

March 1, 2010

Summary of Consolidated Financial Results For the Nine Months Ended January, 2010 (3Q/FY2010)

Company name: ZAPPALLAS, INC. Stock listing: Tokyo Stock Exchange (First Section)
 Securities code: 3770 URL: <http://www.zappallas.com>
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 Scheduled date of filing of Quarterly Securities Report: March 12, 2010
 Scheduled date of payment of dividend: —

(All amounts are rounded down to the nearest million yen)

FINANCIAL HIGHLIGHTS

(As of and for the third quarter ended January 31, 2009 and 2010)

1. Consolidated Performance

	3Q/FY2009	3Q/FY2010	YoY	3Q/FY2010
	(millions of yen)		(percentage change)	(thousands of U.S. dollars)
(1) Consolidated financial results				
Net sales	7,567	8,361	10.5	93,138
Operating income	2,101	2,207	5.0	24,585
Ordinary income	2,092	2,209	5.6	24,607
Net income	1,225	1,193	(2.6)	13,289
Net income per share (yen, U.S. dollars)	9,280.43	8,982.87	—	100.06
Diluted net income per share (yen, U.S. dollars)	9,001.96	8,771.78	—	97.71

	FY2009	3Q/FY2010	YoY	3Q/FY2010
	(millions of yen)		(percentage change)	(thousands of U.S. dollars)
(2) Consolidated financial position				
Total assets	8,148	8,387	—	93,427
Net assets	6,276	6,963	—	77,564
Shareholders' equity ratio (%)	76.6	82.5	—	—
Net assets per share (yen, U.S. dollars)	46,995.21	51,853.79	—	577.62
(Reference) Shareholders' equity (million yen)	As of January 31, 2010: 6,917		As of April 30, 2009: 6,239	

2. Dividends

	Dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Annual
	(yen)				
FY2009	—	—	—	4,000.00	4,000.00
FY2010	—	—	—	—	—
FY2010 (Forecast)	—	—	—	4,200.00	4,200.00

(Note) Changes in dividend forecast for the current term: None

3. Consolidated Forecast for the Fiscal Year Ending April 30, 2010 (May 1, 2009 – April 30, 2010)

	FY2010
	Annual
	(millions of yen)
Net sales	11,200
Operating income	2,880
Ordinary income	2,890
Net income	1,590
Net income per share (yen)	11,919.04

(Note) Changes in projections during the quarter under review: None

4. Other

- 1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None
- 2) Application of simplified methods of accounting and accounting methods specific to the preparation of quarterly consolidated financial statements: Yes
(Note) For details, please refer to section 4 “Other” (page 4) of the “Qualitative Information and Financial Statements, etc”
- 3) Changes in accounting principles, procedures and presentation methods for preparation of consolidated financial statements.
 - 1) Changes caused by revision of accounting standards: None
 - 2) Other changes: None
- 4) Number of outstanding shares (common stocks)
 - 1) Number of shares outstanding at the end of period (including treasury stock)

As of January 31, 2010:	133,400shares
As of April 30, 2009:	132,760shares
 - 2) Number of treasury stock at the end of period

As of January 31, 2010:	— shares
As of April 30, 2009:	— shares
 - 3) Average number of shares during the period (cumulative figure for consolidated quarterly period)

As of January 31, 2010:	132,893shares
As of January 31, 2009:	132,085shares

*Cautionary statement with respect to forward-looking statements

The above projections are based on information available at the time of release of this report. Actual results could differ significantly from these projections due to a variety of factors.

* U.S. dollar amounts have been translated from Japanese yen, for readers’ convenience only, at the exchange rate of ¥89.77=US\$1, the approximate exchange rate of TTM of Bank of Tokyo-Mitsubishi UFJ, Ltd. as of January 29, 2010.

Qualitative Information and Financial Statements, etc.

1. Consolidated Management Analysis Report

In the first three quarters of this consolidated fiscal year, although the Japanese economy has continued to be faced with a severe employment situation, economic conditions are gradually picking up with improvements in overseas economies and emergency economic plans.

