

"Always On Your Side"

Results of Operations for
the Third quarter ended January 31, 2010

March, 2010

ZAPPALLAS
ZAPPALLAS, INC.

Tokyo Stock Exchange First Section: Code No. 3770

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Business Topics for the Third Quarter of FY2010

Consolidated Performance

- Net sales increased by 8.8%, and operating income decreased by 1.5% (from the same period in the previous year)
- The number of “monthly fee” subscribers increased by 55,000 (from the previous quarter)
- There were 2,375,000 subscribers at the end of the third quarter.

Digital Contents Business

Mobile site totaled 389, with 18 new site launched
29 new PC site were launched

- 8 new fortune-telling site, 3 new ‘decome®’ site, 4 new standby site and 3 new game site were launched
- Zappallas’ noted fortune-teller supervision contents performed continuously well (“Shuheï Shimada •Teso Uranai”)

Commerce Business

- “Pocket Market” performed well, with sales up from the same period in the previous year

Others Business

- Commenced our fee-based “Miku Miku Aisho Uranai” service
- Began supplying two fortune-telling applications to Moba-ge Open Platform

Revision of full-year business forecasts

- Announced a downward revision of full-year business forecasts on February 25, 2010

*For details, please refer to page 23.

3Q / FY2010 Quarterly Consolidated Statements of Income (Quarterly Base)

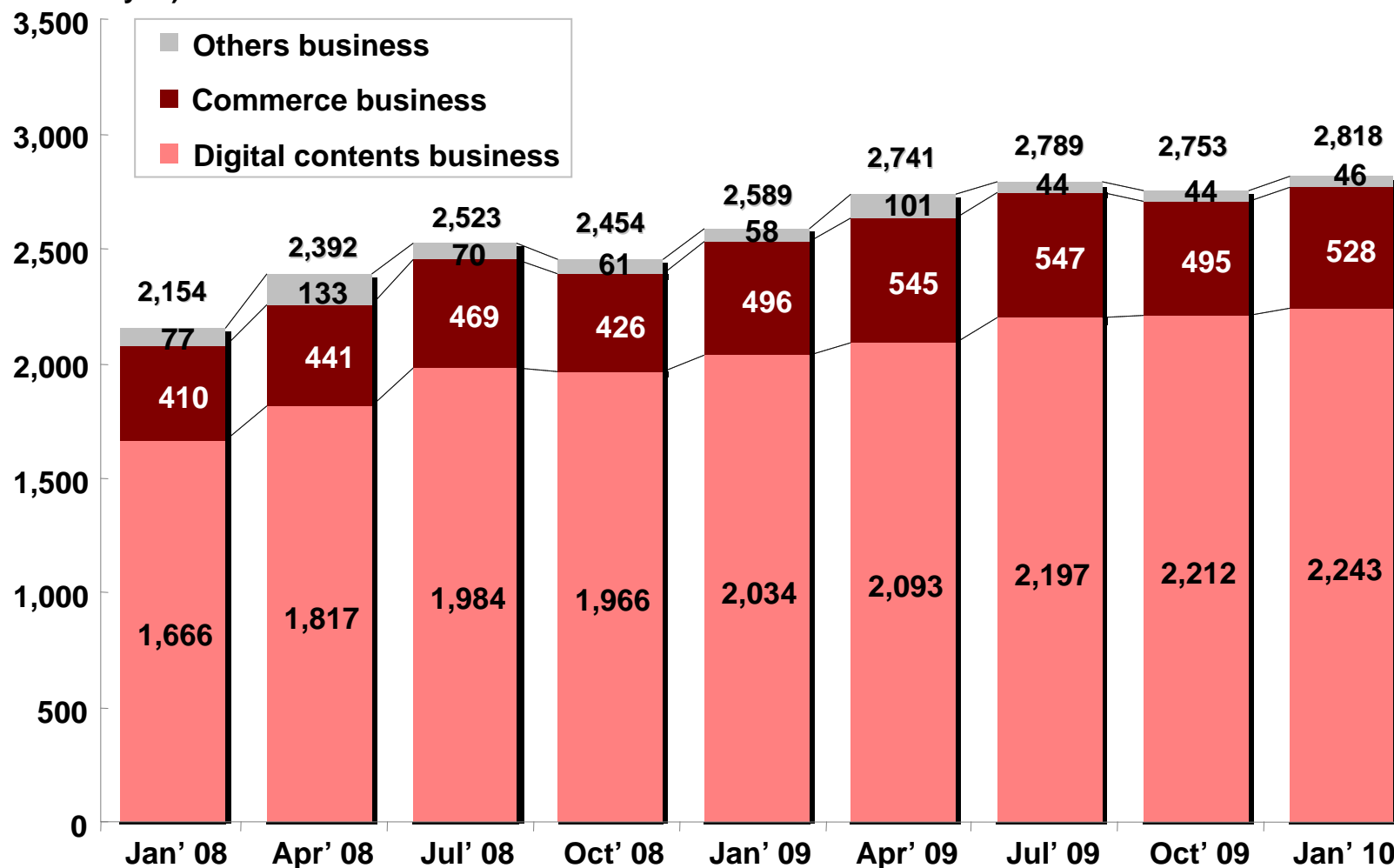
	FY 2010 3Q		FY 2009 3Q		YoY change	FY 2010 2Q	
	Million yen	%	Million yen	%		Million yen	%
Net sales	2,818	100.0	2,589	100.0	108.8	2,753	100.0
Gross profit	1,941	68.9	1,679	64.9	115.6	1,876	68.2
SG&A expenses	1,232	43.7	959	37.1	128.4	1,142	41.5
Operating income	709	25.2	720	27.8	98.5	734	26.7
Ordinary income	711	25.2	715	27.6	99.4	734	26.7
Net income	315	11.2	423	16.4	74.4	430	15.6

Consolidated Net Sales Transition (Quarterly Base)

The record for highest net sales in the quarter was broken.

The breakdown was: digital contents business 2,243 million yen, commerce business 528 million yen (of which 163 million yen came in sales made by subsidiaries), and others businesses 46 million yen.

(Millions of yen)

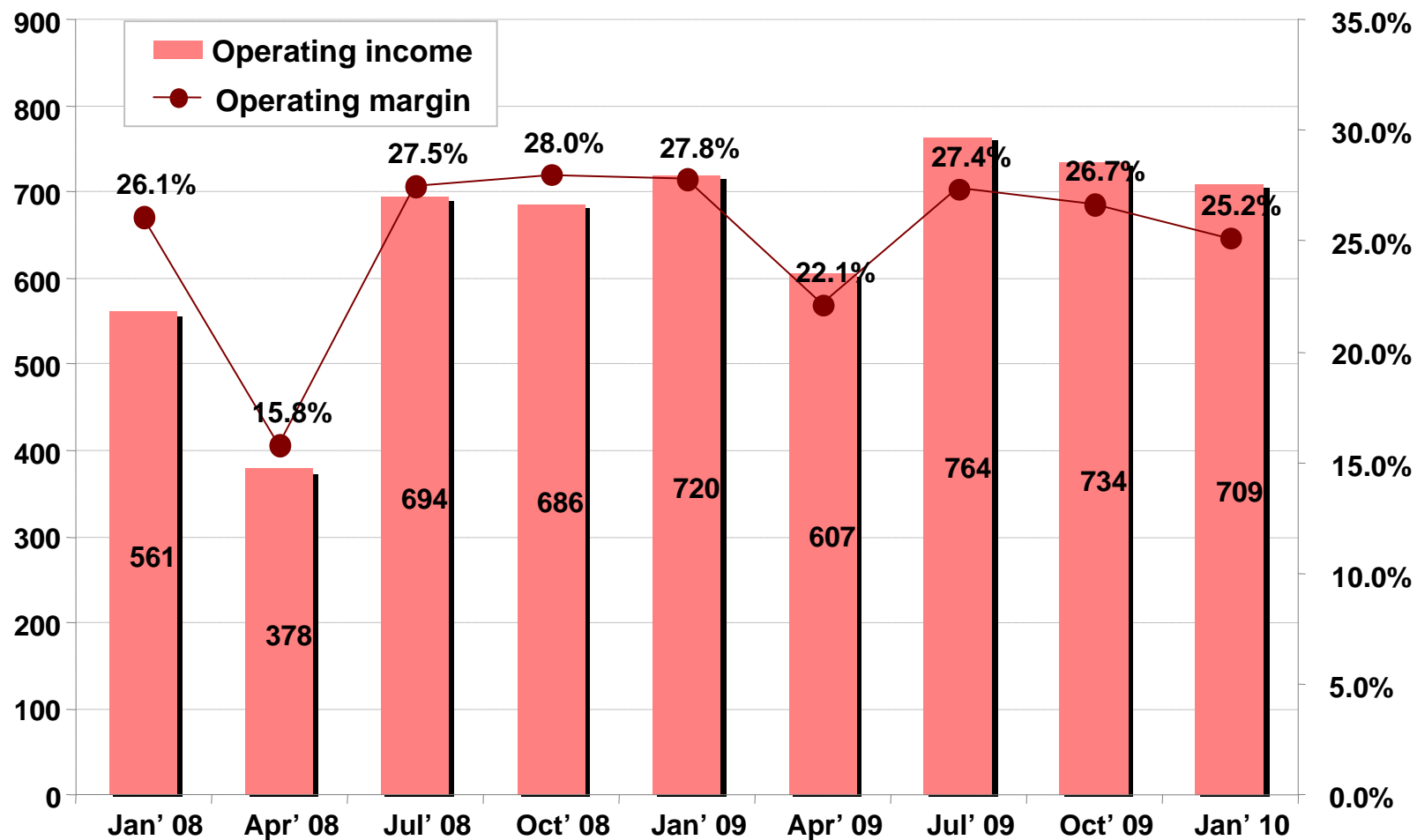


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Consolidated Operating Income Transition (Quarterly Base)

Operating margin fell 1.5 points from the previous quarter, due to increases in advertising costs.

