

Summary of Earnings Report for the First 3 Quarters of the Fiscal Year Ending April 30, 2014



March 7, 2014

Name of listed company **ZAPPALLAS, INC.** Listed stock exchange: TSE first section
 Code **3770** (URL <http://www.zappallas.com>)
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 Scheduled date of filing March 11, 2014 Supplementary materials for financial results Yes
 Financial Reports: Investor conference No

1. Consolidated Third Quarter Results for the fiscal year ending April 30, 2014 (millions of yen, rounded down) (from May 1, 2013 to Jan. 31, 2014)

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
3Q (May 1, 2013 to Jan. 31, 2014)	5,811	-12.3	459	-61.7	499	-62.7	319	-64.3
3Q (May 1, 2012 to Jan. 31, 2013)	6,627	-14.0	1,198	-41.3	1,340	-34.6	894	-28.7

(Notes) Comprehensive Income: Jan. 31, 2014 443 million yen (down 46.2%), Jan. 31, 2013 825 million yen (down 34.6%)

	Net Income per Share	Diluted Net Income per Share
	yen	yen
3Q (May 1, 2013 to Jan. 31, 2014)	25.28	25.13
3Q (May 1, 2012 to Jan. 31, 2013)	71.24	70.53

(2) Consolidated Financial Conditions

	Total Assets	Net Assets	Shareholders' equity ratio	Net Assets per Share
	¥ million	¥ million	%	yen
3Q (May 1, 2013 to Jan. 31, 2014)	9,719	8,335	85.2	653.60
3Q (May 1, 2012 to Jan. 31, 2013)	10,126	8,409	82.4	661.83

(Notes) Shareholders' Equity: Jan. 31, 2014 8,282 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	-	0.00	-		
Year Ending April 30, 2014 (Forecast)				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	8,200	-7.8	700	-50.8	710	-57.1	380	-58.6	29.99

(Notes) Changes from the latest released earnings forecasts: Yes

1. Information regarding this quarters

(1) Explanation regarding the overall business

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 was continuing 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 added-value 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 three quarters were 5,811.747 million yen (down 12.3% year-on-year). Operating income was 459.301 million yen (down 61.7% year-on-year). Ordinary income was 499.713 million yen (down 62.7% year-on-year), and net income was 319.194 million yen (down 64.3% year-on-year).

*1: Source: *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 the consolidated first quarter 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, aiming to capture 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 three quarters, we expanded our smartphone services, increased the number of subscribers through advertising and CRM (*4), and also saw strong growth in sales of Smartphone services due to higher sales of services with per-use fees, as well as smartphone apps such as Sugotoku, au Smart Pass, and LINE divination. 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 three quarters were 4,352.760 million yen (down 15.8% year-on-year), and segment income was 1,519.424 million yen (down 25.4% 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. During the first three quarters of this consolidated fiscal year, we used Facebook for sales promotion and other activities and succeeded in expanding sales for

"Fujimaki Department Store," "Stylest," and other new commerce sites. However this also resulted in an increase in personnel, advertising, and other costs.

At BxE, due to delays in marketing of new products that had been planned for the consolidated first three quarters, sales were lower and the segment loss was higher compared with the same three quarters of the previous fiscal year when there was large-scale introduction of new products.

As a result of the above, net sales for the consolidated first three quarter were 926.872 million yen (down 26.0% year-on-year), and the segment loss was 237.049 million yen (compared to a segment loss of 39.310 million yen during the consolidated first three quarters of the previous fiscal year).

(3) Overseas business

In our 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 three quarters, this company continued to add staff in order to reinforce its system foundations, and also worked to improve its marketing and management operations. The U.S. divination business model relies primarily on advertising revenue, and advertising revenue is increasing as a result of measures including shoring up our advertising sales operations and expanding collaborations with other companies.

As a result of the above, net sales for the consolidated first three quarters were 369.685 million yen, and the segment loss was 48.249 million yen.

Because overseas business was launched beginning during the third quarter of the previous fiscal year, year-on-year comparisons are not listed.

(4) Other business

In other business, in addition to contracted mobile site development and a telephone divination business (*5), we also operate free sites which are intended to generate advertising sales and to direct customers to our for-fee contents.

During the consolidated first three quarters of this fiscal year, although there was an increase in telephone divination sales, overall sales declined as a result of reduced contracted mobile site development and lower sales of advertising for "Zenryaku Profile." In terms of income, in addition to the decline in sales, there was also an increase in costs for programs such as measures to attract customers to smartphones.

As a result of the above, net sales for the consolidated first three quarters were 162.429 million yen (down 12.5% year-on-year), and the segment loss was 317.485 million yen (compared to a segment loss of 209.206 million yen during the consolidated first three quarters of the previous fiscal year).

*5: Service which allows the customer to receive divination or consultation directly via a mobile phone or land line telephone.

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

Concerning the results forecast for the year ending April 31, 2014, based on information including the most recent trends in business results, we have revised the full-year consolidated results forecast that was announced on June 13, 2013. For details, please refer to "Notice of Revision of the Financial Results Forecast" that was released on March 6, 2014.

3. Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Units: 1,000s yen)

	Previous consolidated fiscal year (ended April 30, 2013)	Consolidated third quarter (Jan. 31, 2014)
Assets		
Current assets		
Cash and savings	4,188,950	4,291,305
Accounts receivable	1,696,899	1,269,742
Marketable securities	503,856	504,055
Merchandise and products	67,658	110,640
Income taxes receivable	88,167	—
Short-term loans receivable	—	3,897
Other	194,023	157,029
Allowance for doubtful accounts	(15,240)	(10,577)
Total current assets	6,724,317	6,326,093
Fixed assets		
Tangible fixed assets	137,266	148,761
Intangible fixed assets		
Software	369,462	260,082
Goodwill	1,991,846	2,039,260
Other	53,416	57,159
Total intangible fixed assets	2,414,726	2,356,502
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	370,169
Allowance for doubtful accounts	—	△26,704
Total investments and other assets	850,001	888,284
Total fixed assets	3,401,994	3,393,548
Total assets	10,126,311	9,719,641
Liabilities		
Current liabilities		
Accounts payable - trade	304,100	231,167
Accounts payable - other	454,311	294,403
Long-term loans payable scheduled for repayment within 1 year	190,643	186,638
Corporate tax payable	384	23,811
Provision for web-point certificates	10,685	13,264
Allowance for sales returns	—	4,870
Other	124,434	98,688
Total current liabilities	1,084,557	852,843
Fixed liabilities		
Long-term loans payable	630,790	530,162
Other	1,008	684
Total fixed liabilities	631,798	530,846
Total liabilities	1,716,355	1,383,689

(Units: 1,000s yen)

	Previous consolidated fiscal year (ended April 30, 2013)	Consolidated third quarter (Jan. 31, 2014)
Net assets		
Shareholders' equity		
Capital stock	1,464,343	1,470,343
Capital surplus	1,389,718	1,395,718
Retained earnings	6,952,913	6,742,382
Treasury stock	(1,418,644)	(1,418,644)
Total shareholders' equity	8,388,331	8,189,800
Accumulated other comprehensive income		
Net unrealized holding gains on other securities	(1,804)	94
Foreign currency translation adjustments	(39,212)	92,894
Total accumulated other comprehensive income	(41,016)	92,988
Minority interests	62,641	53,162
Total net assets	8,409,955	8,335,952
Total liabilities and net assets	10,126,311	9,719,641

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

(Units: 1,000s yen)

	Previous consolidated first three quarters (May 1, 2012– Jan. 31, 2013)	Current consolidated first three quarters (May 1, 2013 – Jan. 31, 2014)
Sales	6,627,560	5,811,747
Cost of sales	2,038,711	1,814,380
Gross profit on sales	4,588,849	3,997,366
Reversal of allowance for sales returns	–	7,822
Provision of allowance for sales returns	10,476	2,952
Net gross profit	4,599,325	3,992,496
Sales, general, and administrative expenses	3,400,416	3,533,195
Operating income	1,198,909	459,301
Non-operating income		
Interest income	968	876
Foreign exchange profit	127,350	64,003
Reversal of allowance for doubtful accounts	10,732	2,530
Investment profit from investment partnership	851	–
Other	4,288	6,185
Total non-operating income	144,191	73,596
Non-operating expenses		
Interest paid	2,624	5,054
Provision of allowance for doubtful accounts	–	24,572
Equity in loss of affiliates	18	–
Investment loss from investment partnership	–	3,529
Other	82	26
Total non-operating expenses	2,725	33,183
Ordinary income	1,340,375	499,713
Extraordinary income		
Gain on sale of investment securities	–	12,848
Total extraordinary income	–	12,848
Extraordinary loss		
Loss on retirement and sales of fixed assets	3,619	726
Loss on abandonment of goods	21,398	–
Total extraordinary loss	25,017	726
Net income before income taxes and minority interest	1,315,358	511,835
Income taxes – current	303,440	202,049
Income taxes – deferred	107,686	69
Total income taxes	411,126	202,119
Net income before minority interests	904,231	309,715
Minority interests (losses) in net income	9,437	(9,478)
Net income	894,793	319,194

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

(Units: 1,000s yen)

	Previous consolidated first three quarters (May 1, 2012– Jan. 31, 2013)	Current consolidated first three quarters (May 1, 2013 – Jan. 31, 2014)
Income before minority interests	904,231	309,715
Other comprehensive income		
Net unrealized holding gains on other securities	(1,582)	1,898
Foreign currency translation adjustments	(77,394)	132,107
Total other comprehensive income	(78,976)	134,005
Comprehensive income	825,254	443,721
(attributable to)		
Owners of the parent company	815,817	453,199
Minority interests	9,437	△9,478

(Segment information)

I. Previous consolidated first three quarters (May 1, 2012, - Jan. 31, 2013)

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

(Units: 1,000s yen)

	Reporting segment				Other business	Total	Adjustment amount	First 3Q consolidated profit/loss statement amount
	Content business	Commerce business	Overseas business	Total				
Sales								
Sales to outside customers	5,167,991	1,252,964	20,960	6,441,917	185,643	6,627,560	—	6,627,560
Inter-segment sales and transfers	—	—	—	—	—	—	—	—
Total	5,167,991	1,252,964	20,960	6,441,917	185,643	6,627,560	—	6,627,560
Segment income (loss)	2,037,799	(39,310)	1,847	2,000,336	(209,206)	1,791,129	(592,220)	1,198,909

II. Current consolidated first three quarters (May 1, 2013, - Jan. 31, 2014)

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

(Units: 1,000s yen)

	Reporting segment				Other business	Total	Adjustment amount	First 3Q consolidated profit/loss statement amount
	Content business	Commerce business	Overseas business	Total				
Sales								
Sales to outside customers	4,352,760	926,872	369,685	5,649,318	162,429	5,811,747	—	5,811,747
Inter-segment sales and transfers	—	—	—	—	—	—	—	—
Total	4,352,760	926,872	369,685	5,649,318	162,429	5,811,747	—	5,811,747
Segment income (loss)	1,519,424	(237,049)	(48,249)	1,234,125	(317,485)	916,640	(457,338)	459,301