
Net cash provided by financing activities	—	—
Net increase in cash and cash equivalents	(210,045)	2,086,241
Cash and cash equivalents (Note 23)		
Beginning of the year	47,877,966	45,791,725
End of the year	<u>₩ 47,667,921</u>	<u>₩47,877,966</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

GRAVITY Co., Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

1. The Company

GRAVITY Co., Ltd. (the "Company") was incorporated on April 4, 2000, to engage in developing and distributing online games and other related business principally in the Republic of Korea and other countries in Asia, United States and Europe. The Company maintains a single business segment engaged in developing online games, software licensing and other related services. The Company's principal game product, "RAGNAROK", a massive multi-player online role-playing game, was commercially launched in August 2002.

The Company has eight subsidiaries. One is NeoCyon for mobile service business operating in the Republic of Korea, while others, including Gravity Interactive, Inc., operate in other countries.

On February 8, 2005, the Company listed its shares on NASDAQ in the United States, and issued 1,400,000 shares of common stock by means of American Depository Shares.

As of December 31, 2009, the total paid-in capital amounts to ₩3,474,450 thousand. The Company's major shareholders and their respective percentage of ownership as of December 31, 2009, are as follows:

	<u>Number of shares</u>	<u>Percentage of ownership (%)</u>
GungHo Online Entertainment, Inc.	4,121,739	59.31
Moon Capital Management LP	397,314	5.72
Others	<u>2,429,847</u>	<u>34.97</u>
	<u>6,948,900</u>	<u>100.00</u>

On April 1, 2008, GungHo Online Entertainment, Inc. became a majority shareholder by acquiring 52.39% of the voting shares from Heartis, Inc., the former majority shareholder, and acquired additional 6.92% voting shares on June 24, 2008.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements.

The following is a summary of significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements. These policies have been consistently applied to all the years presented.

GRAVITY Co., Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Accounting Estimates

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Revenue Recognition

Prepaid online game subscriptions are recognized as revenue upon their actual usage.

The Company licenses the right to sell and distribute its games in exchange for an initial prepaid license fee and guaranteed minimum royalty payments. The prepaid license fee revenues are deferred and recognized ratably over the license period. The guaranteed minimum royalty payments are deferred and recognized as the royalties are earned. In addition, the Company receives a royalty payment based on a specified percentage of the licensees' sales. These royalties, that exceed the guaranteed minimum royalty, are recognized on a monthly basis, as the related revenues are earned by the licensees. Revenue from mobile and other sales is recognized when goods are transferred or service is provided completely.

Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined.

Government Grants

Government grants received, which are to be repaid, are recorded as liability, while grants without obligation to be repaid are offset against cost of assets purchased with such grants. Grants received for a specific purpose are offset against the specific expense for which it was granted, and other grants are recorded as a gain for the period.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the weighted average method. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The aforementioned reversal is deducted from cost of sales.

GRAVITY Co., Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Investments in Securities

Costs of securities are determined using the moving-weighted average method. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses on available-for-sale securities are recognized in the income statement.

Equity Method Investments

Company reflects any changes in the book value of its equity-method investments after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. All other changes in equity should be accounted for under other comprehensive income and expense.

Property and Equipment, and Related Depreciation

Property and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

Property and equipment are stated net of accumulated depreciation calculated based on the straight-line method and following estimated useful lives:

	<u>Estimated Useful Lives</u>
Computers and other equipment	4 years
Vehicles	4 years
Furniture and fixtures	4 years
Leasehold improvements	4 years

Expenditures incurred after the acquisition or completion of assets are capitalized if they enhance the value of the related assets over their recently appraised value or extend the useful life of the related assets. Routine maintenance and repairs are charged to expense as incurred.

Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. The annual minimum lease payments, less guaranteed residual value, are charged to expense on a regular basis over the lease term.

GRAVITY Co., Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Intangible Assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use.

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the following estimated useful lives of the asset.

	<u>Estimated Useful Lives</u>
Development costs	3 years
Software	3 years
Other intangible assets	3 years

Ordinary research and development costs are expensed as incurred. Development costs and acquisition costs for rights to distribute online games directly relating to a new technology or new products with probable future benefits are capitalized as intangible assets. Amortization of development costs is computed using the straight-line method over three years from the commencement of the commercial production of the related products or use of the related technology. Such costs are subject to periodic review of their recoverability. In the event that such amounts are determined to be not recoverable, they are either written down or written off from the accounts.

Impairment of Assets

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to correspond with the recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

Derivatives

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The related gains or losses are recognized under the income statement.

Current and Deferred Income Taxes

Income tax expenses include the current income taxes under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

Defined Contribution Pension Plan

For defined contribution pension plan, the Company recognizes as expense the severance benefits provided for the period.

Provisions and Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the non-consolidated financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the non-consolidated financial statements.



GRAVITY Co., Ltd.
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Translation of Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the date of the statement of financial position, and the resulting translation gains and losses are recognized in current operations.

Share-based Payments

The Company accounts for stock options granted after December 31, 2006, in compliance with SKFAS No. 22, *Share-Based Compensation*.

For stock options granted to its employees and directors before 2007, the Company used the fair-value method in determining compensation costs which are accrued as a charge to expense over the vesting period, with a corresponding increase in a separate component of shareholders' equity as capital adjustments.

In case of equity-settled share-based payment, the fair value of the goods or employee services received in exchange for the grant of the options is recognized as an expense and a capital adjustment. If the fair value of goods or employee services cannot be estimated reliably, the fair value is estimated based on the fair value of the equity granted.

For cash-settled share-based payment, the fair value of the obligation the Company will assume is determined by the fair value of the goods or employee services received in exchange for the grant of the options. Until the liability is settled, the Company is required to measure the fair value at balance sheet date and at settlement date. The change in fair value is recognized as an expense.

Share-based payment transactions with an option for the parties to choose between cash and equity settlement are accounted for based on the substance of the transaction.

Approval of Non-Consolidated Financial Statements

The Company's non-consolidated financial statements were approved by the Board of Directors on March 5, 2010.

