

September 7, 2012

**Summary of Consolidated Financial Results for the Three Months Ended July, 2012 (1Q/FY2013)
[Japanese Standards] (Consolidated)**

Company name: ZAPPALLAS, INC. Stock listing: Tokyo Stock Exchange (First Section)
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 Scheduled date of filing of Annual Securities Report: September 12, 2012
 Scheduled date of payment of dividend: -
 Supplementary materials for the quarterly financial results: Yes
 Investor conference for the quarterly financial results: None

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

FINANCIAL HIGHLIGHTS

(As of and for the first quarter ended July 31, 2012)

1. Consolidated Performance

	1Q/ FY2012	1Q/ FY2013	YoY	1Q/ FY2013
	<i>(millions of yen)</i>		<i>(percentage change)</i>	<i>(thousands of U.S. dollars)</i>
(1) Consolidated financial results				
Net sales	2,846	2,369	(16.8%)	\$30,309
Operating income	766	603	(21.3%)	7,717
Ordinary income	768	606	(21.1%)	7,758
Net income	454	348	(23.4%)	4,453
Net income per share <i>(yen, U.S. dollars)</i>	3,651.76	2,776.07	—	35.50
Diluted net income per share <i>(yen, U.S. dollars)</i>	3,590.89	2,745.99	—	35.13
(Note) Comprehensive income (million yen)	As of July 31, 2012: 366 (-19.3%)		As of July 31, 2011: 454 (-4.0%)	
	FY2012	1Q/ FY2013	YoY	1Q/ FY2013
	<i>(millions of yen)</i>		<i>(percentage change)</i>	<i>(thousands of U.S. dollars)</i>
(2) Consolidated financial position				
Total assets	9,417	9,281	—	118,733
Net assets	8,032	7,874	—	100,734
Shareholders' equity ratio	84.4	84.1	—	
Net assets per share <i>(yen, U.S. dollars)</i>	63,558.81	62,200.91	—	795.70
(Reference) Shareholders' equity (million yen)	As of July 31, 2012: 7,807		As of April 30, 2012: 7,946	

2. Dividends

	Dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Annual
	<i>(yen)</i>				
FY2012	—	0.00	—	4,200.00	4,200.00
FY2013	—				
FY2013 (Forecast)		0.00	—	4,200.00	4,200.00

(Note) Changes from the latest dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending April 30, 2013 (May 1, 2012 – April 30, 2013)

	FY4/2013	
	Six months	Annual
	<i>(millions of yen)</i>	
Net sales	5,000	12,000
Operating income	820	2,200
Ordinary income	820	2,200
Net income	508	1,326
Net income per share <i>(yen)</i>	4,065.73	10,610.57

(Note) Changes from the latest financial forecast: None

***Note**

1) Changes in important subsidiaries during the period (change of specified subsidiaries that lead to a change in the scope of consolidation): None

Newly included: — companies (Company name:), Removed: — companies (Company name:)

2) Changes to accounting policies, changes to accounting estimates, restatements

1) Changes to accounting principles caused by revision of accounting standards: Yes

2) Other changes to accounting principles: None

3) Changes to Accounting Estimates: Yes

4) Restatements: None

(Note) It falls under Article 10-5 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements. For details, please refer to “2. Summary Information (Other Information), Changes to Accounting Policies, Changes to Accounting Estimates, Restatements” on page 4 of the appendix.

3) Number of outstanding shares (common stocks)

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

As of July 31, 2012: 134,710 shares

As of April 30, 2012: 134,710 shares

2) Number of treasury stock at the end of period

As of July 31, 2012: 9,185 shares

As of April 30, 2012: 9,685 shares

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

As of July 31, 2012: 125,455 shares

As of July 31, 2011: 124,425 shares

* Status of Implementation of Audit Process

This financial report (“Kessan Tanshin”) is outside the scope of audit procedures based on the Financial Instruments and Exchange Act, and at the time of the release of this financial report the process of auditing financial statements based on the Financial Instruments and Exchange Act has not yet been completed.

* Explanations and Special Instructions on the Appropriate Use of Earnings Forecasts

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) Qualitative Information Regarding Consolidated Earnings Forecasts.”

* U.S. dollar amounts have been translated from Japanese yen, for readers’ convenience only, at the exchange rate of ¥78.17=US\$1, the approximate exchange rate of TTM of Bank of Tokyo-Mitsubishi UFJ, Ltd. as of July 31, 2011.

