

February 25, 2010

ZAPPALLAS

For immediate release:

Name of company: ZAPPALLAS, INC.
Stock code: 3770
Stock exchange listing: Tokyo Stock Exchange, First Section
Headquarters: 1-19-19, Ebisu, Shibuya-ku, Tokyo
Representative
Title: President, Chief executive officer
Name: Masanori Sugiyama
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**Notice concerning recording of allowance for investment loss of affiliate company
(extraordinary losses)
and revision of full-year business forecasts**

Based on recent performance trends, the business forecasts announced on June 8, 2009 are to be downward as outline below. Also, because allowance for investment loss in our equity method affiliate will be recorded, we will give notice of these.

Revisions to consolidated performance forecasts for the fiscal year ending April 30, 2010
(May 1, 2009 to April 30, 2010)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income	Net income Per share
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 2009	10,308	2,709	2,695	1,580	11,966.45

Revisions to non-consolidated performance forecasts for the fiscal year ending April 30, 2010
(May 1, 2009 to April 30, 2010)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income	Net income Per share
Previously announced forecast (A)	10,710	3,110	3,120	1,850	13,943.92
Currently announced forecast (B)	10,500	2,840	2,860	1,570	11,769.12
Difference (B-A)	(210)	(270)	(260)	(280)	
Change (%)	(1.9)	(8.6)	(8.3)	(15.1)	
(Reference) Performance for the Fiscal year ended April 2009	9,612	2,696	2,710	1,598	12,099.69

Regarding recording of allowance for investment loss

Ares & Mercury Co., Ltd., our equity method affiliate, operated its mobile advertising business, but due to declines in advertising unit costs in line with worsening economic conditions in recent years, performance in their advertising business continued to fall significantly below initial plans, and ZAPPALLAS has now decided to downsize their operations in this field.

ZAPPALLAS recognizes that the performance of Ares & Mercury Co., Ltd. may recover, but from the standpoint of fiscal health, we have recorded allowance for investment loss of 202 million yen in non-consolidated financial statements.

Furthermore, we have recorded goodwill equivalent of 183 million yen accrued to Ares & Mercury Co., Ltd. as equity in losses of affiliates in consolidated financial statements.

Reasons for Revision

While performance was smooth in terms of acquiring subscribers in the “fortune-telling” category of our digital contents business, 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 of 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, although subscriber numbers increased smoothly, these increases fell below initial plans and, 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, we have revised the full-year business forecasts for the year ending April 2010 as outlined in the previous paragraph.

Furthermore, net income has been affected by the investment loss recorded for Ares & Mercury Co., Ltd., as mentioned earlier.

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

*The estimated figures stated above are forecasts based on information available at the time, and include uncertainties. Due to changes in business conditions, actual performance may differ from the estimated figures stated above.