3. Cash and Cash Equivalents, and Short-Term Financial Instruments

Cash and cash equivalents, and short-term financial instruments as of December 31, 2009 and 2008, consist of following:

<i>(in thousands of Korean won)</i>	Bank	Annual Interest Rate (%)	2009	2008
Cash and cash equivalents				
Deposits on demand	Kookmin Bank and others	0.10-2.65	₩ 2,039,807	₩ 67,276
Foreign currency	Kookmin Bank and others	0.024-0.066	6,169,387	3,974,429
Time deposits	Kookmin Bank and others	3.50-4.00	38,500,000	41,500,000
Money Market Deposit Account	Hana Bank and others	0.10-2.20	958,727	2,336,261
			<u>₩47,667,921</u>	<u>₩47,877,966</u>
Short-term financial instruments				
Time deposits	Korea Exchange Bank and others	3.55-4.30	<u>₩11,500,000</u>	<u>₩ 4,000,000</u>

GRAVITY Co., Ltd.
Notes to Non-Consolidated Financial Statements
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4. Other Current Assets

Other current assets as of December 31, 2009 and 2008, consist of the following:

<i>(in thousands of Korean won)</i>	2009	2008
Accrued income (Note 24)	₩ 361,904	₩ 244,990
Tax refund receivable	287,960	359,297
Prepaid expenses (Note 24)	316,945	387,996
Short-term loans receivable (Note 6, 7, 16 and 24)	620,659	47,778
Inventories	42,095	42,095
	<u>₩ 1,629,563</u>	<u>₩ 1,082,156</u>

5. Short-term and Long-term Available-For-Sale securities

Available-for-sale securities of the Company as of December 31, 2009 and 2008, consist of the following:

<i>(in thousands of Korean won)</i>	2009		
	Acquisition Cost	Market Value or Net Asset Value	Book Value
Short-term available-for-sale (ELS Fund) ¹	₩ 5,000,000	₩ 4,973,185	₩ 4,973,185
Long-term available-for-sale			
Non-marketable available-for-sale ²	8,397,461	1,439,805	1,498,206
Government bonds	21,440	20,320	20,320
Total	<u>₩13,418,901</u>	<u>₩ 6,433,310</u>	<u>₩ 6,491,711</u>

¹ In 2009, the Company invested ₩5,000,000 thousand in ELS fund and recorded this as short-term available-for-sale securities. Host contract and embedded derivative are closely related, therefore, the Company has not bifurcated the embedded derivatives and assessed the fair value of the instrument as a whole and recognized the difference of ₩26,815 thousand between the acquisition cost of the ELS fund and its fair value as of December 31, 2009 as loss on valuation of available-for-sale securities under non-operating expenses.

² The non-marketable available-for-sale securities represent investment in Online Game Revolution Fund No.1, Limited liability partnership. The Company invested additional JPY 18,000,000 in current year, and as of December 31, 2009, the Company has invested total of JPY 910,000,000 in the partnership and holds 16.39% equity interest. However, the investment is accounted for under equity investment method as the Company has limited access to the partnership's operation or decision process. Also, the Company assesses the redeemable return on the investment based on the performance of the actual games, which the partnership had invested in and commercialized. The difference between the investment's book balance and the redeemable amount is reflected under current year's income statement. The Company recognized impairment loss on available-for-sale securities amounting to ₩4,784,890 thousand as of December 31, 2009 (2008: ₩657,364 thousand) (Refer to note 14. Commitments).

GRAVITY Co., Ltd.
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<i>(in thousands of Korean won)</i>	2008		
	Acquisition Cost	Market Value or Net Asset Value	Book Value
Non-marketable available-for-sale Government bonds	₩ 8,168,380	₩ 8,578,402	₩ 6,054,016
	<u>21,440</u>	<u>20,320</u>	<u>20,320</u>
Total	₩ 8,189,820	₩ 8,598,722	₩ 6,074,336

6. Equity Method Investments

Equity method investments as of December 31, 2009 and 2008, consist of the following:

<i>(in thousands of Korean won)</i>	Percentage of ownership (%)	2009		
		Acquisition cost	Net asset value	Book value
Investees				
Gravity Interactive, Inc.	100.00	₩ 4,636,784	₩1,170,589	₩1,167,746
Gravity Entertainment Corp.	100.00	1,763,994	521,159	521,159
Gravity EU SASU	100.00	2,194,760	(827,464)	—
Gravity Middle East & Africa FZ-LLC ¹	100.00	1,979,640	1,596,297	1,596,297
Gravity RUS Co., Ltd.	99.99	2,452,158	259,968	259,968
NeoCyon, Inc.	96.11	<u>7,715,763</u>	<u>5,671,211</u>	<u>5,864,320</u>
Total		₩20,743,099	₩8,391,760	₩9,409,490

<i>(in thousands of Korean won)</i>	Percentage of ownership (%)	2008		
		Acquisition cost	Net asset value	Book value
Investees				
Gravity Interactive, Inc.	100.00	₩ 4,636,784	₩2,252,222	₩2,248,596
Gravity Entertainment Corp.	100.00	1,763,994	517,955	517,955
Gravity EU SASU	100.00	2,194,760	72,899	72,899
Gravity Middle East & Africa FZ-LLC ¹	100.00	1,979,640	1,734,879	1,734,879
Gravity RUS Co., Ltd.	99.99	2,452,158	585,046	585,046
NeoCyon, Inc.	96.11	<u>7,715,763</u>	<u>3,791,290</u>	<u>4,294,971</u>
Total		₩20,743,099	₩8,954,291	₩9,454,346

¹ On May 7, 2007, the Company founded a wholly owned subsidiary in the United Arab Emirates, which is under liquidation as of December 31, 2009.

GRAVITY Co., Ltd.
Notes to Non-Consolidated Financial Statements
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Details of changes in the differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee for the years ended December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i> Investee	2009			
	Beginning	Increase	Amortization	Ending
NeoCyon, Inc.	₩ 503,681	₩ —	₩ 266,976	₩ 236,705

<i>(in thousands of Korean won)</i> Investee	2008			
	Beginning	Increase	Amortization	Ending
NeoCyon, Inc.	₩2,168,927	₩ —	₩ 1,665,246	₩ 503,681

Differences between cost of investment and underlying book value incurred in 2005 consist of intangible assets and goodwill. Amortization is computed using the straight-line method over three years for intangible assets and five years for goodwill, recorded as loss on valuation of equity method investments.

