

March 1, 2011

**Summary of Consolidated Financial Results For the Nine Months Ended January, 2011 (3Q/FY2011)
[Japanese standards] (Consolidated)**

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 14, 2011
 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 third quarter ended January 31, 2011)

1. Consolidated Performance

	3Q/FY2010	3Q/FY2011	YoY	3Q/FY2011
	(millions of yen)		(percentage change)	(thousands of U.S. dollars)
(1) Consolidated financial results				
Net sales	8,361	8,831	5.6	107,529
Operating income	2,207	2,412	9.3	29,368
Ordinary income	2,209	2,425	9.8	29,531
Net income	1,193	1,432	20.0	17,440
Net income per share (yen, U.S. dollars)	8,982.87	11,558.22	—	140.73
Diluted net income per share (yen, U.S. dollars)	8,771.78	11,336.21	—	138.02

	FY2010	3Q/FY2011	YoY	3Q/FY2011
	(millions of yen)		(percentage change)	(thousands of U.S. dollars)
(2) Consolidated financial position				
Total assets	7,543	8,166	—	99,438
Net assets	5,806	6,735	—	82,011
Shareholders' equity ratio (%)	76.3	81.8	—	—
Net assets per share (yen, U.S. dollars)	46,518.04	53,707.21	—	653.92

(Reference) Shareholders' equity (million yen) As of January 31, 2011: 6,682 As of April 30, 2010: 5,757

2. Dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Year-end	Annual
	(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 January 31, 2011: 134,110 shares

As of April 30, 2010: 133,460 shares

2) Number of treasury stock at the end of period

As of January 31, 2011: 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 January 31, 2011: 123,926 shares

As of January 31, 2010: 132,893 shares

*Indication regarding the implementation status of the quarterly review procedure

Financial results for this third 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 ¥82.13=US\$1, the approximate exchange rate of TTM of Bank of Tokyo-Mitsubishi UFJ, Ltd. as of January 31, 2011.

Table of contents of the appendix

1. Qualitative Information Regarding the Consolidated Performance for the Current Quarter.....	2
(1) Consolidated Management Analysis Report.....	2
(2) Consolidated Financial Analysis Report.....	3
(3) Business Forecast Analysis.....	3
2. Other Information.....	4
(1) Outline of changes in important subsidiaries.....	4
(2) Outline of application of simple accounting procedures and specific accounting procedures.....	4
(3) Outline of changes in accounting principles, procedures and presentation of accounting procedures....	4
3. Consolidated Quarterly Financial Statement.....	5
(1) Consolidated Quarterly Balance Sheets.....	5
(2) Consolidated Quarterly Statements of Income.....	6
(3) Consolidated Quarterly Statements of Cash Flows.....	7
(4) Notes regarding the conditions of going business.....	8
(5) Segment Information.....	8
(6) Notes in the Case of Major Changes in Shareholders' Equity.....	9

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

(1) Consolidated Management Analysis Report

In the first to third quarters of this consolidated fiscal year, the Japanese economy was stagnant, and there was a sign of recovery, but unemployment rate remained high.

Regarding the environment surrounding the mobile business, the total number of mobile phone subscriptions at the end of January 2011 was 117.58 million, and third-generation mobile phones accounted for 115.90 million of these subscriptions (+8.4% year-over-year) (Note1), or 98.6% 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 third quarter totaled 8,831,424 thousand yen (+5.6% year-on-year), operating income 2,412,067 thousand yen (+9.3%), ordinary income 2,425,408 thousand yen (+9.8%), and net income 1,432,364 thousand yen (+20.0%).

Results by business segment are as follows. In this consolidated period, business segment classifications were revised due to the introduction of the management approach based on “Accounting Standards regarding the Disclosure of Segment Information, etc.” (Corporate Accounting Standards No. 17) and “Guideline for Applying the Accounting Standards regarding the Disclosure of Segment Information, etc.” (Guideline for Applying Corporate Accounting Standards No. 20). Accordingly, the results for each segment were not compared with those for the same quarter of the previous fiscal year.

(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 third quarter, we addressed the issues of improving customer attraction by launching new sites, and optimizing advertising, and newly launched 37 official mobile sites, as well as 98 PC sites. Our total number of monthly-fee subscribers at the end of the consolidated third quarter stood at 2.28 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 446 official mobile sites as of the end of the consolidated third quarter. Net sales in the contents business for the consolidated third quarter totaled 6,715,301 thousand yen, and segment income 2,909,725 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 37 mobile commerce sites, 3 PC sites and G-plus's three mobile phone shops at the end of the consolidated third quarter. Net sales in mobile commerce for the consolidated third quarter totaled 1,935,136 thousand yen, and segment income 91,165 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 third quarter totaled 180,986 thousand yen, while segment income totaled 22,437 thousand yen.

