

GRAVITY Co., Ltd.
Form 20-F
April 20, 2016
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As filed with the Securities and Exchange Commission on April 20, 2016

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, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

or

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-51138

GRAVITY CO., LTD.

(Exact name of registrant as specified in its charter)

N/A
(Translation of registrant's name into English)

The Republic of Korea
(Jurisdiction of incorporation or organization)

15F, 396 World Cup buk-ro, Mapo-gu,
Seoul 121-795, Korea
(Address of principal executive offices)

Heung Gon Kim
Chief Financial Officer
15F, 396 World Cup buk-ro, Mapo-gu,
Seoul 121-795, Korea
Telephone: 82-2-2132-7000
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value Won 500 per share* American depositary shares, each representing two shares of common stock	The NASDAQ Capital Market

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

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

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

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: Shares, par value Won 500: 6,948,900

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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CERTAIN DEFINED TERMS

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

ADRs are to the American depositary receipts that evidence our ADSs;

ADSs are to our American depositary shares, each of which represents two shares of our common stock;

China or the PRC are to the People's Republic of China (excluding, for the purposes of this annual report on Form 20-F, Taiwan, Hong Kong and Macau, unless specifically indicated otherwise);

Chinese Yuan are to the currency of China;

EUR or Euro are to the currency of the Eurozone consisting of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain;

Gravity, the Company, we, us, our, or our company are to Gravity Co., Ltd. and our subsidiaries, otherwise indicated or required by context;

Hong Kong are to the Hong Kong Special Administrative Region of the PRC;

Japanese Yen or JPY are to the currency of Japan;

Korea are to the Republic of Korea;

Macau are to the Macau Special Administrative Region of the PRC;

NT dollar or NT\$ are to the currency of Taiwan;

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

Thai Baht are to the currency of the Kingdom of Thailand;

US\$, U.S. dollar, or Dollar are to the currency of the United States of America; and

Won, Korean Won, or W are to the currency of Korea.

For your convenience, and unless otherwise stated, this Annual Report contains translations of certain Won amounts into U.S. dollars at the noon buying rate in New York City for cable transfers in Korean Won as certified by the Federal Reserve Bank of New York for customs purposes in effect on December 31, 2015, which was Won 1,169.26 to US\$1.00. No assurance is given that any Won or Dollar amounts could have been or may now be converted into Dollars or Won, as the case may be, at such rate, or any other rate, or at all.

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

FORWARD-LOOKING STATEMENTS

This Annual Report for the year ended December 31, 2015 contains forward-looking statements, as defined in Section 27A of the U.S. Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. The forward-looking statements are based on our current expectations, assumptions, estimates and projections about us and our industry, and are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, considering, depends, estimate, expect, in planning, planned, predict, project, continue and variations of these words, similar expressions, or that certain actions or results will, may, might, should, would or could occur, be taken or be achieved.

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

future prices of and demand for our products;

future earnings and cash flow;

estimated development and commercial launch schedule of our games in development;

our ability to attract new customers and retain existing customers;

the expected growth of the Korean and worldwide online gaming industry;

the effect that economic, political or social conditions in Korea have on the revenue generated from our online or mobile game products and our results of operations;

the effect that any global financial crisis or global economic recession will or may have on our business prospects, financial condition and results of operations; and

our future business development and prospects, results of operations and financial condition.

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

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**ITEM 3.A. SELECTED FINANCIAL DATA**

You should read the selected financial data below in conjunction with our audited consolidated financial statements as of December 31, 2014 and 2015 and for the years ended December 31, 2013, 2014 and 2015, and the related notes included elsewhere in this Annual Report. The selected financial data as of December 31, 2014 and 2015 and for the years ended December 31, 2013, 2014 and 2015 are derived from our audited consolidated financial statements and the related notes thereto included elsewhere in this Annual Report. Our historical results do not necessarily indicate results expected for any future periods. Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

	As of and for the Years Ended December 31,					
	2011	2012	2013	2014	2015	2015 ⁽¹⁾
	(In millions of Won and thousands of US\$, except share and per share data, operating data and percentages)					
Statements of operations						
Revenues:						
Online games subscription revenue	₩ 11,556	₩ 10,150	₩ 8,206	₩ 7,962	₩ 6,521	US\$ 5,577
Online games royalties and license fees	35,552	32,325	21,726	13,093	11,010	9,416
Mobile games and applications	6,609	8,262	14,504	15,055	15,078	12,895
Character merchandising, animation and other revenue	3,760	7,044	3,249	3,779	3,051	2,609
Total revenues	57,477	57,781	47,685	39,889	35,660	30,497
Cost of revenues	24,243	34,906	35,399	34,188	30,282	25,898
Gross profit	33,234	22,875	12,286	5,701	5,378	4,599
Operating expenses:						

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Selling, general and administrative	22,759	20,310	17,063	12,682	11,481	9,819
Research and development	4,136	7,018	6,131	4,847	5,277	4,513
Impairment loss on intangible assets	3,697	14,569	5,822	1	5,849	5,002
Gain on disposal of equity method investments		(528)				
Gain on loss of control in a subsidiary	(548)					
Settlement cost of litigation	29					
Operating income (loss)	3,161	(18,494)	(16,730)	(11,829)	(17,229)	(14,735)
Other income, net	1,876	871	2,105	977	1,551	1,327
Income (loss) before income tax expenses (benefit) and equity loss on investments	5,037	(17,623)	(14,625)	(10,852)	(15,678)	(13,408)
Income tax expenses (benefit)	(7,962)	2,584	5,108	10,147	1,351	1,155
Income (loss) before equity loss on investments	12,999	(20,207)	(19,733)	(20,999)	(17,029)	(14,563)
Equity loss on investments, net	(242)	(333)	(18)			
Net income (loss)	12,757	(20,540)	(19,751)	(20,999)	(17,029)	(14,563)
Net income (loss) attributable to:						
Non-controlling interest	(2,171)	(8,316)	(1,163)	(92)	(64)	(55)
Parent company	₩ 14,928	₩ (12,224)	₩ (18,588)	₩ (20,907)	₩ (16,965)	US\$ (14,508)

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As of and for the Years Ended December 31,
(In millions of Won and thousands of US\$, except share and
per share data, operating data and percentages)

	2011	2012	2013	2014	2015	2015 ⁽¹⁾
Earnings (loss) per share:						
Basic and diluted per share	₩ 2,148	₩ (1,759)	₩ (2,675)	₩ (3,009)	₩ (2,441)	US\$ (2.09)
Basic and diluted per ADS ⁽²⁾	4,296	(3,518)	(5,350)	(6,018)	(4,882)	(4.18)
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
Other comprehensive income (loss)						
Foreign currency translation adjustment	(510)	(41)	(1,327)	(153)	(827)	(707)
Comprehensive income (loss)	12,247	(20,581)	(21,078)	(21,152)	(17,856)	(15,270)
Comprehensive income (loss) attributable to:						
Non-controlling interest	(2,171)	(8,316)	(1,163)	(92)	(64)	(55)
Parent company	₩ 14,418	₩ (12,265)	₩ (19,915)	₩ (21,060)	₩ (17,792)	US\$ (15,215)
Balance sheet data:						
Cash and cash equivalents	₩ 42,430	₩ 36,455	₩ 31,222	₩ 28,382	₩ 24,909	US\$ 21,303
Total current assets	71,833	67,929	58,651	50,692	43,676	37,353
Property and equipment, net	2,731	3,524	2,315	1,213	882	754
Total assets	132,878	110,555	87,765	63,096	45,729	39,110
Total current liabilities	12,062	10,375	11,400	9,651	8,804	7,530
Total liabilities	22,219	20,477	18,765	15,248	15,737	13,460
Total parent company shareholders	101,834	89,569	69,335	48,275	30,483	26,071

equity						
Non-controlling interest	8,825	509	(335)	(427)	(491)	(421)
Total equity	110,659	90,078	69,000	47,848	29,992	25,650
Selected operating data and financial ratios (unaudited):						
Gross profit margin ⁽³⁾	57.8%	39.6%	25.8%	14.3%	15.1%	15.1%
Operating profit (loss) margin ⁽⁴⁾	5.5%	(32.0)%	(35.1)%	(29.7)%	(48.3)%	(48.3)%
Net profit (loss) margin ⁽⁵⁾	26.0%	(21.2)%	(39.0)%	(52.4)%	(47.6)%	(47.6)%

Notes:

- (1) For convenience only, the Won amounts are expressed in U.S. dollars at the rate of Won 1,169.26 to US\$1.00, the noon buying rate in effect on December 31, 2015 as certified by the Federal Reserve Bank of New York for customs purposes.
- (2) Each ADS represents two shares of our common stock. On May 11, 2015, we effected a change of our ADS to common shares ratio from four ADSs to one common share (4:1) to one ADS to two common shares (1:2), which had the effect of a 1-for-8 reverse split of our ADSs. For ease of comparison purposes, the earnings per ADS values before such ratio change on May 11, 2015 have been retroactively adjusted to reflect this ratio change.
- (3) Gross profit margin for each period is calculated by dividing gross profit by total net revenues for each period.
- (4) Operating profit (loss) margin for each period is calculated by dividing operating income (loss) by total net revenues for each period.
- (5) Net profit margin (loss) for each period is calculated by dividing net income (loss) attributable to parent company by total net revenues for each period.

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The following table sets forth information concerning the noon buying rate as certified by the Federal Reserve Bank of New York for customs purposes for the years 2011 through 2015 and for each month and period indicated, expressed in Won per U.S. dollar.

Period	At End of Period	Average Rate⁽¹⁾	High	Low
2011	1,158.5	1,105.2	1,197.5	1,049.2
2012	1,063.2	1,119.6	1,185.0	1,063.2
2013	1,055.3	1,094.6	1,161.3	1,050.1
2014	1,090.9	1,054.0	1,117.7	1,008.9
2015	1,169.3	1,133.7	1,196.4	1,063.0
October	1,140.5	1,143.2	1,180.0	1,120.9
November	1,149.4	1,153.5	1,172.7	1,136.5
December	1,169.3	1,169.9	1,188.0	1,140.7
2016				
January	1,210.0	1,203.3	1,217.0	1,190.4
February	1,238.1	1,216.2	1,242.6	1,186.1
March	1,138.9	1,181.6	1,229.6	1,138.9
April (through April 8)	1,148.9	1,153.0	1,158.4	1,147.2

Note:

- (1) The average rates for the annual periods were calculated based on the average noon buying rate on the last business day of each month during the period. The average rates for the monthly periods (or portion thereof) were calculated based on the average noon buying rate of each business day of the month (or portion thereof).

ITEM 3.B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

ITEM 3.C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

**ITEM 3.D. RISK FACTORS
RISKS RELATING TO OUR BUSINESS**

We currently depend on one online game product, Ragnarok Online, for a significant portion of our revenues.

A significant portion of our revenues has been and is currently derived from a single online game product, Ragnarok Online, which was commercially introduced in August 2002 and is currently commercially offered in 81 countries and markets. We derived Won 14,803 million (US\$12,660 thousand) in revenues from Ragnarok Online in 2015 and Won 15,985 million in revenues from Ragnarok Online in 2014, representing approximately 41.5% and 40.1% of our total revenues in 2015 and 2014, respectively.

Ragnarok Online has been on the market for fourteen years and has reached maturity in most of our principal markets. The life cycle of an online game generally lasts between four and seven years, and online games typically reach their peak popularity within the first two years following their introduction, after which time the game's usage gradually stabilizes and begins to decline over time. The number of users of Ragnarok Online worldwide reached its peak in the first quarter of 2005 and has declined since such time. Our failure to maintain, improve, update or enhance Ragnarok Online in a timely manner or successfully introduce it in new markets is likely to lead to a continual decline in Ragnarok Online's user base and subscription revenues and royalties. This will likely lead to a decline in our overall revenues, which would materially and adversely affect our business, financial condition and results of operations.

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If we are unable to consistently and timely develop, acquire, license, launch, market or operate commercially successful online and mobile games in addition to Ragnarok Online, our business, financial condition and results of operations may be materially and adversely affected.

In order to grow our revenues and net income, we must retain our existing users and attract new users by developing, acquiring, licensing, launching, marketing or operating other commercially successful online and mobile games in addition to Ragnarok Online. In addition to Ragnarok Online, we currently offer four other online games: Ragnarok Online II, Requiem, R.O.S.E. Online and Dragonica, which is also known as Dragon Saga in the United States, Canada and South America except for Brazil. We also offer mobile games which are played using mobile devices and smartphones, including Google Android compatible phones, the Apple iPhone, other feature phones, and tablet computers. In January 2015, we entered into a development agreement with Shanghai The Dream Network Technology Co., Ltd., or Dream Square, to develop and distribute two mobile games in China based on the contents of Ragnarok Online. This agreement was amended in March 2016 to grant Dream Square an exclusive right to develop mobile and web games based on the contents of Ragnarok Online and distribute such games in China for five years from March 25, 2016.

None of our other online games to date has proven to be as commercially successful as Ragnarok Online, and none of our mobile games to date has achieved comparable commercial success. We stopped offering Steal Fighter and H.A.V.E. Online in February and March of 2014, respectively, after neither game achieved wide-spread popularity. Further, the limited market acceptance of Ragnarok Online II has resulted in financial losses, including the recognition of an impairment loss on intangible assets of Won 4,605 million in 2015, and the termination or amendment of license agreements with our licensees. Since April 2014, there have been terminations of various license agreements for service of Ragnarok Online II in the Philippines, Brazil, Singapore, Malaysia, Thailand, Vietnam, Japan and Indonesia. As part of the termination of the Ragnarok Online II license agreement in Japan with GungHo, US\$5,000 thousand in initial payments received from GungHo will be refunded in four equal payments by the end of December 2017.

Although service of Ragnarok Online II in those jurisdictions will continue to be offered by our subsidiary, Gravity Interactive Inc., our termination of agreements with local licensees could adversely affect our revenues from Ragnarok Online II.

A game's commercial success largely depends on appealing to the tastes and preferences of a critical mass of users as well as the willingness of such users to purchase the game and/or in-game items, and to continue as paying subscribers, all of which are difficult to predict prior to a game's development and introduction. Developing games requires substantial development costs, including the costs of employing skilled developers and acquiring or developing game engines which enable the creation of games with the latest technological features. For us to succeed, we must acquire, license or develop promising games at acceptable costs and ensure technical support for the successful operation of such games. The online and mobile gaming industries are highly competitive, and we may not be able to acquire, license or develop promising games at acceptable costs. In order to successfully distribute and operate a game, we also need a sizable game management and support staff, continued investment in technology and a substantial marketing budget. We cannot assure you that the games we develop or publish will be attractive to users or otherwise be commercially successful, launched as scheduled or able to successfully compete with games operated by our competitors. If we are not able to consistently develop, acquire, license, launch, market or operate commercially successful games, we may not be able to generate enough revenues to offset our initial development, acquisition, licensing or marketing costs, and our business, financial condition and results of operation may be materially and adversely affected.

We depend on our overseas licensees for a substantial portion of our revenues and rely on them to distribute, market and operate our games, and comply with applicable laws and government regulations.

In markets other than Korea, the United States, Canada and certain other countries in which we or our subsidiaries directly publish our games, we license our games to overseas operators or distributors for

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license fees and royalty payments based on a percentage of revenues generated from our games in such markets. Overseas license fees and royalty payments represented 30.9% of our total revenues in 2015 and 32.7% of our total revenues in 2014. In particular, we are heavily dependent on one licensee for a significant portion of our revenues. In 2015, 26.5% of our total revenues was derived from GungHo Online Entertainment, Inc., or GungHo, our licensee in Japan and our majority shareholder. Deterioration of our relationships with material licensees or material adverse changes in the terms of our licenses with such licensees will likely have a material adverse effect on our business, prospects, financial condition and results of operations. In addition, as we are heavily dependent on certain licensees, deterioration or any adverse developments in the operations, including changes in senior management, of our overseas licensees may materially and adversely affect our business, financial condition and results of operations.

Further, our overseas licensees generally have the exclusive right to distribute our games in their respective markets for a term of two or three years and may also operate or publish other online and mobile games developed or offered by our competitors, and we may not be able to easily terminate the license agreements as the agreements do not specify particular financial or performance criteria that need to be met by our licensees. If our overseas licensees devote greater time and resources to marketing their proprietary games or those of our competitors, we may not be able to terminate our license agreements or enter into a new license agreement with a different licensee, and our revenues and net profit may be adversely impacted. Also, a failure to satisfy our obligation to provide technical and other consulting services to the licensees under the license agreements may negatively affect user satisfaction and loyalty and hinder our licensees' efforts to increase market share, which may lead the licensees to focus their attention on our competitors' games or request modifications to or terminate our licensing agreements and/or not renew expired license agreements.

Our overseas licensees are responsible for remitting royalty payments to us based on a percentage of sales from our games after deducting certain expenses. Some licensees may be allowed to deduct certain expenses before calculating royalty payments depending on the terms of the applicable contracts. Failure by our licensees to maintain a stable and efficient billing, recording, distribution and payment collection network in their respective markets may result in inaccurate recording of sales or insufficient collection of payments from such markets and may materially and adversely affect our financial condition and results of operations. Although we have audit rights pursuant to our license agreements to ensure that proper payment amounts are being recorded and remitted, such activities can be disruptive and time consuming and as a result, we do not exercise such rights on a regular basis. Although we have taken a number of steps to improve our internal controls and compliance procedures to prevent inaccurate reporting and illicit diversion of payments, we cannot ensure that such incidents will not occur. Any future occurrence of such incidents may materially and adversely affect our business, financial condition and results of operations.

In addition, disruptions in the political environments in which our licensees operate may have a negative impact on the business of our licensees and in turn materially and adversely affect our results of operations and financial condition.

Furthermore, our overseas licensees are responsible for complying with local laws, including obtaining and maintaining the requisite government licenses and permits. Failure by our overseas licensees to do so may result in, among others, a suspension of service of our games in such market which may result in user complaints and a decrease in the use of our games which would likely have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive industry and compete against many large companies.

Increased competition in the online and mobile gaming industry from existing and potential competitors could make it difficult for us to retain existing users and attract new users, and could reduce the number of hours users spend playing our current or future games or cause us and our licensees to reduce the fees charged to play our current or future

games. In some of our principal markets, such as

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Korea, Japan and Taiwan, growth of the market for online games has continued to be slow while competition remains strong. We expect more companies to enter the online and mobile game industries and a wider range of online and mobile games to be introduced in our current and future markets. If we are unable to compete effectively in our principal markets, our business, financial condition and results of operations could be materially and adversely affected.

Our competitors in the online and mobile game industries vary in size from small companies to very large companies with dominant market shares. Many of our competitors have significantly greater financial, marketing and game development resources than we have. As a result, we may not be able to devote adequate resources to develop, acquire or license new games, undertake extensive marketing campaigns, adopt aggressive pricing policies or adequately compensate our game developers or third-party game developers to the same degree as many of our competitors do.

As the online and mobile game industries are characterized by rapid technological changes, especially in the technical capabilities of devices for mobile games, and changing interests and preferences of users, continuous investment is required to develop and publish new games. Also, as the online and mobile game industries in many of our markets are rapidly evolving, our current or future competitors may adapt to the changing competitive landscape and market conditions and compete more successfully than us. In particular, online and mobile game products are becoming more similar to each other, thus becoming commoditized and undifferentiated. In this environment, larger companies with relative economies of scale have a clear advantage over smaller companies like us, as they are able to develop games in a more cost efficient manner, diversify their risks with a broader category of games and genres and increase their chances of offering widely popular games. In addition, any of our competitors may offer products and services that have significant performance, price, creativity or other advantages over those offered by us. These products and services may weaken the market strength of our brand name and achieve greater market acceptance than ours. In addition, any of our current or future competitors may be acquired by, receive investments from or enter into strategic relationships with larger, better established and better financed companies and therefore may be able to obtain significantly greater financial, marketing and game licensing and development resources than we can. See ITEM 4.B. BUSINESS OVERVIEW COMPETITION.

Our investments in joint ventures or partnerships, or acquisitions of other companies, related to development or service of online and mobile games may not be successful.

Since 2004, we have made investments in joint ventures and entered into partnership arrangements with third parties to invest in online games. In many cases, the success of such joint ventures and partnership arrangements is heavily dependent on third parties and their investment decisions because we do not have significant voting or other control over such entities.

In October 2010, we acquired an aggregate of 50.83% of the total shares of Barunson Interactive Corporation, subsequently named Gravity Games Corporation, or Gravity Games, an online game developer in Korea, and increased our ownership in Gravity Games to 85.5% in August 2013. For details of impairment loss from Gravity Games, see ITEM 3.D. RISK FACTORS RISKS RELATING TO OUR BUSINESS We could suffer losses due to asset impairment charges. Gravity EU SASU, our former wholly-owned subsidiary in France, was converted into a joint venture company in which we had a 25% equity interest, Gravity EU SAS, with Media-Participations Paris SA as the joint venture partner, in July 2011. In November 2014, we sold our 25% equity interest in Gravity EU SAS to Dargaud SA.