Details of the elimination of unrealized gain or loss arising from inter-company transactions with equity method investee are as follows:

<i>(in thousands of Korean won)</i>	2009	2008
Gravity Interactive, Inc.		
Inventories	₩ 2,843	₩ 3,626
NeoCyon, Inc.		
Software	43,596	—

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Changes in investments in subsidiaries accounted for using the equity method for the years ended December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009				
	Beginning	Acquisition (Disposal)	Valuation Gain(Loss)	Changes in Equity	Ending
Investees					
Gravity Interactive, Inc.	₩2,248,596	₩ —	₩(1,005,622)	₩ (75,228)	₩1,167,746
Gravity Entertainment Corp.	517,955	—	66,447	(63,243)	521,159
Gravity EU SASU ¹	72,899	—	(799,158)	49,380	—
Gravity Middle East & Africa FZ-LLC	1,734,879	—	(15,884)	(122,698)	1,596,297
Gravity RUS Co., Ltd.	585,046	—	(158,303)	(166,775)	259,968
NeoCyon, Inc.	4,294,971	—	1,569,349	—	5,864,320
Total	₩9,454,346	₩ —	₩ (343,171)	₩ (378,564)	₩9,409,490

¹ With respect to Gravity EU SASU, current year's equity loss resulted in book value of the investment that was less than "0". In 2009, out of the ₩799,158 thousand equity loss from the investment, ₩650,709 thousand was recorded as bad debt related to the short-term and long-term loan receivable due from Gravity EU SASU and ₩26,171 thousand was recorded as bad debt related to accrued income. As of December 31, 2009, the amount of change in equity unrecognized due to discontinuance of applying equity method was ₩150,584 thousand.

<i>(in thousands of Korean won)</i>	2008				
	Beginning	Acquisition (Disposal)	Valuation Gain(Loss)	Changes in Equity	Ending
Investees					
Gravity Interactive, Inc.	₩ 4,839,637	₩ —	₩(3,752,497)	₩1,161,456	₩2,248,596
Gravity Entertainment Corp.	364,883	—	(88,373)	241,445	517,955
Gravity EU SASU	1,092,828	—	(1,207,916)	187,987	72,899
Gravity Middle East & Africa FZ-LLC	1,936,010	—	(754,148)	553,017	1,734,879
Gravity RUS Co., Ltd. ¹	451,490	1,981,017	(2,141,189)	293,728	585,046
NeoCyon, Inc. ¹	3,841,679	—	453,292	—	4,294,971
Total	₩12,526,527	₩ 1,981,017	₩(7,490,831)	₩2,437,633	₩9,454,346

¹ Gravity CIS., Ltd was once a wholly-owned subsidiary of the Company but was later acquired by Gravity RUS Co., Ltd in 2007, another wholly-owned subsidiary of the Company. With respect to this arrangement, a gain on valuation of equity method investment of ₩714,969 thousand was recorded representing reversal of the bad debts allowance previously due from Gravity CIS Co., Ltd. A related gain on valuation of equity method investment of ₩388,124 thousand was recorded for NeoCyon, Inc. representing the reversal of loss on valuation of equity method for NeoCyon, Inc. The two aforementioned reversals totaling ₩1,103,093 thousand was offset by the loss on valuation of equity method for Gravity RUS Co., Ltd., resulting from the allowance provided against the long-term loans receivable from Gravity CIS Co., Ltd.

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Changes in accumulated other comprehensive income and expense from equity method investments are as follows:

<i>(in thousands of Korean won)</i>	2009			
	Beginning	Increase	Decrease	Ending
Investees				
Gravity Interactive, Inc.	₩1,127,584	₩ —	₩ 75,228	₩1,052,356
Gravity Entertainment Corp.	16,873	—	63,243	(46,370)
Gravity EU SASU	364,457	49,380	—	413,837
Gravity Middle East & Asia FZ-LLC	564,886	—	122,698	442,188
Gravity RUS Co., Ltd.	311,362	—	166,775	144,587
Total	<u>₩2,385,162</u>	<u>₩ 49,380</u>	<u>₩ 427,944</u>	<u>₩2,006,598</u>

<i>(in thousands of Korean won)</i>	2008			
	Beginning	Increase	Decrease	Ending
Investees				
Gravity Interactive, Inc.	₩ (33,872)	₩1,127,584	₩ (33,872)	₩1,127,584
Gravity Entertainment Corp.	(224,572)	16,873	(224,572)	16,873
Gravity EU SASU	176,470	187,987	—	364,457
Gravity Middle East & Asia FZ-LLC	11,869	553,017	—	564,886
Gravity RUS Co., Ltd.	17,634	293,728	—	311,362
Total	<u>₩ (52,471)</u>	<u>₩2,179,189</u>	<u>₩ (258,444)</u>	<u>₩2,385,162</u>

The unaudited financial statements of the Company's subsidiaries for the years ended December 31, 2009 and 2008, were used in the valuation of the said equity method investments. The Company believes that any difference between the audited and unaudited financial statements will not be material.

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Summary of financial information of equity method investees follows:

(in thousands of Korean won)

Investees	2009			
	Assets	Liabilities	Revenue	Net income (loss)
Gravity Interactive, Inc.	₩2,267,170	₩1,096,581	₩5,799,850	₩ (1,006,405)
Gravity Entertainment Corp.	1,006,879	485,720	68	66,447
Gravity EU SASU	478,078	1,305,542	646,127	(949,743)
Gravity Middle East & Asia FZ-LLC	1,609,808	13,511	—	(15,884)
Gravity RUS Co., Ltd.	260,104	110	—	(158,461)
NeoCyon, Inc.	8,547,774	2,647,023	9,958,974	1,956,010

(in thousands of Korean won)

Investees	2008			
	Assets	Liabilities	Revenue	Net income (loss)
Gravity Interactive, Inc.	₩3,089,185	₩ 836,963	₩ 3,619,532	₩ (3,756,123)
Gravity Entertainment Corp.	1,178,536	660,581	254,613	(88,373)
Gravity EU SASU	796,599	723,700	469,509	(1,207,916)
Gravity Middle East & Asia FZ-LLC	1,737,069	2,190	—	(754,148)
Gravity RUS Co., Ltd.	585,105	—	—	(2,141,403)
NeoCyon, Inc.	6,988,109	3,043,368	10,118,964	1,800,452