(2) Consolidated Financial Analysis Report

1) Assets, Liabilities and Net Assets

Assets were 8,166,921 thousand yen at the end of consolidated third quarter, an increase of 622,959 thousand yen from the end of the previous fiscal year. This increase was mainly due to a 537,263 thousand yen increase in notes and accounts receivable, trade.

Total liabilities were 1,431,311 thousand yen, a decrease of 306,195 thousand yen, mainly due to a 310,604 thousand yen decrease in income taxes payable and 143,300 thousand yen decrease in provision for directors' retirement benefits.

Net assets were 6,735,609 thousand yen, an increase of 929,155 thousand yen, mainly due to an increase in the retained earnings of 912,509 thousand yen.

2) Cash flow

Cash and cash equivalents (cash hereinafter) totaled 3,793,732 thousand yen at the end of the consolidated third quarter, an increase of 12,770 thousand yen from the end of the previous fiscal year.

Cash flow from operating activities

Net cash provided by operating activities was 834,228 thousand yen. The main negative factors were increase in notes and accounts receivable, trade of 537,263 thousand yen, resulting from temporary collections of notes and accounts receivable, trade due to long vacations at each end of previous fiscal quarter, and income taxes paid of 1,233,373 thousand yen. The main positive factors were income before income taxes of 2,418,845 thousand yen, and depreciation and amortization of 212,235 thousand yen.

Cash flow from investing activities

Net cash used in investing activities was 314,406 thousand yen. The main factors for this were 31,900 thousand yen in purchase of property, plant and equipment, and 254,051 thousand yen in purchase of intangible assets.

Cash flow from financing activities

Net cash used in financing activities was 507,051 thousand yen. This can mostly be accounted for by cash dividends paid of 518,067 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 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. 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)

	Nine months ended January 2011 (At January 31, 2011)	Fiscal year ended April 2010 (At April 30, 2010)
ASSETS		
Current Assets		
Cash and deposits	3,290,590	3,278,121
Accounts receivable, trade	2,455,093	1,917,830
Short-term investment securities	603,141	502,839
Merchandise and finished goods	54,416	16,874
Other	134,175	195,719
Allowance for doubtful accounts	(38,586)	(31,237)
Total Current Assets	6,498,830	5,880,149
Non-current Assets		
Property, Plant and Equipment	133,189	143,897
Intangible Assets		
Software	282,444	211,670
Goodwill	203,281	213,504
Other	43,108	42,354
Total Intangible Assets	528,834	467,529
Investments and Other Assets		
Investment securities	629,150	697,483
Other	376,916	354,902
Total Investments and Other Assets	1,006,066	1,052,386
Total Non-current Assets	1,668,090	1,663,813
Total Assets	8,166,921	7,543,962
LIABILITIES		
Current Liabilities		
Accounts payable, trade	528,554	480,490
Account payable, other	451,211	345,631
Income taxes payable	324,676	635,280
Provision for directors' retirement benefits	—	143,300
Provision for bonuses	31,470	—
Other	95,399	132,804
Total Current Liabilities	1,431,311	1,737,507
Total Liabilities	1,431,311	1,737,507
NET ASSETS		
Shareholder's Equity		
Capital stock	1,452,343	1,445,843
Capital surplus	1,377,718	1,371,218
Retained earnings	5,348,883	4,436,373
Treasury stock	(1,495,870)	(1,495,870)
Total Shareholders' Equity	6,683,075	5,757,565
Valuation and Translation Adjustments		
Valuation difference on available-for-sale securities	(555)	204
Total Valuation and Translation Adjustments	(555)	204
Minority Interests	53,089	48,684
Total Net Assets	6,735,609	5,806,454
Total Liabilities and Net Assets	8,166,921	7,543,962

(2) Consolidated Quarterly Statements of Income
(For the Nine Months Ended January 31, 2011)

(Thousands of yen)

