

November 30, 2010

**Summary of Consolidated Financial Results For the Six Months Ended October, 2010 (2Q/FY2011)  
[Japanese standards] (Consolidated)**

Company name: ZAPPALLAS, INC. Stock listing: Tokyo Stock Exchange (First Section)  
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 Scheduled date of filing of Quarterly Securities Report: December 14, 2010  
 Scheduled date of payment of dividend: —  
 Supplementary materials for the quarterly financial results: Yes  
 Investor conference for the quarterly financial results: Yes (For institutional investors)  
 (All amounts are rounded down to the nearest million yen)

**FINANCIAL HIGHLIGHTS**

(As of and for the Second quarter ended October 31, 2009 and 2010)

**1. Consolidated Performance**

	2Q/FY2010	2Q/FY2011	YoY	2Q/FY2011
	(millions of yen)		(percentage change)	(thousands of U.S. dollars)
<b>(1) Consolidated financial results</b>				
Net sales	5,542	5,714	3.1	67,010
Operating income	1,498	1,637	9.3	19,197
Ordinary income	1,497	1,648	10.1	19,326
Net income	878	973	10.8	11,410
Net income per share (yen, U.S. dollars)	6,616.47	7,860.59	—	92.18
Diluted net income per share (yen, U.S. dollars)	6,455.27	7,703.68	—	90.34

	FY2010	2Q/FY2011	YoY	2Q/FY2011
	(millions of yen)		(percentage change)	(thousands of U.S. dollars)
<b>(2) Consolidated financial position</b>				
Total assets	7,543	7,888	—	92,506
Net assets	5,806	6,263	—	73,449
Shareholders' equity ratio (%)	76.3	78.7	—	—
Net assets per share (yen, U.S. dollars)	46,518.04	50,161.89	—	588.27
(Reference) Shareholders' equity (million yen)	As of October 31, 2010: 6,211		As of April 30, 2010: 5,757	

**2. Dividends**

	Annual dividends				Annual
	First quarter	Second quarter	Third quarter	Year-end	
	(yen)				
FY2010	—	0.00	—	4,200.00	4,200.00
FY2011	—	0.00			
FY2011 (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, 2011 (May 1, 2010 – April 30, 2011)**

	FY4/2011
	Annual
	(millions of yen)
Net sales	11,230
Operating income	3,020
Ordinary income	3,030
Net income	1,790
Net income per share (yen)	14,461.72

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

**4. Other** (For details, please see “2. Other Information” on page 4 of “Appendix.”)

1) Changes in important subsidiaries during the period: None

(Note) Whether or not specified subsidiaries were changed resulting in the changes in scope of consolidation during the current term.

2) Application of simplified methods of accounting and specific accounting methods: Yes

(Note) Whether or not the simplified accounting methods and the specific accounting methods for producing quarterly consolidated financial statements was applied.

3) Changes in accounting principles, procedures and presentation methods, etc.

1) Changes caused by revision of accounting standards: Yes

2) Other changes: None

(Note) Whether or not principles, procedures and presentation method for accounting procedures used in preparing quarterly financial statements were changed. These are recorded under “Changes in important items considered fundamental to the preparation of consolidated quarterly financial statements”.

4) Number of outstanding shares (common stocks)

1) Number of shares outstanding at the end of period (including treasury stock)

As of October 31, 2010: 133,510 shares

As of April 30, 2010: 133,460 shares

2) Number of treasury stock at the end of period

As of October 31, 2010: 9,685 shares

As of April 30, 2010: 9,685 shares

3) Average number of shares during the period (cumulative figure for consolidated quarterly period)

As of October 31, 2010: 123,814 shares

As of October 31, 2009: 132,793 shares

\*Indication regarding the implementation status of the quarterly review procedure

Financial results for this first quarter is not the subject of a quarterly review procedure based on the Financial Instruments and Exchange Act, and at the point in time when these financial results was disclosed, review procedures for quarterly financial statements based on the Financial Instruments and Exchange Act had not been completed.

\*The above estimates were made based on the information available as of the date of this release. Actual results could significantly differ from the above estimates due to a variety of factors. For details on the conditions that form the assumptions used for earnings forecasts, and notes on using earnings forecasts, please refer to appendix page 3, “1. Qualitative Information Regarding the Consolidated Performance for the Current Quarter. (3) Business Forecast Analysis”.

