

Summary of Earnings Report for the First 2 Quarters of the Fiscal Year Ending April 30, 2014



December 6, 2013

Name of listed company	ZAPPALLAS, INC.	Listed stock exchange: TSE first section
Code	3770	(URL http://www.zappallas.com)
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Financial Reports:		Investor conference Yes

1. Consolidated Second Quarter Results for the fiscal year ending April 30, 2014 (Millions of Yen, rounded down)
(from May 1, 2013 to Oct. 31, 2013)

(1) Consolidated Business Results (%: comparison with same period in previous year)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
2Q (May 1, 2013 to Oct. 31, 2013)	3,899	-14.8	268	-70.5	252	-72.6	158	-73.4
2Q (May 1, 2012 to Oct. 31, 2012)	4,574	-13.6	910	-35.6	921	-35.0	595	-28.5

(Notes) Comprehensive Income: Oct. 30, 2013 210 million yen (down 65.1%), Oct. 30, 2012 602 million yen (down 27.8%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
2Q (May 1, 2013 to Oct. 31, 2013)	12.56	12.47
2Q (May 1, 2012 to Oct. 31, 2012)	47.46	46.96

(2) Consolidated Financial Conditions

	Total Assets	Net Assets	Shareholders' equity ratio	Net Assets per Share
	¥ million	¥ million	%	Yen
2Q (May 1, 2013 to Oct. 31, 2013)	9,733	8,090	82.5	636.99
2Q (May 1, 2012 to Oct. 31, 2012)	10,126	8,409	82.4	661.83

(Notes) Shareholders' Equity: Oct. 31, 2013 8,034 million yen, April 30, 2013 8,347 million yen

2. Dividends Information

Record Date	Dividend per Share				
	1Q	Interim	3Q	Year end	Yearly
	Yen	Yen	Yen	Yen	Yen
Year ended April 30, 2013	-	0.00	-	4200.00	4200.00
Year ending April 30, 2014	-				
Year Ending April 30, 2014 (Forecast)		0.00	-	22.00	22.00

(Notes) A planned stock split (100 to 1) took place on Nov. 1, 2013

3. Forecast of Consolidated Financial Results for the Year Ending April 30, 2014 (from May 1, 2013 to April 30, 2014)

(%: Comparison with same period in previous year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	Yen
Full Year	10,100	13.6	1,000	-29.7	1,000	-39.6	620	-32.4	49.16

(1) Consolidated Management Analysis Report

In terms of the environment surrounding our mobile business, the size of the mobile content market, comprising the mobile content market and mobile commerce market, was 2.3507 trillion yen in fiscal year 2012 (growth of 23.3% from the previous fiscal year), and mobile markets continued to grow (*1). Of the 851.0 billion yen mobile content market (growth of 15.9% from the previous fiscal year), although the feature phone (*2) market shrunk rapidly to 479.3 billion yen (a decrease of 26.7% from the previous fiscal year), the smartphone (*3) market grew explosively to 371.7 billion yen (growth of 361.2% from the previous fiscal year). In this way, as mobile users continue to transition from feature phones to smart phones, the Zappallas Group has in response taken a variety of steps in our content business to meet the needs of both feature phone users and smartphone users.

In our commerce business, we worked to expand our product lineup to ensure a full lineup of original, high value-added products, and also focused on growing the new commerce sites that were launched during the previous consolidated fiscal year.

In addition, we have started full-scale business operations overseas at our U.S. subsidiary that was established in December 2012.

As a result of the above, net sales during the consolidated first two quarters were 3,899.461 million yen (down 14.8% year-on-year). Operating income was 268.483 million yen (down 70.5% year-on-year). Ordinary income was 252.677 million yen (down 72.6% year-on-year), and net income was 158.351 million yen (down 73.4% year-on-year).

*1: *Size of Mobile Content Markets in 2012*, from media materials released by the Mobile Media Forum on August 9, 2013.

*2: These are conventional types of mobile phones which are centered primarily on communication functions, but which also incorporate other functions such as a camera and one-segment television reception.

*3: These are multifunction portable information terminals such as the iPhone and Android devices, and functions equivalent to a personal computer.

An overview of the business conditions by segment is as follows.

As one part of measures to attract smartphone customers, a new division was added during these consolidated first two quarters for the purpose of acquiring advertising revenue. As a result, the reporting segments have been changed so that a portion of the content which was previously included in "Contents business" has been moved to "Other business." The content which is included in each reporting segment has also been reviewed based on this organizational change. Consequently, year-on-year comparisons utilize figures that have been reorganized to reflect these changes.