7. Short-Term and Long-Term Loans Receivable

Short-term and long-term loans receivable of the Company as of December 31, 2009 and 2008, consist of the following:

(in thousands of Korean won)

	Annual Interest Rate (%)	2009		2008	
		₩	₩	₩	₩
Loans for employee housing	2.0-3.0	₩ 57,414	₩ 71,945		
Loans to Gravity CIS Co., Ltd.	4.9	583,800	628,750		
Loans to Gravity EU SASU, net of allowance of ₩650,709 thousand in 2009	4.8	—	335,084		
		641,214	1,035,779		
Less : Short-term portion		(620,659)	(47,778)		
Long-term loans receivable		₩ 20,555	₩ 988,001		

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Notes to Non-Consolidated Financial Statements
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8. Property and Equipment

Changes in property and equipment as of December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009				
	Computer and other Equipment	Vehicles	Furniture and fixtures	Leasehold improve- ments	Total
Beginning	₩ 1,987,854	₩ —	₩ 227,446	₩ 562,826	₩ 2,778,126
Acquisition	194,672	—	22,195	16,450	233,317
Disposal and retirement	(21,413)	—	(2,889)	—	(24,302)
Depreciation	(1,157,597)	—	(190,455)	(185,121)	(1,533,173)
Ending	<u>₩ 1,003,516</u>	<u>₩ —</u>	<u>₩ 56,297</u>	<u>₩ 394,155</u>	<u>₩ 1,453,968</u>
Acquisition cost	₩10,599,874	₩ 28,111	₩ 857,712	₩ 745,967	₩ 12,231,664
Accumulated depreciation	(9,596,358)	(28,111)	(801,415)	(351,812)	(10,777,696)

<i>(in thousands of Korean won)</i>	2008				
	Computer and other Equipment	Vehicles	Furniture and fixtures	Leasehold improve- ments	Total
Beginning	₩ 3,758,567	₩ 63,951	₩ 412,931	₩ 10,858	₩ 4,246,307
Acquisition ¹	146,078	—	31,932	729,517	907,527
Disposal and retirement	(50,526)	(50,056)	(1,276)	(6,225)	(108,083)
Depreciation	(1,866,264)	(13,895)	(216,141)	(171,324)	(2,267,624)
Ending	<u>₩ 1,987,855</u>	<u>₩ —</u>	<u>₩ 227,446</u>	<u>₩ 562,826</u>	<u>₩ 2,778,127</u>
Acquisition cost	₩10,848,947	₩ 28,111	₩ 891,536	₩ 729,517	₩12,498,111
Accumulated depreciation	(8,861,092)	(28,111)	(664,090)	(166,691)	(9,719,984)

¹ In 2008, the Company recognized the estimated amount of ₩99,000 thousand as an acquisition cost, which is to be used for restoration in relation to leasehold improvements.

GRAVITY Co., Ltd.
Notes to Non-Consolidated Financial Statements
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9. Insurance

Property and equipment covered by insurance policies as of December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i> Properties	Insurance Company	Type of Insurance	Amount Insured	
			2009	2008
Buildings	Meritz Fire & Marine Insurance Co., Ltd.	Fire insurance	₩9,015,636	₩ —
Equipment, Furniture and fixtures	Meritz Fire & Marine Insurance Co., Ltd.	General insurance	2,215,300	—

All the vehicles not included in the table above are insured under liability insurance and general insurance. The Company maintains accident insurance for officers and employees with Hyundai Marine & Fire Insurance Co., Ltd. In addition, the Company carries directors and officers' liability insurance with indemnities of US \$10 million per litigation with Hyundai Marine & Fire Insurance Co., Ltd.

10. Operating Lease

The Company entered into a lease agreement with Korea Software Industry Promotion Agency and SH Corporation and has paid a guarantee deposit of ₩1,171,283 thousand to Korea Software Industry Promotion Agency and ₩10,105 thousand to SH Corporation as of December 31, 2009.

Future lease payments under operating lease as of December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009	2008
Less than one year	₩ 1,837,594	₩ 1,671,055
One year to three years	3,737,192	5,016,699
Total	₩ 5,574,786	₩ 6,687,754

The term of lease agreement with Korea Software Industry Promotion Agency is from January 1, 2008 to December 31, 2012. The term of lease agreement with SH Corporation is through year 2010.

Lease payments recognized in operations for the years ended December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009	2008
Rent	₩ 1,921,892	₩ 2,302,749

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Notes to Non-Consolidated Financial Statements
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11. Intangible Assets

Changes in intangible assets for the years ended December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009			
	Development costs	Software	Others	Total
Beginning balance	₩ 10,894,359	₩ 1,356,668	₩ 259,283	₩ 12,510,310
Acquisition	2,746,261	133,869	86,443	2,966,573
Amortization	(2,594,963)	(904,485)	(107,127)	(3,606,575)
Impairment	(39,013)	—	—	(39,013)
Ending balance	<u>₩ 11,006,644</u>	<u>₩ 586,052</u>	<u>₩ 238,599</u>	<u>₩ 11,831,295</u>
Accumulated depreciation	₩ (4,828,488)	₩(7,597,021)	₩ (285,983)	₩(12,711,492)
Accumulated impairment	(3,211,735)	(113,333)	(25,954)	(3,351,022)

<i>(in thousands of Korean won)</i>	2008			
	Development costs	Software	Others	Total
Beginning balance	₩ 10,545,367	₩ 1,682,535	₩ 82,866	₩12,310,768
Acquisition	4,748,524	743,491	276,917	5,768,932
Amortization	(2,594,963)	(1,069,358)	(97,585)	(3,761,906)
Impairment	(1,804,569)	—	(2,915)	(1,807,484)
Ending balance	<u>₩ 10,894,359</u>	<u>₩ 1,356,668</u>	<u>₩ 259,283</u>	<u>₩12,510,310</u>
Accumulated depreciation	₩ (2,233,525)	₩(6,692,536)	₩ (178,856)	₩ (9,104,917)
Accumulated impairment	(3,172,722)	(113,333)	(25,954)	(3,312,009)

GRAVITY Co., Ltd.
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The amortization expenses of intangible assets for the years ended December 31, 2009 and 2008, are charged to the following accounts:

<i>(in thousands of Korean won)</i>	2009	2008
Cost of sales	₩ 2,774,978	₩ 2,841,640
Selling and administrative expenses	621,968	623,565
Development costs	209,152	287,254
Research and development expenses	477	9,448
	<u>₩ 3,606,575</u>	<u>₩ 3,761,907</u>

The Company recognized research and development cost amounting to ₩1,781,798 thousand (2008: ₩1,407,975 thousand) as an expense in 2009.