\* U.S. dollar amounts have been translated from Japanese yen, for readers’ convenience only, at the exchange rate of ¥85.27=US\$1, the approximate exchange rate of TTM of Bank of Tokyo-Mitsubishi UFJ, Ltd. as of November 30, 2010.

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# 1. Qualitative Information Regarding the Consolidated Performance for the Current Quarter

## (1) Consolidated Management Analysis Report

In the first half of consolidated fiscal year, although corporate profits were on a continued recovery trend, the Japanese economy remained in a severe condition, with unemployment remaining at high levels.

Regarding the environment surrounding the mobile business, the total number of mobile phone subscriptions at the end of October 2010 was 115.90 million, and third-generation mobile phones accounted for 113.88 million of these subscriptions (+8.6% year-over-year) (Note1), or 98.3% of the total. The mobile content-related market (mobile content markets and mobile commerce markets) have continued to expand, and combined for a total of 1.5206 trillion yen in fiscal 2009 (+12.4% year-over-year) (Note 2).

Meanwhile, although their market size remains small, smartphones based on open platforms, such as iPhones and Androids, have risen, and with future growth expected for the mobile contents-related market to which smartphones belong, the environment surrounding mobile contents-related markets may change significantly.

In this environment, the Zappallas Group focused on bolstering its corporate earnings foundation in this consolidated fiscal year, with the aim of achieving growth by creating further profit-earning opportunities.

As a result, net sales in the consolidated second quarter totaled 5,714,699 thousand yen (+3.1% year-on-year), operating income 1,637,236 thousand yen (+9.3%), ordinary income 1,648,195 thousand yen (+10.1%), and net income 973,251 thousand yen (+10.8%).

Results by business segment are as follows. Due to the introduction of a new management approach from this consolidated fiscal year, changes have been made to classifications used for segment information, and therefore segment comparisons with the same quarter in the previous year are not given.

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

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

### 1) Contents Business

The business policy of Zappallas for the contents business is to concentrate resources for spreading “Spiritainment”(Note3), which we have created as a new entertainment genre, and in other areas, to maintain a balance of investment in new businesses and profitability, by further increasing our profit rate, while also growing our overall business. In this consolidated second quarter, we addressed the issues of improving customer attraction by launching new sites, and optimizing advertising, and newly launched 23 official mobile sites, as well as 62 PC sites. Our total number of monthly-fee subscribers at the end of the consolidated second quarter stood at 2.24 million. Furthermore, we introduced virtual currency on our new site “Spichan,” which is our first company platform to link the 5 million subscribers that we have for the fee-paying and charge-free sites, to start charging individual fees.

As a result, our group ran 433 official mobile sites as of the end of the consolidated second quarter. Net sales in the contents business for the consolidated second quarter totaled 4,423,359 thousand yen, and segment income 1,965,226 thousand yen.

(Note 3) Spiritainment is a coined term combining ‘spirit’ and ‘entertainment.’ It is a new entertainment genre that Zappallas creates, and like “fortune-telling,” it adheres to an old form, and offers entertaining contents that are highly pure, and are made with an awareness of nature and natural forms.

### 2) Commerce Business

Zappallas Group’s commerce business can be divided into mobile commerce business and mobile phone sales. In our mobile commerce business, we have addressed the issue of increasing customer attraction by launching new sites and actively placing advertisements. Also, 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 33 mobile commerce sites, 2 PC sites and G-plus's three mobile phone shops at the end of the consolidated second quarter. Net sales in mobile commerce for the consolidated second quarter totaled 1,170,309 thousand yen, and segment income 56,006 thousand yen.

### **3) Other Businesses**

Among other business, Zappallas jointly operated sites such as "Y! Suica" and "Sakutto Cinema Search" with other companies.

As a result of these activities, net sales for consolidated second quarter totaled 121,030 thousand yen, while segment income totaled 19,045 thousand yen.

## **(2) Consolidated Financial Analysis Report**

### **1) Assets, Liabilities and Net Assets**

Assets were 7,888,872 thousand yen at the end of consolidated second quarter, an increase of 344,910 thousand yen from the end of the previous fiscal year. This increase was mainly due to a 449,931 thousand yen increase in trade accounts receivable.

Total liabilities were 1,625,781 thousand yen, a decrease of 111,725 thousand yen, mainly due to a 143,300 thousand yen decrease in provision for directors' retirement benefits.