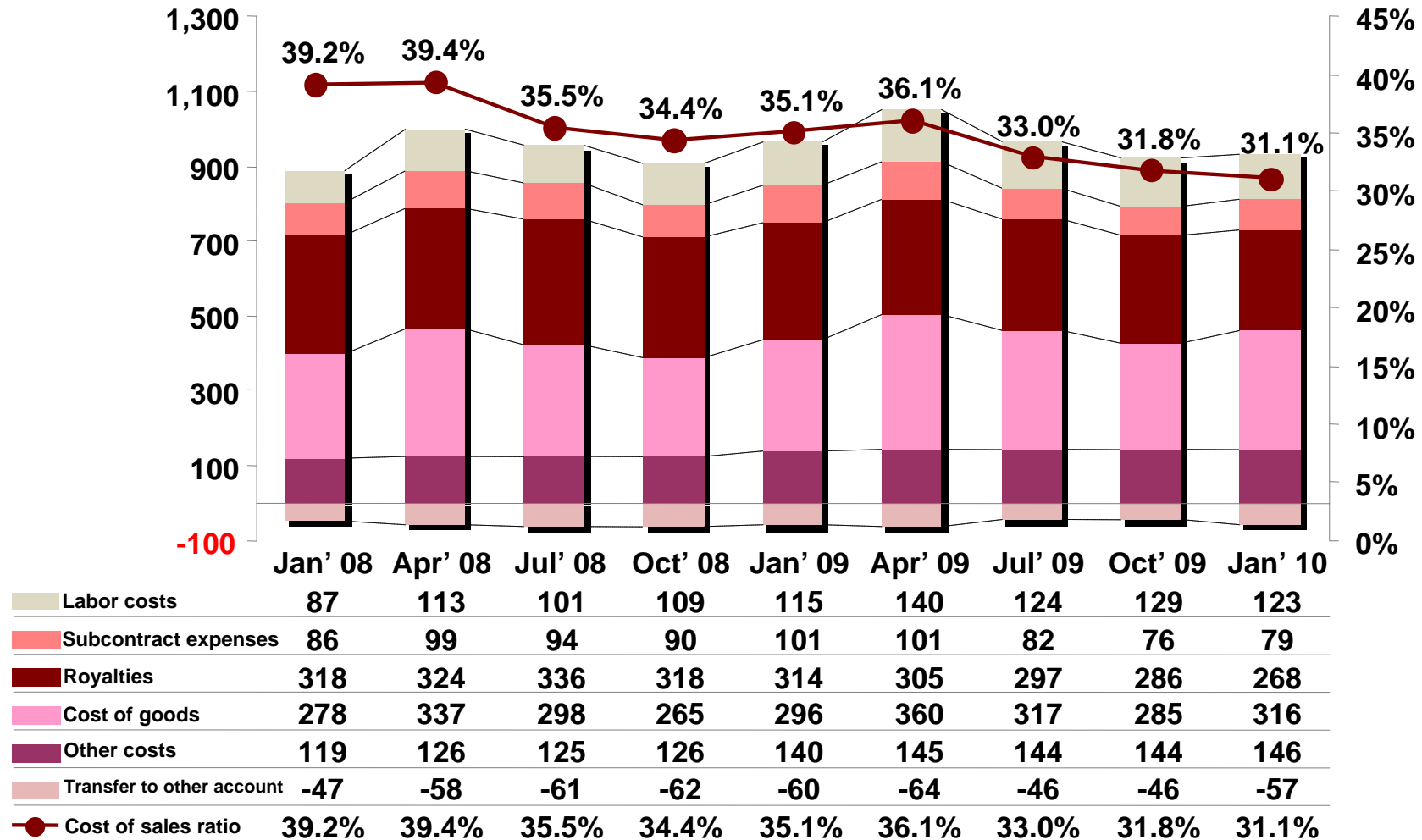
(Millions of yen)



Consolidated Cost of Sales Transition (Quarterly Base)

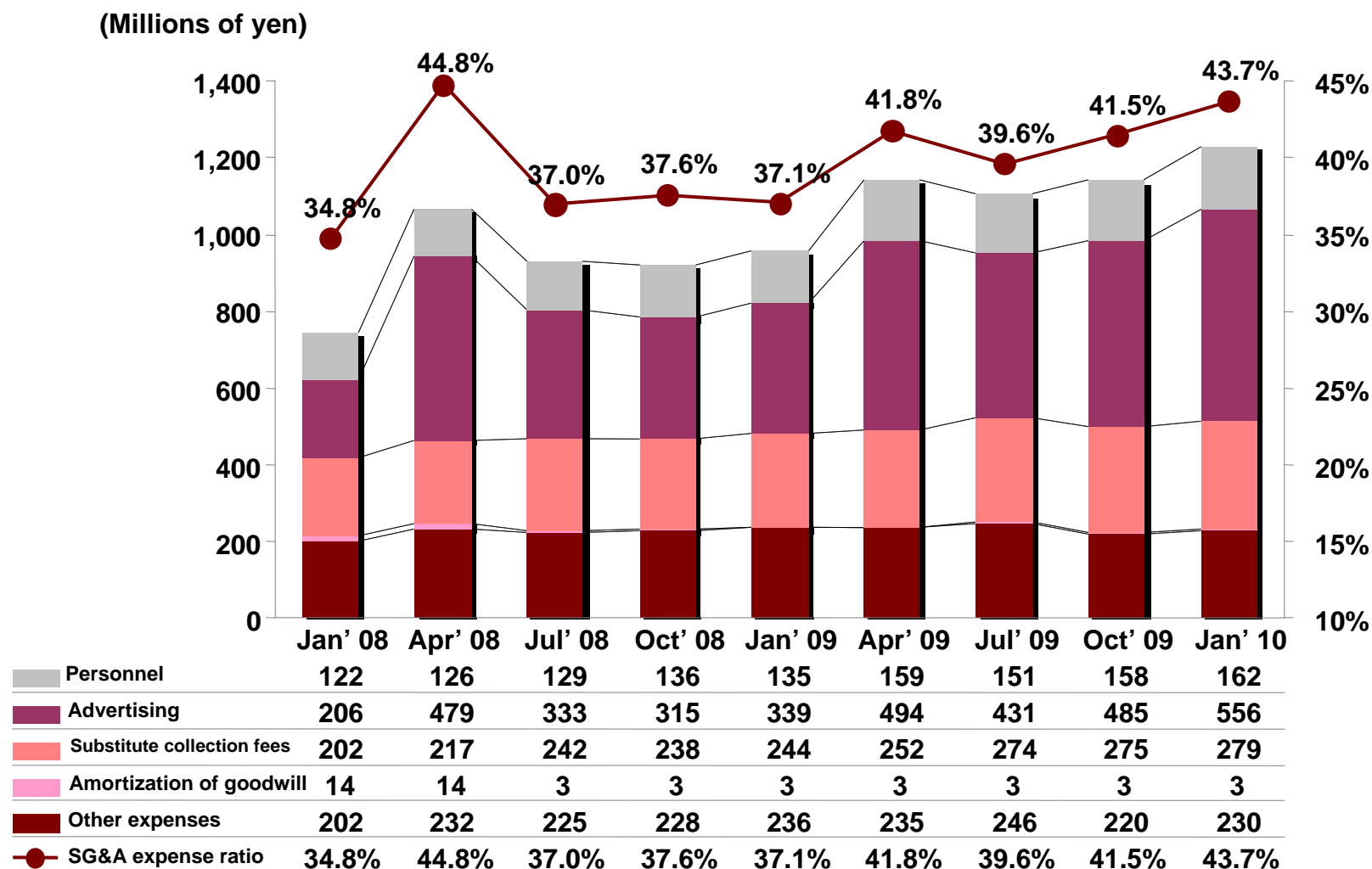
Cost of sales rate fell 0.7 points from the previous quarter, due to decreases in royalties.