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

(1) Consolidated Management Analysis Report

During the first quarter of this consolidated fiscal year, the Japanese economy showed signs of recovery in some areas with corporate earnings also recovering gradually, but due to the yen being at a high value for a long term and uncertainty over European financial institutions, we have transitioned in an environment where the future is still unclear.

Regarding the environment surrounding the mobile business, the mobile content-related market (mobile content markets and mobile commerce markets) is continuing to expand, reaching 1.9061 trillion yen in fiscal year 2011 (+15.2% compared to the previous quarter) (Note 1). Within the 734.5 billion yen mobile contents market (+13.6%), the feature phone (Note 2) market remained stable at 653.9 billion yen (+1.1%) and the 80.6 billion smartphone (Note 3) market was added. The rapid growth of the smartphone market is benefitting the mobile contents market as a whole (Note 1). Studies of the size of the smartphone market began in 2011.

In this environment, the Zappallas Group focused on making its existing contents business compatible with smartphones while the commerce business reviewed their product line-up and focused on handling products with high added value, as part of a continued effort to increase corporate earnings capacity.

As a result, sales in the first quarter of this consolidated accounting period totaled 2,369,332 thousand yen (-16.8% year-on-year), operating income 603,511 thousand yen (-21.3%), ordinary income 606,768 thousand yen (-21.1%), and quarterly net income 348,271 thousand yen (-23.4%).

(Note 1) Data obtained from a Mobile Content Forum survey made available on July 20, 2012.

(Note 2) Feature phones are more traditional mobile phones, with phone functions as the main focus, but also including other features such as cameras and internet.

(Note 3) This refers to multifunction mobile phones that possess functions similar to personal computers, such as the iPhone and Android phones.

Results by business segment are as follows.

1) Contents Business

For the contents business, in addition to making a concerted effort to handle the continually expanding smartphone market, we continued to introduce new contents and diversify payment structures. In the first quarter of this consolidated fiscal year, we released 43 official contents for feature phones and smartphones and 33 PC contents (Note 4), as well as working on payment structures for fortune-telling contents in order to respond to varied user needs.

With the switch from feature phones to smartphones progressing, there was a continued decrease in the number of paying users for official contents on feature phones. But with a steady increase in the number of paying users for official contents on smartphones, the number of monthly subscribers for pay services on mobiles was 1.57 million at the end of the first quarter of this consolidated fiscal year.

As a result of the above, sales in the contents business for the first quarter of this consolidated fiscal year totaled 1,763,883 thousand yen (-16.2% year-on-year), and segment income totaled 737,752 thousand yen (-19.5%).

(Note 4) Starting in the second quarter of the previous consolidated fiscal year, in addition to official contents for ISPs, PC contents now include as a number of sites with contents for our own site, 'cocoloni Classic Fortune-telling Mansion'.

2) Commerce Business

Zappallas Group's commerce business can be divided into e-commerce business (mobile and PC) and other commerce businesses.

For the e-commerce business, based on the Group's policy of placing LTV (Note 5) as the most important factor, the commerce business created a policy of handling products with high added value and originality. In accordance with this new policy, new commerce site "Fujimaki Department Store" was opened in the first

quarter of this consolidated fiscal year, but due to significantly decreasing the amount of products handled during the second quarter of the previous consolidated fiscal year, e-commerce business sales decreased significantly year-on-year.

For other commerce businesses, B×E Inc. which was made into a subsidiary in the third quarter of the previous consolidated fiscal year, is seeing steady sales of its new products in the continually growing organic natural cosmetics market and so income increased.

As a result of the above, sales in the commerce business for the first quarter of this consolidated fiscal year totaled 528,310 thousand yen (-23.9% year-on-year), and segment income totaled 71,724 thousand yen (+76.8%).

(Note 5) Abbreviation for LifeTime Value. Future profits that the customer will bring into the company.

3) Other Businesses

Other business was largely centered on advertising on the middle- and high school student-aimed profile site (Note 6) “Zenryaku Profile,” and commissions for mobile site development and site management duties for sites including the “Y! Suica” service, but effort was also put into the development of new sites.

As a result of these activities, sales for the first quarter of this consolidated fiscal year totaled 77,137 thousand yen (+61.0% year-on-year), while segment losses totaled 12,097 thousand yen (segment income in the same period the previous year was 26,841 thousand yen) due to upfront investment in developing new genre sites.

(Note 6) Services that enable users to upload introductory profile pages to the Internet by answering just a few simple questions.