12. Government Grants

Changes in government grants for the years ended December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009	2008
Beginning	₩ 31,521	₩ —
Increase	269,115	157,604
Decrease	273,724	126,083
Ending	<u>₩ 26,912</u>	<u>₩ 31,521</u>

The Company received grants of ₩157,604 thousand from Korea Software Industry Promotion Agency in accordance with the agreement in 2008 for supporting digital contents development. Receipt of grants without the obligation to be repaid was offset against research and development expense amounting to ₩126,083 thousand in 2008, and the unused amount of ₩624 thousand was repaid in 2009. ₩30,897 thousand of the grants were offset against research and development expense as obligation to be repaid was extinguished resulting from completion of commercialization in September 2009. The Company received grants of ₩269,115 thousand from Korea Software Industry Promotion Agency in accordance with the agreement in 2009 for supporting interactive convergence contents development. Receipt of grants without obligation to be repaid was offset against research and development expense amounting to ₩242,203 thousand, which does not include the ₩26,912 thousand of the grants which is to be repaid if the Company is not commercially successful.

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13. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009	2008
Beginning	₩ —	₩ 224,774
Payments of severance benefits	—	(350,499)
Provision for the year	—	125,725
Ending	₩ —	₩ —

On December 26, 2005, the Company implemented a defined contribution pension plan in accordance with the Employee Retirement Benefit Security Act and entered into an agreement for a defined contribution insurance contract with Samsung Life Insurance Company. The insurance premiums paid in 2009 amounted to ₩ 1,027,434 thousand (2008: ₩1,221,072 thousand). As the Company amended the retirement benefit policy for its officers in 2008, the provisions for severance benefits for its directors not covered by the defined contribution plan were no longer provided in 2008 and 2009.

14. Commitments and Contingencies

Commitments

The industry in which the Company operates is subject to a number of industry-specific risk factors, including, but not limited to, rapidly changing technologies; significant numbers of new entrants; dependence on key individuals; competition from similar products from larger companies; customer preferences; the need for the continued successful development, marketing, and selling of its products and services; and the need for positive cash flows from operations. The Company depends on one key product and has a limited operating history and as a result, the Company is subject to risks associated with early stage companies in new and rapidly evolving markets. Of the gross revenue in 2009, the Company generated 66% (2008: 58%) from GungHo Online Entertainment, Inc., a Japanese licensee, 3% (2008: 4%) from Soft-World International Corporation, a Taiwanese licensee, and 2% (2008: 2%) from Level up! Interactive S.A, a Brazilian licensee.

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The Company has exclusive contracts with its licensees to distribute and sell online games and earns 20% to 40% of sales from the online games. Revenue for the years ended December 31, 2009 and 2008, from the licensees are as follows:

(in thousands of Korean won)

Country	Licensee	Revenue ¹	
		2009	2008
Japan	GungHo Online Entertainment, Inc.	₩29,035,925	₩24,384,929
Taiwan and HongKong	Soft-World International Corporation	1,512,681	1,837,514
Brazil	Level up! Interactive S.A	1,096,487	1,005,621
Thailand	AsiaSoft International Co., Ltd.	869,390	698,114
Philippines	Level up! Inc.	741,759	737,440
Others	Shanda/PT. Lyto Datrindo Fortuna and others	3,749,821	4,275,322
		<u>₩37,006,063</u>	<u>₩32,938,940</u>

¹ These amounts include other revenue, such as character royalty which comes with the above contracts for exclusive rights amounting to ₩1,156,937 thousand for 2009 (2008: ₩1,351,965 thousand).

In 2005, the Company along with other companies such as SoftBank Corp. and GungHo Online Entertainment, Inc. established a partnership (Online Game Revolution Fund No.1, Limited liability partnership) for the purposes of investing in and receiving profit from online games. Respect to this arrangement, the Company entered into a contract to invest total of JPY 1,000,000,000, and as of December 31, 2009, the Company has invested total of JPY 910,000,000 and holds 16.39% equity interest(Refer to note 5).

In 2009, the Company entered into an agreement with Naru Entertainment Corp to acquire publishing right of the game in process of being developed by Naru Entertainment Corp. in Korea for ₩1,500,000 thousand. As of December 31, 2009, the game is in development process, and the Company has accounted for the prepayment of ₩400,000 thousand as payment in advance. Per the agreement, the Company retains right to claim refund on the amounts paid if the development game is delayed or failed. Naru Entertainment Corp. purchased insurance from Seoul Guarantee Insurance in response to this term.

Litigation

Two pending litigations as of December 31, 2008 were closed in 2009 upon settlement or through court decision. Related to this, the Company settled a proposed litigation by Softstar Entertainment, Inc., one of the online game licensees overseas, for USD 2,000,000 and recognized the loss of 1,648,615 thousand, which is the difference between the settlement and the existing deferred income balance under current year's income statement.

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15. Income Tax Expenses

Income tax expenses for the years ended December 31, 2009 and 2008, consists of the following:

<i>(in thousands of Korean won)</i>	2009	2008
Current income taxes	₩ 3,987,122	₩ 3,473,320
Changes in deferred tax assets from temporary differences ¹	—	—
Changes in deferred tax assets from tax credits ²	—	—
Income taxes reflected in the shareholders' equity ³	—	—
Income tax expenses	<u>₩ 3,987,122</u>	<u>₩ 3,473,320</u>

- ¹ The Company reflected the effect of changes in deferred income tax assets from temporary differences to income tax expenses. There has been no tax effect to be reflected to deferred income taxes due to low realizability of deferred tax assets during 2009 and 2008.
- ² The Company reflected the effect of changes in deferred tax assets from tax credits to income tax expenses. There has been no tax effect to be reflected to deferred income taxes due to low realizability of deferred tax assets during 2009 and 2008.
- ³ The Company reflected the effect of deferred tax related to accounts directly added to shareholders' equity in those accounts. There has been no tax effect to be directly reflected to the shareholders' equity due to low realizability of deferred tax assets during 2009 and 2008.