(Millions of ven)



Consolidated SG&A Expenses Transition (Quarterly Base)

The selling, general and administrative expense ratio increased 2.2 points from the previous quarter, due to increases in advertising.



3Q / FY2010 Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of Jan. 31, 2010		As of Oct. 31, 2009		Change
Current assets	6,499	77.4%	6,456	77.7%	43
Non-current assets	1,887	22.5%	1,857	22.3%	30
Property, plant and equipment	144	1.7%	79	1.0%	65
Intangible assets	443	5.3%	445	5.4%	(2)
Software	202	2.4%	206	2.5%	(4)
Goodwill	216	2.6%	220	2.7%	(4)
Other	24	0.3%	19	0.2%	5
Investments and other assets	1,299	15.5%	1,332	16.0%	(33)
Total assets	8,387	100%	8,314	100%	73
Total liabilities	1,424	17.0%	1,681	20.2%	(257)
Total net assets	6,963	83.0%	6,632	79.8%	331
Total liabilities and net assets	8,387	100%	8,314	100%	73

3Q / FY2010 Quarterly Consolidated Cash Flows

(Millions of yen)

	FY2010 3Q (nine months) (May, 2009 to Jan, 2010)	FY2010 2Q (six months) (May, 2009 to Oct, 2009)	FY2010 3Q (three months) (Nov, 2009 to Jan, 2010)
Cash flows from operating activities	939	775	164
Cash flows from investing activities	(423)	(248)	(175)
Cash flows from financing activities	(518)	(528)	10
Increase (decrease) in cash and cash equivalents	(2)	(1)	(1)
Cash and cash equivalents at end of period	4,041	4,042	4,041

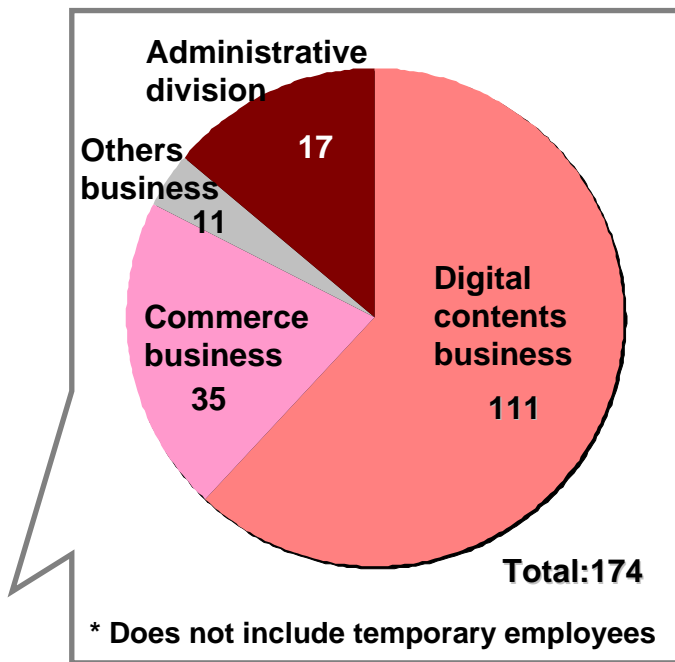
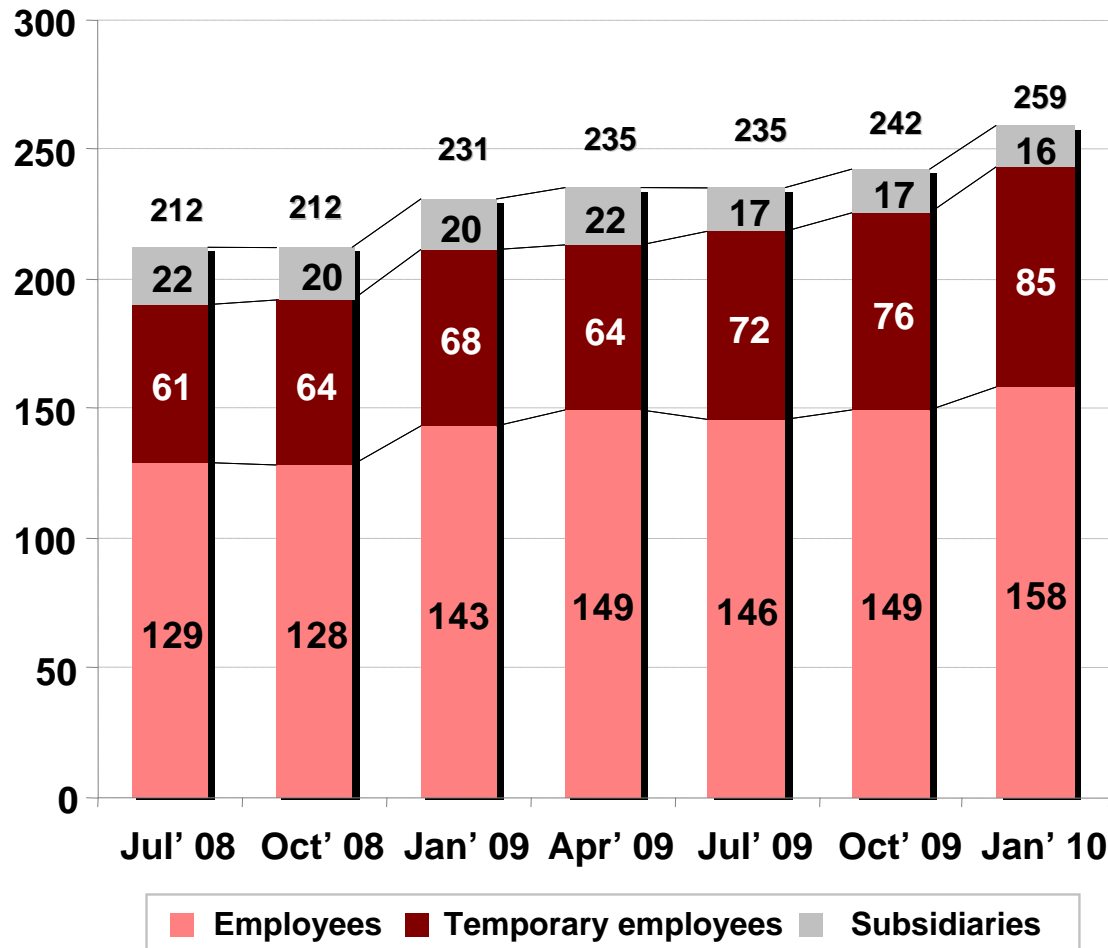
Income before income taxes 536 million yen
 Income taxes paid (589) million yen
 Equity in earnings (losses) of affiliates 174 million yen etc.

Purchase of property, plant and equipment (52) million yen
 Purchase of intangible assets (53) million yen
 Payments for guarantee deposits (79) million yen etc.

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Number of Employees Transition (Consolidated)

(Employees)