Net assets were 6,263,091 thousand yen, an increase of 456,636 thousand yen. The main factor was an increase in the retained earnings of 453,396 thousand yen.

### **2) Cash flow**

Cash and cash equivalents (cash hereinafter) totaled 3,644,914 thousand yen at the end of the consolidated second quarter, a decrease of 136,046 thousand yen from the end of the previous fiscal year.

#### ***Cash flow from operating activities***

Net cash provided by operating activities was 596,475 thousand yen. The main negative factors were increase in notes and accounts receivable, trade of 449,931 thousand yen, resulting from temporary collections of trade accounts receivable due to long vacations at each end of previous fiscal quarter, and income taxes paid of 626,438 thousand yen. The main positive factors were income before income taxes of 1,642,832 thousand yen, and depreciation and amortization of 138,836 thousand yen.

#### ***Cash flow from investing activities***

Net cash used in investing activities was 215,279 thousand yen. The main factors for this were 31,647 thousand yen in purchase of property, plant and equipment, and 158,934 thousand yen in purchase of intangible assets.

#### ***Cash flow from financing activities***

Net cash used in financing activities was 517,242 thousand yen. This can mostly be accounted for by cash dividends payments of 516,887 thousand yen.

### **(3) Business Forecast Analysis**

Regarding earnings forecasts for the fiscal year ending April 2011, performance has been steady, and generally in line with initial forecasts. No changes have been made to the earnings forecasts announced on June 7, 2010.

## **2. Other information**

### **(1) Outline of changes in important subsidiaries**

Not applicable

### **(2) Outline of application of simple accounting procedures and specific accounting procedures**

#### 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 second 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. Quarterly specific accounting procedures

Not applicable

### **(3) Outline of changes in accounting principles, procedures and presentation of accounting procedures**

#### 1. Application of “Accounting Standard for Equity Method of Accounting for Investments” and “Practical Solution of Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method”

“Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, March 10, 2008) and “Practical Solution of Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (PITF No. 24, March 10, 2008) are applied from first quarter of the current fiscal year.

There is no effect on the consolidated quarterly financial statement due to this.

#### 2. Application of Accounting Standard for Asset Retirement Obligations

“Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and “Guidance on Accounting Standards for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) are applied from first quarter of the current fiscal year.

There is no effect on the income and loss due to this.

**3. Consolidated Quarterly Financial Statement**  
**(1) Consolidated Quarterly Balance Sheets**

(Thousands of yen)

	Six months ended October 2010 (At October 31, 2010)	Fiscal year ended April 2010 (At April 30, 2010)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and deposits	3,141,873	3,278,121
Accounts receivable, trade	2,367,761	1,917,830
Short-term investment securities	603,041	502,839
Merchandise and finished goods	32,755	16,874
Other	140,087	195,719
Allowance for doubtful accounts	(37,560)	(31,237)
<b>Total Current Assets</b>	<b>6,247,958</b>	<b>5,880,149</b>
<b>Non-current Assets</b>		
<b>Property, Plant and Equipment</b>	139,501	143,897
<b>Intangible Assets</b>		
Software	265,893	211,670
Goodwill	206,689	213,504
Other	31,144	42,354
<b>Total Intangible Assets</b>	<b>503,727</b>	<b>467,529</b>
<b>Investments and Other Assets</b>		
Investment securities	621,766	697,483
Other	375,918	354,902
<b>Total Investments and Other Assets</b>	<b>997,684</b>	<b>1,052,386</b>
<b>Total Non-current Assets</b>	<b>1,640,913</b>	<b>1,663,813</b>
<b>Total Assets</b>	<b>7,888,872</b>	<b>7,543,962</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable, trade	492,546	480,490
Account payable, other	373,496	345,631
Income taxes payable	630,013	635,280
Provision for directors' retirement benefits	—	143,300
Provision for bonuses	1,920	—
Other	127,805	132,804
<b>Total Current Liabilities</b>	<b>1,625,781</b>	<b>1,737,507</b>
<b>Total Liabilities</b>	<b>1,625,781</b>	<b>1,737,507</b>
<b>NET ASSETS</b>		
<b>Shareholder's Equity</b>		
Capital stock	1,446,343	1,445,843
Capital surplus	1,371,718	1,371,218
Retained earnings	4,889,770	4,436,373
Treasury stock	(1,495,870)	(1,495,870)
<b>Total Shareholders' Equity</b>	<b>6,211,962</b>	<b>5,757,565</b>
<b>Valuation and Translation Adjustments</b>		
Valuation difference on available-for-sale securities	(666)	204
<b>Total Valuation and Translation Adjustments</b>	<b>(666)</b>	<b>204</b>
<b>Minority Interests</b>	<b>51,794</b>	<b>48,684</b>
<b>Total Net Assets</b>	<b>6,263,091</b>	<b>5,806,454</b>
<b>Total Liabilities and Net Assets</b>	<b>7,888,872</b>	<b>7,543,962</b>