As for the environment surrounding the mobile business, the number of mobile phone subscriptions was 111.02 million as of January 31, 2010, with third-generation mobile phones accounting for 106.91 million of these, (Note 1) (+10.4% year-on-year), comprising 96.3% of the total. As for the mobile content-related market (mobile content markets and mobile commerce markets), it has continued to expand with a total value of 1.3524 trillion yen (Note 2) (+17.0% year-on-year). In addition, growth expectations for the new business model as well as in the global market are rising based on the expansion of contents distribution channels and money transmission service via mobile phones.

In this environment, in order to progress to the next level, the Zappallas Group has been working to strengthen its revenue base as a theme for this consolidated fiscal year.

As a result, net sales in the consolidated first three quarters totaled 8,361,128 thousand yen (+10.5% year-on-year), operating income 2,207,692 thousand yen (+5.0%), ordinary income 2,209,014 thousand yen (+5.6%), and net income 1,193,760 thousand yen (-2.6%).

Results by business segment are as follows.

(Note 1) Data obtained from a Telecommunications Carriers Association survey.

(Note 2) Data obtained from a Mobile Content Forum survey.

1) Digital Contents Business

The business policy of Zappallas for the digital contents business is to secure stable growth while raising profitability. In the consolidated first three quarters, we strove to attract more customers by launching a new site, and cultivating a new “decoration e-mail” (decome) category as an earnings pillar to complement our mainstay “fortune-telling” category.

In the consolidated first three quarters, as a basic strategy the Group launched 53 new mobile contents sites and 82 new PC contents sites, with the total number of monthly-fee subscribers coming to 2.37 million by the end of the consolidated third quarter.

As a result, our group ran 389 official mobile sites as of the end of the consolidated third quarter. Net sales in the digital contents business for the consolidated first three quarters totaled 6,654,248 thousand yen (+11.2% year-on-year), and operating income 2,590,746 thousand yen (+6.7%).

2) Commerce Business

Zappallas Group’s commerce business can be divided into mobile commerce business and mobile phone sales. Our group has been striving to expand merchandise and strengthen our ability to attract new customers, and in the consolidated first three quarters, through longstanding efforts to improve merchandising and implementation of centralized advertising, we achieved growth in our daily goods store, “Pocket Market”. G-plus Co., Ltd., our subsidiary in charge of mobile phone sales, continued to work towards increased earnings and profits.

As a result, we ran 22 official mobile commerce sites along with G-plus’s three mobile phone shops at the end of the consolidated third quarter. Net sales in mobile commerce for the consolidated first three quarters totaled 1,571,343 thousand yen (+12.8% year-on-year), and operating income 136,481 thousand yen (+57.7%).

3) Other Businesses

Among other business, the Zappallas conducted website management for “Y! Suica” and advertising. Also, as a form of entry into new platforms, we supplied fortune-telling mobile site “Miku Miku Shindan”^{*3} to mixi Apps from October 2009, and also supplied two applications – “Kyukyoku no Uranai Moba DX” and “Moba Moba Aisho Uranai” to Moba-ge-town from January 2010. Furthermore, in order to continue enhancing our efforts into new business, we actively injected new human resources.

As a result of these activities, net sales in the consolidated first three quarters totaled 135,535 thousand yen (-28.5% year-over-year), with an operating loss of 19,820 thousand yen (from an operating profit of 13,156 thousand yen for the same quarter last year).

(Note 3) As of November 18, 2009, “Miku Miku Sindan” has changed its name to “Miku Miku Aisho Uranai.”

2. Consolidated Financial Analysis Report

1) Assets, Liabilities and Net Assets

Total assets were valued at 8,387,346 thousand yen as of the end of the consolidated third quarter, an increase of 239,062 thousand yen from the end of the previous fiscal year. This is mainly because of a 258,533 thousand yen increase in investment securities.

Total liabilities were 1,424,251 thousand yen, a decrease of 447,816 thousand yen, mainly due to a 486,004 thousand yen decrease in income taxes payable.

Net assets totaled 6,963,094 thousand yen, an increase of 686,879 thousand yen. This can be attributed to a 662,720 thousand yen increase in retained earnings.

2) Cash flow

Cash and cash equivalents (cash hereinafter) totaled 4,041,780 thousand yen at the end of the consolidated third quarter, a decrease of 2,267 thousand yen from the end of the previous fiscal year.

Cash flow from operating activities

Cash provided by operating activities was 939,465 thousand yen. This was mainly because of a income before taxes of 2,030,908 thousand yen, with depreciation and amortization coming to 164,470 thousand yen and 1,349,047 thousand yen in income taxes paid.