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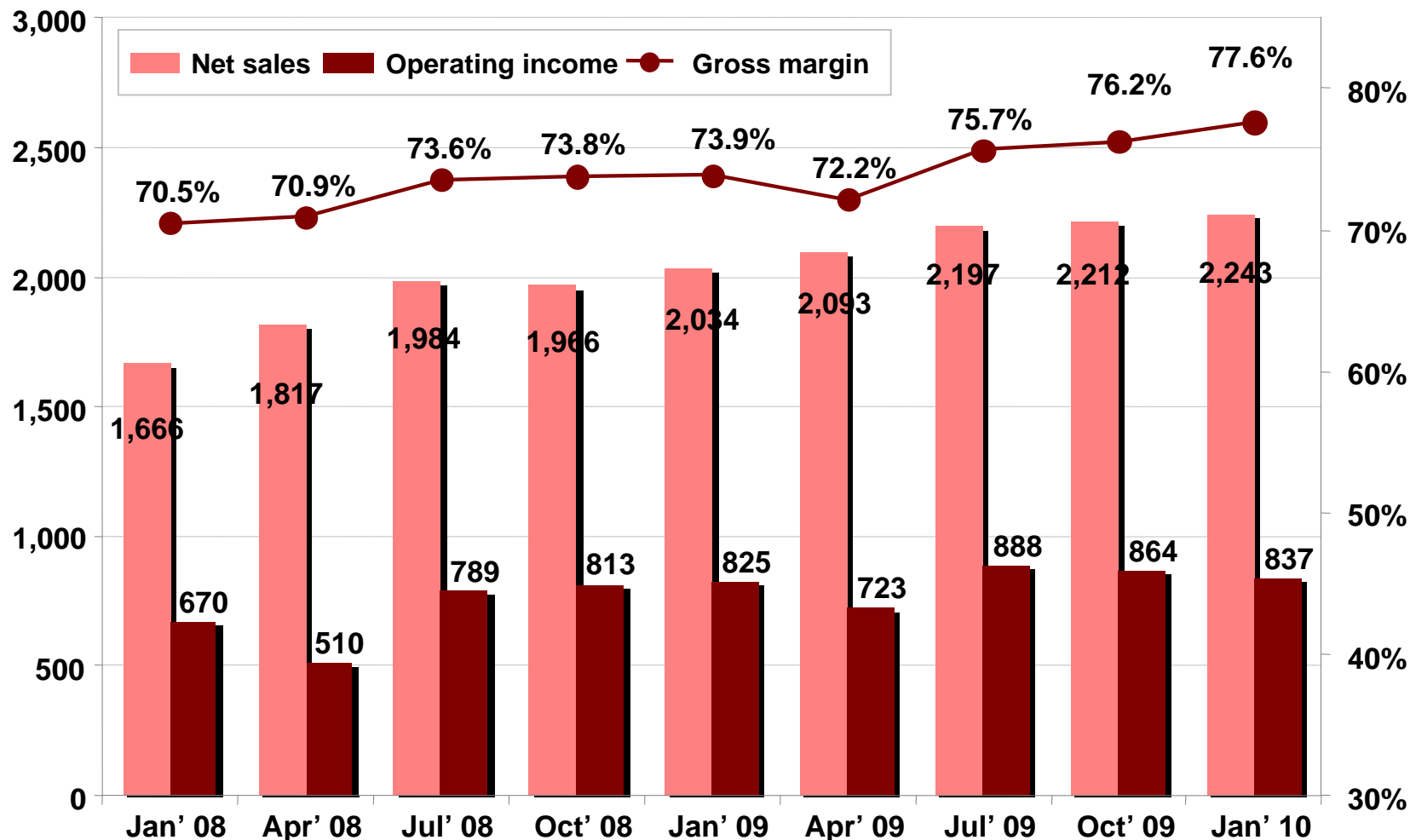
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Digital Contents Business – Performance Transition (quarterly base)

Due to an increase in the ratio occupied by 'decome', which has a high gross margin, the royalty rate improved further, and the trend of gross margins increasing will continue.

(Millions of yen)



Main Items of Expense in Digital Contents Business

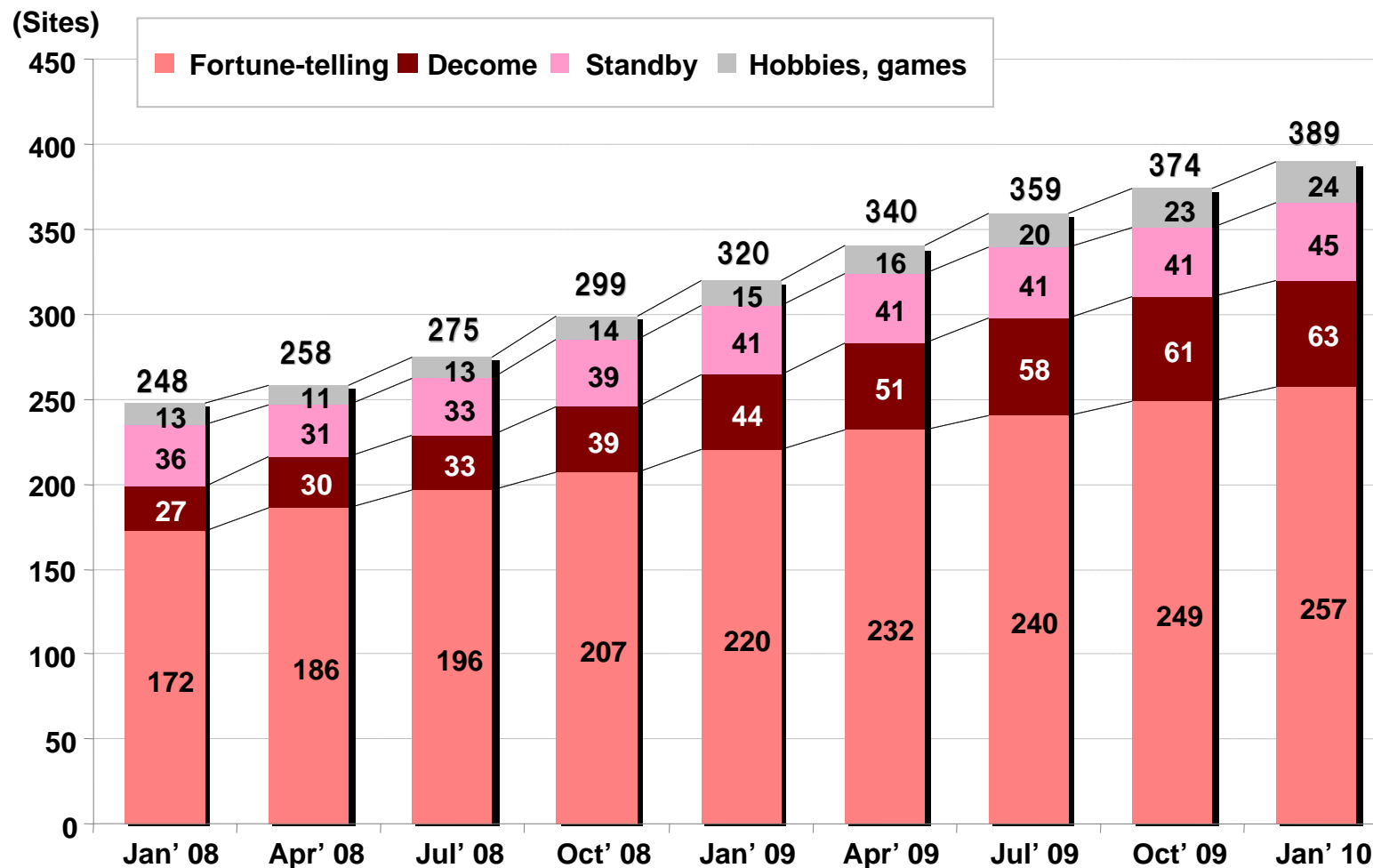
In comparison with the same quarter last year, royalties fell 4.0 points, while advertising increased 7.7 points.

(Millions of yen)

Item		FY 2010 3Q	% to net Sales	FY 2009 3Q	% to net sales
Cost of sales	Labor	120	5.4%	109	5.6%
	Royalties	268	12.0%	313	16.0%
	Subcontract	63	2.8%	87	4.4%
	Other	49	2.2%	20	1.1%
SG&A expenses	Personnel	38	1.7%	20	1.1%
	Advertising	529	23.6%	290	15.9%
	Substitute collection fees	279	12.5%	238	12.5%
	Other	56	2.5%	87	5.0%

Number of Sites Supplied Transition (quarterly base)

In the “hobbies” category, due to CP transfer and site closures, the total number of sites fell by three.



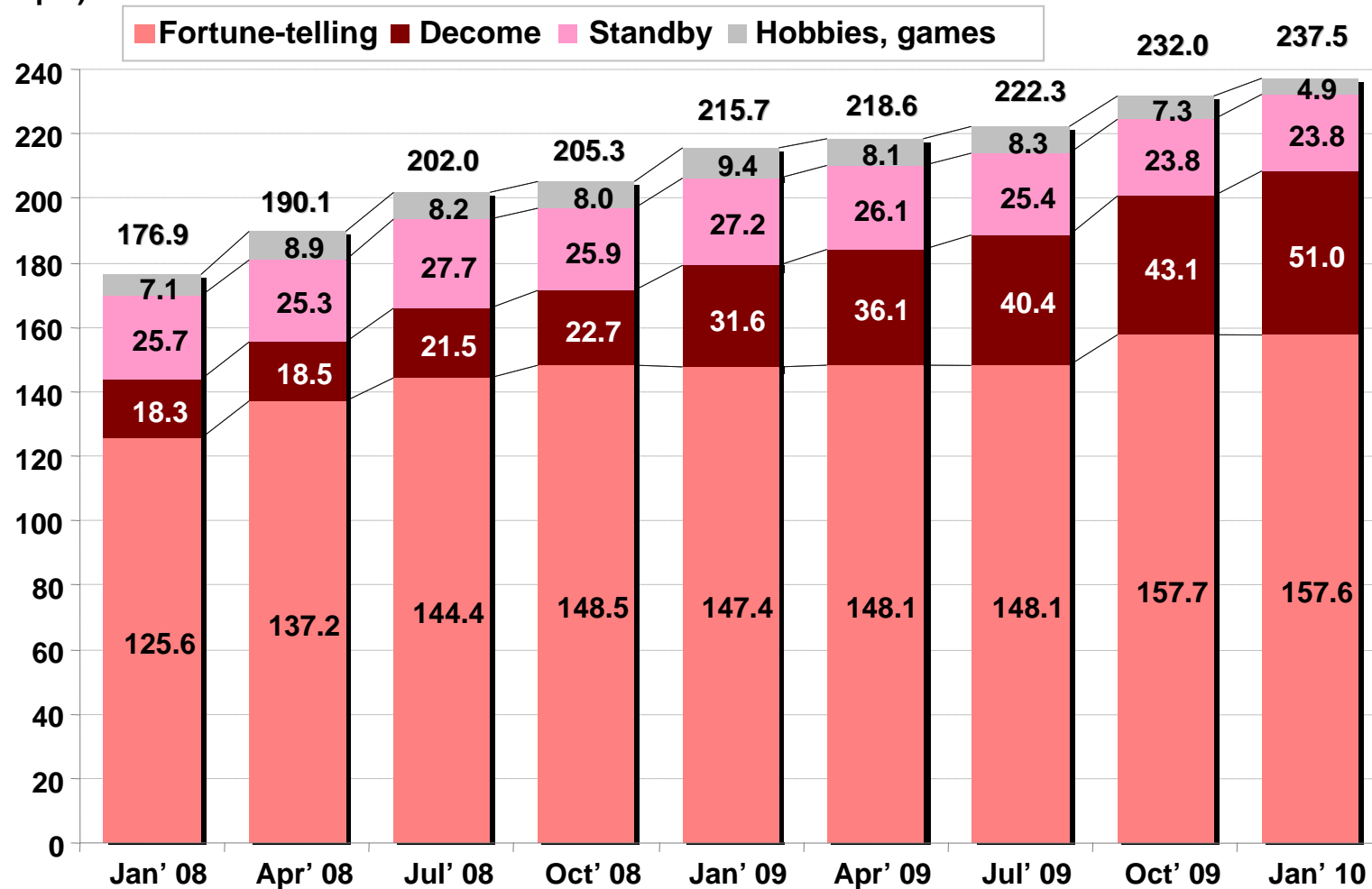
Number of newly launched PC contents	Jan' 08	Apr' 08	Jul' 08	Oct' 08	Jan' 09	Apr' 09	Jul' 09	Oct' 09	Jan' 10
		10	14	13	12	14	16	24	29