(2) Consolidated Quarterly Statements of Income  
(For the Six Months Ended October 31, 2010)

(Thousands of yen)

	Six Months Ended October 31, 2009 (May 1, 2009 – Oct. 31, 2009)	Six Months Ended October 31, 2010 (May 1, 2010 – Oct. 31, 2010)
<b>Net Sales</b>	<b>5,542,916</b>	<b>5,714,699</b>
<b>Cost of Sales</b>	<b>1,795,981</b>	<b>1,876,385</b>
<b>Gross Profit</b>	<b>3,746,935</b>	<b>3,838,313</b>
<b>Selling, General and Administrative Expenses</b>	<b>2,248,517</b>	<b>2,201,076</b>
<b>Operating Income</b>	<b>1,498,417</b>	<b>1,637,236</b>
<b>Non-operating Income</b>		
Interest income	4,553	1,491
Equity in earnings of affiliates	—	5,826
Gain on investments in partnership	962	805
Other	2,855	4,459
<b>Total Non-operating Income</b>	<b>8,371</b>	<b>12,582</b>
<b>Non-operating Expenses</b>		
Interest expenses	—	1,389
Equity in losses of affiliates	9,054	—
Other	224	234
<b>Total Non-operating Expenses</b>	<b>9,279</b>	<b>1,624</b>
<b>Ordinary Income</b>	<b>1,497,509</b>	<b>1,648,195</b>
<b>Extraordinary Loss</b>		
Loss on sales and retirement of non-current assets	84	5,362
Loss on cancellation of business entrustment agreement	3,333	—
<b>Total Extraordinary Loss</b>	<b>3,417</b>	<b>5,362</b>
<b>Income before Income Taxes</b>	<b>1,494,091</b>	<b>1,642,832</b>
Income taxes, current	596,323	624,361
Income taxes, deferred	12,832	42,110
<b>Total Income Taxes</b>	<b>609,156</b>	<b>666,471</b>
<b>Net Income (loss) before Minority Interests</b>	<b>—</b>	<b>976,361</b>
<b>Minority Interests in Income</b>	<b>6,314</b>	<b>3,109</b>
<b>Net Income</b>	<b>878,620</b>	<b>973,251</b>

### (3) Consolidated Quarterly Statements of Cash Flows

(Thousands of yen)

	Six Months Ended October 31, 2009 (May 1, 2009 – Oct. 31, 2009)	Six Months Ended October 31, 2010 (May 1, 2010 – Oct. 31, 2010)
<b>Net Cash Provided by (used in) Operating Activities:</b>		
Income before income taxes	1,494,091	1,642,832
Depreciation and amortization	106,385	138,836
Amortization of long-term prepaid expenses	16	740
Loss (gain) on investments in partnership	(962)	(805)
Amortization of goodwill	6,815	6,815
Increase (decrease) in allowance for doubtful accounts	949	6,323
Increase (decrease) in allowance for bonuses	—	1,920
Increase (decrease) in provision for directors' bonuses	19,528	—
Interest income	(4,553)	(1,491)
Interest expenses	—	1,389
Loss (gain) on sales and retirement of non-current assets	84	5,362
Equity in (earnings) losses of affiliates	9,054	(5,826)
Decrease (increase) in notes and accounts receivable, trade	(38,415)	(449,931)
Decrease (increase) in inventories	1,160	(15,616)
Increase (decrease) in notes and account payable, trade	(44,684)	12,056
Increase (decrease) in accounts payable, other	(30,748)	(7,143)
Increase (decrease) in accrued consumption taxes	40,853	32,737
Other	(28,824)	(145,395)
<b>Subtotal</b>	<b>1,530,749</b>	<b>1,222,804</b>
Interest income received	4,545	1,498
Interest income payment	—	(1,389)
Income taxes paid	(759,887)	(626,438)
<b>Net Cash Provide by (Used in) Operating Activities</b>	<b>775,407</b>	<b>596,475</b>
<b>Net Cash Provided by (used in) Investing Activities</b>		
Proceeds from redemption of securities	300,000	—
Purchase of property, plant and equipment	(5,925)	(31,647)
Purchase of intangible assets	(95,420)	(158,934)
Purchase of investment securities	(446,979)	(19,433)
Payment for guarantee deposits	(42)	(100)
Proceeds from recovery of guarantee deposits	—	4,354
Other	—	(9,518)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(248,368)</b>	<b>(215,279)</b>
<b>Net Cash Provided by (used in) Financing Activities</b>		
Proceeds from issuance of common stock	646	853
Cash dividends paid	(527,944)	(516,887)
Other	(1,208)	(1,208)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(528,507)</b>	<b>(517,242)</b>
<b>Net Increase (decrease) in Cash and Cash Equivalents</b>	<b>(1,468)</b>	<b>(136,046)</b>
<b>Cash and Cash Equivalents at Beginning of the Period</b>	<b>4,044,047</b>	<b>3,780,961</b>
<b>Cash and Cash Equivalents at End of the Period</b>	<b>4,042,579</b>	<b>3,644,914</b>