If our partners or the joint ventures and partnerships in which we and our partners have invested or companies acquired by us are unable to manage their investments, develop promising online and/or mobile games or market or operate commercially successful online and/or mobile games, such joint ventures and partnerships or companies will

be unable to attain their investment, development or other business objectives, which may materially and adversely affect the value of our investments and commitments and which may have a material adverse effect on our business, financial condition and results of operations.

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If we fail to hire and retain skilled and experienced game developers or other key personnel to design and develop new online and mobile games and additional game features, we may be unable to achieve our business objectives.

In order to meet our business objectives and maintain our competitiveness, we need to attract and retain qualified employees, including skilled and experienced online and mobile game developers. We compete to attract and retain key personnel with other companies in the online and mobile game industries as well as in the broader entertainment, media and Internet industries, many of which offer superior compensation arrangements and career opportunities. In addition, our ability to train and integrate new employees into our operations may not meet the changing demands of our business. We cannot assure you that we will be able to attract and retain qualified game developers or other key personnel and successfully train and integrate them to achieve our business objectives, which could materially harm our business prospects.

Undetected programming errors or flaws in our games could harm our reputation or decrease market acceptance of our games, which would materially and adversely affect our business prospects, reputation, financial condition and results of operations.

Our current and future games may contain programming errors or flaws which may become apparent only after their release. In addition, our online and mobile games are developed using programs and engines developed by and licensed from third party vendors, which may include programming errors or flaws over which we have little or no control. If our users have negative experiences with our games related to or caused by undetected programming errors or flaws, they may be less inclined to use our games or recommend our games to other potential users.

While we have not experienced any material disruptions to our business from such errors or flaws in our games or in the programs and engines that we use to develop our games, these risks are inherent to our industry and, if realized, could severely harm our reputation, cause our users to cease playing our games, divert our resources or delay market acceptance of our games, any of which could materially and adversely affect our business, financial condition and results of operations.

Unexpected network interruptions, security breaches or computer virus attacks could harm our business and reputation.

Failure to maintain satisfactory performance, reliability, security and availability of our network infrastructure, whether maintained by us or by our licensees, may cause significant harm to our reputation and negatively impact our ability to attract and maintain users. Major risks relating to our network infrastructure include:

any breakdowns or system failures, including from fire, flood, earthquake, hurricane or other natural disasters, power loss or telecommunications failure, resulting in a sustained shutdown of all or a material portion of our servers;

any disruption or failure in the national or international backbone telecommunications network, which would prevent users in certain countries in which our games are distributed from logging onto or playing our games for which the game servers are located in such countries; and

any security breach caused by hacking, loss or corruption of data or malfunctions of software, hardware or other computer equipment, and the inadvertent transmission of computer viruses.

Hacking involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment. Hackers, if successful, could misappropriate proprietary information or cause disruptions in our service. We may have to spend significant capital and human resources to fix any damage to our system. In addition, we cannot ensure that any measures we take against hacking will be effective. A well-publicized computer security breach could significantly damage our reputation and materially and adversely affect our business.

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We have been subject to denial of service attacks that have caused portions of our network to be inaccessible for limited periods of time but did not cause material losses or damages. Although we take a number of measures to ensure that our systems are secure and unaffected by security breaches, including ensuring that our servers are hosted at physically secure sites, real-time monitoring against possible intrusion and saving all logs, preventing any unauthorized access to servers, and using firewalls, server virtualization technology, which allows one physical server to be divided into multiple virtual servers, each of which functions individually as a complete and independent server, and encryption technology, we cannot ensure that the measures we have implemented will be effective against all hacking efforts.

In addition, computer viruses may cause delays or other service interruptions on our systems and expose us to a material risk of loss or litigation and possible liability. We may be required to expend significant capital and other resources to protect our Web sites against the threat of such computer viruses and to address and resolve any problems resulting from such viruses. Moreover, if a computer virus affecting our system is highly publicized, our reputation could be materially damaged and our visitor traffic may decrease.

Any of the foregoing factors could reduce our users' satisfaction, harm our business and reputation and have a material adverse effect on our business, financial condition and results of operations.

Failure to protect personal information could adversely affect our business, reputation and results of operations.

We collect, process, store and transmit personal information of game users worldwide for our global game service. Our business may be subject to a number of federal, state, local and foreign laws and regulations governing data privacy and security, including with respect to the collection, processing, storage, use, transmission and protection of personal information and other consumer data on the Internet and mobile platforms, the scope of which are continually changing and subject to differing interpretations, and which may be inconsistent among countries or otherwise in conflict with other laws or regulations. Although we strive to comply with all applicable laws, policies, legal obligations and certain industry codes of conduct relating to privacy and data protection to the extent reasonably attainable, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other laws or regulations or our practices. Also, while we have developed systems and processes that are designed to protect user information, the failure to prevent or mitigate the loss of personal information data or other game user data, including as a result of breaches of our vendors' technologies and systems, could expose us or our game users to a risk of loss or misuse of such information. Any such failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to players or other third parties, or our privacy-related legal obligations, including without limitation any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other player data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our players to lose trust in us, which may have an adverse effect on our business, reputation and results of operations. See ITEM 4.B. BUSINESS OVERVIEW LAWS AND REGULATIONS for a detailed discussion regarding Korean, U.S. and Japanese laws that may materially impact our operations.

Electronic embezzlement could negatively impact the popularity of our online and mobile games and adversely affect our reputation and results of operations.

Despite security measures, some of our employees or licensees' employees with high-level security access to our network, or other employees or persons who hack into or otherwise gain unauthorized access to certain sectors of our network, may succeed in breaching internal security systems and engage in electronic embezzlement by creating or diverting game money used in our online and mobile games and publicly or privately selling the game money for their financial benefit. Although we have internal security procedures in place designed to prevent electronic embezzlement

and have not had any incident of electronic embezzlement since early 2006, we cannot assure you that we or our overseas licensees will

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be successful in preventing all electronic embezzlement. We have taken a number of procedures to prevent electronic embezzlement, including installing security programs designed to prevent counterfeiting and modification of program files, but cannot assure you such procedures will be sufficient to prevent new methods to engage in electronic embezzlement. Incidents of electronic embezzlement may negatively impact the reputation of our games, which may materially and adversely affect our business, financial condition and results of operations.

Cheating by users of online and mobile games could negatively impact the popularity of our online and mobile games and adversely affect our reputation and results of operations.

We have experienced numerous incidents where users were able to modify the published rules of our online and mobile games. Although these users did not gain unauthorized access to our systems, they were able to modify the rules of our online and mobile games during game play in a manner that allowed them to cheat and disadvantage other online game users. For example, utilizing auto-run programs that enabled the games to be continuously and automatically played without user participation, users have accumulated in-game points quickly, causing many other players to stop using the game and shortening the game's life cycle. For mobile games, some users have purchased game money or in-game items through cloned mobile phones and sold such illegally obtained property to other users, which resulted in a shortfall between total sales and our actual revenues. Such unauthorized manipulation of our games may negatively impact users' perception of our games and damage our reputation as well as our results of operations. Although we have taken a number of measures to deter our users from cheating when playing our games, including spot checks and monitoring of game play by game masters and system operators to check for suspicious activity, and encrypting packets, we cannot assure you that we or our licensees will be successful in timely taking the corrective measures necessary to prevent users from modifying the terms of our games.

Unauthorized use of our intellectual property rights by third parties and the expenses incurred in protecting our intellectual property rights may adversely affect our business.

Our intellectual property rights such as copyrights, service marks, trademarks and trade secrets are critical to our business. Unauthorized use of the intellectual property rights used in our business, whether owned by us or licensed to us, may materially and adversely affect our business and reputation. We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite certain precautions taken by us, it may be possible for third parties to obtain and use our intellectual property without authorization.

Since the commercialization of Ragnarok Online in August 2002, we have discovered that the server-end software of Ragnarok Online has been unlawfully released on a consistent basis in most of the countries and markets in which Ragnarok Online has been offered. This enables unauthorized parties to set up local server networks to operate Ragnarok Online, which may result in the diversion of a significant number of paying users. We designate certain employees to be responsible for detecting such illegal servers. In Korea, we report offenders to the relevant enforcement authority for possible prosecution relating to crimes on the Internet. In markets outside of Korea, we cooperate with and rely on our licensees to seek enforcement actions against operators of illegal servers. For example, in Japan, we submitted a preliminary written accusation to the Tokyo Metropolitan Police Department in October 2009 and filed criminal charges against an illegal server operator of Ragnarok Online in April 2011 in cooperation with GungHo, our licensee in Japan. The case file was transferred to the Nagano District Public Prosecutor's Office in December 2014 and the defendant was summarily indicted for copyright violation with fine of Japanese Yen 300,000 in September 2015. In December 2007 and June 2008, Gravity Interactive, Inc., our wholly owned subsidiary in the United States which manages Ragnarok Online game operations in the United States, petitioned the Federal Bureau of Investigation for remission or mitigation of forfeiture of the property of two illegal server operators of Ragnarok Online, which property was deemed proceeds of copyright infringement violations by the illegal server operators, and

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US\$154,674.73 was returned to Gravity Interactive, Inc. in April 2011. We may incur considerable costs in the future in order to remedy software piracy of our server software and to enforce our rights against the operators of unauthorized server networks.

The validity, enforceability, enforcement mechanisms and scope of protection of intellectual property in Internet-related industries are uncertain and evolving. In particular, the laws and enforcement regimes of Korea, Japan, Thailand and certain other countries in which our games are distributed are uncertain or may not protect intellectual property rights to the same extent as do the laws and enforcement procedures of the United States. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Such litigation could result in substantial costs and diversion of our resources, disruption of our business, and have a material adverse effect on our business, prospects, financial condition and results of operations.

We may be subject to claims with respect to the infringement of intellectual property rights of others, which could result in substantial costs and diversion of our financial and management resources.

We cannot be certain that our online and mobile games do not or will not infringe upon patents, copyrights or other intellectual property rights held by third parties. We have in the past been and may in the future become subject to legal proceedings and claims from time to time relating to the intellectual property of others. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property rights, be required to pay penalties and fines and pay for the unauthorized use of such intellectual property and may need to incur additional license fees or be forced to develop alternative technology or obtain other licenses. We may incur substantial expenses in defending against these third party infringement claims, regardless of their merit. In addition, certain of our employees were recruited from other online and mobile game developers, including current and potential competitors. To the extent these employees have been and are involved in the development of our games that are similar to the games they helped develop at their former employers, we may become subject to claims that we or such employees have improperly used or disclosed trade secrets or other proprietary information. Although we are not aware of any pending or threatened claims of this type, if any such claims were to arise in the future, litigation or other dispute resolution procedures might be necessary to retain our ability to offer our current and future games, which could result in substantial costs and diversion of our financial and management resources.

Successful infringement or licensing claims against us may result in substantial monetary damages, which may materially disrupt our business operations and have a material adverse effect on our reputation, business, financial condition and results of operations.

We may not be able to successfully implement our growth and profit improvement strategies.

We are pursuing a number of growth and profit improvement strategies, including the following:

distributing games developed in-house;

IP licensing to or from third parties for game development;

publishing games acquired from or developed by third parties through licensing arrangements;

offering our games in countries where we currently have little or no presence;

optimizing our marketing and research and development expenditures;

cross-selling our popular online games through other lines of businesses, such as mobile games, console games, animation and character merchandising; and

pursuing joint ventures with game development and service companies.

We cannot assure you that we will be successful in implementing any of these strategies. Certain of our strategies relate to new services or products for which there are no established markets, or in which we lack experience and expertise. If we are unable to successfully implement our growth and profit improvement strategies, our revenues, profitability and competitiveness may be materially and adversely affected.

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We have limited business insurance coverage, and business interruption could have a material adverse effect on our business.

While we carry insurance coverage against certain risks to our property and assets, such as fire, flood and earthquake, as well as directors and officers liability insurance, we do not separately maintain casualty and liability insurance against litigation, risks or disruptions related to our business. The occurrence of any natural disaster, fire, power loss, telecommunications failure, break-ins, sabotage, computer viruses, intentional acts of Internet vandalism, human error or other similar events may damage our facilities or network servers and disrupt the operation of our business. As we do not carry sufficient natural disaster or business interruption insurance to compensate us for all types or amounts of loss that could arise, any damage or disruption from such events might result in our incurring substantial costs and the diversion of our resources, and have a material adverse effect on our business, financial condition and results of operations. See ITEM 4.B. BUSINESS OVERVIEW INSURANCE.

As we introduce new games, we face the risk that a significant number of users of our existing games may migrate to our new games.

We expect that as we introduce new games, a certain number of our existing users may migrate from our existing games to the new games, which may lead to a decrease in the player base of our existing games and in turn make those existing games less playable to other game players, resulting in decreased revenues from our existing games. Players of our existing games may also spend less money to purchase in-game items in our new games than they would have spent if they had continued playing our existing games. In addition, our game players may migrate from our existing games with a higher profit margin to new games with a lower profit margin. If any of the foregoing occurs, our revenues and profitability are likely to be materially and adversely affected.

We may be required to take significant actions that are contrary to our business objectives in order to avoid being deemed an investment company as defined under the Investment Company Act of 1940, as amended.

Section 3(b)(1) of the Investment Company Act of 1940, or the Investment Company Act, provides that a company is not an investment company and, therefore, not required to register under the Investment Company Act as an investment company, if the company is primarily engaged, directly or through a wholly-owned subsidiary or subsidiaries, in a business or businesses other than that of investing, reinvesting or trading in securities (a Non-Investment Business). There are several bases on which a company can rely in determining that it is a Non-Investment Business.

Under one set of criteria, the factors to be considered in determining that a company is a Non-Investment Business are: (i) the history of the company; (ii) the manner in which the company represents itself to the investing public; (iii) the activities of its officers and directors; (iv) the nature of its current assets; and (v) the sources of its current income. Based on those factors, we believe that we are engaged primarily and directly in the business of providing online game services, and consequently, that we are a Non-Investment Business, and not an investment company as that term is defined under the Investment Company Act.

However, the determination as to whether a company satisfies the foregoing criteria is fact sensitive and subjective. Accordingly, it is possible that our determination could be challenged by the U.S. Securities and Exchange Commission (the SEC), particularly if at any time we own investment securities (as defined in the Investment Company Act) having a value in excess of 40% of our total assets (exclusive of cash items and U.S. government securities). We do not currently own investment securities in excess of this threshold. Nonetheless, if this were to become the case, we could be required to take actions to reduce our ownership of investment securities to comply with this standard, such as shifting a portion of our short-term investment portfolio into low-yielding bank deposits. If

necessary, such actions would likely reduce the amount of interest or other income that we could otherwise generate from our investments. In addition, we might need to acquire additional income or loss generating assets that we might not otherwise have acquired or forego opportunities to acquire minority interests in companies that could be important to our business strategy.

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Alternatively, we could consider other actions, including applying to the SEC for an exemptive order pursuant to Section 3(b)(2) of the Investment Company Act, declaring that we are a company that is primarily engaged in a business or businesses other than that of investing, reinvesting, owning, holding, or trading in securities, without regard to the composition of our assets at any particular time. However, there can be no assurance that we would receive an exemptive order and the process to obtain such an exemptive order could be long and expensive.

The Investment Company Act contains numerous, complex requirements with respect to the organization and operations of investment companies, including restrictions on their capital structure, operations, and transactions with affiliates, as well as restrictions on the composition of the board of directors and other matters which would be incompatible with our business. Also, if we were to be deemed an investment company in the future, we would effectively be precluded from making public offerings of securities in the United States. In addition to disciplinary actions, such as SEC enforcement actions seeking monetary damages, we could also be subject to administrative or legal proceedings and any contracts to which we are a party that violate the Investment Company Act or the rules thereunder might be rendered unenforceable or subject to rescission.

Our status as a passive foreign investment company (PFIC) in 2015 and potentially other years could result in adverse U.S. tax consequences for you.

In light of the nature of our business activities and our holding of a significant amount of cash, short-term investments, and other passive assets, we believe that we were a PFIC during our 2008 through 2015 taxable years, and there is a significant risk that we will continue to be a PFIC during our 2016 taxable year. If we are a PFIC for any taxable year during which you hold our ADSs or common shares, you could be subject to adverse U.S. federal income tax consequences. You are urged to consult your tax advisors concerning the U.S. federal income tax consequences of holding our ADSs or common shares if we are considered a PFIC in any taxable year. See ITEM 10.E. TAXATION MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS PFICs.

If we fail to achieve and maintain an effective system of internal controls over financial reporting, we may be unable to accurately report our financial results or do so on a timely basis and our ability to prevent or detect fraud may be reduced and investor confidence and the market price of our ADSs may be adversely affected.

We are subject to Section 404 of the Sarbanes-Oxley Act of 2002, which requires us to, among other things, maintain an effective system of internal controls over financial reporting, and requires our management to provide a certification on the effectiveness of our internal controls on an annual basis.

Although we have determined that our internal controls over financial reporting were effective for the year ended December 31, 2015, we may in the future determine that we have a material weakness in our internal controls over financial reporting. Our registered public accounting firm is not required to and has not audited our internal controls over financial reporting. If we fail to maintain an effective system of internal controls over financial reporting, we may be unable to accurately report our financial results in a timely manner or prevent errors or fraud. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to loss of investor confidence in the reliability of our consolidated financial statements and could result in investigations or sanctions by the SEC, NASDAQ, or other regulatory authorities or in stockholder litigation. Any of these factors could ultimately harm our business and could adversely impact the market price of our ADSs. See ITEM 15. CONTROLS AND PROCEDURES.

Rapid technological developments and changes in market environment may limit our ability to recover game development or licensing costs and adversely affect our financial condition and results of operations due to impairment loss.

The online and mobile game industries are subject to rapid technological developments and changes in market environment, which could render our online and mobile games under development and

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commercialized games obsolete or unattractive to users. Any resulting failure to recover capitalized development or licensing costs and the recognition of impairment loss for such costs may materially and adversely affect our financial condition and results of operations. For example, in 2015, we recognized an impairment loss on intangible assets for capitalized research and development costs of Won 4,605 million for Ragnarok Online II and have recognized other similar impairment losses over the last several years.

We could suffer losses due to asset impairment charges.

We held a total of Won 23 million in acquired intangible assets at December 31, 2015. See Note 9 to our consolidated financial statements included in this Annual Report. We test goodwill and indefinite-lived intangible assets at least annually for impairment, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of these assets below their carrying amount. Such an event would include unfavorable variances from established business plans, significant changes in forecasted results or volatility inherent to external markets and industries, which are periodically reviewed by our management. If such an adverse event occurs and has the effect of changing one of the critical assumptions or estimates related to the fair value of our intangible assets or goodwill, an impairment charge could result. For example, in 2015, we recognized impairment losses on goodwill of Won 1,210 million in the reporting unit NeoCyon, Inc., or NeoCyon, due to the overall decline in the fair value of NeoCyon and have recognized other similar impairment losses over the last several years.

There can be no assurance that future reviews of our goodwill and other intangible assets will not result in impairment charges. Although it does not affect cash flow, an impairment charge does have the effect of decreasing our earnings, assets and shareholders' equity.

RISKS RELATING TO OUR COMPANY STRUCTURE***GungHo, the publisher of our games in Japan, our largest market in terms of revenues, is our majority shareholder, which gives them control of our board of directors.***

Since April 1, 2008, GungHo has been our largest shareholder and beneficially owns, as of the date hereof, 59.3% of our common shares. As a result, GungHo is able to exert significant control over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions, including acquisitions, divestitures, strategic relationships and other matters, and may also exert significant control over decisions related to the status of our ADSs being eligible for quotation and trading on the NASDAQ Capital Market. In addition, as GungHo is also an online and mobile game developer, there may be conflicts of interest. For instance, GungHo may lead our management with strategies and efforts which benefit itself, its affiliates and their respective shareholders to the detriment of our other shareholders. GungHo may also compete directly or indirectly against us for users and customers or increased market share for its games. Furthermore, four of our registered Executive Directors, Mr. Hyun Chul Park, Mr. Yoshinori Kitamura, Mr. Kazuki Morishita and Mr. Kazuya Sakai currently serve as General Manager, Director and Executive General Manager, President and Chief Executive Officer, and Chief Financial Officer and Director, respectively, of GungHo, and there may be conflicts of interest in the decisions made by our Board of Directors and senior management. See ITEM 7.B. RELATED PARTY TRANSACTIONS Relationship with GungHo Online Entertainment, Inc.