Subscriber Numbers for Zappallas' Fee-based Contents Transition (Monthly Fee)

Compared with the previous quarter, the number of subscribers increased by 79,000 in “decome,” and by 55,000 overall.

In the “hobbies” category, because CP transfer of sites was carried out, the number of subscribers fell by roughly 20,000.

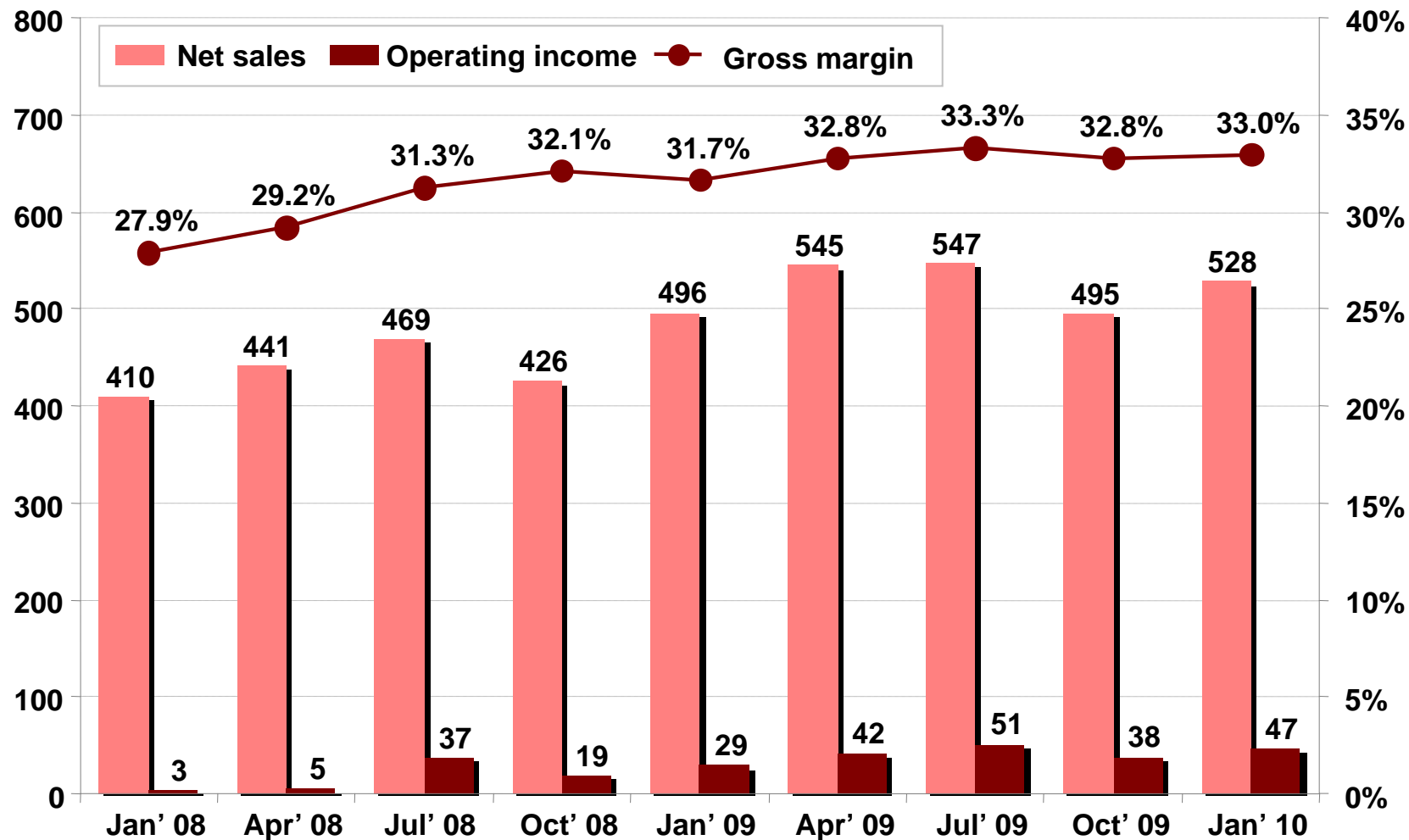
(10,000 people)



Commerce Business – Performance Transition (Quarterly Base)

Net sales rose due to growth in the Pocket Market.

(Millions of yen)



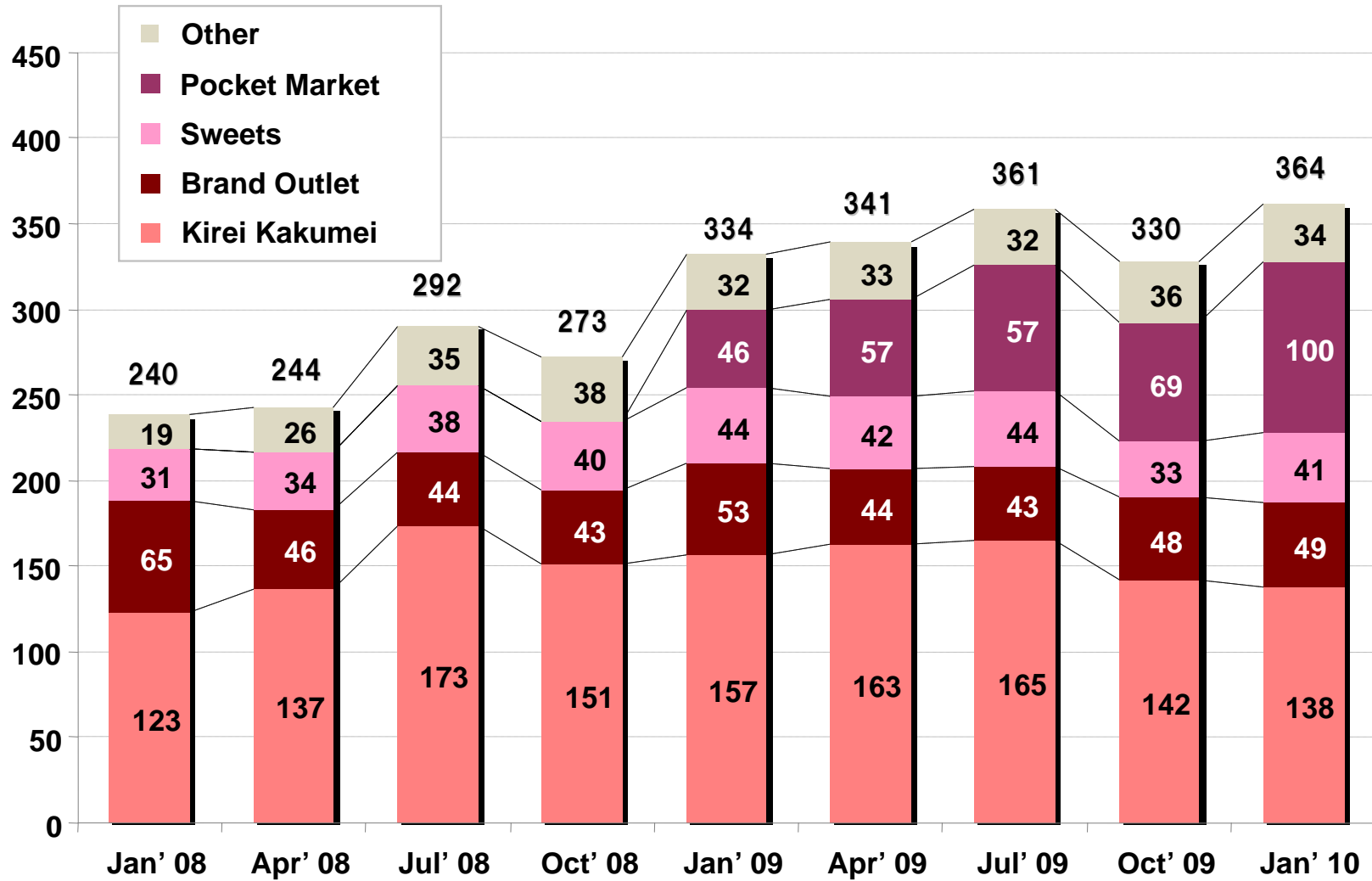
Main Items of Expenses in Commerce Business