Reconciliation between income before income taxes and income tax expense for the years ended December 31, 2009 and 2008, follows:

<i>(in thousands of Korean won)</i>	2009	2008
Income before income taxes(A)	₩ 7,069,619	₩ 4,394,260
Income taxes based on statutory rates	₩ 1,686,648	₩ 1,177,622
Reconciliation :		
Non-taxable incomes	(102,098)	(27,465)
Non-deductible expenses	63,515	711,406
Tax credits	(398,592)	(1,346,757)
Expiration of unused tax credits	1,624,503	—
Effect of the changes in statutory tax rate	(193,818)	1,585,602
Change in valuation allowance	1,306,316	1,346,038
Others	648	26,874
Income tax expense(B)	<u>₩ 3,987,122</u>	<u>₩ 3,473,320</u>
Effective tax rates(B/A)	56.40%	79.04%

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Details of temporary differences and changes in deferred tax assets for the years ended December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009					
	Beginning	Change	Ending	Current	Non-current	
Short-term available-for-sale	₩ —	₩ 26,815	₩ 26,815	₩ 26,815	₩ —	₩ —
Accrued income	(218,107)	(91,607)	(309,714)	(309,714)	—	—
Property and equipment	610,992	(424,132)	186,860	—	186,860	—
Intangible assets	1,466,589	(343,299)	1,123,290	—	1,123,290	—
Equity method investments	11,923,065	721,735	12,644,800	—	12,644,800	—
Accrued expenses	466,829	(209,389)	257,440	257,440	—	—
Available-for-sale securities	2,114,364	4,784,891	6,899,255	—	6,899,255	—
Gain(loss) on foreign exchange translation	20,128	566,598	586,726	567,495	19,231	—
Others	315,670	139,926	455,596	—	455,596	—
	<u>₩ 16,699,530</u>	<u>₩ 5,171,538</u>	<u>₩ 21,871,068</u>	<u>₩ 542,036</u>	<u>₩ 21,329,032</u>	<u>₩ —</u>
Loss carryforwards	11,934,399	(11,934,399)	—	—	—	—
	<u>₩ 28,633,929</u>	<u>₩ (6,762,861)</u>	<u>₩ 21,871,068</u>	<u>₩ 542,036</u>	<u>₩ 21,329,032</u>	<u>₩ —</u>
Deferred income tax assets from temporary differences	₩ 6,319,529	₩ (1,436,144)	₩ 4,883,385	₩ 131,173	₩ 4,752,212	—
Deferred income tax assets from tax credit	22,329,495	2,742,460	25,071,955	6,984,519	18,087,436	—
Non-recognition of deferred tax assets ⁴	(28,649,024)	(1,306,316)	(29,955,340)	(7,115,692)	(22,839,648)	—
Deferred income tax assets	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>

The tax effect of cumulative temporary difference was calculated based on future tax rate of the fiscal year when temporary differences are expected to reverse. The 24.2% tax rate was used for temporary differences expected to reverse in 2010 and 2011. The 22.0% tax rate was used for temporary differences expected to reverse in 2012 and thereafter. As a result, deferred tax assets were lower by ₩103,361 thousand as compared to the amount using the current tax rate of 24.2%.

- ⁴ To determine the realizability of deferred income tax assets, all available positive and negative evidences are considered, including the Company's performance, the market environment in which the Company operates, forecasts of future profitability, the utilization period of past tax credits and other factors. Management periodically considers these factors in reaching its conclusion. Due to the uncertainty of future taxable income, the Company did not recognize the deferred income tax assets as of December 31, 2009.

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<i>(in thousands of Korean won)</i>	2008				
	Beginning	Change	Ending	Current	Non-current
Accrued income	₩ (204,177)	₩ (13,930)	₩ (218,107)	₩ (218,107)	₩ —
Property and equipment	737,048	(126,056)	610,992	—	610,992
Intangible assets	2,197,124	(730,535)	1,466,589	—	1,466,589
Equity method investments	7,584,835	4,338,230	11,923,065	—	11,923,065
Accrued expenses	513,148	(46,319)	466,829	466,829	—
Accrued severance benefits	157,305	(157,305)	—	—	—
Available-for-sale securities	10,075,687	(7,961,323)	2,114,364	—	2,114,364
Gain(loss) on foreign exchange translation	—	20,128	20,128	214,861	(194,733)
Others	223,833	91,837	315,670	—	315,670
	₩ 21,284,803	₩(4,585,273)	₩ 16,699,530	₩ 463,583	₩ 16,235,947
Loss carryforwards	14,295,492	(2,361,093)	11,934,399	—	11,934,399
	₩ 35,580,295	₩(6,946,366)	₩ 28,633,929	₩ 463,583	₩ 28,170,346
Deferred income tax assets from temporary differences	₩ 9,784,581	₩(3,465,052)	₩ 6,319,529	₩ 112,187	₩ 6,207,342
Deferred income tax assets from tax credit	17,518,405	4,811,090	22,329,495	1,642,053	20,687,442
Non-recognition of deferred tax assets ⁴	(27,302,986)	(1,346,038)	(28,649,024)	(1,754,240)	(26,894,784)
Deferred income tax assets	₩ —	₩ —	₩ —	₩ —	₩ —

⁵ To determine the realizability of deferred income tax assets, all available positive and negative evidences are considered, including the Company's performance, the market environment in which the Company operates, forecasts of future profitability, the utilization period of past tax credits and tax loss carryforwards, and other factors. Management periodically considers these factors in reaching its conclusion. As the Company recorded accumulated losses for the recent three years, deferred income tax assets were not recognized as of December 31, 2008.