We are a controlled company within the meaning of the NASDAQ Stock Market Rules and may rely on exemptions from certain corporate governance requirements.

As GungHo controls 59.3% of our outstanding voting power as of the date hereof, we are a controlled company within the meaning of the NASDAQ Stock Market Rules and may rely on exemptions from certain corporate governance

requirements. As a controlled company, we are not required to have a majority of our board of directors be independent, nor are we required to have a compensation committee or independent director oversight of director nominations which meet the requirements set forth in the NASDAQ Stock Market Rules. We are relying on these exemptions as a

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controlled company. Accordingly, our shareholders do not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the NASDAQ Stock Market Rules. For our corporate governance policies, see ITEM 6.C. BOARD PRACTICES CORPORATE GOVERNANCE PRACTICES.

RISKS RELATING TO OUR REGULATORY ENVIRONMENT

Our online and mobile operations and businesses are subject to laws, rules and regulations in the countries in which our games are distributed, such as Korea, the United States and Japan, changes to which are difficult to predict, and uncertainties in interpretation and enforcement of the laws, rules and regulations in such countries may limit the protections available to us.

The regulatory and legal regimes in many of the countries in which our games are distributed have yet to establish a sophisticated set of laws, rules or regulations designed to regulate the online and mobile game industries. However, in many of our principal markets, such as Korea, the United States and Japan, legislators and regulators have implemented or indicated their intention to implement laws, rules and regulations with respect to issues such as user privacy, defamation, pricing, advertising, taxation, promotions, financial market regulation, consumer protection, content regulation, quality of products and services, and intellectual property ownership and infringement that may directly or indirectly impact our activities. The impact of such laws, rules and regulations on our business and results of operations is difficult to predict as many such laws, rules and regulations are constantly changing. However, as we might unintentionally violate such laws, rules and regulations or such laws, rules or regulations may be modified and new laws, rules and regulations may be enacted in the future, any such developments, or developments stemming from enactment or modification of other laws, rules or regulations, could increase the costs of regulatory compliance, force changes in business practices or otherwise have a material adverse effect on our business, financial condition and results of operations. Further, if the cost of regulatory compliance increases for our licensees as a result of regulatory changes, our licensees may seek to reduce royalties and license fees payable to us, which may materially and adversely affect our business, financial condition and results of operations. See ITEM 4.B. BUSINESS OVERVIEW LAWS AND REGULATIONS for a detailed discussion regarding Korean, U.S. and Japanese laws that may materially impact our operations.

Our online and mobile games may be subject to governmental restrictions or ratings systems, which could delay or prohibit the release of new games or reduce the existing and potential scope of our user base.

Legislation is periodically introduced in many of the countries in which our games are distributed to establish a system for protecting consumers from the influence of graphic violence and sexually explicit materials contained in various types of games. For example, Korean law requires online game companies to obtain ratings classifications and implement procedures to restrict access of online games to certain age groups. Similar mandatory ratings systems and other regulations affecting the content and distribution of our games have been adopted or are under review in Taiwan, China, the United States and other markets for our online games. In the future, we may be required to modify our game content or features or alter our marketing strategies to comply with new governmental regulations or ratings assigned to our current or future games, which could delay or prohibit the release of new games or upgrades and reduce the existing and potential scope of our user base. Moreover, uncertainties regarding governmental restrictions or ratings systems applicable to our business could give rise to market confusion, thereby materially and adversely affecting our business, financial condition and results of operations.

Restrictions and controls on currency exchange in Korea and in certain countries in which our games are distributed may limit our ability to effectively utilize revenues generated in Won to fund our business activities outside Korea or expenditures denominated in foreign currencies, and may limit our ability to receive and remit

revenues effectively.

The existing and any future restrictions on currency exchange in Korea, including Korean foreign exchange control regulations, may restrict our ability to convert Won into foreign currencies under

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certain emergency circumstances, such as natural calamities, wars, conflicts of arms or grave and sudden changes in domestic or foreign economic circumstances, difficulties in Korea's international balance of payments and international finance and obstacles in carrying out currency policies, exchange rate policies and other Korean macroeconomic policies. Such restrictions may limit our ability to effectively utilize revenues generated in Won to fund our business activities outside Korea or expenditures denominated in foreign currencies.

In addition, the governments in certain markets in which our games are distributed, including without limitation Taiwan, China and Thailand, impose controls on the convertibility of local currency into foreign currencies and, in some cases, the remittance of currency outside their countries. Under current foreign exchange control regulations of certain markets, shortages in the availability of foreign currency may restrict the ability of our overseas licensees to pay license fees and royalties, most of which are paid in U.S. dollars, to us. Restrictions on our ability to receive license fees, royalties and other payments from our licensees would adversely affect our results of operations, financial condition and liquidity.

Adverse changes in the withholding tax rates in the countries from which we receive license fees and royalties could adversely affect our net income.

We may be subject to income tax withholding in countries where we derive revenues. Such withholding is made by our overseas licensees at the current withholding rates in such countries. To the extent Korea has a tax treaty with any such country, the withholding rate prescribed by such tax treaty will apply. Under the Corporation Tax Law of Korea, we are entitled to and recognize a capped foreign tax credit computed based on the amount of income taxes withheld overseas when filing our corporate income tax return in Korea. Accordingly, the amount of taxes withheld overseas may be offset against taxes payable in Korea.

Recently, there have been a series of amendments to tax treaties that Korea has entered into with various countries. The reduced tax rate applicable to license fees and royalties has reduced (i) from 10% to 5% under the amended tax treaty between Korea and Switzerland as to those payable from January 1, 2013, and (ii) from 15% to 10% in general (10% to 5% in case of consideration paid for provision of commercial or technological know-how) under the amended tax treaty between Korea and Luxembourg as to those payable from September 4, 2013. Further, the tax treaty between Korea and Peru went into effect as of March 3, 2014, and the license fees and royalties payable after January 1, 2015 has been taxed at the reduced rate of 15% (10% in case of consideration paid for technical supports). Around January 2014, Korea and India agreed on and initialed a proposed amendment of the tax treaty under which the reduced tax rate applicable to license fees and royalties shall be reduced from 15% to 10%. This amended version was signed by both countries on May 18, 2015, but has not yet been ratified by the national assemblies of the respective countries. On July 8, 2014, Korea and Hong Kong signed on and initialed a new tax treaty which includes a provision promulgating that license fees and royalties shall be subject to tax at the reduced rate of 10%, but such tax treaty has not yet been ratified by the Korean national assembly. These series of promulgations are all intended to eventually further limit the source country's taxation right with respect to license fees and royalties. Any adverse changes in tax treaties between Korea and the countries from which we receive license fees and royalties, such as in the rate of withholding tax in the countries in which our games are distributed or in Korean tax law enabling us to recognize foreign tax credits for taxes withheld overseas, could adversely affect our net income.

RISKS RELATING TO OUR MARKET ENVIRONMENT

Our businesses may be adversely affected by developments affecting the economies of the countries in which our games are distributed.

Our future performance will depend in large part on the economic growth of our principal markets. Our top geographic markets in terms of revenues were Korea, Japan, the United States and Canada, Taiwan and Hong Kong/Macau, and China, representing 51.0%, 21.8%, 10.2%, 7.7% and 2.9%, respectively, of our total revenues in 2015. Accordingly, our business, prospects, financial condition and

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results of operations are subject to the economic, political, legal and regulatory conditions and developments in these countries and markets. Adverse economic developments in such markets may have an adverse effect on the number of our users and our revenues and have a material adverse effect on our results of operations.

Fluctuations in exchange rates could result in foreign currency exchange losses.

In most of the countries in which our games are distributed, the revenues generated by our overseas subsidiaries or licensees are denominated in local currencies, which include, among others, the U.S. dollar, the Japanese Yen, the Euro, the NT dollar, the Thai Baht and the Chinese Yuan. In 2015, approximately 49.0% of our revenues were denominated in foreign currencies, primarily in the U.S. dollar and the Japanese Yen. As the revenues denominated in local currencies, other than U.S. dollar, Japanese Yen and Euro, are converted into U.S. dollars for remittance of monthly royalty payments to us, any depreciation of the local currencies against the U.S. dollar will result in reduced license fees and monthly royalty payments in U.S. dollar terms and may materially and adversely affect our financial condition and results of operations.

While we receive monthly royalty revenues from our overseas licensees in foreign currencies, substantially all of our costs are denominated in Won. Our financial statements are also prepared and presented in Won. We receive monthly royalty payments from our overseas licensees based on a percentage of revenues confirmed and recorded at the end of each month applying the foreign exchange rate applicable on such date. Appreciation of the Won against the Japanese Yen or other foreign currencies will result in foreign currency losses that may materially and adversely affect our financial condition and results of operations. See ITEM 5.A. OPERATING RESULTS OVERVIEW Foreign currency effects.

As of December 31, 2015, we have not entered into any outstanding foreign currency forward exchange contract. We may enter into hedging transactions in the future to mitigate our exposure to foreign currency exchange risks, but we may not be able to do so in a timely or cost-effective manner, or at all.

Increased tensions with North Korea could adversely affect us and the price of our ADSs.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapons and long-range and submarine-launched ballistic missile programs and increased uncertainty regarding North Korea's actions. There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any such further increase in tension, which may occur, for example, if North Korea experiences a leadership or economic crisis, and any resulting military hostilities, could adversely affect our business, prospects, financial condition and results of operations and could lead to a decline in the market value of our ADSs.

RISKS RELATING TO OUR AMERICAN DEPOSITARY SHARES

The liquidity and price of our ADSs, and our ability to raise capital, may be negatively impacted following a change in our ADS to common share ratio and if our ADSs are delisted from NASDAQ.

Our ADSs are currently listed for trading on the NASDAQ Capital Market. There are a number of continuing requirements that must be met in order for our ADSs to remain listed on the NASDAQ Capital Market, and the failure to meet these listing standards could result in the delisting of our ADSs by the NASDAQ Stock Market, LLC (NASDAQ). On May 28, 2014, we received notification from NASDAQ that we had failed to comply with the minimum bid price requirement for continued listing set forth in the NASDAQ Stock Market Rules as the bid price of

our ADSs had closed for 30 consecutive business days below US\$1.00 per ADS. We were automatically granted a grace period of 180 calendar days to regain compliance. On November 25, 2014, the Listing Qualifications Department of NASDAQ approved our

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request to transfer our listing from the NASDAQ Global Market to the NASDAQ Capital Market and our ADSs began trading on the NASDAQ Capital Market on November 26, 2014. We were also given a second grace period of 180 calendar days, or until May 26, 2015, to regain compliance with NASDAQ Stock Market Rules.

On April 22, 2015, we announced, as approved by our Board of Directors on the same day, the change of the ratio of our ADS to common share from four ADSs to one common share (4:1) to one ADS to two common shares (1:2), effective as of May 11, 2015, which had the effect of a 1-for-8 reverse stock split of our ADSs. As a result of this ratio change, the trading price of our ADSs increased and closed at \$1.00 per ADS or more for a minimum of ten consecutive business days and we regained compliance with NASDAQ Stock Market Rules, as confirmed in writing by NASDAQ on May 26, 2015. However, we cannot give any assurance that we will continue to be in compliance with the NASDAQ Stock Market Rules. See ITEM 4.A. HISTORY AND DEVELOPMENT OF THE COMPANY.

The ratio change effected as of May 11, 2015 significantly reduced the total number of ADSs outstanding and reduced the number of public holders. Any reductions in the liquidity of our ADSs may further reduce the price of our ADSs. In addition, if our ADSs cease to be listed for trading on NASDAQ for any reason, the liquidity of our ADSs may be materially reduced and result in a corresponding material reduction in the price of our ADSs. Furthermore, any such delisting could harm our ability to raise capital on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, suppliers, business partners, licensees, customers and employees. Such consequences may materially and adversely affect our business, financial condition and results of operations.

The public shareholders of our ADSs may have more difficulty protecting their interests than they would as shareholders of a U.S. corporation.

Our corporate affairs are governed by our articles of incorporation and by the laws and regulations governing Korean corporations. The rights and responsibilities of our shareholders and members of our Board of Directors under Korean law may be different from those that apply to shareholders and directors of a U.S. corporation. For example, minority shareholder rights afforded under Korean law often require the minority shareholder to meet minimum shareholding requirements in order to exercise certain rights. Under applicable Korean law, of the total issued and outstanding shares, a shareholder must own at least (i) one percent to bring a shareholders' derivative lawsuit (or to demand that a director cease certain activity or conduct if there are concerns that a director may cause irrevocable damage to the company by acting in violation of applicable laws and regulations or the articles of incorporation), (ii) three percent to demand convocation of an extraordinary meeting of shareholders, demand removal of directors or inspect the books and related documents of a company, or to propose the agenda for a general meeting of shareholders, (iii) ten percent to apply to the court for dissolution if there is gross improper management or a deadlock in corporate affairs likely to result in a significant and irreparable harm to the company or to apply to the court for a reorganization in the case of an insolvency, and (iv) twenty percent to block a small-scale share exchange or a small merger that may be approved only by a board resolution. In addition, while the facts and circumstances of each case will differ, the duty of care required of a director under Korean law may not be the same as the fiduciary duty of a director of a U.S. corporation. Although the business judgment rule concept exists in Korea, there is insufficient case law or precedent to provide guidance to the management and shareholders as to how it should be applied or interpreted. Holders of our ADSs may have more difficulty protecting their interests against actions of our management, members of our Board of Directors or controlling shareholders than they would as shareholders of a U.S. corporation.

Any dividends paid on our common shares will be in Won and fluctuations in the exchange rate between the Won and the U.S. dollar may affect the amount received by you.

If and when we declare cash dividends, the dividends will be paid to the depository for the ADSs in Won and then converted by the depository into U.S. dollars pursuant to the deposit agreement that governs the rights and obligations

of the holders of ADSs. Fluctuations in the exchange rate between the

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Won and the U.S. dollar will affect, among other things, the U.S. dollar amounts you will receive from the depositary as dividends. Holders of ADSs may not receive dividends if the depositary does not believe it is reasonable or practicable to do so. In addition, the depositary may collect certain fees and expenses, at the sole discretion of the depositary, by billing the holders of ADSs for such charges or by deducting such charges from one or more cash dividends or other cash distributions from us to be distributed to the holders of ADSs.

Your ability to deposit or withdraw common shares underlying the ADSs into and from the depositary facility may be limited, which may adversely affect the value of your investment.

Under the terms of our deposit agreement, holders of our common shares may deposit such shares with the depositary's custodian in Korea and obtain ADSs, and holders of our ADSs may surrender the ADSs to the depositary and receive our common shares. However, to the extent that a deposit of common shares exceeds the difference between:

the aggregate number of common shares we have consented to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and

the number of common shares on deposit with the custodian for the benefit of the depositary at the time of such proposed deposit,

such common shares will not be accepted for deposit unless (i) our consent with respect to such deposit has been obtained or (ii) such consent is no longer required under Korean laws and regulations or under the terms of the deposit agreement.

Under the terms of the deposit agreement, no consent is required if the common shares are obtained through a dividend, free distribution, rights offering or reclassification of such shares. Under the terms of the deposit agreement, we have consented to any deposit to the extent that, after the deposit, the aggregate number of deposited common shares does not exceed 3,552,229 common shares or any greater number of common shares we determine from time to time (e.g., as a result of a subsequent offering, stock dividend or rights offer), unless the deposit is prohibited by applicable laws or violates our articles of incorporation; provided, however, that in the case of any subsequent offer by us or our affiliates, the limit on the number of common shares on deposit shall not apply to such offer and the number of common shares issued, delivered or sold pursuant to the offer (including common shares in the form of ADSs) shall be eligible for deposit under the deposit agreement, except to the extent such deposit is prohibited by applicable laws or violates our articles of incorporation or, in the case of any subsequent offer by us or our affiliates, we determine with the depositary to limit the number of common shares so offered that would be eligible for deposit under the deposit agreement in order to maintain liquidity of the shares in Korea as may be requested by the relevant Korean authorities. We might not consent to the deposit of any additional common shares. As a result, if a holder surrenders ADSs and withdraws common shares, the holder may not be able to subsequently deposit the common shares to obtain ADSs.

You may not be able to exercise preemptive rights or participate in rights offerings and as a result, you may experience dilution in your ownership percentage in us.

The Korean Commercial Code and our articles of incorporation require us to offer shareholders the right to subscribe for new common shares in proportion to their existing ownership percentages whenever new common shares are issued, except under certain circumstances as provided in our articles of incorporation. See ITEM 10.B.

MEMORANDUM AND ARTICLES OF INCORPORATION Preemptive rights and issuance of additional shares.

Such exceptions include offering of new shares, pursuant to a resolution of the Board of Directors:

through a general public offering, of no more than 50% of the total number of issued and outstanding shares;

to the members of the employee stock ownership association;

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upon exercise of a stock option in accordance with our articles of incorporation;

in the form of depositary receipts of no more than 50% of the total number of issued and outstanding shares;

to induce foreign direct investment necessary for business in accordance with the Foreign Investment Promotion Act of Korea, of no more than 50% of the total number of issued and outstanding shares;

to the extent not exceeding 50% of the total number of issued and outstanding shares, to domestic or overseas financial institutions, corporations or individuals for the purpose of raising funds on an emergency basis;

to certain companies under joint venture arrangements; or

by a public offering or underwritten by underwriters for the purpose of listing such shares on any stock exchange, to the extent not exceeding 50% of the total number of issued and outstanding shares.

Accordingly, if we issue new shares to non-shareholders based on such exceptions, existing holders of ADSs will be diluted. If none of the above exemptions is available under Korean law, we may be required to grant subscription rights when issuing additional common shares. However, under U.S. law, we would not be able to make those rights available in the United States unless we register the securities to which the rights relate or an exemption from the registration requirements of the Securities Act is available. Under the deposit agreement governing the ADSs, if we offer rights to subscribe for additional common shares, the depositary under the deposit agreement, after consultation with us, may make such rights available to you or dispose of such rights on behalf of you and make the net proceeds available to you or, if the depositary is unable to take such actions, it may allow the rights to lapse with no consideration to be received by you. The depositary is generally not required to make available any rights under any circumstances. We are under no obligation to file a registration statement under the Securities Act to enable you to exercise preemptive rights in respect of the common shares underlying the ADSs, and we cannot assure you that any registration statement would be filed or that an exemption from the registration requirement under the Securities Act would be available. Accordingly, you may not be entitled to exercise preemptive rights and may thereby suffer dilution of your interests in the Company.

You will not be treated as our shareholder and you will not have shareholder rights such as the voting rights applicable to a holder of common shares.

As an ADS holder, we are not obligated to and we will not treat you as one of our shareholders and therefore, you will not have the rights of a shareholder. Korean law and our articles of incorporation govern the rights applicable to our shareholders. The depositary will be treated as the shareholder of the common shares underlying your ADSs. As a holder of ADSs, you will have ADS holder rights, which is governed by the deposit agreement among us, the depositary and you, as an ADS holder. Upon receipt of the necessary voting materials, you may instruct the depositary to vote the number of shares your ADSs represent. The depositary will notify you of shareholders' meetings and arrange to deliver our voting materials to you only when we deliver them to the depositary with sufficient time under the terms of the deposit agreement. If there is a delay or loss of the voting materials, we cannot ensure that you will receive voting materials or otherwise learn of an upcoming shareholders' meeting to ensure that you may instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions.

You would not be able to exercise dissent and appraisal rights unless you have withdrawn the underlying common shares from the depositary facility and become a holder of our common stock.

In some limited circumstances, including the transfer of the whole or any significant part of our business, our acquisition of all or a part of the business of any other company having a material effect on our business, or our merger or consolidation with another company, except a small-scale merger (as

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prescribed under Korean law) that leaves us as the surviving company, dissenting shareholders have the right to require us to purchase their shares under Korean law. However, if you hold our ADSs, you will not be able to exercise such dissent and appraisal rights unless you have withdrawn the underlying common shares from the depositary facility and become our direct shareholder prior to the record date for the shareholders' meeting at which the relevant transaction is to be approved.

We may amend the deposit agreement and the ADRs without your consent for any reason and, if you disagree, your option will be limited to selling the ADSs or withdrawing the underlying securities.

We may agree with the depositary to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary, for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADS holders, it will not become effective for outstanding ADRs until 30 days after the depositary notifies ADS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended. If you do not agree with an amendment to the deposit agreement or the ADRs, your option is limited to selling the ADSs or withdrawing the underlying securities. No assurance can be given that the sale of ADSs would be made at a price satisfactory to you in such circumstances. In addition, the common shares underlying the ADSs are not listed on any stock exchange in Korea. Your ability to sell the underlying common shares following withdrawal and the liquidity of the common shares may be limited.

You may be subject to Korean withholding tax.