(Millions of yen)

Item		FY 2010 3Q	% of net sales	FY 2009 3Q	% of net sales
Cost of sales	Cost of goods	310	58.8%	293	59.2%
	Packing and transportation	43	8.2%	43	8.9%
	Other	0	0%	1	0.2%
SG&A expenses	Personnel	35	6.8%	39	8.0%
	Advertising	26	5.0%	26	5.3%
	Commission fee	15	3.0%	17	3.6%
	Rents	9	1.8%	9	2.0%
	Other	39	7.4%	34	6.9%

Trends in Mobile Commerce Sales Levels, by site (quarterly base)

Net sales rose due to an increase in the number of subscribers for “Pocket Market” email magazines.



Breakdown of Mobile Commerce Related Business

◆ Mobile commerce

(Millions of yen)

	FY 2009 3Q	FY 2009 4Q	FY 2010 1Q	FY 2010 2Q	FY 2010 3Q
Net sales	334	341	361	330	364
Operating income (loss)	34	25	40	27	41

◆ Mobile phone sales (G-plus Co., Ltd.)

(Millions of yen)

	FY 2009 3Q	FY 2009 4Q	FY 2010 1Q	FY 2010 2Q	FY 2010 3Q
Net sales	161	205	185	163	163
Operating income (loss)	4	18	13	12	8

*** This data is based on internal information prior to allocation of administrative costs and consolidated balancing.**

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Progress Made with this Period's Main Efforts (1)

Third Quarter (Result)

Fortune-Telling

- Increasing expenditure on advertising and investing TV commercials, etc
- The number of subscribers acquired increased due to increased spending on advertising, but due to an increase in withdrawals by subscribers acquired in 2Q (those acquired through new affiliate media), there was no change from the level at the end of the previous quarter.
- TV commercials were unable to capture as many subscribers as planned, and a review is required

'Decome'

- Reducing the number of newly-launched sites, and intensively carrying out large-scale promotions in the demand season
- Due to increased competition, the cost of acquisition per subscriber rose, acquisition of subscribers did not progress, and fell below planned levels
- Enhancing CRM
- The number of subscribers acquired through email magazines rose

Fourth Quarter (Plan)

Fortune-Telling

- Expand contents utilizing new functions such as Flash, and improve quality
- Enhance real affiliates

'Decome'

- Enhance real affiliates
- Enhance CRM
- The number of subscribers acquired through links improved

Progress Made with this Period's Main Efforts (2)

Third Quarter (Result)

Mobile commerce

- Enhancing our cosmetics category
→ Expand suppliers

Others

- Beginning to charge for our “Miku Miku Aisho Uranai” item
- Beginning to simultaneously supply two fortune-telling applications to Moba-ge Open Platform
- Expanding human resources for our mid-term growth strategy
+ Expanding our sales area

Fourth Quarter (Plan)

Mobile commerce

- Carry out research and marketing aimed towards launching new sites and categories
- On-going policies
- Enhance our cosmetics category

Others

- Newly launch social games aimed at women
- Expand human resources for our mid-term growth strategy
- Begin supplying contents to China

Regarding Revisions of Full-Year Business Forecasts for the Year Ending April 2010

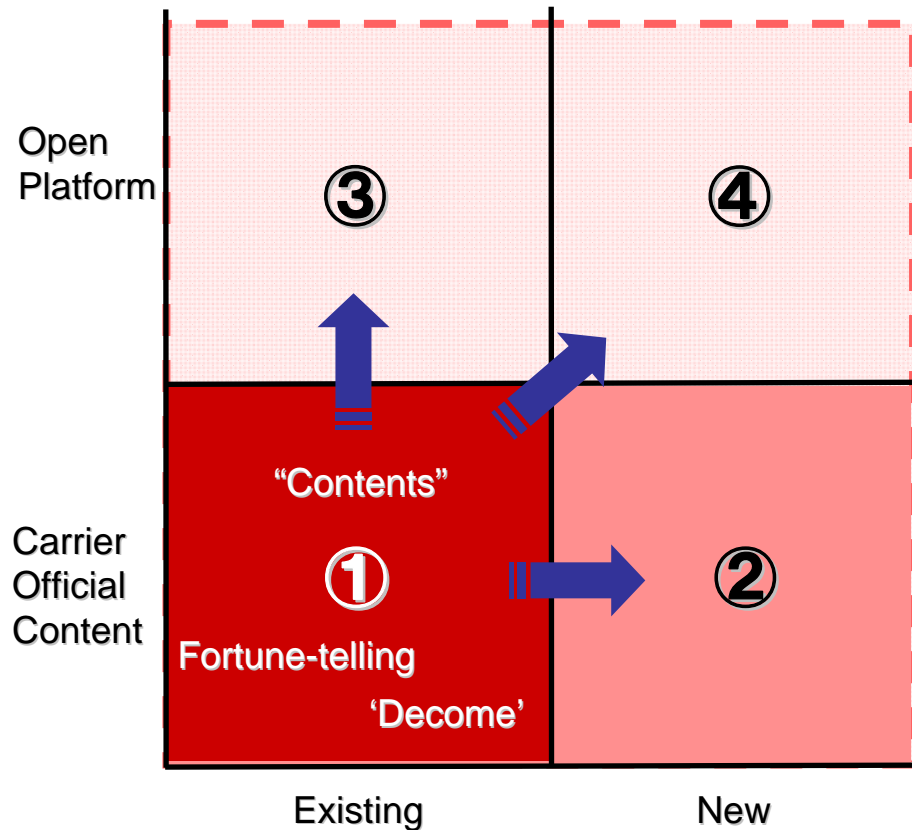
On February 25, 2010, we revised our business forecasts as outlined below. The main reasons for this were as follows.

- “Fortune-telling” increased advertising due to large-scale total advertising such as TV commercials, and placement of advertisements in new affiliate media
- “Decome” the number of subscribers acquired fell below expectations as we made a strategic shift in site launches and advertising.
- Priority investment in new business fields...improvements were made to systems, such as expanding personnel and our sales area
- Allowance for investment loss of equity method affiliate company

(Millions of yen)

Consolidated		Previously announced forecast	Current announced Forecast	Change	Change(%)
	Net sales	11,350	11,200	(150)	(1.3)
	Operating income	3,110	2,880	(230)	(7.3)
	Ordinary income	3,100	2,890	(210)	(6.7)
	Net income	1,820	1,590	(230)	(12.6)
Non-Consolidated		Previously announced forecast	Current announced forecast	Change	Change(%)
	Net sales	10,710	10,500	(210)	(1.9)
	Operating income	3,110	2,840	(270)	(8.6)
	Ordinary income	3,120	2,860	(260)	(8.3)
	Net income	1,850	1,570	(280)	(15.1)

Zappallas' Business Strategies



1) Existing contents

→ Strengthening the foundations of fortune-telling; cultivating the 'decome' category

2) Expanding contents

→ Work towards cultivating a third category to complement fortune-telling and 'decome'

3) Enter into an open platform

→ Supply contents to "mixi Apps", "Moba-ge Open Platform" and iPhone

4) Build a business model that utilizes new social media

→ Entry into social games aimed at women

To achieve further growth, we enter into Chinese market and social games

Any business forecasts or other such items contained in this document, excluding reports of past performance, are assumptions based on the company's classified management plans, information available at the time of release, and uncertain factors affecting future performance. Actual performance may differ due to various factors.

Reference

Market Environment Surrounding Mobile Contents

High growth was seen in 2008, with the fortune-telling and 'decome' markets increasing 10% and 47%, respectively, from the previous year.