Cash flow from investing activities

Cash used in investing activities was 423,696 thousand yen. This was mainly because of 58,899 thousand yen in purchasing of property, plant and equipment, 148,762 thousand yen in purchase of intangible assets, 446,979 thousand yen in purchase of investment securities and 79,328 thousand yen in payment for guarantee deposits, despite 300,000 thousand yen in proceeds from redemption of securities.

Cash flow from financing activities

Cash used in financing activities was 518,036 thousand yen. This can mostly be accounted for by cash dividends payments of 528,775 thousand yen.

3. Business Forecast Analysis

For the year ending April 2010, performance was smooth in terms of acquiring subscribers in the “fortune-telling” category of our digital contents business. However, because of increased investment for new initiatives aimed at second-stage growth, including large-scale total advertising placements such as our first TV commercial, and also because of a refinement on the number sights launched with the aim of increasing our ability to draw customers in our “decome” category, as well as strategic shifts such as shifting from affiliate advertising to placing total advertisements, subscriber numbers increased smoothly but these increases was lower than expected. In addition, due to the fact that we expanded personnel and engaged in active investment to expand our sales area in order to develop new business fields, operating income and ordinary income fall below initial plans.

Furthermore, net income for the period fall below initial plans by one-time amortization of goodwill equivalent (equity in losses of affiliate (extraordinary losses) for Ares & Mercury Co., Ltd., which is our equity method affiliate.

On February 25, 2010, we announced the revised forecasts from the full-year consolidated business forecasts given as part of the financial statements announced on June 8, 2009.

The discrepancies are shown as follows.

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (yen)
Previously announced forecast (A)	11,350	3,110	3,100	1,820	13,708.95
Currently announced forecast (B)	11,200	2,880	2,890	1,590	11,919.04
Difference (B-A)	(150)	(230)	(210)	(230)	—
Change (%)	(1.3)	(7.4)	(6.8)	(12.6)	—
(Reference) Performance for the fiscal year ended April 30, 2009	10,308	2,709	2,695	1,580	11,966.45

The main factors for this revision – placements of advertisements in new media and the shift of placing advertisements strategy in the digital contents business, and investment in new business fields – are positive efforts toward second-stage growth, and we believe that through these, it may be possible to increase the speed of future growth.

4. Other

(1) Changes to important subsidiaries within the term (changes of specific subsidiaries that would after the scope of consolidation)

Not applicable

(2) Application of simple accounting procedures and specific accounting procedures in the preparation of quarterly consolidated financial statements

1. Simple financial procedures

1) Calculation method for estimates of loan loss in general claims

As it can be seen that there have been no significant changes in calculated levels of loan losses for the end of third quarter, calculations of loan loss estimates will be made using loan loss ratios from the end of the previous fiscal year.

2) Calculation method for depreciation of non-current assets

Regarding assets for which fixed rates are employed, calculations are performed with the total cost of depreciation for the fiscal year proportionally distributed throughout the year.

3) Calculation method for corporate tax and deferred income tax assets, and deferred income tax liabilities

Since there have been no significant changes in either the current environment since the end of the previous fiscal year or temporary changes regarding judgments of retrieval of deferred income tax assets, calculations will be made using future business forecasts and tax planning from the previous fiscal year.

2. Specific accounting procedures used in the preparation of quarterly consolidated financial statements

Not applicable

(3) Changes in accounting principles, procedures and presentation of accounting procedures used in the preparation of quarterly consolidated financial statements

Not applicable

5. Consolidated Quarterly Financial Statement
(1) Consolidated Quarterly Balance Sheets

(Thousands of yen)