Under Korean tax law, if you are a U.S. investor, you may be subject to Korean withholding taxes on capital gains and dividends in respect of the ADSs unless an exemption or a reduction under the income tax treaty between the United States and Korea is available. Under the Korea-United States tax treaty, capital gains realized by holders that are residents of the United States eligible for treaty benefits will not be subject to Korean taxation upon the disposition of the ADSs. However, under the Korea-United States tax treaty, the following holders are not eligible for such tax treaty benefits: (i) in case the holder is a United States corporation, if by reason of any special measures, the tax imposed on such holder by the United States with respect to such capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and 25% or more of the holder's capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States; and (ii) in case the holder is an individual, if such holder maintains a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and the holder's ADSs or common shares giving rise to capital gains are effectively connected with such fixed base or such holder is present in Korea for a period or periods of 183 days or more during the taxable year.

You may have difficulty bringing an original action or enforcing any judgment obtained outside Korea against us and our directors and officers who are not U.S. persons.

We are organized under the laws of Korea, and all of our directors and officers reside outside the United States. While we have a wholly-owned subsidiary in the United States, most of our assets and the assets of such persons are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon these persons or to enforce against them or us court judgments obtained in the United States that are predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the federal securities

laws of the United States or the securities laws of any state of the United States.

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The transfer, sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.

GungHo beneficially owns 59.3% of our common shares. If GungHo decides to sell or transfer substantial amounts of our common shares into the form of ADSs in the public market or if there is a perception of its intent to sell, the market price of our ADSs could be materially and adversely affected and could materially impair our future ability to raise capital through offerings of our ADSs.

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4.A. HISTORY AND DEVELOPMENT OF THE COMPANY

We were incorporated as a company with limited liability under Korean law on April 4, 2000 under the legal name of Gravity Co., Ltd. Following our initial public offering of 8,000,000 ADSs, each representing one-fourth of one share of our common stock, par value Won 500 per share, on February 8, 2005, our ADSs were listed on the NASDAQ Stock Market's NASDAQ Global Market, formerly the NASDAQ National Market, under the symbol GRVY. We list below some of the developments relating to our organizational structure.

In March 2003, we established Gravity Interactive, LLC, our wholly-owned subsidiary in the United States. The name of Gravity Interactive, LLC was changed on January 1, 2006 to Gravity Interactive, Inc., or Gravity Interactive.

In January 2004, we acquired 50% of the voting shares of Gravity Entertainment Corporation, or Gravity Entertainment, formerly RO Production Co., Ltd., our subsidiary in Japan. In October 2004, we obtained from GungHo, which was then the other 50% shareholder of RO Production Co., Ltd., their ownership interest in RO Production Co., Ltd., which made Gravity Entertainment our wholly-owned subsidiary. RO Production Co., Ltd. changed its corporate name to Gravity Entertainment on February 5, 2005.

In November and December of 2005, we acquired an aggregate of 96.11% of the total shares of NeoCyon, which provides mobile multimedia services in Korea.

In August 2006, we founded Gravity EU SASU, a wholly-owned subsidiary based in France, which was converted into a joint venture company in which we have a 25% equity interest, Gravity EU SAS, with Media-Participations Paris SA as the joint venture partner, in July 2011. In November 2014, we sold our 25% equity interest in Gravity EU SAS to Dargaud SA, which resulted in Gravity EU SAS ceasing to be our affiliated company.

In May 2007, we established Gravity Middle East & Africa FZ-LLC, or Gravity Middle East & Africa, a wholly-owned subsidiary in Dubai. Gravity Middle East & Africa FZ LLC went into liquidation proceedings in the United Arab Emirates, or UAE, in September 2008 and the liquidation was completed on November 4,

2015.

On April 1, 2008, GungHo acquired shares of our common stock, after which it became our largest shareholder, beneficially owning approximately 52.4% of our common shares. GungHo subsequently purchased our ADSs and beneficially owns approximately 59.3% of our common shares as of March 31, 2016.

In October 2010, we acquired an aggregate of 50.83% of the total shares of Barunson Interactive Corporation, or Barunson Interactive, an online game developer in Korea. Barunson Interactive changed its corporate name to Gravity Games on March 28, 2011. In August 2013, we increased our ownership in Gravity Games to 85.5%.

On May 28, 2014, we received notification from NASDAQ that we had failed to comply with the minimum bid price requirement for continued listing set forth in the NASDAQ Stock Market Rules, as the bid price of our ADSs had closed for 30 consecutive business days below US\$1.00 per ADS. We were automatically granted a grace period of 180 calendar days to regain compliance. On November 25, 2014,

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the Listing Qualifications Department of NASDAQ approved our request to transfer our listing from the NASDAQ Global Market to the NASDAQ Capital Market and our ADSs began trading on the NASDAQ Capital Market on November 26, 2014. We were also given a second grace period of 180 calendar days, or until May 26, 2015, to regain compliance with the NASDAQ Stock Market Rules.

On April 22, 2015, we announced, as approved by our Board of Directors on the same day, the change of the ratio of our ADS to common share from four ADSs to one common share (4:1) to one ADS to two common shares (1:2), effective as of May 11, 2015, which had the effect of a 1-for-8 reverse stock split of our ADSs. As a result of this ratio change, the trading price of our ADSs increased and closed at \$1.00 per ADS or more for a minimum of ten consecutive business days and we regained compliance with NASDAQ Stock Market Rules, as confirmed in writing by NASDAQ on May 26, 2015. However, we cannot give any assurance that we will continue to be in compliance with the NASDAQ Stock Market Rules.

Our registered office is located at 15F, 396 World Cup buk-ro, Mapo-gu, Seoul 121-795, Korea. Our telephone number is (822) 2132-7000. Our main Web site is at <http://www.gravity.co.kr>.

**ITEM 4.B. BUSINESS OVERVIEW
OVERVIEW**

We are a leading developer and publisher of online games in Japan and Taiwan based on the number of peak concurrent users as compiled from various statistical data available from public sources in such countries. We are based in Korea, and we currently offer five online games worldwide. As of April 15, 2016, our principal product, Ragnarok Online, is commercially offered in Korea and 80 other countries and markets. Ragnarok Online II is currently commercially offered globally except for China and Japan. Requiem is commercially offered globally. R.O.S.E. Online is commercially offered in the United States, Canada, Mexico and 40 other countries. Dragonica is commercially offered globally. We also offer a number of mobile games, console games and a game for Internet protocol television, or IPTV, and license the merchandizing rights of character-related products based on our online games. We intend to diversify our game offering by developing online and mobile games in-house as well as publishing additional games developed by third parties.

In Korea, we directly manage all aspects of operations of our online games, such as marketing, operation, billing and customer service. Gravity Interactive, our wholly-owned subsidiary in the United States, is responsible for all aspects of Ragnarok Online game operations in the United States, Canada, Australia and 43 other countries, for all aspects of Ragnarok Online II game operations globally except for Indonesia and China, for all aspects of Requiem game operations globally, for all aspects of R.O.S.E. Online game operations in the United States, Canada, Mexico and 40 European countries, and for all aspects of Dragonica globally except for Thailand. In the countries where we and Gravity Interactive manage game operations, our online game revenues are recorded as subscription revenues.

Except as managed by us and our affiliates as described above, our overseas licensees are responsible for all aspects of online game operations in their respective markets in close cooperation with us. Our license agreements have an initial term of two or three years and are subject to renewal once the initial term expires. We rely on the initial and renewal license fees and the ongoing royalties from our overseas licensees for a significant portion of our revenues. The ongoing royalties are based on a percentage of revenues generated by our overseas licensees from the subscriptions to our games or the micro-transaction system in their respective markets.

Except in Korea, the United States and Canada, our overseas licensees handle our mobile game operations in close cooperation with us. NeoCyon and Gravity Interactive directly manage all aspects of operations of our mobile games in Korea, and the United States and Canada, respectively. Revenues from our mobile games, regardless of the operator, are recorded as mobile games revenues.

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The following table sets forth a summary of our consolidated statements of operations showing revenues from our online games (by type of revenue and geographic market), mobile games and applications, and character merchandising and other revenue as a percentage of total net revenues for the periods indicated.

	Year Ended December 31,							
	2013		2014		2015		2015 ⁽¹⁾	
	(In millions of Won and thousands of US\$, except percentages)							
Online game revenue ⁽²⁾ :								
Subscription revenue:								
Korea ⁽³⁾	₩ 2,447	5.1%	₩ 3,320	8.3%	₩ 3,675	10.3%	US\$ 3,143	
United States/Canada ⁽⁴⁾	5,759	12.1	3,748	9.4	2,846	8.0	2,434	
Others ⁽⁴⁾			894	2.3				
Subtotal	8,206	17.2	7,962	20.0	6,521	18.3	5,577	
Royalties and license fees:								
Japan	12,103	25.4	7,797	19.5	6,705	18.8	5,734	
Taiwan/Hong Kong/Macau	2,002	4.2	953	2.4	1,282	3.6	1,097	
Others	7,621	16.0	4,343	10.8	3,023	8.5	2,585	
Subtotal	21,726	45.6	13,093	32.7	11,010	30.9	9,416	
Mobile games and applications revenue	14,504	30.4	15,055	37.7	15,078	42.3	12,895	
Character merchandising and other revenue	3,249	6.8	3,779	9.6	3,051	8.5	2,609	
Total net revenue	₩ 47,685	100.0%	₩ 39,889	100.0%	₩ 35,660	100.0%	US\$ 30,497	

Notes:

- (1) For convenience only, the Won amounts are expressed in U.S. dollars at the rate of Won 1,169.26 to US\$1.00, the noon buying rate in effect on December 31, 2015 as certified by the Federal Reserve Bank of New York for customs purposes.
- (2) Online game revenues include revenues from Ragnarok Online, R.O.S.E. Online, Requiem, Emil Chronicle Online, Dragonica, Pororo Game, H.A.V.E. Online, Eternal Destiny, Ragnarok Online Guild Masters, Finding Neverland Online, Ragnarok Online II, Maestia, Steal Fighter, Ragnarok Prequel and our social network games, and from online game channeling service through GnJoy, our online game portal site. Finding Neverland Online, Ragnarok Online II, Maestia and Steal Fighter were commercially launched in January 2012, March 2012, July 2012 and February 2013, respectively. Ragnarok Prequel was soft-launched in October 2013, then suspended

from October 2014 for additional development and localization, and re-launched in May 2015. Our online game channeling service was launched in August 2011 and ceased in June 2013. We discontinued offering Ragnarok Online Guild Masters, Emil Chronicle Online, Finding Neverland Online, Maestia, Steal Fighter, H.A.V.E. Online and Requiem Returns W in May 2013, July 2013, July 2013, September 2013, February 2014, March 2014 and April 2014, respectively.

- (3) Ragnarok Online II game service in Korea was transferred to Gravity Interactive on December 24, 2013 through an amendment to the license agreement with Gravity Interactive dated June 2013 to include Korea as a service country, as the game service in Korea was suspended on December 23, 2013. Upon this change, the revenues from Ragnarok Online II generated in Korea through December 23, 2013 are shown as Online game revenue Subscription revenue Korea and those generated on or after December 24, 2013 are shown as Online game revenue-Subscription revenue-United States/Canada.

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- (4) Subscription revenues in the United States and Canada, as shown on this table, also include subscription and other types of game revenues generated in other countries and markets managed by Gravity Interactive. For Ragnarok Online, the countries serviced by Gravity Interactive include the United States, Canada, Australia, New Zealand and India, include Singapore and Malaysia since October 24, 2013, the Philippines and 13 Middle East countries including UAE and Saudi Arabia since January 1, 2015, and further include 13 East European countries including Russia and Armenia, as well as 11 South American countries including Chile and Peru, since November 16, 2015. Upon these changes, the revenues from Ragnarok Online generated in Singapore and Malaysia through October 23, 2013, the Philippines and 13 Middle East countries through December 31, 2014, and 13 East European countries and 11 South American countries through November 15, 2015, are shown as Online game revenue Royalties and license fees Others and those generated on or after October 24, 2013, January 1, 2015 and November 16, 2015, respectively, are shown as Online game revenue Subscription revenue United States/Canada.

Ragnarok Online II is serviced by Gravity Interactive worldwide except Indonesia and China, the Philippines prior to April 1, 2014, Brazil prior to April 1, 2014, Singapore prior to November 4, 2014, Malaysia prior to November 4, 2014 and Vietnam and Thailand prior to July 28, 2015. Subscription revenues from Ragnarok Online II generated from the countries and markets managed by Gravity Interactive are shown as Online game revenue Subscription revenue United States/Canada. The revenues from Ragnarok Online II generated from the Philippines, Brazil, Singapore, Malaysia, Vietnam and Thailand on and after the relevant date when Gravity Interactive began to service such countries are shown as Online game revenue Subscription revenue United States/Canada and those revenues from such countries before such relevant date are shown as Online game revenue Royalties and license fees Others. However, the revenues from Ragnarok Online II generated from Taiwan, Hong Kong and Macau are shown as Online game revenue Subscription revenue Others, even though Gravity Interactive manages Ragnarok Online II service in such markets. For R.O.S.E. Online, the countries managed by Gravity Interactive include the United States, Canada, Mexico and 40 other countries. For Dragonica, the countries serviced by Gravity Interactive include the United States and Canada, and further includes South America except for Brazil since October 28, 2013. Gravity Interactive began to service Dragonica globally on January 1, 2015 but it entered into a sublicense agreement with a local licensee in Thailand for service of Dragonica on October 1, 2015, which granted such local licensee the right to service Dragonica in Thailand from February 11, 2016. All revenues from Dragonica for the period covered by the table above are shown as Online game revenue Subscription revenue United States/Canada. Requiem is serviced worldwide by Gravity Interactive except for Russia, Armenia and 13 other countries serviced by Ingamba, a sub-licensee of Gravity Interactive, and the revenues from Requiem generated from the countries directly serviced by Gravity Interactive are shown as Online game revenue Subscription revenue United States/Canada and those generated from the countries serviced by Ingamba are shown as Online game revenue Royalties and license fees Others.

OUR PRODUCTS

We currently categorize our products into three categories: online games; mobile games and applications; and other games and game-related products and services, including character-based merchandise and animation. Revenues from our principal product, Ragnarok Online, accounted for 41.5% of our total revenues in 2015, compared with 40.1% of our total revenues in 2014.

Online games

Online game is a genre of computer games in which a large number of players interact with one another within a virtual game world.

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The following table summarizes the online games that we currently offer.

Title	Genre	Game Source	Date of Commercial Launch⁽¹⁾
Ragnarok Online	Action adventure MMORPG ⁽²⁾	Developed in-house	August 2002
Ragnarok Online II	Action adventure MMORPG	Developed in-house	March 2012
Requiem	Action adventure MMORPG	Developed in-house	October 2007
Dragonica (Dragon Saga) ⁽³⁾	Action adventure MMORPG	Originally licensed from third party developer; currently owned by us ⁽⁴⁾	February 2009 ⁽⁵⁾
R.O.S.E. Online	Action adventure MMORPG	Originally licensed from third party developer; currently owned by us ⁽⁶⁾	January 2005

Notes:

- (1) The actual date of commercial launch of games in each jurisdiction is dependent on a variety of factors, including technical viability and durability, availability of in-house development capability, market conditions, beta testing results and availability of licensing partners, among others.
- (2) MMORPG is an abbreviation for Massively Multiplayer Online Role-playing Game.
- (3) Dragonica is commercially offered in the United States, Canada and South America except for Brazil under the name Dragon Saga.
- (4) We acquired an aggregate of 50.83% equity interest in Gravity Games, formerly known as Barunson Interactive, which developed Dragonica, on October 21, 2010, and subsequently increased our ownership in Gravity Games to 85.5% in August 2013.
- (5) Dragonica was initially launched in China in February 2009 followed by certain other countries and markets under license agreements between Gravity Games and local publishers before our acquisition of Gravity Games.
- (6) We acquired an aggregate of 88.15% equity interest in TriggerSoft, which developed R.O.S.E. Online, in April and May 2005. TriggerSoft was liquidated in October 2007.

Ragnarok Online

As of March 31, 2016, Ragnarok Online is commercially offered in Korea and 80 other countries and markets since its commercial launch in August 2002. See ITEM 4.B. BUSINESS OVERVIEW OUR MARKETS Overseas markets. Ragnarok Online represented 41.5% of our total revenues or Won 14,803 million (US\$12,660 thousand) in 2015, compared with 40.1% of our total revenues or Won 15,985 million in 2014.

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The following are revenues generated by Ragnarok Online for the periods indicated:

Revenue Type	Country	Year Ended December 31,			
		2013	2014	2015	2015 ⁽¹⁾
(In millions of Won and thousands of US\$)					
Online games subscription revenue	Korea	₩ 2,368	₩ 3,278	₩ 3,675	US\$ 3,143
	United States/Canada ⁽²⁾	1,925	1,892	1,830	1,565
	Others				
	Subtotal	4,293	5,170	5,505	4,708
Online games royalties and license fees	Japan	11,480	7,757	6,705	5,734
	Taiwan/Hong Kong/Macau	1,713	952	1,282	1,097
	China ⁽³⁾	1,586	456	261	223
	Thailand	811	419	288	246
	Brazil	633	603	452	387
	Philippines ⁽⁴⁾	375	204	10	9
	Europe	352	266	203	173
	Indonesia	195	103	91	78
	Russia/CIS countries	68	55	6	5
	Singapore/Malaysia ⁽⁵⁾	25			
Subtotal	17,238	10,815	9,298	7,952	
Total		₩ 21,531	₩ 15,985	₩ 14,803	US\$ 12,660

Notes:

- (1) For convenience only, the Won amounts are expressed in U.S. dollars at the rate of Won 1,169.26 to US\$1.00, the noon buying rate in effect on December 31, 2015 as certified by the Federal Reserve Bank of New York for customs purposes.
- (2) Includes subscription and other types of game revenues managed by Gravity Interactive and generated in Australia, New Zealand and India, and Singapore and Malaysia since October 24, 2013, the Philippines and 13 Middle East countries including UAE and Saudi Arabia since January 1, 2015, and further include 13 East European countries including Russia and Armenia, as well as 11 South American countries including Chile and Peru, since November 16, 2015. Such revenues from other countries constitute a minor portion of the revenues recorded as subscription revenues from the United States and Canada.

- (3) Ragnarok Online game service in China by Shengqu Information Technology (Shanghai) Co., Ltd., our former licensee, ceased on December 30, 2011. We relaunched the game in China with Beijing Kunlun Online Network Tech Co., Ltd., our current licensee, on February 28, 2013 and ceased to offer Ragnarok Online in China on February 29, 2016.
- (4) Our license agreement with Level UP! Inc. for Ragnarok Online game service in the Philippines was terminated on March 31, 2015, and we subsequently amended our license agreement for Ragnarok Online games service with Gravity Interactive to include the Philippines as a service country of Gravity Interactive. Upon these changes, the revenues generated in the Philippines through March 31, 2015 are shown as Online games royalties and license fees Philippines and those generated from April 1, 2015 are shown as Online games subscription revenue United States/Canada.
- (5) Our license agreement with Game Flier (Malaysia) Sdn. Bhd. for Ragnarok Online game service in Singapore and Malaysia expired on October 9, 2013 and we subsequently amended our license agreement for Ragnarok Online games service with Gravity Interactive on October 24, 2013 to include such countries as service countries of Gravity Interactive. Upon these changes, the revenues generated in Singapore and Malaysia through October 9, 2013 are shown as Online games royalties and license fees Singapore/Malaysia and those generated from October 24, 2013 are shown as Online games subscription revenue United States/Canada.

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The table below provides, for the periods indicated, the peak concurrent users and average concurrent users of Ragnarok Online since the first quarter of 2013, in each of our principal markets for Ragnarok Online.

	1Q 13	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15
PCU ⁽¹⁾	32,270	26,956	24,033	21,158	19,547	18,934	19,096	17,884	16,821	16,804	14,863	15,708
ACU ⁽²⁾	11,725	9,940	8,703	7,051	7,310	7,593	7,364	6,826	6,619	6,262	5,836	6,461
PCU	14,776	3,898	3,874	4,158	5,503	3,979	12,464	5,928	5,924	4,265	4,117	4,583
ACU	2,384	2,024	2,243	2,152	2,754	2,155	2,338	3,159	3,256	2,600	2,389	2,488
PCU	4,618	4,530	4,291	5,882	5,895	5,219	4,963	5,491	5,443	7,227	7,541	7,031
ACU	3,560	3,543	2,870	3,740	4,243	3,895	3,651	3,607	4,019	5,440	6,103	5,991

Notes:

- (1) PCU, or peak concurrent users, represents the highest number of users of Ragnarok Online during the specified time period as recorded on the servers for the various countries.
- (2) ACU, or average concurrent users, represents the average number of concurrent users of Ragnarok Online during the specified time period as recorded on the servers for the various countries.