(100 millions of yen)

	2004	2005	2006	2007	2008
Ring-tone melodies (Chaku-Melo)	1,167	1,048	843	559	473
Ring-tone songs (Chaku-Uta)	199	463	522	568	483
Ring-tone songs (Chaku-Uta Full)	2	99	237	506	707
Mobile games	412	589	748	848	869
Decoration e-mail (Decome)	2	14	55	116	171
Electronic books	3	16	69	221	395
Ring back tone	6	13	29	87	110
Fortune telling	103	123	158	182	200
Standby screens	225	236	248	227	229
Dress-up tools (Kisekae)	—	—	3	23	64
Weather/news	—	51	63	73	78
Traffic information	—	74	125	164	206
Daily life information	—	27	45	54	77
Avatar/item (SNS, etc.)	—	—	5	60	157
Other mobile contents	484	397	516	584	616
Total	2,603	3,150	3,666	4,272	4,835

YoY
change
+47%

YoY
change
+10%

Source: "Survey Results on Composition of the Mobile Contents Industry in 2008," a briefing paper from the Ministry of Internal Affairs and Communications

Strength (1)

Strong Foundations

Strength (2)

Application of Databases

Strength (3)

Ability to Create Contents

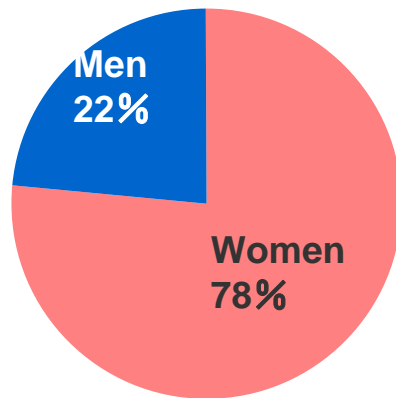
Strength (1) - 1 Strong Customer Foundation

ZAPPALLAS Subscribers: 5,666,000

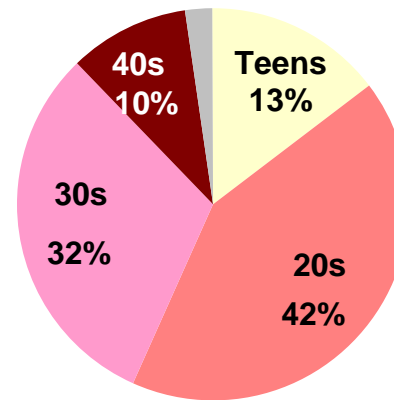
Fee-paying subscribers: 2,375,000

Charge-free subscribers: 3,290,000*

(as of January 31, 2010)

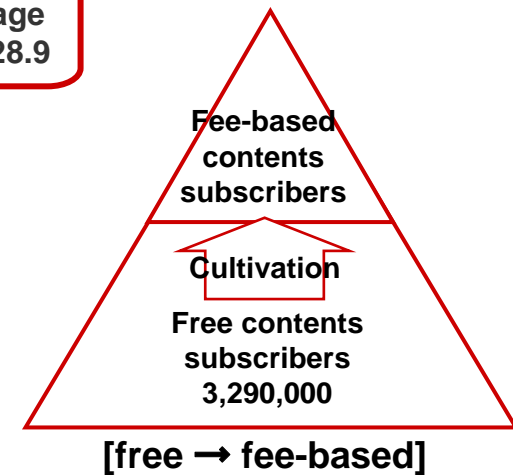


Gender comparison



Age comparison

Average age: 28.9



Women aged 20-34 are the main focus

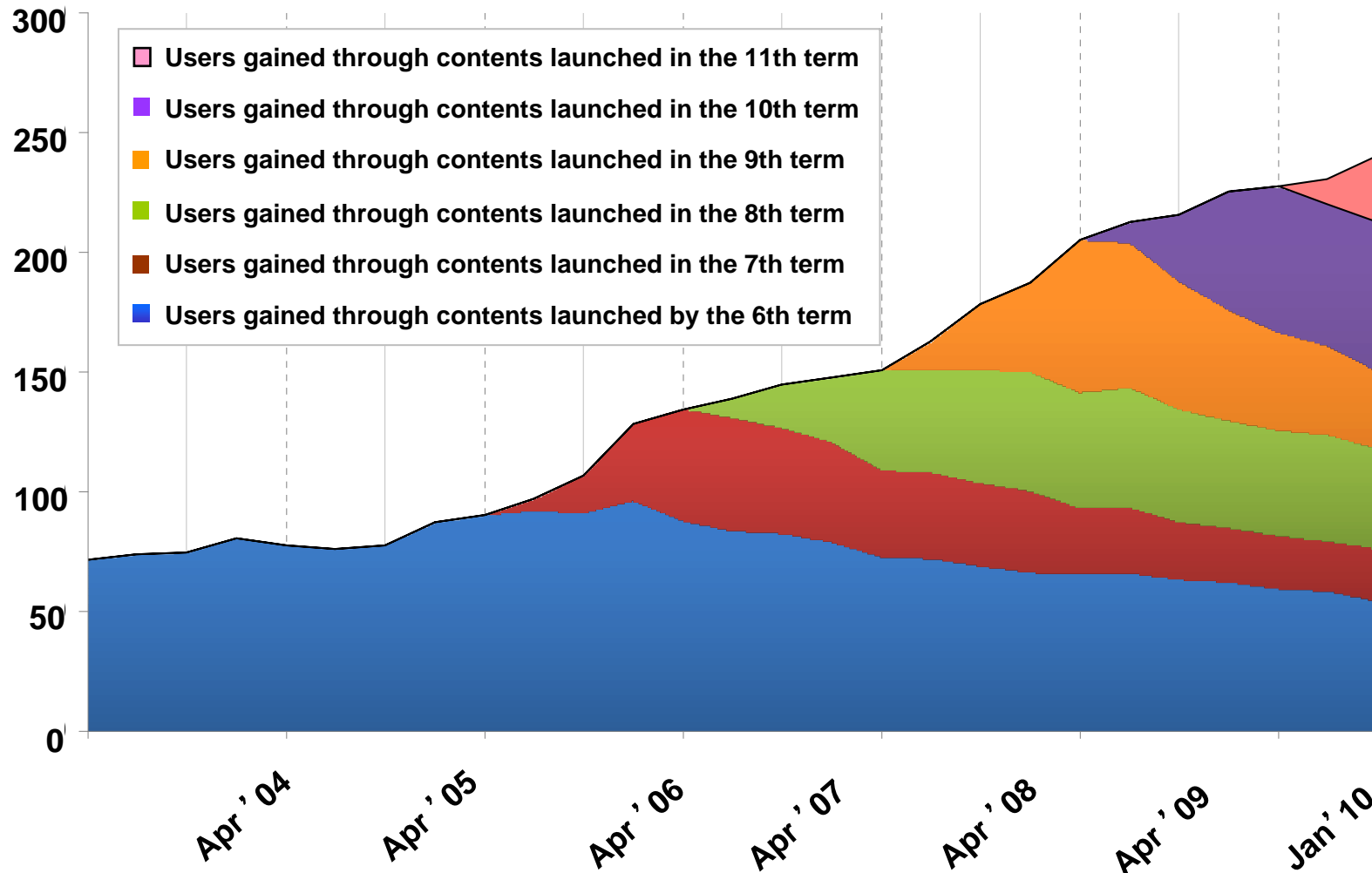
*The 347,000 "Miku Miku Aisho Uranai" subscribers are included in the 3,290,000 charge-free subscribers.



Strength (1) - 2 Strong Customer Foundation

Due to the fact that users steadily survive on previously launched contents, subscriber numbers are piling up.

(10,000 people)



Strength (1) - 3 Strong Customer Foundation

Zappallas' sites occupy roughly half of the top menu ranking in the fortune-telling category, and mechanisms have been created to allow new customers to easily enter into our sites.