	Nine months ended January 2010 (At January 31, 2010)	Fiscal year ended April 2009 (At April 30, 2009)
ASSETS		
Current Assets		
Cash and deposits	2,935,620	2,938,704
Accounts receivable, trade	2,351,008	2,261,876
Short-term investment securities	1,106,159	1,405,343
Merchandise and finished goods	16,659	12,240
Work in process	6,815	—
Other	117,825	135,328
Allowance for doubtful accounts	(34,672)	(32,966)
Total Current Assets	6,499,416	6,720,527
Non-current Assets		
Property, Plant and Equipment	144,661	86,089
Intangible Assets		
Software	202,383	211,835
Goodwill	216,912	227,135
Other	24,176	9,633
Total Intangible Assets	443,472	448,605
Investments and Other Assets		
Investment securities	863,443	604,909
Other	436,352	288,152
Total Investments and Other Assets	1,299,795	893,061
Total Non-current Assets	1,887,929	1,427,756
Total Assets	8,387,346	8,148,283
LIABILITIES		
Current Liabilities		
Accounts payable, trade	507,709	539,952
Account payable, other	487,428	391,329
Income taxes payable	288,975	774,979
Directors' bonuses payable	—	35,768
Provision for directors' bonuses	25,144	—
Other	114,389	127,620
Total Current Liabilities	1,423,646	1,869,650
Non-current Liabilities		
Other	604	2,417
Total Non-current Liabilities	604	2,417
Total Liabilities	1,424,251	1,872,068
NET ASSETS		
Shareholder's Equity		
Capital stock	1,445,243	1,438,843
Capital surplus	1,370,618	1,364,218
Retained earnings	4,097,665	3,434,945
Total Shareholders' Equity	6,913,528	6,238,007
Valuation and Translation Adjustments		
Valuation difference on available-for-sale securities	3,767	1,076
Total Valuation and Translation Adjustments	3,767	1,076
Minority Interests	45,799	37,131
Total Net Assets	6,963,094	6,276,215
Total Liabilities and Net Assets	8,387,346	8,148,283

(2) Consolidated Quarterly Statements of Income
(For the Nine Months Ended January 31, 2010)

(Thousands of yen)

	Nine Months Ended January 31, 2009 (May 1, 2008 – Jan. 31, 2009)	Nine Months Ended January 31, 2010 (May 1, 2009 – Jan. 31, 2010)
Net Sales	7,567,262	8,361,128
Cost of Sales	2,649,100	2,672,807
Gross Profit	4,918,162	5,688,320
Selling, General and Administrative Expenses	2,816,401	3,480,628
Operating Income	2,101,760	2,207,692
Non-operating Income		
Interest income	13,123	5,028
Gain on investments in partnership	—	962
Other	2,318	4,501
Total Non-operating Income	15,441	10,491
Non-operating Expenses		
Equity in losses of affiliates	23,654	8,838
Loss on investments in partnership	836	—
Other	411	330
Total Non-operating Expenses	24,902	9,169
Ordinary Income	2,092,299	2,209,014
Extraordinary Income		
Reversal of allowance for doubtful accounts	10,000	—
Total Extraordinary Income	10,000	—
Extraordinary Loss		
Loss on sales and retirement of non-current assets	192	84
Equity in losses of affiliates	—	174,688
Loss on cancellation of subcontracting	—	3,333
Total Extraordinary Loss	192	178,106
Income before Income Taxes	2,102,107	2,030,908
Income taxes, current	903,389	866,297
Income taxes, deferred	(28,874)	(37,817)
Total Income Taxes	874,515	828,480
Minority Interests in Income	1,786	8,667
Net Income	1,225,805	1,193,760

(3) Consolidated Quarterly Statements of Cash Flows

(Thousands of yen)