We believe that the number of users as measured by PCU or ACU (i) is reflective of our active user base and (ii) is correlated to revenues as revenues from an online game depend on the number of users as well as time spent playing the game. We believe such correlation has been reflected in the decrease of our revenues generated from Ragnarok Online in recent years, although there are also other factors which contribute to an increase or a decrease of revenues from a game. PCU and ACU are non-financial variables and the data presented has not been audited or reviewed. Other companies may determine PCU or ACU differently than we do.

We obtained an exclusive license from Mr. Myoung-Jin Lee to use the storyline and characters from his cartoon titled Ragnarok for the development of games including for animation and character merchandising. We paid Mr. Lee an initial license fee of Won 40 million and are required to pay royalties based on a percentage of adjusted revenues (net of value-added taxes and certain other expenses) or net income generated from the use of the Ragnarok brand through January 2033.

Ragnarok Online is an action adventure-based MMORPG that combines cartoon-like characters, community-oriented themes and combat features in a virtual world within which thousands of players can interact with one another. By combining highly interactive and community-oriented themes and features, such as marriages and organization of guilds, we believe we are able to create user loyalty from our users who favor games that provide social interaction in a virtual setting.

Other key features of Ragnarok Online include the following:

players may assume an ongoing role, or alter-ego, of a particular game character, each with different strengths and weaknesses. In Ragnarok Online, the user starts as a novice and undergoes training in a specialized mapped game zone to become familiar with the game features. Once that stage is completed, the user can choose from six basic characters, each with a distinct combination of different traits;

as each game character advances in challenge levels up to level 175, the character can enter into a greater range of mapped game zones and develop into a more sophisticated game character in terms of game attributes and special powers;

Ragnarok Online characters may visually express the users mood and emotions by using emotive icons that appear within a bubble above the characters heads. We believe that this feature significantly expands the interface for user interaction and elevates the level of social reality of the game;

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game features may be traded or sold within the game, and game characters may simulate real-life experiences such as marriage, group fights and joining a guild. In addition, players may communicate with each other through in-game chatting or instant messaging;

special events are held from time to time to stimulate community formations. For example, we periodically host fortress raids whereby players are encouraged to organize themselves into a team to compete against other teams to capture a fortress within a set time; and

the game has no preordained ending and is designed to continuously evolve in terms of plots, mapped game zones and character attributes through enhancements from time to time.

We believe that the PC configurations required to run Ragnarok Online are lower than or similar to many other competing online games, which we believe has facilitated our successful entry into and expansion of Ragnarok Online in many of the developed and developing countries in which Ragnarok Online is distributed. The recommended minimum PC configuration for Ragnarok Online is Intel Celeron 2.4 GHz or AMD Athlon 3000+, 512 MB RAM and 32 MB graphics card.

Ragnarok Online II

Ragnarok Online II, an action adventure-based three-dimensional MMORPG, is a sequel to Ragnarok Online with enhanced character and community features. Ragnarok Online II includes pastel-type graphics, advanced character customization and detailed monsters and non-player characters. Ragnarok Online II also adopts Mr. Myoung-Jin Lee's original drawings from his comic book Ragnarok and music from Kanno Yoko, a well-respected composer in the animation industry.

We commercially launched Ragnarok Online II in Korea in March 2012, Singapore and Malaysia in January 2013, the United States, Canada and 28 European countries in May 2013, Indonesia in August 2013, Thailand in October 2013 and Taiwan, Hong Kong and Macau in June 2014. Ragnarok Online II game service in Korea was transferred to Gravity Interactive on December 24, 2013 as the game service in Korea was suspended on December 23, 2013. Our license and distribution agreement with Gravity Interactive to distribute Ragnarok Online II in the United States, Canada and 28 European countries was amended in February 2014 to have Gravity Interactive distribute Ragnarok Online II globally except for Singapore, Malaysia, Indonesia, Thailand, Japan, the Philippines, Vietnam, Brazil and China. In April 2014, such agreement with Gravity Interactive was further amended to have Gravity Interactive distribute Ragnarok Online II globally except for Singapore, Malaysia, Indonesia, Thailand, Vietnam, Japan and China, which was additionally amended to have Gravity Interactive distribute Ragnarok Online II globally except for Indonesia, Thailand, Vietnam, Japan and China in November 2014. In July 2015, the same license and distribution agreement with Gravity Interactive was amended to have Gravity Interactive distribute Ragnarok Online II globally except for Indonesia, Japan and China, and further amended in February 2016 to have Gravity Interactive distribute Ragnarok Online II globally except for Indonesia and China. As a result, Ragnarok Online II is currently commercially offered globally except for China and Japan.

We have a license and distribution agreement for Ragnarok Online II with a third-party licensee in China. The total value of the license and distribution agreement for Ragnarok Online II with our licensee in China, where the game has not been commercially launched, is US\$1,500 thousand as of the date hereof. Our license and distribution agreements for Ragnarok Online II with licensees in the Philippines and Brazil were terminated on April 1, 2014. Also, on September 11, 2014, we terminated the license and distribution agreement with our licensee for service of Ragnarok Online II in Singapore and Malaysia. In addition, the license and distribution agreement with our licensee for service

of Ragnarok Online II in Thailand and Vietnam was terminated on June 1, 2015, and the agreements with our licensees in Japan and Indonesia were terminated on February 12, 2016 and April 1, 2016, respectively. Under the terms of the termination agreement with our licensee in Indonesia, Ragnarok Online 2 will continue to be offered in Indonesia by the current licensee until May 2016.

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Ragnarok Online II represented 3.2% of our total revenues or Won 1,155 million (US\$987 thousand) in 2015 and 6.8% of our total revenues or Won 2,724 million in 2014. See ITEM 3.D. RISK FACTORS RISKS RELATING TO OUR BUSINESS If we are unable to consistently and timely develop, acquire, license, launch, market or operate commercially successful online and mobile games in addition to Ragnarok Online, our business, financial condition and results of operations may be materially and adversely affected.

Requiem

Unlike Ragnarok Online and Ragnarok Online II, which do not emphasize violent themes, we designed Requiem to showcase user-to-user combat. Requiem provides players with a variety of combat systems, which allow them to accumulate experience and reward points to be used when they buy special items designed for combats.

Requiem is currently commercially offered globally by Gravity Interactive. Requiem was commercially offered in Russia, Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan by Ingamba under our license agreement with Ingamba until November 2013, when our license agreement with Ingamba was terminated, and these countries are included as countries and markets serviced by Gravity Interactive. Gravity Interactive entered into a sublicense agreement with Ingamba in December 2013 to distribute Requiem in these countries, which was terminated in December 2015. We also launched a Web-browser based version of Requiem on WarpPortal, Gravity Interactive's game portal site, and Facebook in April 2012 and September 2012, respectively, and ceased offering such services in November 2014. The amount of revenues from Requiem represented less than 1% of our total revenues in 2015, and 1.0% of our total revenues or Won 379 million in 2014.

Dragonica (Dragon Saga)

Dragonica is a three-dimensional side-scrolling MMORPG, which is commercially offered in the United States, Canada and South America except for Brazil under the name Dragon Saga. Dragonica was developed by Gravity Games, our 85.5%-owned subsidiary. Dragonica is currently commercially offered globally by Gravity Interactive except for Thailand, where our local licensee has been offering Dragonica since February 2016. The amount of revenues from Dragonica represented 1.1% of our total revenues or Won 391 million (US\$334 thousand) in 2015, and 1.5% of our total revenues or Won 597 million in 2014.

R.O.S.E. Online

R.O.S.E. Online is a three-dimensional MMORPG, which is commercially offered in the United States, Canada, Mexico, Switzerland, Norway, Denmark, Ireland, Spain, Sweden, the United Kingdom, Iceland, Finland, France, Germany, Greece, Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Hungary, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Albania, Andorra, Bosnia and Herzegovina, Liechtenstein, Moldova, Monaco, Montenegro, San Marino, Serbia, Vatican City State, Croatia, Former Yugoslav Republic of Macedonia and Turkey since its commercial launch in January 2005. The amount of revenues from R.O.S.E. Online represented less than 1% of our total revenues in each of 2015 and 2014.

Ragnarok Prequel

Ragnarok Prequel is a Web browser-based MMORPG, which is played on a Web browser and which does not require any client-side software to be installed. In May 2013, we entered into an agreement with Shanghai The Dream Network Technology Co., Ltd., a Chinese game developer, which was granted the right to develop a Web-browser based game based on Ragnarok Online and distribute the Web-browser based game in China under the agreement.

Ragnarok Prequel was soft launched in China in October 2013, then suspended from October 2014 for additional development and localization, and commercially re-launched in May 2015. Ragnarok Prequel represented less than 1% of our total revenues in each of 2015 and 2014.

Table of Contents**Mobile games and applications**

As compared to online games, mobile games, which are played using mobile phones, including smartphones such as Google Android compatible phones and the Apple iPhone as well as feature phones, and other mobile devices, such as tablet computers, have shorter game playtimes and less complex user-game interactions. We believe that mobile games, due to such characteristics, provide less-experienced users with a means to become familiar with both game playing and the game culture without making a substantial commitment in time and resources. As a result, we believe that mobile games allow us to target a broader audience of users.

We develop mobile games, most of which are based on our intellectual property, which include Ragnarok Online Uprising: Valkyrie, Ragnarok Online Mobile Story and Ragnarok Violet, and also publish mobile games licensed from third parties.

In contrast to online games, the life cycle of a mobile game is relatively short and generally lasts from 6 to 24 months while reaching its peak popularity within the first 3 months of its introduction, though it varies by genre. As a result, we generate a significant portion of our mobile games revenue from the games that have been released within the recent 12 months.

The following table sets forth each of the mobile games that we have released since January 2015.

Title	Genre	Game Source	Date of Commercial Launch
Word War	Arcade	Developed in-house	February 2015
Trials of Blood	RPG	Developed in-house	March 2015
Rescue Quest		Licensed from third party	
	Puzzle	developer	April 2015
Dragonica Runner	Arcade	Developed in-house	June 2015
Time & Tales		Licensed from third party	
	RPG	developer	June 2015
Wonder Flick		Licensed from third party	
	PRPG	developer	July 2015
Bubble Party for Kakao		Licensed from third party	
	Puzzle	developer	October 2015

For our smartphone games offered where we directly provide mobile games services to users, we share users payments for micro-transactions with digital storefront owners and mobile telecommunications operators. For our smartphone games in the other markets where the mobile games services are offered by our licensees, we receive license fees and royalty revenues from our licensees.

In addition to mobile games offered to users, we also develop mobile applications provided to third-party enterprises. The following are revenues generated from our mobile games and applications business for the periods indicated:

Country	Year Ended December 31,			
	2013	2014	2015	2015⁽¹⁾
	(In millions of Won and thousands of US\$, except percentages)			
Korea	₩ 10,049	₩ 11,705	₩ 10,871	72.1% US\$ 9,297

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Taiwan/Hong Kong/Macau	1,104	468	1,481	9.8	1,267
Japan	1,202	521	965	6.4	826
United States	1,917	1,190	775	5.1	663
China	203	177	486	3.2	416
Others	29	994	500	3.4	426
Total	₩ 14,504	₩ 15,055	₩ 15,078	100.0%	US\$ 12,895

Notes:

- (1) For convenience only, the Won amounts are expressed in U.S. dollars at the rate of Won 1,169.26 to US\$1.00, the noon buying rate in effect on December 31, 2015 as certified by the Federal Reserve Bank of New York for customs purposes.

Table of Contents**Other games and game-related products and services*****Other games***

In addition to developing and publishing online games and mobile games, which is our primary business, we also provide games for game consoles and handheld game consoles, such as Nintendo DS, the Xbox 360 and the PlayStation series. Console games are distributed in the form of a disc or cartridge (game card), or downloaded directly to a console through the Internet.

The following table sets forth the console games we have released.

Title	Genre	Platform	Release Date
Ragnarok DS	Role playing	Nintendo DS	December 2008 ⁽¹⁾
Ragnarok: The Princess of Light and Darkness	Tactical role playing	PlayStation Portable	October 2011
Ragnarok Odyssey	Role playing	PlayStation Vita	February 2012 ⁽²⁾
Double Dragon II	Action	Xbox 360	April 2013
Ragnarok Odyssey Ace	Role playing	PlayStation Vita	August 2013 ⁽³⁾
Ragnarok Odyssey Ace	Role playing	PlayStation 3	April 2014 ⁽⁴⁾

Notes:

- (1) Ragnarok DS was initially released in Japan in December 2008 followed by Korea in June 2009 and the United States, Canada, Mexico, Brazil, Colombia, Guatemala, Panama and Venezuela in February 2010.
- (2) Ragnarok Odyssey was initially released in Japan in February 2012 followed by Korea, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia and Thailand in August 2012, the United States, Canada, Mexico and Brazil in October 2012 and Europe in February 2013.
- (3) Ragnarok Odyssey Ace for the PlayStation Vita platform was initially released in Japan, Korea, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia and Thailand in August 2013 followed by the United States, Canada, Mexico, Brazil and Europe in April 2014.
- (4) Ragnarok Odyssey Ace for the PlayStation 3 platform was initially released in the United States, Canada, Mexico, Brazil and Europe in April 2014 followed by Korea, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia and Thailand in July 2014.

We also provide games for IPTV. In September 2008, we entered into a licensing agreement with Iconix Entertainment Co., Ltd., or Iconix Entertainment, to develop and publish Pororo Game, an IPTV game based on Iconix Entertainment's 3D TV animation series Pororo: The Little Penguin. We commercially launched Pororo Game in September 2009 and renewed our licensing agreement with Iconix Entertainment in September 2011, September

2012, September 2013, September 2014, and September 2015.

The amount of revenues from console and IPTV games represented 2.0% of our total revenues or Won 723 million (US\$618 thousand) in 2015, and 2.4% of our total revenues or Won 941 million in 2014.

Game character merchandising

In order to optimize the commercial opportunities presented by our games and their characters, we and our licensees have been marketing dolls, stationery, food and other character-based merchandise, as well as game manuals, monthly magazines and other publications, based on our games. We currently have arrangements with GungHo to license Ragnarok Online's game characters in Japan, and with AsiaSoft Corporation Public Co., Ltd. to license Ragnarok Online II game characters in Thailand.

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The amount of revenues from game character merchandising represented less than 1% of our total revenues in each of 2015 and 2014.

Animation

Gravity Entertainment, our Japanese subsidiary, entered into an agreement with G&G Entertainment Inc. and three other Japanese media and entertainment companies for the production and distribution of a 26 half-hour episode animation series based on the storyline and characters of Ragnarok Online in October 2004. The series was produced by Gravity Entertainment and broadcast on television in nine countries from 2004 through 2007. The animation series of Ragnarok Online has been sold in DVD and VOD (video on demand) formats in North America since March 2006, and it has also been distributed in Europe. Our revenues from our animation business represented less than 1% of our total revenues in each of 2015 and 2014.

Other services

NeoCyon provides Web site development and operation services to third parties in addition to its core mobile games business. In addition, we generate revenues from sales of goods related to mobile phones, such as ornamental accessories manufactured or procured by third parties, based on consignment sale agreements with such third parties. The amount of revenues from other services represented 8.2% of our total revenues or Won 2,926 million (US\$2,502 thousand) in 2015, compared with 8.9% of our total revenues or Won 3,560 million in 2014.

OUR MARKETS

Korea, Japan, the United States/Canada, Taiwan/Hong Kong/Macau and China were our biggest geographic markets in 2015 in terms of revenue. Each of these markets is serviced either by us or a distribution company. We directly manage online game operations in Korea. We and NeoCyon both directly manage mobile game operations in Korea. Gravity Interactive, our wholly-owned subsidiary, manages game operations in the United States and Canada, including service for Ragnarok Online, Ragnarok Online II, Requiem, Dragonica and R.O.S.E. Online. For Taiwan, Hong Kong and Macau, Game Flier International Corporation is our licensee for Ragnarok Online and Gravity Interactive directly provides services for Ragnarok Online II, Requiem, R.O.S.E. Online and Dragonica. GungHo Online Entertainment, Inc. is our licensee for Ragnarok Online and Ragnarok Mobile Story in Japan. Shanghai The Dream Network Technology Co., Ltd. is our licensee for Ragnarok Online II and Ragnarok Prequel in China.

The following table sets forth a summary of our consolidated statement of operations showing revenues by geographic area for the periods indicated and the percentage represented by such revenues for year ended December 31, 2015.

Country	Year Ended December 31,				
	2013	2014	2015	2015 ⁽¹⁾	
	(In millions of Won and thousands of US\$, except percentages)				
Korea	₩ 15,491	₩ 19,469	₩ 18,189	51.0%	US\$ 15,556
Japan	14,409	8,511	7,781	21.8	6,655
United States/Canada ⁽²⁾	7,725	5,038	3,624	10.2	3,099
Taiwan/Hong Kong/Macau	3,106	2,315	2,763	7.7	2,363
China	2,734	749	1,045	2.9	894
Others	4,220	3,807	2,258	6.4	1,930

Total	₩ 47,685	₩ 39,889	₩ 35,660	100.0%	US\$ 30,497
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Notes:

- (1) For convenience only, the Won amounts are expressed in U.S. dollars at the rate of Won 1,169.26 to US\$1.00, the noon buying rate in effect on December 31, 2015 as certified by the Federal Reserve Bank of New York for customs purposes.

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- (2) Revenues in the United States and Canada, as shown on this table, also include subscription and other types of game revenues generated in other countries managed by Gravity Interactive. Such revenues from other countries constitute a minor portion of the revenues recorded as subscription revenues from the United States and Canada.

Korea

In Korea, we commercially launched and began to charge users for Ragnarok Online in August 2002, followed by other games. Our online game users in Korea consist of individual PC account users and Internet café subscribers. Individual PC account users are individuals who log on to our game servers from places other than Internet cafés, such as from home or work, whereas Internet café subscribers are commercial businesses operating Internet café outlets equipped with multiple PCs that provide broadband Internet access to their customers who typically prefer to play online games together with their peers with more powerful PC hardware and faster broadband Internet access than they have at home. Most Internet cafés charge their customers PC usage and Internet access fees of Won 973 on average per hour and subscribe to various online games. Over 5,500 Internet cafés offered our games in Korea according to our internal data as of each of December 31, 2015 and 2014. In order to offer our games, an Internet café typically purchases minimum game hours from us. Subscription fees from Internet cafés accounted for 5.8% and 7.6% of our subscription revenues in Korea in 2015 and 2014, respectively.

Overseas markets

Ragnarok Online is commercially offered in the following 80 overseas countries and markets: Japan, Taiwan, Hong Kong, Macau, the United States, Canada, Australia, New Zealand, India, Singapore, Malaysia, Thailand, the Philippines, Indonesia, Brazil, Russia, Armenia, Azerbaijan, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Uzbekistan, France, Belgium, the United Kingdom, Finland, Sweden, Norway, Ireland, Scotland, Denmark, Spain, Austria, Bulgaria, Cyprus, Czech Republic, Germany, Greece, Hungary, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Switzerland, Turkey, UAE, Saudi Arabia, Jordan, Kuwait, Bahrain, Qatar, Oman, Lebanon, Mauritania, Egypt, Algeria, Morocco, Tunisia, Guyana, Bolivarian Republic of Venezuela, Bolivia, Republic of Suriname, Argentina, Ecuador, Uruguay, Chile, Colombia, Paraguay, and Peru, as of March 31, 2016.

Ragnarok Online is distributed through Gravity Interactive except for Japan, Taiwan/Hong Kong/Macau, Thailand, Indonesia, Brazil and 28 European countries and markets in which jurisdictions local licensees publish Ragnarok Online. The following table lists the overseas countries and markets in which Ragnarok Online is commercially offered through our licensees, the names of the licensees, the dates of the license agreements, and the commercial launch dates and expiry dates of the license agreements.

Country	Licensee	Date of License Agreement	Date of Commercial Launch	Date of Expiry
Japan	GungHo Online Entertainment, Inc.	July 2002	December 2002	September 2017
Taiwan/Hong Kong/Macau	Game Flier International Corporation ⁽¹⁾	May 2002	October 2002	March 2016 ⁽²⁾
Thailand	AsiaSoft Corporation Public Co., Ltd.	June 2002	March 2003	March 2016 ⁽³⁾
Indonesia	PT. Lyto Datarindo Fortuna	April 2004	November 2003	August 2016

Brazil	Level Up! Interactive S.A.	August 2004	February 2005	March 2017
Europe ⁽⁴⁾	Gravity EU SAS	June 2011	April 2004 ⁽⁵⁾	June 2021

Notes:

(1) Game Flier International Corporation is a subsidiary of Soft-World International Corporation.