(1) Content business

In the content business, we worked to create a new mechanism for attracting customers aimed at capturing the growing ranks of smartphone users, and also continued to invest in new content and expand our menu of services with per-use fees.

During the consolidated first two quarters, we expanded our smartphone services, increased the number of subscribers through advertising and CRM (*4), and also saw higher sales of services with per-use fees, au Smart Pass, and other services. However this growth was not sufficient to make up for the decline in sales of services for feature phones.

As a result of the above, net sales for the consolidated first two quarters were 2,939.487 million yen (down 16.3% year-on-year), and segment income was 1,016.324 million yen (down 28.7% year-on-year).

*4: A method by which companies construct long-term relationships with customers through the use of information systems.

(2) Commerce business

In the e-commerce business, we focused on development of the new-style commerce sites which we launched during the previous consolidated fiscal year. "Fujimaki Department Store" successfully used Facebook for sales promotion and other activities in order to expand its sales, however because of declining sales at existing mobile commerce sites, sales in the e-commerce business as a whole continued to decline.

At B×E, although some new products were introduced as planned during the consolidated second quarter, sales were lower than the consolidated second quarter of the previous year when the company marketed large numbers of new products.

As a result of the above, net sales for the consolidated first two quarters were 618.380 million yen (down 34.0% year-on-year), and the segment loss was 161,112 million yen (compared to segment income of 1.419 million yen during the consolidated first two quarters of the previous fiscal year).

(3) Overseas business

For overseas business, we operate a divination business run by the Daily Insight Group of Zappallas, Inc. (U.S.), our wholly-owned subsidiary in the United States.

During the consolidated first two quarters, this company continued to add staff in order to reinforce its system foundations, and also worked to improve its marketing and management operations. Although the U.S. divination business model relies primarily on advertising revenue, we have begun new trials including providing a portion of per-use fee content from Japan to customers in the United States.

As a result of the above, net sales for the consolidated first two quarters were 235.715 million yen, and the segment loss was 39.860 million yen.

(4) Other business

In other business, in addition to contracted mobile site development, operation of "Y! Suica" and other sites, and sales of advertising for the "Zenryaku Profile" profile site aimed at junior high and high school students, we also worked actively for the operation of new media and the development of new services.

During the consolidated first two quarters, there was an increase in costs resulting from measures to attract smartphone customers.

As a result of the above, net sales for the consolidated first two quarters were 105.878 million yen (down 14.7% year-on-year), and the segment loss was 234.513 million yen (compared to a segment loss of 121.912 million yen during the consolidated first two quarters of the previous fiscal year).

(3) Explanation of consolidated results forecasts and other future predictions

Concerning the results forecast for the year ending April 31, 2014, there are no changes to the forecast that was announced on June 13, 2013.

3. Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Units: 1,000s yen)

	Previous consolidated fiscal year (ended April 30, 2013)	Consolidated second quarter (Oct. 31, 2013)
Assets		
Current assets		
Cash and savings	4,188,950	4,248,647
Accounts receivable	1,696,899	1,389,776
Marketable securities	503,856	503,991
Merchandise and products	67,658	105,511
Income taxes receivable	88,167	—
Short-term loans receivable	—	6,307
Other	194,023	173,186
Allowance for doubtful accounts	(15,240)	(14,875)
Total current assets	6,724,317	6,412,545
Fixed assets		
Tangible fixed assets	137,266	153,525
Intangible fixed assets		
Software	369,462	294,998
Goodwill	1,991,846	1,942,072
Other	53,416	52,278
Total intangible fixed assets	2,414,726	2,289,348
Investments and other assets		
Investment securities	500,152	499,587
Long-term loans receivable	—	43,100
Bankruptcy reorganization claims, etc.	—	2,131
Other	349,848	357,230
Allowance for doubtful accounts	—	△23,790
Total investments and other assets	850,001	878,259
Total fixed assets	3,401,994	3,321,133
Total fixed assets	10,126,311	9,733,679
Liabilities		
Current liabilities		
Accounts payable - trade	304,100	260,783
Accounts payable - other	454,311	363,043
Long-term loans payable scheduled for repayment within 1 year	190,643	182,645
Corporate tax payable	384	148,892
Provision for web-point certificates	10,685	11,129
Allowance for sales returns	—	2,952
Other	124,434	130,132
Total current liabilities	1,084,557	1,099,579
Fixed liabilities		
Long-term loans payable	630,790	542,810
Other	1,008	792
Total fixed liabilities	631,798	543,602
Total liabilities	1,716,355	1,643,181

(Units: 1,000s yen)