	Nine Months Ended January 31, 2009 (May 1, 2008 – Jan. 31, 2009)	Nine Months Ended January 31, 2010 (May 1, 2009 – Jan. 31, 2010)
Net Cash Provided by (used in) Operating Activities:		
Income before income taxes	2,102,107	2,030,908
Depreciation and amortization	169,541	164,470
Amortization of long-term prepaid expenses	2,364	185
Loss (gain) on investments in partnership operating	836	(962)
Amortization of goodwill	10,223	10,223
Increase (decrease) in allowance for doubtful accounts	(3,870)	1,705
Increase (decrease) in provision for directors' bonuses	25,596	25,144
Interest income	(13,123)	(5,028)
Loss (gain) on sales and retirement of non-current assets	192	84
Equity in (earnings) losses of affiliates	23,654	183,527
Decrease (increase) in notes and accounts receivable, trade	(234,052)	(89,131)
Decrease (increase) in inventories	6,525	(10,862)
Increase (decrease) in notes and account payable, trade	9,120	(32,242)
Increase (decrease) in accounts payable, other	(1,816)	(30,953)
Increase (decrease) in accrued consumption taxes	(154,943)	73,196
Other	(68,165)	(37,229)
Subtotal	1,874,191	2,283,034
Interest income received	14,624	5,478
Interest taxes paid	(953,983)	(1,349,047)
Net Cash Provide by (Used in) Operating Activities	934,833	939,465
Net Cash Provided by (used in) Investing Activities		
Payment into time deposits	(100,000)	—
Repayment from time deposits	300,000	—
Purchase of securities	(100,000)	—
Proceeds from redemption of securities	200,000	300,000
Purchase of property, plant and equipment	(20,546)	(58,899)
Purchase of intangible assets	(172,581)	(148,762)
Purchase of investment securities	(268,600)	(446,979)
Proceeds from sales of investment securities	—	10,200
Proceeds from loan receivables	10,000	—
Payment for guarantee deposits	(30)	(79,328)
Proceeds from recovery of guarantee deposits	2,397	74
Repayment from life insurance fund	7,638	—
Net Cash Provided by (Used in) Investing Activities	(141,721)	(423,696)
Net Cash Provided by (used in) Financing Activities		
Proceeds from issuance of common stock	22,050	12,552
Cash dividends paid	(325,113)	(528,775)
Other	—	(1,813)
Net Cash Provided by (Used in) Financing Activities	(303,063)	(518,036)
Net Increase (decrease) in Cash and Cash Equivalents	490,047	(2,267)
Cash and Cash Equivalents at Beginning of the Period	2,880,355	4,044,047
Cash and Cash Equivalents at End of the Period	3,370,403	4,041,780

(4) Notes regarding the conditions of going business

None

(5) Segment Information

[Performance by Business Segment]

Nine Months Ended January 31, 2009 (May 1, 2008 to January 31, 2009)

(Thousands of yen)

	Digital contents business	Commerce business	Others business	Total	Elimination or corporate	Consolidated
Sales						
(1) Sales to outside customers	5,985,299	1,392,502	189,460	7,567,262	—	7,567,262
(2) Sales and transfer-Inter-segment	—	—	—	—	—	—
Total	5,985,299	1,392,502	189,460	7,567,262	—	7,567,262
Operating income	2,428,463	86,527	13,156	2,528,147	(426,386)	2,101,760

(Notes) 1. Reclassification of business segments

Business segments are determined in accordance with the characteristics of each business activity.

2. The activities of each segment are as follows.

Business segments	Main services
Digital contents business	Supply of mobile contents and Web contents
Commerce business	Sales of merchandise over the Internet and at stores
Others business	Business activities excluding those mentioned above

Nine Months Ended January 31, 2010 (May 1, 2009 to January 31, 2010)

(Thousands of yen)

	Digital contents business	Commerce business	Others business	Total	Elimination or corporate	Consolidated
Sales						
(1) Sales to outside customers	6,654,248	1,571,343	135,535	8,361,128	—	8,361,128
(2) Sales and transfer-Inter-segment	—	—	—	—	—	—
Total	6,654,248	1,571,343	135,535	8,361,128	—	8,361,128
Operating income	2,590,746	136,481	(19,820)	2,707,407	(499,715)	2,207,692

(Notes) 1. Reclassification of business segments

Business segments are determined in accordance with the characteristics of each business activity.

2. The activities of each segment are as follows.

Business segments	Main services
Digital contents business	Supply of mobile contents and Web contents
Commerce business	Sales of merchandise over the Internet and at stores
Others business	Business activities excluding those mentioned above

[Geographical Segment Information]

Nine Months Ended January 31, 2009 (May 1, 2008 to January 31, 2009)

Not applicable since the Company did not have consolidated subsidiaries or branch offices in areas other than Japan.

Nine Months Ended January 31, 2010 (May 1, 2009 to January 31, 2010)

Not applicable since the Company did not have consolidated subsidiaries or branch offices in areas other than Japan.

[Overseas sales]

Nine Months Ended January 31, 2009 (May 1, 2008 to January 31, 2009)

Overseas sales information is not presented since it accounts for less than 10% of consolidated net sales.

Nine Months Ended January 31, 2010 (May 1, 2009 to January 31, 2010)

Overseas sales information is not presented since it accounts for less than 10% of consolidated net sales.

(6) Notes in the Case of Major Changes in Shareholders' Equity

Not applicable.