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- (2) The licensing agreement with Game Flier International Corporation was terminated in March 2016. However, we and Game Flier International Corporation agreed to offer Ragnarok Online to existing game users in Taiwan/Hong Kong/Macau until June 2016, while we prepare our direct offering of Ragnarok Online in such markets.
- (3) The license agreement with AsiaSoft Corporation Public Co., Ltd. was terminated in March 2016. However, we and AsiaSoft Corporation Public Co., Ltd. agreed to offer Ragnarok Online in Thailand until June 2016 under the terms of previous agreement. We are currently discussing with other potential local licensees for service of Ragnarok Online in Thailand.
- (4) Represents game operations in France, Belgium, the United Kingdom, Finland, Sweden, Norway, Ireland, Scotland, Denmark, Spain, Austria, Bulgaria, Cyprus, Czech Republic, Germany, Greece, Hungary, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Switzerland and Turkey.
- (5) Ragnarok Online was initially launched in Germany, Austria, Switzerland, Italy and Turkey with a different licensee in April 2004.

Ragnarok Online II is currently commercially offered globally excluding China and Japan. Requiem and Dragonica are currently commercially offered worldwide. R.O.S.E. Online is currently commercially offered in the United States, Canada, Mexico and 40 other countries. While most of our mobile games are commercially offered in Korea, we also provide those developed in-house in overseas countries, including the United States, Japan and Taiwan, among others. See ITEM 4.B. BUSINESS OVERVIEW OUR PRODUCTS.

Our licensees pay us:

an initial license fee for initial set-up costs, technical support and advisory services that we provide until commercial launch; and

ongoing royalty payments based on a percentage of revenues generated from subscription fees and/or micro-transactions of the game they service in the respective overseas markets.

In addition, if the license agreement is renewed, we typically negotiate a renewal license fee. The license agreements may be terminated in the event of bankruptcy or a material breach by either party, including, in our case, in the event the licensee fails to pay royalty fees in a timely manner.

PRICING STRUCTURE AND PAYMENT SYSTEM

Our overseas licensees generally develop, after consultation with us, a retail pricing structure for the users of the game they service in their respective markets. Pricing structures are determined primarily based on the cost of publishing and operating the game, the playing and payment patterns of the users, the pricing of competing games in a given market and the purchasing power parity of consumers in that market. Since the launch of Ragnarok Online in August 2002, we have tracked and accumulated user data generated from our user base, which provide us with an extensive database to analyze user patterns and establish pricing for other markets. The pricing for Ragnarok Online has remained generally stable in each of our markets since the respective dates of Ragnarok Online's commercial launch in

those markets.

In December 2006, we started to apply a micro-transaction system (or sale of virtual in-game items model) as an additional business model by providing virtual item shops in the games where players can purchase a wide array of items to customize, personalize and enhance their characters and game playing experiences. The micro-transaction model has been introduced in all the countries and markets where Ragnarok Online is serviced. In addition, since January 2007, we have opened free-to-play servers, which only apply the micro-transaction model, in all the countries and markets where Ragnarok Online is serviced except Japan to encourage the players to download and play Ragnarok Online without paying subscription fees or buying playing time and to purchase in-game items pursuant to our micro-transaction model. We offer Ragnarok Online services with the micro-transaction model only in all the countries and

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markets where Ragnarok Online is serviced, except the countries and markets where the subscription-based fee model is also applied such as Japan, Taiwan, Hong Kong, Macau, and Thailand. The amount of revenue generated from micro-transactions as a percentage of revenue varies by country and market. For example, in 2015, the approximate percentage of revenue derived from micro-transactions accounted for 21.5% of total royalty revenues for Japan, and 76.5% of total royalty revenues for Taiwan, Hong Kong and Macau.

Since September 2007, we have been offering premium services as an additional revenue model, where players are offered certain additional features such as the faster accumulation of experience points or higher rates of item drops for additional fees during a specified period of time, in all the countries and markets where Ragnarok Online is serviced except Japan. The pricing for Ragnarok Online in Korea and in Japan, the United States and Canada, our principal overseas markets, are set forth below.

Korea

Individual PC account users in Korea can choose from a number of alternative payment options, including charges made through mobile or fixed telephone service provider payment systems, prepaid cards, gift certificates, online credit card payments and bank transfers, to buy G Cash which can be used for any games we offer and convert G Cash to RO Points, the currency of the money used in Ragnarok Online which enable them to buy game items or subscribe to Premium Services. Internet café subscribers make payments through credit card or bank transfers. We pay a commission in the range of 1.4% to 15% to third parties to process payments. These third parties bear the delinquency risk associated with payments from users.

Subscription-based fee model

The subscription-based fee model is currently applied only to Internet cafés and not individual PC users in Korea. The following table sets forth our published pricing plans for Internet cafés in Korea for Ragnarok Online access as of December 31, 2015.

Hours⁽¹⁾	Flat Fee per PC
300 hours	₩ 69,300
600 hours	138,600
1,000 hours	231,000
2,000 hours	462,000

Note:

(1) Actual hours may vary depending on additional bonus hours we offer in proportion to hours purchased by the subscriber.

Micro-transaction model

We have applied a micro-transaction model in Korea since April 2007. The price range of each of the game items is between Won 250 and Won 29,800. There are certain game items which users can buy only at Internet cafés.

Premium Service model

The Premium Service model was initially applied to free-to-play servers in July 2008 and became available on all the servers in November 2010 when we ceased to apply the subscription-based fee model for individual PC users in Korea. We offer only one rate for the Premium Service model of Ragnarok Online in Korea and charge 5,500 RO Points for 30 days of use. Premium Service users may further choose to use additional services as options, such as faster accumulation of experience points, higher rates of item drops, lower death penalty or a combination of such additional services for additional fees.

Table of Contents**Japan**

GungHo, our licensee in Japan, determines the pricing plan for Ragnarok Online in Japan. A majority of users in Japan typically pay to gain access to or purchase game items of Ragnarok Online with prepaid cards, such as WebMoney, among others, which can be purchased at convenience stores or retail game outlets, or online. In addition, credit cards are also a popular payment method. Mobile payment, which can be used for the payment of subscription-based fees and for payments of micro transactions, is increasingly popular in Japan.

Subscription-based fee model

Our licensee in Japan offers only one rate for Ragnarok Online and charges JPY1,500 per 30 days of unlimited use.

Micro-transaction model

We have applied a micro-transaction model in Japan since December 2006. Game users buy GungHo Shop Points which enable them to buy game items or directly buy game items from the mobile item shop. The price range of the game items is between JPY50 and JPY1,500. The following table sets forth our licensee's published basic pricing for GungHo Shop Points in Japan as of December 31, 2015.

Points	Retail Price⁽¹⁾
10,000 points	JPY1,000
21,000 points	2,000
32,500 points	3,000
55,000 points	5,000
112,000 points	10,000

Note:

(1) For convenience only, on December 31, 2015, the noon buying rate of Japanese Yen to U.S. dollars as certified by the Federal Reserve Bank of New York for customs purposes was JPY120.27 to US\$1.00.

The United States and Canada

Gravity Interactive, our wholly-owned subsidiary in the United States, determines the pricing plan for Ragnarok Online in the United States and Canada. Users pay through credit cards, wire and/or bank transfers, or mobile payment or online payment systems such as PayPal. Gravity Interactive ceased to apply the subscription-based fee model in April 2011.

Micro-transaction model

We have applied a micro-transaction model in the United States and Canada since June 2007. Game users buy points which enable them to buy game items in the price range between US\$0.05 and US\$20. The following table sets forth our licensee's published basic pricing for points of Ragnarok Online in the United States and Canada as of December 31, 2015.

Points	Retail Price
1,100 points	US\$ 10.00
1,650 points	15.00
2,875 points	25.00
4,600 points	40.00
6,000 points	50.00
9,000 points	75.00
12,000 points	100.00

Table of Contents***VIP Service fee model***

Although Ragnarok Online is offered based on the micro-transaction model in the United States and Canada, the VIP Service fee model, a premium service model, was introduced in April 2011 to provide users with enhanced game play as an option. The following table sets forth Gravity Interactive's published basic pricing for VIP Service for Ragnarok Online in the United States and Canada as of December 31, 2015.

Days and Points	Retail Price
30 days	US\$ 7.00
30 days and 1,500 points ⁽¹⁾	15.00
90 days	19.00
180 days	33.50

Note:

- (1) Once a user purchases this package, the user cannot purchase it again before the period of the purchased package ends.

GAME DEVELOPMENT AND PUBLISHING

We expect the online and mobile game industries to be characterized by increasing demand for sophisticated or original games with the most up-to-date technologies and/or innovative game designs. In response, we intend to expand our game offerings by continuing to develop in-house additional high quality games with the latest technologies and/or innovative game designs and by publishing such new games developed by us or licensed or acquired from leading third party developers.

To prepare for the commercial launch of a new online game, unlike most mobile games, we conduct closed beta testing for the game to fix technical problems, which is followed by a period of open beta testing in which we allow registered users to play the game free of charge. During these testing periods, users provide us with feedback and our technical team seeks to address any technical problems and programming flaws that may compromise a stable and consistent game playing environment. We conduct several rounds of closed beta testing, which usually takes a few weeks for each round but may take significantly more time if material problems are detected. Open beta testing of online games usually takes one to three months before commercial launch. We generally commence our other marketing activities for online games during the open beta testing stage. For overseas markets, we also localize the language and content of our games to tailor the game to local cultural preferences.

In-house game development

Our game development department is divided into two categories of development teams: one is dedicated to online games and the other is dedicated to mobile games. As of December 31, 2015, we employed a total of 105 game developers. We have developed Ragnarok Online, Ragnarok Online II, Requiem, Pucca Racing and some social network games and mobile games, such as Trials of Blood and Ragnarok Online Uprising: Valkyrie, in-house. In order to remain competitive, we are focusing our in-house game development efforts on enhancing the game experience and

on developing new games incorporating the latest technologies (including software improving the communication and interaction between players).

Publishing

We also seek opportunities to publish games developed by third parties if we determine such games have potential to become a commercial success. Our publishing and licensing processes include the following:

Preliminary screening. Our preliminary screening process for a game usually includes preliminary review and testing of the game and discussions with the game developer on technological and operational aspects;

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In-depth examination, analysis and commercial negotiation. Once a game passes preliminary screening, we thoroughly review and test the game, conduct a cost analysis, develop operational and financial projections and formulate a preliminary game operating plan. We then begin commercial negotiations with the developer;

Game rating and regulatory registration and approval. Once a license agreement to publish and distribute a game is signed, we submit an application to the Game Rating and Administration Committee to obtain a game rating, except for mobile games, which are not required to be rated by the Game Rating and Administration Committee and may be rated by us as distributor. This process generally takes approximately 15 days. We also typically register our intellectual property rights in Korea under our license agreements, such as copyright and trademark, with the relevant Korean government agency. Our overseas subsidiaries or licensees follow similar procedures in their respective markets where the games we license are commercially offered; and

Testing and marketing. Once the required registration and approvals are obtained, we conduct closed beta testing and open beta testing of the new game and assist the licensor with the development of the game, in the case of online games.

Our game business team takes the lead in conducting preliminary screenings to select games for potential distribution and the commercial negotiations process. The games initially screened by our game business team are additionally evaluated or tested by other teams, such as the marketing team and quality management team, for a second opinion. Once a license agreement is finalized, we generally create a specific team for the selected game within the marketing department to work with and guide the licensor through the beta testing and/or marketing process for a successful launch of the game.

IP licensing

Intellectual Property (IP) licensing is also one of our means to diversify our game titles when we determine that certain IP may be valuable in the development and publishing of new games.

We license out certain IP and other rights to third party developers or to our subsidiaries for the development of new game titles. We licensed Ragnarok Online to a game developer in China in May 2013, which led to the development of Ragnarok Prequel, a web browser based game. Ragnarok Prequel has been commercially offered in China since May 2015 after its soft launch in October 2013 and its suspension from October 2014 for additional development and localization. Also, we signed a license and development agreement with the same developer in January 2015 to grant the developer the right to use contents of Ragnarok Online to develop two mobile games, which was revised in March 2016 to grant the developer the exclusive right to develop mobile games and web games based on contents of Ragnarok Online and distribute such games in China for five years from March 25, 2016. In addition, we have entered into a license and development agreement with NeoCyon, our subsidiary, which granted NeoCyon the right to use the contents of Dragon Saga for the development of a mobile game.

In addition, we also license existing IP from third parties for developing new games. In September 2008, we entered into a license agreement with Iconic Entertainment to develop Pororo Games, an IPTV game, based on a popular television animation series Pororo: The Little Penguin . Pororo Games has been commercially offered since September 2009.

We seek more opportunities to license out or license in existing intellectual properties for game development and publishing.

MARKETING

We employ a variety of traditional and online marketing programs and promotional activities, including in-game events, in-game marketing and offline events. Due to the close-knit nature of the game community, we believe that word-of-mouth is an important medium for the promotion of our games.

In Korea, three independent promotional agents currently promote our online games to Internet cafés pursuant to agency agreements. Under these agreements, each promotional agent is granted non-exclusive

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promotion rights within a specified geographical area. The agent is generally paid a monthly base commission between 10% and 30% of revenues received from Internet cafés in the allocated area. The commission percentage varies according to the amount of revenues.

We conduct a variety of marketing programs and online and offline events to target potential subscribers accessing the Internet from home. Our main marketing efforts include advertising on Web site portals and game magazines, conducting online promotional events, participating in trade shows and entering into promotional alliances with Internet service providers. We spent Won 1,882 million (US\$1,610 thousand) on advertising and promotions in 2015, compared with Won 1,614 million in 2014.

We frequently organize in-game events, such as fortress raids for our users, which we believe encourages the development of virtual communities among our users and increases user interest in our games. We also host from time to time in-game tournaments in which users can compete against each other either as a team or individually. In addition, we use in-game events to introduce users to new features of our games. We organized 44 in-game events for Ragnarok Online users in each of 2015 and 2014.

In most of our overseas markets, marketing activities are principally conducted by our licensees and typically consist of advertising on Web site game portals and online game magazines and through television commercials, as well as hosting online and offline promotional events. The licensees are responsible for the costs associated with such advertising and promotional activities. For example, GungHo hosted the Ragnarok Online Festival in October 2015, which included the Ragnarok Online Japan Championship, game conference and costume-play stage and other programs for users. The Ragnarok Online Festival was attended by approximately 3,000 visitors and broadcast live on the Web, which recorded approximately 68,000 views. GungHo also sold Ragnarok-related merchandise at the festival. AsiaSoft Corporation Public Co., Ltd., our licensee in Thailand, hosted the PlayPark FanFest in October 2015, formerly the AsiaSoft All Star Battle, which has been held annually since 2009. The PlayPark FanFest was attended by approximately 40,000 visitors, and included the Ragnarok Online Thailand Championship. Discounted item coupons for Ragnarok Online were offered for sale at the event hall.

In addition, from time to time our overseas licensees also market our games through sponsoring promotional events jointly with other local game publishers or participating in expositions or other events for online games in order to reach a broader local audience. For example, Gravity Interactive participated in Anime California, a convention for animation, music and manga and attended by approximately 90,000 visitors. At Anime California, Gravity Interactive set up its own booth, where visitors were offered Ragnarok promotional products. Gravity EU SAS, our licensee in France, participated in several conventions for animation, game, manga and costume play, such as Digital Game Show in France in June 2015 and AniMagic Forum in Germany in August 2015, where Gravity EU SAS set up booths to present Ragnarok Online to the public and held various events for visitors.

Our licensees are selected in part on the basis of their marketing capabilities, including the size and scope of their distribution networks. Also, in more strategic markets where we anticipate considerable growth such as the United States or Taiwan, we believe that it is important to enhance our own direct publishing network for online game services.

GAME SUPPORT AND CUSTOMER SERVICE

We are committed to providing superior customer service to our users directly and through our licensees. As of December 31, 2015, 7 employees were game masters, or persons who are in charge of testing, updating and providing server maintenance for online games, as well as dealing with customer complaints, 8 employees were members of our domestic customer service team and 7 employees were members of our overseas customer support team.

In Korea, we provide customer service for our online games through bulletin boards of the Web sites of our online games, call centers, email and facsimile and at our walk-in customer service center. Our

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bulletin boards of the Web sites of our online games allow our customers to post questions to, and receive responses from, other users and our support staff. In our overseas markets, our licensees administer customer service through varying combinations of bulletin boards of the Web sites of our online games, call centers, email and facsimile, with assistance from time to time from our overseas customer support staff.

In addition to providing customer service to our users, our customer service staff also collect user comments with respect to our games and generate daily and weekly reports for our management and operations that summarize important issues raised by users as well as how such issues have been addressed.

NETWORK AND TECHNOLOGY INFRASTRUCTURE

We have designed and assembled our game server network and information management system in Korea to allow centralized game management on a global basis. Our system network is designed to speedily accommodate a growing user base and demand for faster game performance. Our game server architecture runs multiple servers on a parallel basis to readily accommodate increased user traffic through deployment of connection to servers, which permits us to route users in the same country to servers with less user traffic. Each of these servers is linked to our information systems network to ensure rapid implementation of game upgrades and to facilitate game monitoring and supervision.

We maintain our server hardware in a single climate-controlled facility at KT Mokdong Internet Computing Center at 233-5 Mokdongdong-ro, Yangcheon-gu, Seoul, Korea and our other system hardware in our offices in Seoul. As of December 31, 2015, our server network for our game operations in Korea consisted of a total of 252 servers, including 87 physical servers and 165 servers run on 72 physical servers through the server virtualization technology we have adopted since July 2011, which allows one physical server to be divided into multiple virtual servers, each of which functions individually as a complete and independent server.

In overseas markets, our overseas subsidiaries or licensees own or lease the servers necessary to establish the server network for online games and we assist them with the initial assembly and installation of operating game servers and optimization of their systems network for game operations in their respective markets. While the overseas system architectures are modeled on our system architecture in Korea, they are also tailored to meet the specific needs of each market. When we install and initialize a game in an overseas market, we generally dispatch network engineers and database technicians from Korea to assist with the assembly and operation of the system network and game servers. Following installation, we typically send two to five of our technicians and customer support staff to that market, for a few weeks in some cases and much longer periods in other cases, to assist with on-site game operation and technical support. Our overseas subsidiaries and licensees are responsible for providing database and other game information backup.

Our game management software can program the game content to include localized features such as virtual map zones specific to each market. These features can be updated at the host country level in order to encourage development of a communal spirit among the users from the same country.

COMPETITION

We compete primarily with other online and mobile game developers and distributors in each of our markets. In addition, we compete against providers of games on various platforms, such as console games, handheld games and arcade games. We compete primarily on the basis of the quality of the game experience offered by us to our users, which depends on a number of factors, including our ability to do the following:

hire and retain creative personnel to develop games that appeal to our users;

offer online and mobile game service that is stable and is not prone to server shutdowns, connection problems or other technical difficulties;

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provide timely and responsive customer service; and

establish payment systems that are secure and efficient.

Competition in the online game industry

Currently, the leading providers of online games, based on the number of peak concurrent users, are Riot Games, Inc., Activision Blizzard, Inc., Valve Corporation, Hi-Rez Studios, Inc. and Electronics Arts, Inc., according to data available from various public sources.

League of Legends of Riot Games, Inc., World of Warcraft and Diablo III of Activision Blizzard, Inc. and DOTA2 and Counter-Strike: Global Offensive by Valve Corporation are some of the most popular online games. Battlefield 4 of Electronic Arts, Inc. and Minecraft of Mojang AB have gained popularity, and each has maintained a large number of players and a loyal user base.

As many of our competitors have significantly greater financial, marketing and game development resources than we have, we face intense competition in the online game industry. We expect competition will continue to be strong as the number of online game developers increases in the future and the online game industry begins to consolidate into a small number of leading companies due to the high cost of game development, marketing and distribution networks, which is likely to drive unsuccessful online game providers to go out of business or be acquired by other successful game providers.

Competition in the mobile game industry

Compared with the online or console game genres, the mobile game market has a relatively low barrier to entry because development of a mobile game requires relatively less time and personnel due to the limitations of the devices on which mobile games are played such as screen size and processing power. Moreover, development tools for mobile games are easier to obtain and use, and open marketplaces, such as the Google Play Store and Apple's App Store, enable developers to easily distribute mobile games to a large global audience. Therefore, we expect the number of mobile game developers to continually increase in the future and competition to become more intense.

We compete with companies that specialize in developing mobile games such as Supercell Oy and Machine Zone, Inc. Our current or potential future competitors for mobile games also include package game companies that have successfully expanded their business into mobile game development such as Electronic Arts Inc. In addition, we believe more companies that previously were or currently are dedicated to developing online or console games will allocate more resources toward developing mobile games because the number of mobile game users is rapidly increasing as the penetration of mobile devices, such as smartphones and tablet computers, continues to deepen.