Tax loss carryforwards and tax credits not recognized as deferred tax assets as of December 31, 2009, are as follows:

<i>(in thousands of Korean won)</i>	Year of expiration	Amount
Tax credits	2010	₩ 6,984,519
	2011	4,873,310
	2012	4,018,523
	2013	4,811,090
	2014	4,384,513
Total		₩25,071,955

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16. Monetary Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2009 and 2008, are summarized as follows:

		2009		2008	
		Foreign currency	Korean won (in thousands)	Foreign currency	Korean won (in thousands)
Assets					
Cash and cash equivalents	USD	3,511,976	₩ 4,100,584	1,148,215	₩ 1,443,881
	JPY	147,369,040	1,861,006	172,037,467	2,398,013
	EUR	124,112	207,798	74,617	132,536
			₩ 6,169,388		₩ 3,974,430
Trade accounts receivable	USD	930,417	₩ 1,086,355	1,223,811	₩ 1,538,942
	JPY	149,809,204	1,891,821	175,143,990	2,441,315
	EUR	224,148	375,287	119,902	212,972
	AUD	—	—	99,763	86,793
	BRL	111,971	75,142	159,886	86,263
	IDR	179,553,600	22,229	303,907,168	34,889
	RUB	9,695,508	373,471	2,126,593	91,188
	PHP	14,761,025	373,897	6,159,437	163,410
	THB	18,372,818	643,416	4,479,391	161,751
	TWD	2,696,110	97,842	2,714,456	104,208
			₩ 4,939,460		₩ 4,921,731
Other accounts receivable	USD	15,548	₩ 18,154	9,925	₩ 12,481
	AUD	—	—	3,600	3,132
			₩ 18,154		₩ 15,613
Short-term loans receivable	USD	500,000	₩ 583,800	—	₩ —
	EUR	200,000	334,856	—	—
			₩ 918,656		₩ —
Long-term loans receivable	USD	—	₩ —	5,000,000	₩ 628,750
	EUR	188,650.00	315,853	188,650	335,084
			₩ 315,853		₩ 963,834
			₩ 12,361,511		₩ 9,875,608
Liabilities					
Accounts payable	USD	654,884	₩ 764,642	661,120	₩ 831,359
	JPY	33,225,516	419,578	25,896,122	360,963
	SGD	7,996	6,646	54,883	48,052
	PHP	—	—	299,582	7,948
	EUR	—	—	1,500	2,664
			₩ 1,190,866		₩ 1,250,986

The Company recognized gain on foreign currency translation of ₩82,328 thousand in 2009 (2008: ₩453,241 thousand) and loss on foreign currency translation of ₩660,694 thousand in 2009 (2008: ₩473,369 thousand) from the above foreign currency denominated assets and liabilities.

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17. Capital Stock

The Company is authorized to issue a total of 40 million shares with a par value of ₩500 per share, in registered form, consisting of common shares and non-voting preferred shares. Of those authorized shares, the Company is authorized to issue up to 2 million non-voting preferred shares.

As of December 31, 2009, the Company had a total of 6,948,900 common shares issued and outstanding. All of the issued and outstanding shares are fully paid and are registered. No non-voting preferred shares were issued or outstanding.

There are no movements in common stock for the years ended December 31, 2009 and 2008.

18. Stock-Based Compensation

The Company may grant options to purchase the Company's shares to the officers and employees who have contributed or are qualified to contribute to the Company's founding, management, overseas business and technical innovation. As of December 31, 2009, the details of the Company's stock options granted to the officers and employees are as follows:

Stocks to be issued by stock options	: Common stock
Grant method	: New issuance of common stock or treasury stock
Number of common shares to be issued upon exercise	: 13,525 shares
Exercise price	: ₩ 45,431 per share
Grant date	: December 24, 2004
Authorization by	: Shareholders

The changes in the stock options in current and prior years were as follows:

<i>(in thousands of Korean won)</i>	2009	2008
Beginning share balance	31,095	69,637
Expiration	(17,570)	(38,542)
Ending share balance	<u>13,525</u>	<u>31,095</u>

During 2009, 13,526 (until 2008: 46,216) out of 271,000 stock options granted to directors and employees on December 24, 2004, expired and the related amount of ₩481,606 thousand (until 2008: ₩1,198,324 thousand) was reclassified to other capital surplus. In 2009, stock options of 4,044 (until 2008: 193,689) were cancelled due to the retirement of the officers and employees. The number of stock options outstanding as of December 31, 2009, is 13,525.

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Stock options can be exercised two years after the date of the stock option grant. The exercisable periods are as follows:

Exercisable period	Exercisable stock options
December 24, 2009 — December 23, 2010	13,525 shares

Compensation costs recognized for the year ended December 31, 2009, and future compensation costs to be recognized related to the above stock options are as follows:

<i>(in thousands of Korean won, except exercise price)</i>	Officer	Employee	Total
Exercise price per share	₩ 55,431	₩ 45,431	
Compensation costs recognized until 2008	₩ 85,551	₩2,006,075	₩2,091,626
Compensation costs recognized in 2009	₩ —	₩ 33,510	₩ 33,510
Accumulated compensation costs recognized until 2009	₩ 85,551	₩2,039,585	₩2,125,136
Future compensation costs	—	—	—
Total compensation costs	<u>₩ 85,551</u>	<u>₩2,039,585</u>	<u>₩2,125,136</u>

The fair value of the options was estimated by using the Black-Scholes option pricing model. Assumptions used to determine compensation costs under the fair value method are as follows:

Expected exercise period (in years)	2.5	3.5	4.5	5.5
Risk-free interest rate	3.43%	3.43%	3.66%	3.66%
Volatility of the underlying stock price	40.3%	53.1%	59.1%	57.7%
Expected dividend rate ¹	0.0%	0.0%	0.0%	0.0%

¹ 0% was assumed due to uncertainty of the dividend plan.

As permitted by the Korean Accounting Standards, the Interpretation No. 39-35, *Accounting for Stock Compensation*, the Company recalculated the compensation costs with the amended assumption, risk-free rate and volatility of the underlying stock price based on the NASDAQ initial public offering in the United States.