	Nine Months Ended January 31, 2010 (May 1, 2009 – Jan. 31, 2010)	Nine Months Ended January 31, 2011 (May 1, 2010 – Jan. 31, 2011)
Net Sales	8,361,128	8,831,424
Cost of Sales	2,672,807	2,970,079
Gross Profit	5,688,320	5,861,344
Selling, General and Administrative Expenses	3,480,628	3,449,277
Operating Income	2,207,692	2,412,067
Non-operating Income		
Interest income	5,028	1,886
Gain on investments in partnership	962	805
Equity in earnings of affiliates	—	7,772
Other	4,501	5,162
Total Non-operating Income	10,491	15,626
Non-operating Expenses		
Interest expenses	—	1,957
Equity in losses of affiliates	8,838	—
Other	330	328
Total Non-operating Expenses	9,169	2,285
Ordinary Income	2,209,014	2,425,408
Extraordinary Income		
Gain on bad debts recovered	—	4,296
Total Extraordinary Income	—	4,296
Extraordinary Loss		
Loss on sales and retirement of non-current assets	84	10,858
Equity in losses of affiliates	174,688	—
Loss on cancellation of business entrustment agreement	3,333	—
Total Extraordinary Loss	178,106	10,858
Income before Income Taxes	2,030,908	2,418,845
Income taxes, current	866,297	931,946
Income taxes, deferred	(37,817)	50,130
Total Income Taxes	828,480	982,076
Net Income (loss) before Minority Interests	—	1,436,769
Minority Interests in Income	8,667	4,405
Net Income	1,193,760	1,432,364

(3) Consolidated Quarterly Statements of Cash Flows

(Thousands of yen)

	Nine Months Ended January 31, 2010 (May 1, 2009 – Jan. 31, 2010)	Nine Months Ended January 31, 2011 (May 1, 2010 – Jan. 31, 2011)
Net Cash Provided by (used in) Operating Activities:		
Income before income taxes	2,030,908	2,418,845
Depreciation and amortization	164,470	212,235
Amortization of long-term prepaid expenses	185	1,245
Loss (gain) on investments in partnership	(962)	(805)
Amortization of goodwill	10,223	10,223
Increase (decrease) in allowance for doubtful accounts	1,705	7,349
Increase (decrease) in allowance for bonuses	—	31,470
Increase (decrease) in provision for directors' bonuses	25,144	—
Interest income	(5,028)	(1,886)
Interest expenses	—	1,957
Loss (gain) on sales and retirement of non-current assets	84	10,858
Equity in (earnings) losses of affiliates	183,527	(7,772)
Decrease (increase) in notes and accounts receivable, trade	(89,131)	(537,263)
Decrease (increase) in inventories	(10,862)	(37,739)
Increase (decrease) in notes and account payable, trade	(32,242)	48,064
Increase (decrease) in accrued consumption taxes	(30,953)	(5,073)
Increase (decrease) in accounts payable, other	73,196	105,822
Other	(37,229)	(190,122)
Subtotal	2,283,034	2,067,409
Interest income received	5,478	2,149
Interest income payment	—	(1,957)
Income taxes paid	(1,349,047)	(1,233,373)
Net Cash Provide by (Used in) Operating Activities	939,465	834,228
Net Cash Provided by (used in) Investing Activities		
Proceeds from redemption of securities	300,000	—
Purchase of property, plant and equipment	(58,899)	(31,900)
Purchase of intangible assets	(148,762)	(254,051)
Purchase of investment securities	(446,979)	(24,683)
Proceeds from sales of investment securities	10,200	—
Payment for guarantee deposits	(79,328)	(100)
Proceeds from recovery of guarantee deposits	74	4,354
Other	—	(8,025)
Net Cash Provided by (Used in) Investing Activities	(423,696)	(314,406)
Net Cash Provided by (used in) Financing Activities		
Proceeds from issuance of common stock	12,552	12,829
Cash dividends paid	(528,775)	(518,067)
Other	(1,813)	(1,813)
Net Cash Provided by (Used in) Financing Activities	(518,036)	(507,051)
Net Increase (decrease) in Cash and Cash Equivalents	(2,267)	12,770
Cash and Cash Equivalents at Beginning of the Period	4,044,047	3,780,961
Cash and Cash Equivalents at End of the Period	4,041,780	3,793,732

(4) Notes regarding the conditions of going business

Not applicable.

(5) Segment Information

[Performance by Business Segment]

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 (loss)	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, 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, 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.

[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
 Nine Months Ended January 31, 2011 (May 1, 2010 to January 31, 2011)

(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	6,715,301	1,935,136	8,650,437	180,986	8,831,424	—	8,831,424
Sales and transfer-Inter-segment	—	—	—	—	—	—	—
Total	6,715,301	1,935,136	8,650,437	180,986	8,831,424	—	8,831,424
Segment income (loss)	2,909,725	91,165	3,000,891	22,437	3,023,329	(611,261)	2,412,067

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.