Competition from other game platforms

We also compete against PC and console-based game developers that produce popular package games, such as Activision Blizzard, Inc. and Electronic Arts Inc., and game console manufacturers such as Microsoft Corp., Sony Computer Entertainment Inc. and Nintendo Co., Ltd., all of which also have their own console game development studios.

In November 2013, Microsoft Corp. released Xbox One featuring Kinect motion control camera and voice commands and Sony Computer Entertainment Inc. started distributing its PlayStation 4 game consoles featuring a controller with a capacitive touchpad for additional control options. Nintendo Co., Ltd.'s Wii U was released in November 2012 which

supports high-definition graphics with a tablet-like controller. In addition, handheld game consoles, such as Nintendo Co., Ltd.'s Nintendo 3DS and Sony Computer Entertainment Inc.'s PlayStation Vita, are also popular among game users. All the current game consoles enable users to play games with other users online by connecting their console to a network over the Internet. Likewise, a number of PC-based game developers have also introduced online features to their PC-packaged games, such as team plays or users-to-users combat.

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Competition in the game market is expected to remain intense as established game companies with significant financial resources seek to enter the industry. See ITEM 3.D. RISK FACTORS RISKS RELATING TO OUR BUSINESS We operate in a highly competitive industry and compete against many large companies.

INSURANCE

We maintain medical and accident insurance for our employees to the extent required under Korean law, and we also maintain fire and general commercial insurance with respect to our facilities. We do not have any business liability or disruption insurance coverage for our operations in Korea. We maintain a directors and officers liability insurance policy covering certain potential liabilities of our directors and officers. See ITEM 3.D. RISK FACTORS RISKS RELATING TO OUR BUSINESS We have limited business insurance coverage and any business interruption could have a material adverse effect on our business.

INTELLECTUAL PROPERTY

Our intellectual property is an essential element of our business. We rely on intellectual property such as copyrights, trademarks and trade secrets, as well as non-competition, confidentiality and license agreements with our employees, suppliers, licensees, business partners and others to protect our intellectual property rights. Our employees are generally required to sign agreements acknowledging that all inventions, trade secrets, works of authorship, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. With respect to copyrights and computer program rights created by our employees within their employment scope and which are made public bearing our name, we are not required to pay any additional compensation to our employees.

In developing Ragnarok Online, we obtained an exclusive license from Mr. Myoung-Jin Lee to use the storyline and characters from his cartoon titled Ragnarok for the production of games, animation and character merchandising. See ITEM 4.B. BUSINESS OVERVIEW OUR PRODUCTS Online games Ragnarok Online.

We are the registered owner of 14 registered software copyrights to ten games: Ragnarok Online, Ragnarok Online II, R.O.S.E. Online, Requiem, Ragnarok Violet, Ragnarok Angel Poring, Ragnarok Online Uprising: Valkyrie, Arcturus, Pucca Racing and W Baseball, each of which has been registered with the Korea Copyright Commission. We no longer commercially offer Arcturus, a PC-based, stand-alone game, nor Pucca Racing, and have decided to cease commercialization of W Baseball, Ragnarok Violet and Ragnarok Angel Poring. As of December 31, 2015, we owned over 44 registered domain names, including our official Web site and domain names registered in connection with each of the games we offer. We had 720 registered discrete trademarks at patent and trademark offices in 52 countries as of December 31, 2015. We had three design patents, two analogous design patents, which are variations of two of the design patents, registered with the Korea Intellectual Property Office, registered copyrights covering 11 game characters, five online game business model patents and one patent pending with the Korea Intellectual Property Office, in each case as of December 31, 2015.

SEASONALITY

Usage of our online games has typically increased slightly around the New Year's holiday and other holidays, in particular during winter and summer school holidays.

LAWS AND REGULATIONS

We are subject to many laws and regulations in the different countries in which we operate. See ITEM 3.D. RISK FACTORS RISKS RELATING TO OUR REGULATORY ENVIRONMENT. A general overview of the material laws and regulations that apply to our business is provided below for the countries from which we derive a significant portion of our revenues.

Table of Contents**Korea**

The Korean game industry and online and mobile game companies operating in Korea are subject to the following laws and regulations:

The Act on Promotion of the Game Industry

In January 2007, the National Assembly amended the Act on Promotion of the Game Industry, or the Promotion Act, which became effective on April 20, 2007. Under the amended Article 21 of the Promotion Act, online games are classified into four categories: suitable for users of all ages, suitable for users 12 years of age or older, suitable for users 15 years of age or older and suitable for users 18 years of age or older. The 15 years of age or older category was added between the 12 years of age and 18 years of age categories to increase ratings flexibility. Ragnarok Online has been classified as suitable for users 12 years of age or older.

The amendment to the Promotion Act includes for the first time the definition of the term speculative game. A speculative game refers to a game that permits betting and offers monetary loss or profit that is determined by chance. Elements that may cause a game to be considered a speculative game include the existence of game money used as a means for betting or purchasing game items (items used within the game for progression in the game) that become the subject of exchange with real money. The Supreme Court Decision No. 2009Do12117 rendered on February 25, 2010 provided that a speculative game under the amended Promotion Act, should be carried out in accordance with the contents and method prescribed under Article 2,(1-2) of the Promotion Act, and further, that the term refers to a gaming device or tool which directly provides money, prize or other financial profit or incurs loss on the game user via a payment tool installed on the gaming device or tool depending on the results of the game. Although the new rules and Supreme Court decision are intended to provide more clarity for the determination of whether a game is deemed speculative or not, because our games involve transactions with game items, we have had to take measures to ensure that we are in compliance with the new rules. Such measures include providing games after receipt of the Rating Review from the Game Rating and Administration Committee, or receipt of the Self Rating Review from online open market or other electronic commerce intermediaries in accordance with the Article 21 (1) 4 of the Promotion Act in case of games provided by means of a mobile devices or a wireless internet connecting device.

A game provider has to report any modification in the content of a game to the Game Rating and Administration Committee, which may require the game to be reclassified depending on the scope of the modification. If the Game Rating and Administration Committee determines that the game is speculative, it can refuse to classify such game, in which case the game will be prohibited. According to Article 1(2) of the Enforcement Decree of the Promotion Act newly established on May 16, 2007, any games in which money or items of value are collected from a multiple number of persons and profits or losses are allocated based on winnings or losses determined by chance fall under speculative games. According to Article 16(2) of the Enforcement Decree of the Promotion Act newly established at the same time, so long as certain guidelines are followed, a provision of a gift equivalent to a customer price of Won 5,000 or less, with respect to games that are classified as suitable for users of all ages, is not deemed to be an act that encourages gambling.

Under the Promotion Act, as partially amended on December 21, 2007, the Minister of Culture, Sports and Tourism may order information and communication service providers to refuse, stop, or restrict the offering of games if such games are unrated, contents are different from those submitted for rating, were denied rating as speculative games, or were manufactured or distributed by a person not registered for operation of manufacturing or distributing games for profit-making. The Game Rating and Administration Committee undertakes examination of the information and communications service providers and provides recommendation of correction to the providers as necessary.

The Game Rating and Administration Committee published the Yearbook for Classification of Game Ratings on a yearly basis from 2008 to 2015 in order to provide information on industry trends. The Yearbooks include data on ratings and classifications of various games released in Korea and the

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immediately preceding year's results of the examination of the information and communications service providers. The Game Rating and Administration Committee published the Yearbook to improve fairness and transparency in inspecting games and to provide industry participants with guidelines on ratings inspection as well as basic information on the development of the game industry.

At the time of establishment, the Promotion Act prescribed a provision on national subsidy support for the smooth grading deliberation and follow-up administration work conducted by the Game Rating and Administration Committee, and set forth the period of provision as temporary through its addenda. Afterwards, through an amendment of the Addenda, the provision period was extended, and on May 22, 2013, the period of national subsidy provision was deleted through the deletion of the relevant addenda. Recently in the global online and mobile game industries, there has been growth in the open markets in which small content developers and individual content producers directly supply their programs to consumers. However, under the then-current law, games could be distributed only after being rated by the Game Rating and Administration Committee, and this impeded the development of the open market in Korea. In addition, some games, especially those that permit betting, caused social problems as speculative operating methods such as illegal automatic playing programs which allow players to cheat and acquire game money or game items were being developed. However, the then-existing laws did not provide sufficient grounds to regulate such situations.

In response, on April 5, 2011, the Act on Promotion of the Game Industry was amended. The amendment provides that all games that cannot receive prior rating by the Game Rating and Administration Committee due to special circumstances in their production and distribution channels should be subject to the distributors' own rating. The Act also provides grounds for sanctioning speculative operating methods and the undermining of fair gaming through illegal programs, among others. The amendment went into effect on July 6, 2011. In addition, consistent with a decision by the Constitutional Court on dual punishment, the amendment also includes a revised provision which stipulates that if an employer fulfills her duty of care as a manager and supervisor of her employees, she can be exempt from punishment.

The main content of the Act on Promotion of the Game Industry as amended on April 5, 2011 and the amendment to the Enforcement Decree of the same Act are as follows:

(1) Games which are inappropriate for prior rating by the Game Rating and Administration Committee due to special circumstances in their production and distribution channels, excepting games unsuitable for minors, may be rated by distributors or others involved in the distribution channel at their discretion according to the standards predetermined upon consultation with the Game Rating and Administration Committee. According to Article 11-4 of the Amendment to the Enforcement Decree of the Act on Promotion of the Game Industry, games should fulfill all the following requirements in order to be considered being inappropriate for prior rating by the Game Rating and Administration Committee : (i) they must be provided through basic communications services by persons who are authorized to engage in the basic communications business under the Telecommunications Business Act; (ii) they must be provided through electronic commerce intermediaries such as online open markets; and (iii) they must be provided using wireless telecommunications terminals which use mobile telecommunications terminals or the same kind of operating programs as those run on mobile telecommunications terminals;

(2) Game-related companies are prohibited from encouraging speculation by using operating methods, devices or machines closely related to the realization of game contents, and any person violating this provision is subject to corrective recommendation or corrective order imposed by the Minister of Culture, Sports, and Tourism; and

(3) In order to realize the principle of responsibility in the dual punishment provision, if an employer fulfills her duty of care as a manager and supervisor with respect to her employees, the employer may be exempt from punishment

(proviso in Article 47 of the Promotion Act).

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The Promotion Act was further amended on July 21, 2011 and went into effect on January 22, 2012. The amendment was intended to create a sound gaming culture by clearly defining the responsibilities of the game industry and the government and to encourage public awareness of prevention of excessive gaming. Under the amended Promotion Act, a game-related enterprise is required to obtain parental consent when a minor joins a game site as a member and to take measures to prevent excessive use of games by imposing a time limit on minors' game usage time. The Ministry of Culture, Sports and Tourism, or the MCST, may request game-related enterprises to submit or report data relating to such preventive measures and, after an examination thereof, order the relevant game-related enterprises to correct the preventive measures if they are deemed to be insufficient.

The Enforcement Decree of the Promotion Act amended and enforced on January 6, 2015 lifted the burden of internet computer game facility providers through the deletion of a provision which imposed an obligation on internet computer facility providers to install program, etc. which block access of users to games which were classified as speculative game or did not receive any rating.

Recently, the Ministry of Science, ICT and Future Planning, or the MSIP, and the MCST jointly held the Conference on Creation of New Content Markets through Convergence of Culture and ICT, where the ministries announced a series of measures to foster the content industries including the game industry. According to the announcement, a public-private task force for regulatory reform will come into operation to deregulate the online game market (e.g., by extending the implementation of the self-rating system for games), with the goal to come up with a regulatory reform plan for online games within the first half of 2016 in order to improve conditions for the development and creation of game contents.

The Telecommunications Business Act

Under the Telecommunications Business Act, a person who intends to run a value-added telecommunications business must report to the MSIP, which has the authority to accept and monitor such reports. We are classified as a value-added telecommunications service provider such that we are required to prepare and submit statistical reports regarding, among others, the current status of facilities, subscription records and current status of users to the MSIP upon its request. The MSIP is responsible for compiling information and formulating telecommunications policies under this Telecommunications Business Act. In addition, we are required to report any transfer, takeover, suspension or closing of our business activities to the MSIP, which may cancel our registration or order us to suspend our business for a period of up to one year if we fail to comply with its rules and regulations.

The Act on Consumer Protection for Transactions through Electronic Commerce

Under this Act, we are required to take necessary measures to maintain the security of consumer information related to our electronic settlement services. We are also required to notify consumers when electronic payments are made and to indemnify consumers for damages resulting from misappropriation of consumer information by third parties. We believe that we have instituted appropriate safety measures to protect consumers against data misappropriation. To date, we have not experienced material disputes or claims in this area.

Prior to the amendment on May 28, 2013, this Act prescribed that only the transactions in which the one-time payment amount is above Won 50,000 were eligible for protective measures for payment security which is imposed on telecommunications sales operators, in case of advance payment in the telecommunications sales, a duty to provide escrow service for payment or subscribe to consumer injury compensation insurance upon the election by a consumer of either option. However, under the amended Act which deleted Article 24(3)(i) concerning the application of such protective measures for payment security, the consumer rights protection was enhanced because even transactions whose amount is small, Won 50,000 or less, can benefit from protective measures for payment security. Such

amendment went into effect on November 29, 2013.

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The Act on Promotion of Information and Communications Network Utilization and Information Protection, or Information Protection Act

Under the Information Protection Act, we are permitted to gather personal information relating to our subscribers within the scope of their consent. We are, however, generally prohibited from using personal information or providing it to third parties beyond the purposes disclosed in our subscriber agreements. Disclosure of personal information without consent from a subscriber is permitted only if it is necessary for the settlement of information and communication service charges or is expressly permitted by this or any other statute.

We are required to indemnify users for damages occurring as a result of our violation of the foregoing restrictions, unless we can prove the absence of willful misconduct or negligence on our part. We believe that we have instituted appropriate measures and are in compliance with all material restrictions regarding internal mishandling of personal information.

Penalty surcharges are imposed on any telecommunications enterprises violating the regulation on the protection of personal information to recover any unfair profits gained by such enterprises, and some conducts, such as collection of personal information of users without their consent, are the subject of criminal punishment. Any telecommunications enterprises violating its obligation to protect personal information by collecting, using, disclosing such information without consent, and not complying with protective measures, may be imposed with surcharges not exceeding 1% of the sales relevant to the conduct of violation in consideration of the details, degree, period, the number of times, and the scale of gained profits.

Following the continued occurrence of personal information leakage incidents on information and communication networks in the financial sector, the Information Protection Act was amended on May 28, 2014 (enforced on November 29, 2014) to strengthen personal information protection measures and supplement remedial methods for users by strengthening punishment on information and communication network providers and introducing a statutory damage compensation system. According to the amended Information Promotion Act, a user may claim for statutory damage compensation up to Won 3 million in case of loss, theft or leakage of his/her personal information under management by the information and communication network provider.

The Information Protection Act underwent three revisions in 2015 as follows:

- (1) The amount of administrative fine imposed on information and communication service providers who refused to provide services to information and communication service users who did not consent to the provision of personal information to third parties was raised to up to KRW 30 million (revised as of June 22, 2015; enforced as of December 23, 2015).
- (2) The period for obligatory destruction of personal information was changed to one year unless prescribed otherwise by other laws or by request of the relevant user (revised as of December 1, 2015; to be enforced as of June 2, 2016).
- (3) It became mandatory to revoke certifications for information protection and management systems obtained fraudulently or by unjust means, and the amount of administrative fine imposed on those who failed to obtain proper certification for their information protection and management system was raised to up to KRW 30 million (revised as of December 1, 2015; to be enforced as of June 2, 2016).

The Personal Information Protection Act

The Personal Information Protection Act was enacted on March 29, 2011 and went into effect on September 30, 2011. The scope of the Personal Information Protection Act covers anyone dealing with personal information in the private and public sectors.

If a person's personal information is collected or used, or provided to a third person, such person's consent should be obtained, and if personal information is no longer necessary upon achievement of the purpose of the collection and use of personal information, such information should be immediately destroyed.

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Any transaction requiring identifiers granted by law for identification purposes, such as the resident registration number, is generally prohibited, and exceptions are recognized on a restrictive basis only if consent is obtained or if required by law. In addition, any person dealing with personal information as determined pursuant to the Presidential Decree, for instance, such as signing up for a Web site, should provide methods other than using the resident registration number.

In the event of a personal information leak, the processor of personal information should promptly notify the affected person after discovering such incident. If the volume of the leak of personal information exceeds a certain number, the processor of personal information should report the incident to the authorities and take necessary measures to minimize damages.

In addition, the same legislation grants to each individual the right to request perusal, the right to request correction or deletion, and the right to request suspension of process with respect to one's personal information, and also provides the methods to exercise such rights.

To promote prompt and fair settlement of disputes concerning personal information, the same legislation also provides that a Personal Information Dispute Settlement Board, or PIDSB, should be established and the PIDSB's decision, if accepted by the disputing parties, should have the same legal effect as settlement by trial. In consideration of the fact that most identity theft cases are large in scale and small in the amount of monetary damages, the legislation adopts a collective dispute settlement system. A class action system for personal information has been adopted, but in order to prevent frivolous class action suits, litigants are required to go through the collective dispute settlement system prior to bringing a class action and cases are limited to those seeking suspension or injunctive relief.

Prior to the amendment dated August 6, 2013, the Personal Information Protection Act permitted the process of personally identifiable information (resident registration number, passport number, driver's license number and foreigner registration number) under limited circumstances such as when required by law or when consent is obtained, and mandated the implementation of security measures to prevent possible loss, theft, leak, alteration or compromise of personally identifiable information. However, it was not successful in deterring massive leaks and misappropriations of resident registration numbers and large companies responsible for such leakage escaped civil and/or criminal liabilities on numerous occasions, which increased public distrust and raised concerns about further damages resulting from such leaks and misappropriations.

Against the backdrop of the foregoing, the Personal Information Protection Act was amended partially as of August 6, 2013 with respect to personally identifiable information, which went into effect on August 7, 2014. The key amendments are: (i) in principle, no person dealing with personal information is permitted to process resident registration numbers (newly added Article 24-2); (ii) in the event of loss, theft, leak, alteration or compromise of resident registration numbers, an administrative fine not exceeding Won 500 million may be imposed (newly added Article 34-2); and (iii) it is made clear that if there is substantial ground to suspect a violation of applicable laws and regulations with respect to personal information protection, the Minister of Safety and Public Administration may advise a relevant personal information processor to take disciplinary action against liable person(s) which include the representative director and responsible executive officers (Article 65(2)). Such amendments purport to prevent any possible leak of resident registration numbers and induce companies to discharge to the fullest extent their responsibilities for the protection of personal information such as resident registration numbers.

Following the continued occurrence of personal information leakage incidents on information and communication networks in the financial business sector, the Personal Information Protection Act was amended on March 24, 2014 (to be enforced on January 1, 2016) to obligate personal information processors who store resident registration numbers to encrypt resident registration numbers as part of an effort to minimize damages from leakage of personal

information.

The revised Personal Information Protection Act went into force as of July 24, 2015 with the understanding that the level of awareness for personal information protection was still low despite the

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Personal Information Protection Act that was enacted and took effect in 2011. The revised act sought to strengthen sanctions against personal information-related crimes by (i) strengthening the function of the presidential Personal Information Protection Committee; (ii) implementing a punitive damage compensation system and a statutory damage compensation system to strengthen relief measures for damages arising from personal information leakage; (iii) requiring the forfeiture/collection of criminal proceeds obtained through illegal distribution of personal information; and (iv) introducing new penalties imposed upon those who provide personal information obtained by unjust means to others for profit, etc. Under the revised act, the court may decide on the amount of damages not exceeding three times the amount of actual damages, when the information subject suffers damages due to the loss, theft, leakage, forgery or falsification of, or damage to, personal information due to willful intent or gross negligence by a personal information processor. Also, the information subject may claim for damages in the amount equivalent to up to KRW 3 million in case of damages incurred through the loss, theft, leakage, forgery or falsification of, or damage to, personal information due to willful intent or gross negligence of the personal information processor. In this case, the personal information processor shall not be able to avoid liability unless he/she proves the absence of such intent or gross negligence.

The Korean Civil Code and the Act on the Establishment and Management of the Korea Communications Commission

Pursuant to the Korean Civil Code, contracts entered into with minors, who were persons under 20 years of age, without parental consent under the Korean Civil Code prior to its amendment, may be invalidated. The definition of minors is changed to persons under 19 years of age in the amendment to the Korean Civil Code on March 7, 2011, which became effective on July 1, 2013. Under the Act on the Establishment and Management of the Korea Communications Commission, the Korea Communications Commission (KCC) was established to oversee services relating to broadcasting and communications and also to deliberate and resolve matters concerning the protection of users' information and communications. As a result, telecommunications service contracts and online game user agreements are required to specifically set forth procedures for rescinding service contracts, which may be entered into by persons under 19 years of age without parental consent.