	Previous consolidated fiscal year (ended April 30, 2013)	Consolidated second quarter (Oct. 31, 2013)
Net assets		
Shareholders' equity		
Capital stock	1,464,343	1,464,343
Capital surplus	1,389,718	1,389,718
Retained earnings	6,952,913	6,581,539
Treasury stock	(1,418,644)	(1,418,644)
Total shareholders' equity	8,388,331	8,016,957
Accumulated other comprehensive income		
Net unrealized holding gains on other securities	(1,804)	94
Foreign currency translation adjustments	(39,212)	16,988
Total accumulated other comprehensive income	(41,016)	17,082
Minority interests	62,641	56,458
Total net assets	8,409,955	8,090,498
Total liabilities and net assets	10,126,311	9,733,679

(2) Consolidated Profit and Loss Statement and Consolidated Comprehensive Income Statement
(Consolidated Profit and Loss Statement)
(Consolidated first two quarters)

(Units: 1,000s yen)

	Previous consolidated first two quarters (May 1 – Oct. 31, 2012)	Current consolidated first two quarters (May 1 – Oct. 31, 2013)
Sales	4,574,222	3,899,461
Cost of sales	1,395,922	1,233,316
Gross profit on sales	3,178,300	2,666,144
Reversal of allowance for sales returns	—	2,952
Provision of allowance for sales returns	10,476	—
Net gross profit	3,188,776	2,663,191
Sales, general, and administrative expenses	2,278,512	2,394,708
Operating income	910,264	268,483
Non-operating income		
Interest income	766	915
Foreign exchange profit	—	7,579
Reversal of allowance for doubtful accounts	8,220	1,056
Interest on refund	—	3,542
Investment profit from investment partnership	851	—
Other	2,552	2,592
Total non-operating income	12,390	15,687
Non-operating expenses		
Interest paid	1,291	3,482
Provision of allowance for doubtful accounts	—	24,481
Equity in loss of affiliates	83	—
Investment loss from investment partnership	—	3,529
Total non-operating expenses	1,375	31,493
Ordinary income	921,279	252,677
Extraordinary loss		
Loss on retirement and sales of fixed assets	209	726
Loss on abandonment of goods	21,398	—
Total extraordinary loss	21,607	726
Net income before income taxes and minority interest	899,672	251,950
Income taxes – current	353,782	142,654
Income taxes – deferred	(58,342)	(42,872)
Total income taxes	295,439	99,781
Net income before minority interests	604,232	152,168
Minority interests (losses) in net income	8,632	(6,182)
Net income	595,600	158,351

(Consolidated Comprehensive Income Statement)
(Consolidated first two quarters)

(Units: 1,000s yen)

	Previous consolidated first two quarters (May 1 – Oct. 31, 2012)	Current consolidated first two quarters (May 1 – Oct. 31, 2013)
Income before minority interests	604,232	152,168
Other comprehensive income		
Net unrealized holding gains on other securities	(1,582)	1,898
Foreign currency translation adjustments	—	56,200
Total other comprehensive income	(1,582)	58,099
Comprehensive income	602,650	210,267
(attributable to)		
Owners of the parent company	594,018	216,450
Minority interests	8,632	△6,182

(Segment information)

I. Previous consolidated first two quarters (May 1, 2012, - Oct 31, 2012)

1. Information about amounts of sales and income or loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment			Other business (Note 1)	Total	Adjustment amounts (Note 2)	First 2Q consolidated profit/loss statement amount (Note 3)
	Content business	Commerce business	Total				
Sales							
Sales to outside customers	3,513,822	936,278	4,450,100	124,121	4,574,222	—	4,574,222
Inter-segment sales and transfers	—	—	—	—	—	—	—
Total	3,513,822	936,278	4,450,100	124,121	4,574,222	—	4,574,222
Segment income (loss)	1,424,998	1,419	1,426,418	-121,912	1,304,506	(394,241)	910,264

II. Current consolidated first two quarter (May 1, 2013, - Oct. 31, 2013)

1. Information concerning sales and income or loss amounts for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Reporting segment	Total	Adjustment amounts (Note 2)	First 2Q profit/loss statement amount (Note 3)
	Content business	Content business	Overseas business	Total				
Sales								
Sales to outside customers	2,939,487	618,380	235,715	3,793,582	105,878	3,899,461	—	3,899,461
Inter-segment sales and transfers	—	—	—	—	—	—	—	—
Total	2,939,487	618,380	235,715	3,793,582	105,878	3,899,461	—	3,899,461
Segment income (loss)	1,016,324	(161,112)	(39,860)	815,351	(234,513)	580,838	(312,355)	268,483