(2) Consolidated Financial Analysis Report

Assets, Liabilities and Net Assets

Assets totaled 9,281,641 thousand yen at the end of the first quarter of this consolidated fiscal year, a decrease of 135,520 thousand yen from the end of the previous fiscal year. The main cause of this decrease was a 150,847 thousand yen decrease in cash and deposits due to payment of dividends and income taxes.

Total liabilities were 1,406,971 thousand yen, an increase of 22,712 thousand yen from the end of the previous fiscal year. The main cause for this increase was that despite a 130,353 thousand yen decrease in income taxes payable, there was a 126,368 thousand yen increase in accounts payable, trade and a 48,149 thousand yen increase in other current liabilities.

Net assets totaled 7,874,670 thousand yen, a decrease of 158,233 thousand yen from the end of the previous fiscal year. This was mainly due to a 215,897 thousand yen decrease in retained earnings from payment of dividends and a 38,161 thousand yen decrease in subscription rights to shares, despite a 77,266 thousand yen decrease in treasury stock due to issuing treasury stock when share warrants were exercised.

(3) Qualitative Information Regarding Consolidated Earnings Forecasts

With the transfer from feature phones to smartphones expected to continue, the environment surrounding mobile business will continue to see significant changes.

Considering this environment, in addition to continuing to develop and grow key contents to follow fortune-telling, the Group goal will be for current customers to continue to use Zappallas Group services even as they grow older, with a policy of providing a variety of services that can appeal to diverse age groups as part of a “Lifetime Platform” strategy

While expanding in a variety of directions, in addition to looking at optimizing sales expenses and general administration expenses including advertising costs, efforts will also be made to improve our operating base with investment into development of new growth businesses.

Business results for the fiscal year ending April 30, 2013 are proceeding mostly as expected, and there are no changes to be made for the results forecasts announced on June 13, 2012.

2. Summary Information (Other Information)

Changes to Accounting Policies, Changes to Accounting Estimates, Restatements

Changes to Accounting Policies

(Changes to Depreciation Method)

Following changes in the Corporation Tax Act, the Company and domestic subsidiaries will, as of this first quarter consolidated fiscal year, change the method for depreciation based on the revised Corporation Tax Act for all tangible fixed assets acquired from May 1, 2012 onward.

As a result, there will be a minor impact on the operating income, ordinary income and income before income taxes for the first quarter of this consolidated fiscal year.

Changes to Accounting Estimates

(Changes to Service Lifetime)

Having decided during the first quarter of this consolidated fiscal year to move the head office building, the service lifetime for assets that will be rendered unusable by the move (a portion of the 'Buildings and structures' and 'Tools, furniture and fixtures:' held by the company) will be changed to have a service lifetime up to the month of the move, with changes made as necessary in the future.

With this change, compared to the previous method in the first quarter of this consolidated fiscal year depreciation increased by 19,459 thousand yen and operating income, ordinary income and income before income taxes all decreased by 19,459 thousand yen.

3. Consolidated Financial Statement

(1) Consolidated Balance Sheets

(Thousands of yen)

	Fiscal year ended April 2012 (At April 30, 2012)	Three Months Ended July 31, 2012 (At July 31, 2012)
ASSETS		
Current Assets		
Cash and deposits	4,296,316	4,145,469
Accounts receivable, trade	2,091,595	2,095,288
Short-term investment securities	503,535	503,621
Merchandise and finished goods	26,644	31,007
Other	209,953	192,985
Allowance for doubtful accounts	(30,498)	(27,073)
Total Current Assets	7,097,546	6,941,298
Non-current Assets		
Property, Plant and Equipment	175,048	144,628
Intangible Assets		
Software	467,590	479,274
Goodwill	585,811	568,728
Other	38,274	37,188
Total Intangible Assets	1,091,676	1,085,191
Investments and Other Assets		
Investment securities	608,471	608,592
Other	444,419	501,930
Total Investments and Other Assets	1,052,891	1,110,523
Total Non-current Assets	2,319,615	2,340,343
Total Assets	9,417,162	9,281,641
LIABILITIES		
Current Liabilities		
Accounts payable, trade	332,167	458,536
Account payable, other	485,419	471,151
Current portion of long-term loans payable	31,956	31,956
Income taxes payable	348,684	218,331
Provision for point card certificates	14,736	13,292
Provision for sales returns	31,754	35,441
Other	75,336	123,486
Total Current Liabilities	1,320,055	1,352,195
Non-current Liabilities		
Long-term loans payable	62,763	53,444
Other	1,440	1,332
Total Non-current Liabilities	64,203	54,776
Total Liabilities	1,384,258	1,406,971
NET ASSETS		
Shareholder's Equity		
Capital stock	1,458,343	1,458,343
Capital surplus	1,383,718	1,383,718
Retained earnings	6,599,800	6,383,902
Treasury stock	(1,495,870)	(1,418,644)
Total Shareholders' Equity	7,945,992	7,807,320
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	448	448
Total Accumulated other comprehensive income	448	448
Subscription rights to shares	38,161	-
Minority Interests	48,301	66,900
Total Net Assets	8,032,903	7,874,670
Total Liabilities and Net Assets	9,417,162	9,281,641