**(4) Notes regarding the conditions of going business**

Not applicable.

**(5) Segment Information**

[Performance by Business Segment]

Six Months Ended October 31, 2009 (May 1, 2009 to October 31, 2009)

(Thousands of yen)

	Digital contents business	Commerce business	Others business	Total	Elimination or corporate	Consolidated
Sales						
(1) Sales to outside customers	4,410,642	1,043,094	89,179	5,542,916	—	5,542,916
(2) Sales and transfer-Inter-segment	—	—	—	—	—	—
Total	4,410,642	1,043,094	89,179	5,542,916	—	5,542,916
Operating income (loss)	1,753,523	89,356	(15,046)	1,827,834	(329,416)	1,498,417

(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]

Six Months Ended October 31, 2009 (May 1, 2009 to October 31, 2009)

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

[Overseas sales]

Six Months Ended October 31, 2009 (May 1, 2009 to October 31, 2009)

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

## [Segment Information]

### 1. Overview of Reporting Segments

The Company's reporting segments are separate segments within the Company's structure, for which financial information is available, and which are periodically subjected to reviews, in order to allow the board of directors to make decisions on how to allocate management resources, and to conduct performance evaluations.

Zappallas is primarily developing its business activities by focusing on supplying contents etc. on the Internet. Two of our reporting segments are "Contents business" and "Commerce business." "Contents business" mainly supplies contents services for mobile phones and PC, while "commerce business" sells products etc. through mobile phones, PC and real store.

### 2. Information Concerning Sales and Income or Loss Amount by Reporting Segment Six Months Ended October 31, 2010 (May 1, 2010 to October 31, 2010)

(Thousands of yen)

	Reporting segment			Others business (Note 1)	Total	Adjustment amounts (Note 2)	Quarterly consolidated income/loss statement amount (Note 3)
	Contents business	Commerce business	Total				
Sales							
Sales to outside customers	4,423,359	1,170,309	5,593,668	121,030	5,714,699	—	5,714,699
Sales and transfer-Inter- segment	—	—	—	—	—	—	—
Total	4,423,359	1,170,309	5,593,668	121,030	5,714,699	—	5,714,699
Segment income (loss)	1,965,226	56,006	2,021,232	19,045	2,040,277	(403,040)	1,637,236

Notes 1. The classification "Other business" refers to business segments that are not included in reporting segments, and includes commissioned work and advertising businesses etc.

2. Adjustment amounts for segment earnings are company expenses. Company expenses are mainly selling, general and administrative expenses that are not allocated to reporting segments.

3. Segment income is adjusted with operating incomes calculated in consolidated quarterly statements of income.

### 3. Information on impairment of non-current assets and goodwill etc. for each reporting segment

Not applicable.

#### (Additional information)

As of first quarter of the current fiscal year, we are applying "Accounting Standards Concerning Disclosure of Segment Information" (ASBJ, No. 17, March 27, 2009) and "Application Guide for Accounting Standards Concerning Disclosure of Segment Information" (ASBJ Guidance, No. 20, March 21, 2008).

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

Not applicable.