In November 2003, the KCC issued an order addressed to 15 major online game companies in Korea, including us, to regulate certain business practices relating to the settlement of service charges involving minors. The KCC raised concerns about the ability of minors to subscribe to online game services without parental consent by settling charges payable to online game companies through settlement systems operated by fixed-line or broadband service providers. The order required online game companies to implement more specific and effective procedures to ensure, where relevant, that parental consent has been specifically obtained.

Although only a small number of our current subscribers were using the settlement options mentioned in the KCC order, we have enhanced our age verification and parental consent procedures for players using the relevant settlement options.

In April 2014, to help prevent damages from payments made by minors or unauthorized persons, the KCC required mobile application market providers to strengthen the security apparatus in a charged mobile application as follows: (i) to require setting up a password and entering it before the purchase of a charged mobile application, (ii) to standardize the phrases that indicate the application is a charged one and requires purchase and (iii) to provide certain major notices including the refund policies on the first page of the purchasing process.

Copyright Act

The Copyright Act, which was amended on April 22, 2009, was established by combining the Copyright Act on the protection of general works and the Computer Programs Protection Act on the protection of computer program works in order to maintain the consistency of copyright protection policies and seek an efficient administration thereof. In addition, the Korea Copyright Commission was

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established by combining the existing Copyright Commission and the Korea Software Copyright Committee, thereby improving the protection of copyrights and the efficiency of its operation. The amended Copyright Act also includes essential elements of the Computer Programs Protection Act which was abolished on July 23, 2009 and, in connection with computer program works, restrictions on software copyrights, reverse analysis of computer programs, and the establishment of the exclusive right to issue computer programs as a special case apart from other kinds of works.

The Copyright Act was amended on June 30, 2011. The amendment extends the period of copyright protection from 50 years to 70 years after the death of copyright holders in order to implement the agreements in the Korea-EU Free Trade Agreement.

The Copyright Act was further amended on December 2, 2011 and went into effect on March 15, 2012, when the Korea-US Free Trade Agreement took effect, in order to promote the protection of rights of copyright holders and fair use of copyrighted materials by amending the relevant provisions necessary for implementing the Korea-US Free Trade Agreement, such as recognition of temporary storage as copying, introduction of a system of fair use of copyrighted materials, prohibition of acts of infringement on the rights of copyright holders including the distribution of forged labels, and the introduction of statutory damages in accordance with the agreements in the Korea-US Free Trade Agreement and to improve and supplement other issues discovered during the operation of the current system. In connection with the amendment to the Copyright Act, the Enforcement Decree and the Enforcement Rules of the Copyright Act were also amended on December 2, 2011 in accordance with the content of the Act.

The key contents of the amendment to the Copyright Act on December 2, 2011 regarding online game development and services are as follows:

- (1) In order to protect the rights of copyright holders in a digital environment, the amendment specifies that temporary storage falls under the scope of copying but allows temporary storage to be extent it is deemed necessary for smooth and efficient information processing; and
- (2) An online service provider will be deemed not liable for copyright infringement: (i) if the online service provider has adopted and reasonably implemented a policy of terminating the account of a person who infringed copyrights or (ii) if the online service provider has accepted and not interfered with a right holder's use of standard technical measures for identifying and protecting copyrighted materials.

The Juvenile Protection Act

The Juvenile Protection Act, as amended on February 29, 2008, prescribes the establishment of the Juvenile Protection Commission under the authority of the Minister of the Ministry of Health and Welfare in Korea, formerly known as the Ministry for Health, Welfare and Family Affairs, or the MIHWAF, which has the authority to designate the types of media harmful to juveniles. Under the Juvenile Protection Act, any person who intends to sell, lend or distribute media materials harmful to minors or provides them for viewing or utilization is required to confirm the age of the intended user, and shall not sell, rent or distribute such materials, or provide them for viewing or utilization, to minors. A person in violation may be punished by imprisonment for a maximum of three years or by a fine not exceeding Won 20 million.

On March 4, 2009, the MIHWAF issued a public notice announcing that Web sites for trading items are considered harmful mass media to minors based on the findings of Juvenile Protection Commission that such Web sites for trading online game items are likely to encourage gambling and speculation and negatively influence juveniles. In the public notice, the MIHWAF prohibited any person under the age of 19 from visiting Web sites for trading online game items, effective from March 19, 2009.

A Web site for trading items is a Web site which offers the services of a brokerage or agency for the trading of tangible or intangible things gained from online games as prescribed in the Promotion Act. A Web site for trading items needs to specify on its Web site that access is not allowed for minors, and any

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person visiting such Web site is required to go through the adult certification process. Any Web site operator found to be operating such Web site in breach of the requirements under the public notice is subject to a maximum of 3 years of imprisonment or a maximum fine of Won 20 million. On June 3, 2009, Item Bay Co., Ltd., one of the leading Web sites in Korea for trading online game items, initiated an administrative proceeding against the MIHWAF seeking cancellation of the MIHWAF's public notice. Item Bay Co., Ltd. argued that game items are purchased by users at their own discretion depending on their necessity, and remote from speculative activity. Therefore, Web sites for trading online game items do not fall under media harmful to minors. Nevertheless, the court ruled against Item Bay, rendering that Trading items on Item Bay falls under speculative activity as it is hard for game users to resist the temptation of cash trades through which they may easily gain items, which will cause users to be attracted to the cash convertibility of items rather than the game itself, and the ruling was confirmed by the Supreme Court in 2010.

While we offer virtual in-game items for sale to our users on the game Web sites that we operate in Korea, we do not broker the trade of such game items or any other tangible or intangible acquisitions obtained by using online games among our users, and currently do not fall under the category of Web site for trading items. In Korea, however, minors account for a significant percentage of online game users. As they are now prohibited from trading items on Web sites, including virtual in-game items, such prohibition may materially and adversely affect the online game industry in general, which may well have a material adverse effect on our business, financial condition and results of operation.

The Juvenile Protection Act was partially amended on May 19, 2011 and went into effect on November 20, 2011. Under the amendment, online game providers may not provide online games to minors under the age of 16 late at night (specifically, from midnight until 6:00 a.m.) and any provider violating the provision is subject to imprisonment for no more than 2 years and a penalty not exceeding Won 10 million. As an exception, for internet games using apparatus that would not likely cause serious internet game addiction and are specified under the Presidential Decree, including smartphones, tablet PCs and consoles (except for console games that are not provided for free), the late-night restriction became effective as of May 20, 2013.

According to the recent announcement made during the Conference on Creation of New Content Markets through Convergence of Culture and ICT recently held by the MSIP and the MCST, a new system will be implemented to allow children/youths to use game services during night time upon request from their parents, giving an option to parents.

The Juvenile Protection Act was further amended on September 15, 2011 and went into effect on September 16, 2012. The key contents of the amendment are as follows:

- (1) The amendment expands the category of businesses which minors are prohibited from entering, or are prohibited from hiring minors, to include those business which provide combined distributed games and business places which provide Internet game facilities;
- (2) The amendment requires protective measures equivalent to packaging;
- (3) The amendment requires a person who intends to sell, rent, distribute or provide any media harmful to minors to check the ages and IDs of his or her counterparties;
- (4) The amendment prescribes that if a person distributes any media harmful to minors through the information and communications network, the Minister of Gender Equality and Family may publicly post the identity of such person and the content of the violation; and

(5) The amendment requires parental consent when a minor under age 16 joins an Internet game as a member and requires the information on the minor's use of games to be reported to the guardians.

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This Juvenile Protection Act was yet further amended in part on January 17, 2012, which became effective on April 17, 2012. The key contents of the amendment are as follows:

- (1) The amendment specifies the basis of establishing the Harmful Media Materials Review Subcommittee to assist the Commission on Youth Protection with the review and determination of media materials harmful to minors; and
- (2) The amendment reduces the review period for reconsideration of media materials harmful to minors from the current 60 days to 30 days considering that the review period for re-classifying movies and games is 15 days.

A subsequent amendment of the Juvenile Protection Act dated March 22, 2013, (i) added a new provision, in response to increasing business operation of various new forms such as business providing facilities for both video products and games, to further expand the category of business which minors are prohibited from entering, or are prohibited from hiring minors, by including the business providing combined media materials, based on the general consensus that such business is harmful to minors (Article 2(5)); and (ii) in order to enhance the protection of juveniles from harmful media products, clarified the scope of persons under a duty to affix a mark indicating harmfulness to juveniles, which previously had been delegated to the promulgation by the Presidential Decree, by specifying them within the Juvenile Protection Act as persons who manufacture, import, duplicate or provide games (Article 13).

Before a revision to the Juvenile Protection Act on June 22, 2015, materials that were not deliberated on/determined as materials harmful to youth were subject to a rating and indication of content information on sexual explicitness, violence, etc. In practice, however, materials that were given an advance rating were already subject to indication of content information under applicable laws, which made the regulation redundant, while it was impossible to indicate content information after distribution in case of materials subject to an ex post facto deliberation such as information and communication materials, which left the act without any practical benefit. It was against this background that the revised Juvenile Protection Act, which eliminated the provision requiring indication of content information of materials, took effect on June 22, 2015, mitigating the burden of the manufacturers and distributors of materials, including games.

Japan

Japan does not currently have any national government regulations targeted specifically at the online game or mobile game industry. Some regulations that are relevant to or that may affect the online game and mobile game industries are described below.

Protection of personal information

Businesses in Japan are subject to certain statutory requirements with respect to personal information acquired during the ordinary course of business. Pursuant to these statutory requirements, businesses must set up appropriate procedures to protect personal information from use for any purpose other than the intended purpose.

Regulations on sound upbringing of minors

In Japan, Internet and game software content is generally regulated at the local, rather than the national, level. Many local governments have ordinances regarding the sound upbringing of minors, which empower competent authorities to designate game software as detrimental to the sound upbringing of minors and prohibit the sale or distribution to minors of such designated game software. In addition, the Computer Entertainment Rating Organization, or CERO, a nonprofit organization, offers rating services for home-use games, including online and mobile games. Game developers may request a rating for their game software from CERO, which will then review such software and assign

one of the following five ratings: suitable for users of all ages, suitable for users 12 years old or older, suitable for users 15 years old or older, suitable for users 17 years old or older, and suitable only for users

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18 years old or older. Ratings are based on, among other factors, the degree of sex, violence and anti-social expression in the game software content. Once a rating is assigned, the relevant game software must prominently display such rating.

United States***Game Ratings and Attempts to Regulate Access to Children***

Most video game software publishers comply with the standardized rating system established by the Entertainment Software Rating Board, or the ESRB, a non-profit, self-regulatory body established in 1994 by the Entertainment Software Association, or the ESA. The ESRB rates video games submitted by video game publishers; the ratings include both a symbol for age appropriateness (e.g., E for Everyone or M for Mature) and a content descriptor (e.g., Blood and Gore or Intense Violence). The ESRB specifically excludes any online interactions from the rating, as the ESRB is unable to review content, such as chat, text, audio and video generated by other users in an online environment. In 2015, the ESRB, in partnership with the International Age Rating Coalition, extended the ESRB rating system to games accessible via mobile and digital marketplaces.

The ESRB has rated our games as follows: Requiem is rated Mature, Ragnarok Online is rated Teen, and R.O.S.E. Online and Dragon Saga are rated Everyone 10+.

By submitting a game to the ESRB and using an ESRB rating, a video game publisher must agree to adhere to advertising and packaging guidelines for the rated game, such as using appropriate advertising content and not targeting any advertisement for a game rated Teen, Mature or Adults only to consumers for whom the product is not rated as appropriate. The Advertising Review Board has been granted the oversight and enforcement authority for compliance with the advertising guidelines. The ESRB ratings must be displayed on both the front and back of game packaging in compliance with the ESRB requirements. The ESRB may enforce sanctions against game producers for failing to label their product properly, including fines up to \$1 million, and/or product recall. Games that are digitally available via download may be taken down for incomplete content disclosures. Although submitting a game to the ESRB is voluntary, many retailers will not sell games without an ESRB rating.

The United States Federal Trade Commission, or the FTC, has also taken action with respect to improper ratings pursuant to its broad authority to prohibit fraudulent, deceptive, or unfair business practices. For example, in response to allegations that two videogame publishers failed to disclose hidden nudity and sexually-themed content to the ESRB during the ratings process, the FTC issued a consent order compelling the videogame publishers not to, expressly or implicitly, misrepresent the ratings or content descriptors of their video games and to maintain a system that ensures that all of the content in their video games is considered and reviewed in preparing submissions to the ESRB. The FTC has posted an online form on its Web site for the public to file complaints regarding video game ratings that do not accurately reflect of the content of the game, and has posted a primer for parents describing the ESRB ratings, parental controls, and other video game resources. The FTC issues periodic marketing reports to Congress and in 2009, the FTC reported that 20% of underage undercover shoppers were able to purchase M rated video games. An Undercover survey in 2010-11, however, showed a statistically significant improvement with only 13% of underage shoppers being able to purchase M rated games. That statistic remained at 13% in the 2012 undercover survey, which noted that it is more difficult for an underage consumer to buy an M-rated video game at retail than to see a violent film in the movie theater.

A number of bills have been introduced in Congress to specifically regulate the sale of video games with violent content to minors, but currently no such federal laws are in effect. Several states and cities have enacted or are considering laws that would regulate game industry content and marketing, including the rental or sale of games with

violent content by or to minors.

For example, the State of Maryland has enacted a law that regulates the sale of video games with explicit sexual content to minors. The Maryland law has not been challenged in court, remains in force, and is supported by the ESA. Other states have enacted laws that require the posting of signs providing

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information about ESRB ratings. To date, laws that regulate the sale of video games based on content, when challenged, have been declared unconstitutional. Most prominently, the United States Supreme Court ruled in 2011 that a California law that imposed fines on retailers that sell certain violent video games to minors violated the First Amendment of the U.S. Constitution. The Court held that video games represent a form of protected expression under the First Amendment, and that California's statute, no matter how well intentioned, lacked adequate justification for the regulation of such speech. Yet, lawmakers may persist in attempting to pass regulation restricting the sale of violent video games to minors, particularly in the wake of several well-publicized incidents of mass violence. A bill proposed by Senator Rockefeller in 2013, the Violent Content Research Act, proposed the National Academy of Sciences study the relationship between real-world violence and virtual-world violence in video games in hopes that conclusive statistical and scientific data could support renewed call for legislation. President Obama also called upon the Center for Disease Control (CDC) and scientific agencies to conduct research on the causes and prevention of gun violence, including investigating the relationship between video games, media images and violence, though Congress has not approved funding for the research.

Federal and state legislators have also attempted to regulate violent content in video games via the tax code. The Federal Tax Reform Act of 2014, which was not passed into law, contained a provision that would have disqualified the developers of violent video games from claiming a research and development tax credit. In 2014, and again in 2015, Pennsylvania, state legislators introduced a bill attempting to incentivize video game studios to move to the state by offering a tax credit. The bill specifically excludes the makers of violent video games from eligibility. So far, neither proposal has become law.

Irrespective of any laws or industry guidelines, U.S. retailers have become more reluctant to sell M-rated video games to minors. Consumer advocacy groups have also opposed sales of interactive entertainment software containing graphic violence, profanity or sexually explicit material by engaging in public demonstrations and media campaigns.

Online Collection of Information from Children

The Children's Online Privacy Protection Act of 1998 (COPPA) governs the online collection of personal information from children under 13. Under COPPA, a Web site that knowingly collects information from children under 13 years old, or that in whole or in part is directed to children under 13 years old, must obtain verifiable parental consent before collecting personal information from any child (including first and last name, home address, email address, telephone number, Social Security number, image or likeness, mobile device identifier or other persistent identifier which would permit the physical or online contacting of a specific individual). In 2012, the FTC revised its Rule implementing COPPA to, among other things, expand the definition of personal information to include the passive collection of technological information, such as through cookies or mobile device IDs. Effectively, this means that websites or online services subject to COPPA must obtain verifiable parental consent before engaging in online advertising in many cases. The Web site operator must also post a clear online privacy policy that provides notice of what information is collected from children, how the information is used, and a list of third parties with whom the operator may share or sell the child's information; parents must be given the choice to determine whether the child's information can be shared with third parties, and must also be provided access to the child's information and the opportunity to delete any such information collected. Moreover, the operator must establish and maintain reasonable procedures to protect the confidentiality, security and integrity of any personal information collected from children under 13 years of age. The COPPA also prohibits conditioning a child's participation in a game on the child disclosing more personal information than is reasonably necessary to participate in such activity.

The COPPA authorizes the FTC and the State Attorneys General to bring actions against Web site operators to enforce the statute, and provides for penalties of up to US\$16,000 per violation.

In 2011, the FTC released the results of a study showing that many mobile application providers do not clearly disclose the ways in which they collect and share children's information. The FTC suggests

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that the providers of mobile applications in the kids app ecosystem do more to disclose key information to parents about the types of information they collect from children, and the ways in which that information is shared with third parties.

In 2015, the FTC settled cases against two application developers based on alleged COPPA violations. The FTC alleged that the application developers violated COPPA by permitting third parties to use persistent identifiers to serve advertisements to children. According to the FTC, the application developers failed to inform the advertising networks that the applications were directed toward children and failed to provide notice and get consent to collect the information from the children's parents. The settlements require the application developers to pay civil penalties of US\$60,000 and US\$300,000 and prohibits the companies from committing further violations of COPPA. These cases were the first in which the FTC found a COPPA violation solely based on the collection of personal information through third party advertising cookies.

Protection of Personal Information

Most states have some form of specific legislation regarding the protection of personal information collected, processed, maintained or used in electronic form, as well as specific notification procedures in the event that such information is accessed by unauthorized individuals. Under these laws, among other things, businesses are required to implement and maintain reasonable security measures designed to protect the computerized personal information of its customers or users from unauthorized access, disclosure or use. These measures may require the encryption of sensitive data, such as credit card numbers, social security numbers, bank security access codes, etc. In the event that a business suffers a security breach, these laws generally require the business to provide notice of such breach to each individual user affected by the breach, and in some circumstances, to the State Attorney General, the FTC, or other state or federal agencies. In addition, if such personal information is accessed by unauthorized individuals as a result of the business' failure to use reasonable measures to protect the information, the business may be liable to those customers for any misuse of such personal information and may be liable for statutory fines or penalties, as well as civil and even potential criminal prosecution by government authorities. In 2014, California and Florida expanded the definition of personal information to include a user name or email address in connection with a password or security question that would permit access to an online account. Theft, loss or unauthorized access to these data elements would trigger mandatory breach notification obligations in these jurisdictions.

Privacy Policy Requirements

The FTC and many states require an operator of a Web site or online service that collects personal information from users to develop, maintain and post on its Web site a privacy policy that informs its customers and users of the categories of personal information that are collected by the operator, how that personal information is used and shared with third parties and how users may change or update such information and opt out of its collection and use. While most states have generally not imposed statutory fines or penalties on an operator for failing to comply with its privacy policy, an operator may be directly liable to its customer or users if it fails to comply with its posted privacy policy if such noncompliance harms the users. The FTC, however, has initiated numerous investigations and imposed significant civil penalties in several cases involving alleged failures by companies to comply with the representations made in their online privacy policies and/or adequately disclose the companies' actual practices in such policies. In 2011, for instance, Google entered into a settlement agreement with the FTC in which Google agreed to be subject to twenty years of privacy audits and to revise its privacy practices in response to FTC charges that Google used deceptive tactics and violated its own privacy policy when it launched its social network, Google Buzz, in 2010. The Google settlement comes amidst increasing pressure from the FTC on online service providers to conspicuously and accurately disclose their user data collection and disclosure practices. This is especially true in the mobile context, where new technologies have presented novel consumer privacy questions. Specifically, the collection and use of

mobile geolocation and device identifier data have come under increased FTC scrutiny in the past year. Similarly, the California

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Attorney General has explicitly stated that mobile device applications must comply with the state privacy disclosure regulations and has initiated enforcement against mobile apps which failed to post a privacy policy.

In February 2013, the FTC released a Staff Report on mobile privacy disclosures which recommends that mobile app developers post a privacy policy accessible through the app or the app store, provide just-in-time disclosures and obtain affirmative express consent when collecting sensitive information such as children's data. The FTC Report also encourages mobile app developers to consider participating in self-regulatory programs, trade associations and industry organizations which may provide guidance on short-form privacy disclosures. The FTC has increased its scrutiny of mobile platforms and mobile apps and brought several consent decrees against app developers in 2011, 2012, 2013, 2014 an