(2) Consolidated Quarterly Statements of Income and Consolidated Quarterly Comprehensive Income
(Consolidated Quarterly Statements of Income)
(For the Three Months Ended July 31, 2012)

	(Thousands of yen)	
	Three Months Ended July 31, 2011 (May 1, 2011 – July 31, 2011)	Three Months Ended July 31, 2012 (May 1, 2012 – July 31, 2012)
Net Sales	2,846,436	2,369,332
Cost of Sales	945,865	711,393
Gross Profit	1,900,571	1,657,938
Provision for sales returns	–	5,385
Reversal of provision for sales returns	–	42
Gross profit-net	1,900,571	1,652,595
Selling, General and Administrative Expenses	1,134,153	1,049,084
Operating Income	766,418	603,511
Non-operating Income		
Interest income	245	107
Profit from investment-equity method	1,127	121
Technical support fee	615	–
Reversal of allowance for doubtful accounts	939	3,424
Other	13	302
Total Non-operating Income	2,941	3,955
Non-operating Expenses		
Interest expenses	663	665
Other	63	32
Total Non-operating Expenses	726	698
Ordinary Income	768,632	606,768
Extraordinary Loss		
Loss on sales and retirement of non-current assets	813	122
Total Extraordinary Loss	813	122
Income before Income Taxes	767,819	606,646
Income taxes, current	297,259	212,961
Income taxes, deferred	15,223	26,814
Total Income Taxes	312,483	239,776
Income Before Minority Interests	455,335	366,870
Minority Interests in Income	965	18,599
Net Income	454,370	348,271

(Consolidated Statements of Comprehensive Income)
(For the Three Months Ended July 31, 2012)

(Thousands of yen)

	Three Months Ended July 31, 2011 <small>(May 1, 2011 – July 31, 2011)</small>	Three Months Ended July 31, 2012 <small>(May 1, 2012 – July 31, 2012)</small>
Income Before Minority Interests	455,335	366,870
Other Comprehensive Income		
Valuation difference on available-for-sale securities	(575)	—
Total other comprehensive income	(575)	—
Comprehensive Income	454,760	366,870
Comprehensive Income Attributable to		
Owners of the parent	453,794	348,271
Minority interests	965	18,599

(3) Notes regarding the conditions of going business

Not applicable.

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

Not applicable.

(5) Segment Information

I Three Months Ended July 31, 2011 (May 1, 2011 – July 31, 2011)

1. Information Concerning Sales and Income or Loss Amount by Reporting Segment

(Thousands of yen)

	Reporting segment			Other 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	2,103,962	694,564	2,798,527	47,909	2,846,436	—	2,846,436
Inter-segment sales and transfers	—	—	—	—	—	—	—
Total	2,103,962	694,564	2,798,527	47,909	2,846,436	—	2,846,436
Segment income (loss)	917,015	40,317	957,333	26,841	984,174	(217,756)	766,418

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.

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

Not applicable.

II Three Months Ended July 31, 2012 (May 1, 2012 – July 31, 2012)

1. Information Concerning Sales and Income or Loss Amount by Reporting Segment

(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	1,763,883	528,310	2,292,194	77,137	2,369,332	—	2,369,332
Inter-segment sales and transfers	—	—	—	—	—	—	—
Total	1,763,883	528,310	2,292,194	77,137	2,369,332	—	2,369,332
Segment income (loss)	737,752	71,274	809,026	(12,097)	796,929	(193,418)	603,511

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.

2. Information on impairment of non-current assets and goodwill etc. for each reporting segment
Not applicable.

(6) Important Subsequent Events

Not applicable.

** This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*