[Many-websites strategy]

NTT Docomo's menu list for rankings in the fortune-telling category (as of January 1, 2010)

Items in these red boxes are contents supplied by Zappallas

1 Western Fortune-Telling

1. Muryou ★ Uranai
2. Muryou, Koi Uranai
3. Yogensya Barath Klara
4. Renai no Kamisama DX
5. ★ Kagami Ryuji ★
6. 365 Tanjo-bi Dai Senjutsu
7. Muryo Uranai Koimega
8. San-ka-getsu-go no Mirai
9. Unmei no Koi Uranai
10. Syukumei to Yogen

2 Eastern Fortune-Telling

1. Kaiun ★ Muryou Uranai
2. Hosoki Kazuko, Rokusei Senjutu
3. Muryou Honkaku Koi Uranai
4. Sinjuku no Haha
5. Kyukyoku no Seimei Handan
6. Muryo Uranai Honkaku Kantei
7. Shimo Yoshiko-ryu Seimei
8. Nishi Shinjyuku no Haha
9. Anzai-ryu Kaiun Kantei
10. Shimada Shuhei, Te-sou Uranai

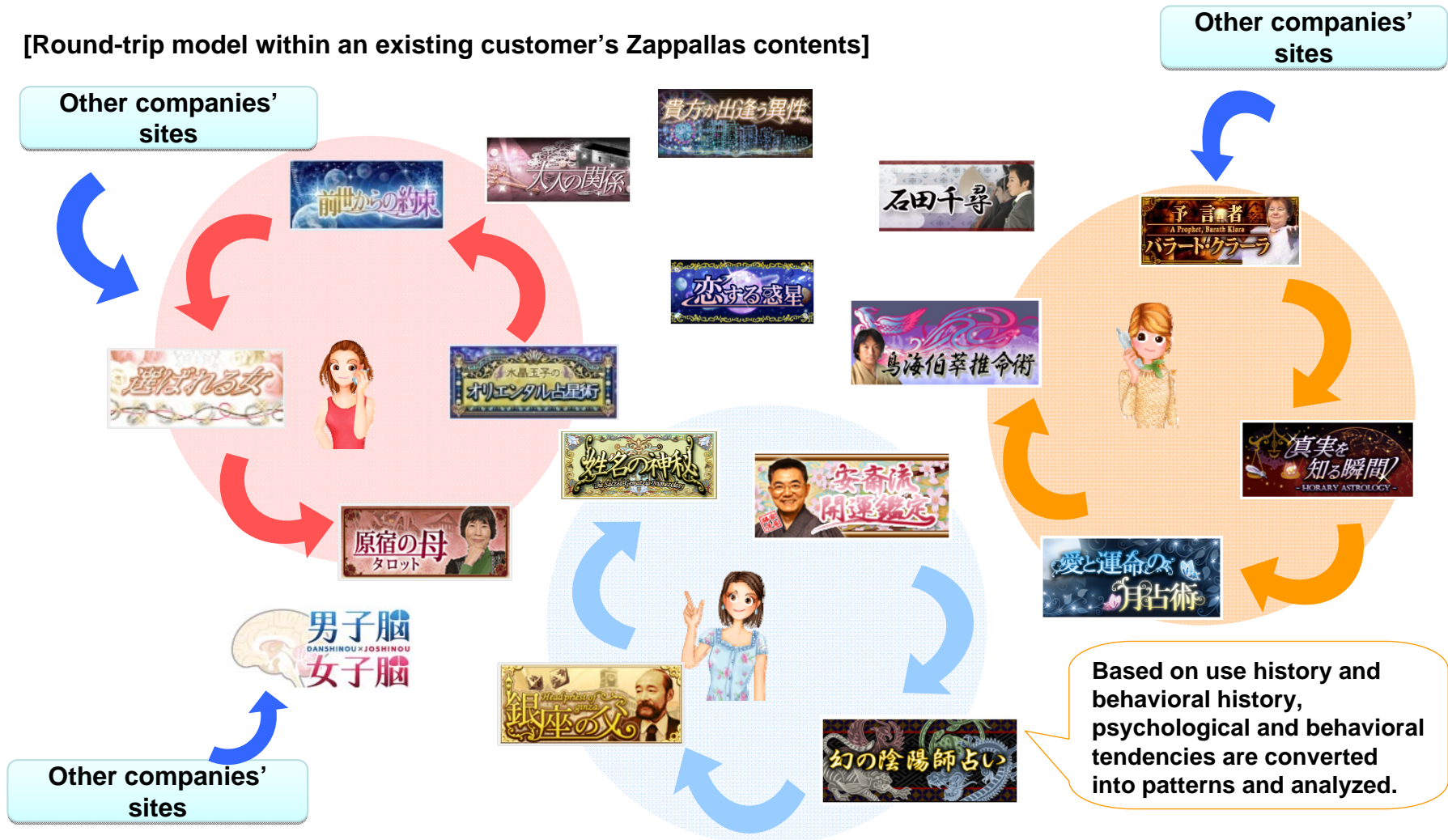
3 Diagnoses/ Psychological Tests

1. Muryou ★ Sinri Tesuto
2. ★ Ehara Hiroyuki ★
3. Kaiun Yume Sindan
4. Dansi-nou X Josi-nou
5. Otona no Kankei
6. Gekikara Renai Sindan
7. Otoko-kokoro no Honne to Uso
8. Kayama Rika Serapi-
9. Anata no Nedan?
10. Kokoro Sindan A-toroji-

Strength (2) -1 Utilization of Databases

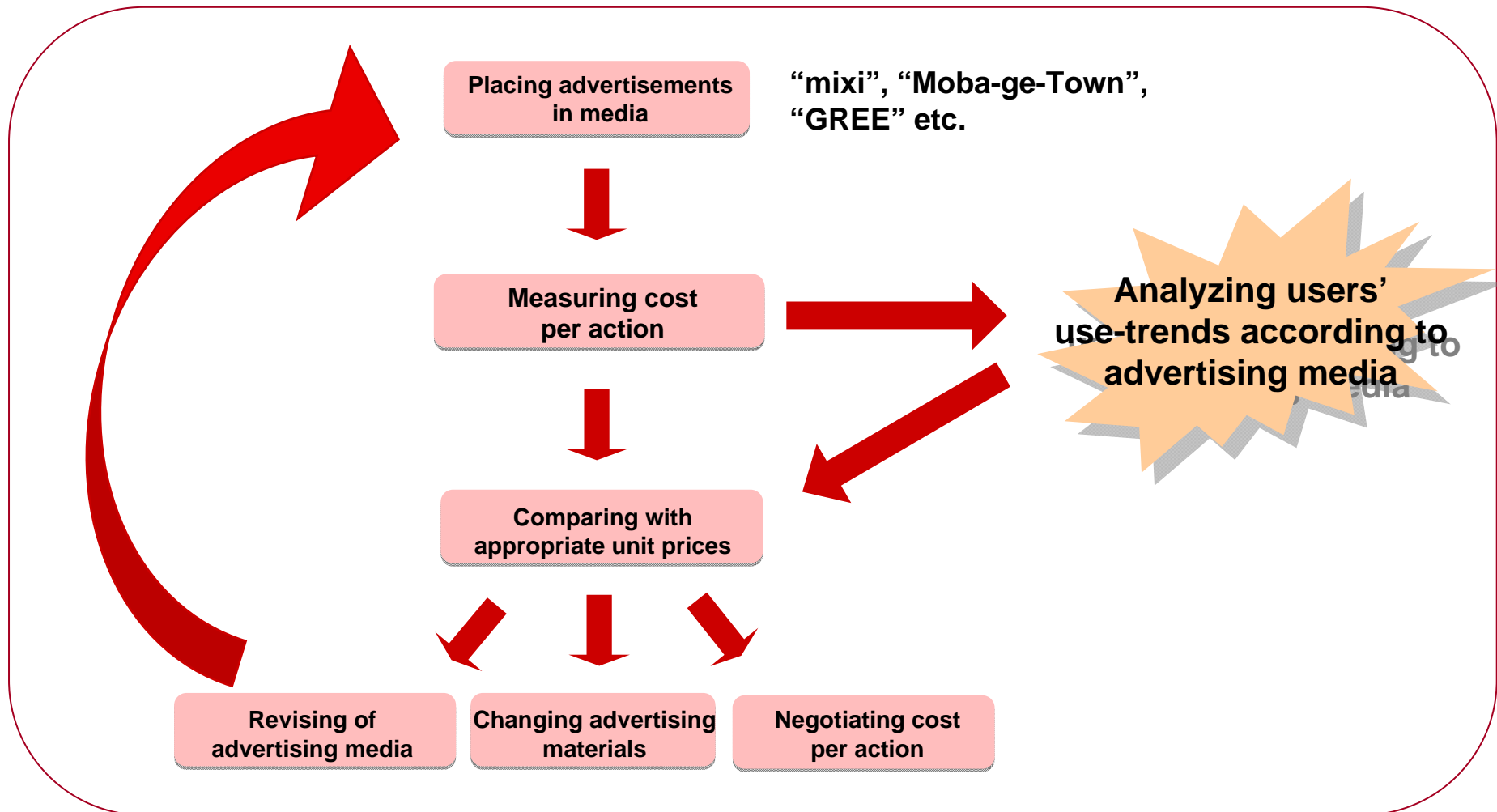
By predicting consumer tastes based on accumulated databases, and thereby supplying contents and merchandise that appeal to customers through email magazines and links, Zappallas is creating long-term relationships with its customers.

[Round-trip model within an existing customer's Zappallas contents]



Strength (2) -2 Utilization of Databases

By accumulating key data such as number of entries and number of months continued, and repeatedly analyzing it, Zappallas increases the cost-effectiveness of their advertising.



Strength (3) Ability to Produce Contents

Zappallas has built a system to allow for rapidly supply of high-quality contents in line with changes in fashion and customer needs.