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19. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009	2008
Salaries	₩ 6,165,967	₩ 6,326,568
Commissions	3,749,041	3,538,424
Rent (Note 10)	1,007,731	1,645,141
Employee benefits	1,155,477	1,474,827
Research and development expenses (Notes 11 and 12)	1,781,798	1,407,975
Advertising expenses	1,022,868	871,673
Depreciation (Note 8)	732,966	801,951
Amortization (Note 11)	621,968	623,565
Provision for severance benefits (Note 13)	408,170	553,506
Transportation expenses	588,053	399,332
Taxes and dues	299,445	349,137
Insurance premium	223,839	235,503
Stock-based compensation expense (Note 18)	14,885	—
Bad debt expense	359,150	110,305
Miscellaneous	268,191	310,078
	<u>₩18,399,549</u>	<u>₩18,647,985</u>

20. Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009	2008
Salaries	₩14,230,502	₩15,981,198
Provision for severance benefits	1,027,434	1,346,797
Employee benefits	1,733,178	2,206,835
Rent	1,921,892	2,302,749
Depreciation	1,533,173	2,267,624
Amortization	3,606,575	3,761,907
Taxes and dues	592,523	726,718
	<u>₩24,645,277</u>	<u>₩28,593,828</u>

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21. Comprehensive Income

<i>(in thousands of Korean won)</i>	2009	2008
Net income	₩ 3,082,497	₩ 920,940
Other comprehensive income and expense		
Net accumulated comprehensive income of equity method investees	(332,194)	2,179,189
Net accumulated comprehensive expense of equity method investees	(46,370)	258,444
Comprehensive income	<u>₩ 2,703,933</u>	<u>₩ 3,358,573</u>

22. Earnings per Share

The earnings per share represents earnings on one common stock share. The earnings per share calculation is as follows:

	2009	2008
Net income attributable to common stock ¹	<u>₩ 3,082,497 thousand</u>	<u>₩ 920,940 thousand</u>
Weighted average number of common stock outstanding	<u>6,948,900</u>	<u>6,948,900</u>
Basic earnings per share	<u>₩ 444</u>	<u>₩ 133</u>

¹ Calculation for net income attributable to common stock

	2009	2008
Net income	<u>₩ 3,082,497 thousand</u>	<u>₩ 920,940 thousand</u>
Adjustment	<u>—</u>	<u>—</u>
Net income attributable to common stock	<u>₩ 3,082,497 thousand</u>	<u>₩ 920,940 thousand</u>

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23. Supplemental Non-cash Transactions

Significant transactions not affecting cash flows for the years ended December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	2009	2008
Write-off of trade accounts receivables	₩ 119,349	₩ —
Reclassification of stock options to other capital surplus	481,606	601,817
Reclassification of long-term deferred income to accounts payable	876,231	—
Offset long-term deferred income against trade accounts receivables	129,604	—
Reclassification of guarantee deposits to other accounts receivable, net	—	408,945
Reclassification of advances payments to other intangible assets	86,443	170,524
Reclassification of advances payments to software	—	21,300
Reclassification of advances payments to guarantee deposits	—	585,642
Reclassification of advances payments to development costs	—	276,000
Reclassification of long-term loans receivable to short-term loans receivable	627,412	47,778
Reclassification of long-term prepaid expenses to short-term prepaid expenses	135,740	45,117
Reclassification of long-term deferred income to short-term deferred income	1,642,673	1,570,196

24. Related Party Transactions

Details of the parent and subsidiaries as of December 31, 2009, are as follows:

	Entity
Parent company	Gungho Online Entertainment, Inc.
Ultimate parent Company	SOFTBANK CORP.
Subsidiaries	Gravity Interactive, Inc. Gravity Entertainment Corp. Gravity CIS Co., Ltd. Gravity EU SASU Gravity Middle East & Africa FZ-LLC Gravity RUS Co., Ltd. NeoCyon, Inc. L5 Games Inc.

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Significant transactions, which occurred in the ordinary course of business with related companies for the years ended December 31, 2009 and 2008, and the related account balances outstanding as of December 31, 2009 and 2008, are as follows:

<i>(in thousands of Korean won)</i>	Sales		Purchases	
	2009	2008	2009	2008
	₩	₩	₩	₩
Gungho Online Entertainment, Inc.	29,035,925	19,103,039	671,134	410,902
Gravity Interactive, Inc.	1,201,390	761,878	—	—
Gravity Entertainment Corp.	—	29,751	—	—
Gravity CIS Co., Ltd.	409,549	563,667	—	—
Gravity EU SASU	286,828	191,333	—	—
Gravity Middle East & Africa FZ-LLC	—	20,012	—	—
Gravity RUS Co., Ltd.	—	—	—	—
NeoCyon, Inc.	1,709,722	1,450,784	914,000	1,352,885
Total	₩ 32,643,414	₩ 22,120,464	₩ 1,585,134	₩ 1,763,787

<i>(in thousands of Korean won)</i>	Receivables		Payables	
	2009	2008	2009	2008
	₩	₩	₩	₩
Gungho Online Entertainment, Inc.	2,234,275	3,083,310	6,316,258	5,424,670
Gravity Interactive, Inc.	246,953	108,914	96,862	170,942
Gravity Entertainment Corp.	26,597	29,358	618,828	666,475
Gravity CIS Co., Ltd.	1,159,861	904,887	47,237	105,642
Gravity EU SASU	1,045,994	519,448	9,478	32,226
Gravity Middle East & Africa FZ-LLC	—	—	1,820,301	—
Gravity RUS Co., Ltd.	—	—	—	—
NeoCyon, Inc.	1,295,605	847,760	108,881	211,957
Total	₩ 6,009,285	₩ 5,493,677	₩ 9,017,845	₩ 6,611,912

The Company provided bad debt allowances for receivables of ₩430,277 thousand as of December 31, 2009 (2008: ₩55,852 thousand) and recognized bad debts expense of ₩374,425 thousand (2008: ₩38,896 thousand).

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Loans granted by the Company to the related parties for the year ended December 31, 2009, are as follows:

<i>(in thousands of Korean won)</i>	Beginning	Increase	Decrease	Ending
Gravity CIS Co., Ltd.	₩ 628,750	₩ —	₩ 44,950	₩ 583,800
Gravity EU SASU	335,084	360,857	45,232	650,709
Total	₩ 963,834	₩ 360,857	₩ 90,182	₩1,234,509

The allowance for bad debt on the related party loans above was ~~₩~~650,709 thousand as of December 31, 2009 (2008: ~~₩~~0.)

The Company has exclusive contracts with GungHo Online Entertainment, its parent company, to distribute and sell online games in Japan (refer to note 14.).