PPOL INC
Form 10-Q
October 19, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Mark one:
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to _______

Commission File Number 000-50065

PPOL, Inc.
(Exact name of registrant as specified in its charter.)

| California | 95-4436774 |
|---|---|
| (State of Incorporation) | (IRS Employer Identification No.) |

| 1 City Boulevard West, Suite 870, Orange, California | 92868 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code (714) 937-3211

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Common Stock $0.001 par value | 20,542,881 |
|---|---|
| (Class) | (Outstanding at August 19, 2005.) |

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PART 1:

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

PPOL, INC.

CONSOLIDATED BALANCE SHEETS

| ASSETS | June 30, 2005 | March 31, 2005 |
|---|---|---|
| CURRENT ASSETS: | (Unaudited) | |
| Cash and cash equivalents | $ 24,007,675 | $ 12,007,537 |
| Trade accounts receivable | 643,878 | 1,321,755 |
| Inventories | 1,155,258 | 1,064,082 |
| Advance payments | 1,845,903 | 1,054,393 |
| Deferred costs, current | 50,913,307 | 49,130,889 |
| Deferred income taxes, current | 8,757,959 | 8,358,713 |
| Prepaid expenses and other current assets | 637,603 | 515,905 |

| | | |
|---|---|---|
| Total current assets | 87,961,583 | 73,453,274 |
| Restricted cash | 21,573,928 | 20,686,915 |
| Property and equipment, net | 624,737 | 905,703 |
| Software, net | 8,556,179 | 10,131,128 |
| Deferred costs, non-current | 43,730,780 | 36,999,841 |
| Deferred income taxes, non-current | 6,305,975 | 5,315,246 |
| Lease deposits | 722,235 | 742,583 |
| Deposits | 4,248,718 | 4,240,842 |
| Goodwill | 1,761,211 | -- |
| OTHER ASSETS | 97,528 | 112,778 |
| | $ 175,582,874 | $ 152,588,310 |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 15,451,818 | $ 12,665,017 |
| Advances received | 2,005,826 | 2,234,253 |
| Loans payable | -- | 1,115,760 |
| Deferred revenue, current | 70,724,047 | 68,075,963 |
| Income taxes payable | 1,406,991 | 1,025,126 |
| Other current liabilities | 3,097,003 | 2,209,746 |
| Total current liabilities | 92,685,685 | 87,325,865 |
| Advances received, Cube | 21,573,928 | 20,686,915 |
| Deferred revenue, non-current | 58,237,056 | 49,106,165 |
| TOTAL LIABILITES | 172,496,669 | 157,118,945 |
| COMMITMENTS (NOTE 7) | | |
| SHAREHOLDERS' EQUITY (DEFICIT): | | |
| Common Stock; $0.001 par value; 100,000,000 shares authorized; 20,542,881 and 17,993,752 shares issued and outstanding as of June 30, 2005 and March 31, 2005, respectively | 20,543 | 17,994 |
| Additional paid-in capital | 16,468,890 | 6,274,923 |
| Total other comprehensive income | 1,149,223 | 905,819 |
| Accumulated deficit | (14,552,451) | (11,729,371) |
| Total shareholders' equity (deficit) | 3,086,205 | (4,530,635) |
| | $ 175,582,974 | $ 152,588,310 |

The accompanying notes are an integral part of these consolidated financial statements.

PPOL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

| | Three months ended June 30, 2005 | Three months ended June 30, 2004 |
|---|---|---|
| | (Unaudited) | (Unaudited) |
| NET REVENUE: | | |
| Product sales and network services | $ 26,998,830 | $ 26,485,853 |
| Other on-line services | 5,631,386 | 5,522,895 |
| Total | 32,630,216 | 32,008,748 |
| COSTS AND EXPENSES: | | |
| Cost of sales | 9,616,379 | 7,697,965 |
| Distributor incentives | 14,404,185 | 15,852,493 |
| Selling, general and administrative expenses | 11,387,987 | 7,396,202 |
| Total costs and expenses | 35,408,551 | 30,946,660 |
| OPERATING (LOSS) INCOME | (2,778,335) | 1,062,088 |
| OTHER EXPENSE, net | (12,786) | (33,065) |
| (LOSS) INCOME BEFORE INCOME TAXES | (2,791,121) | 1,029,023 |
| INCOME TAXES (EXPENSE) BENEFIT: | | |
| Current | (1,421,934) | (35,356) |
| Deferred | 1,389,975 | (1,468,733) |
| Total income taxes | (31,959) | (1,504,089) |
| NET LOSS | (2,823,080) | (475,066) |
| OTHER COMPREHENSIVE GAIN (LOSS) | | |
| Foreign currency translation | 243,404 | 765,991 |
| COMPREHENSIVE (LOSS) INCOME | $ (2,579,676) | $ 290,925 |
| NET LOSS PER COMMON SHARE, | | |
| Basic | $ (0.15) | $ (0.03) |
| Diluted | $ (0.15) | $ (0.03) |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: | | |
| Basic | 18,871,785 | 17,993,752 |

| | | |
|---|---|---|
| Diluted | 18,871,785 | 17,993,752 |

The accompanying notes are an integral part of these consolidated financial statements.



PPOL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three months ended June 30, 2005 | Three months ended June 30, 2004 |
|---|---|---|
| | (Unaudited) | (Unaudited) |
| CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | |
| Net loss | $ (2,823,080) | $ (475,066 |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | |
| Depreciation and amortization | 1,410,470 | 846,603 |
| Loss on sales/disposal of property and equipment | 1,132,092 | 2,351 |
| Deferred income taxes | (1,815,214) | 1,468,733 |
| CHANGES IN ASSETS AND LIABILITIES: | | |
| (INCREASE) DECREASE IN ASSETS: | | |
| Restricted cash | (1,495,510) | (17,473,584 |
| Trade accounts receivable | 663,657 | (66,377 |
| Inventories | (105,343) | (1,697,146 |
| Advance payments | (843,907) | -- |
| Deferred costs | (11,184,958) | 9,267,108 |
| Prepaid expenses and other | 9,627 | (307,817 |
| INCREASE (DECREASE) IN LIABILITIES: | | |
| Accounts payable | 2,446,638 | (230,627 |
| Advances received | (174,148) | 17,473,584 |
| Advances received - Cube | 1,495,510 | (14,599,581 |
| Deferred revenue | 15,419,357 | (12,204,165 |
| Income taxes payable | 421,700 | (1,013,165 |
| Other current liabilities | 872,474 | 153,769 |
| Total adjustments | 8,252,445 | (18,380,314 |
| Net cash provided by (used for) operating activities | 5,429,365 | (18,855,380 |
| CASH FLOWS USED FOR INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (144,927) | (156,954 |
| Software and software CIP | (8,080) | (2,366,738 |
| Purchase of subsidiary | (3,522,422) | (300,000 |
| Cash of acquired entity - K.K. U Service | 760,812 | -- |
| Other assets | 588,271 | (260,529 |

| | | |
|---|---|---|
| Net cash used for investing activities | (2,326,346) | (3,084,221 |
| CASH PROVIDED BY FINANCING ACTIVITIES: | | |
| Proceeds from loan from majority shareholder | -- | 830,412 |
| Repayment of loan from majority shareholder | (1,115,760) | -- |
| Issuance of common stock | 10,196,516 | -- |
| Proceeds from short term debt | -- | 2,736,935 |
| Net cash provided by financing activities | 9,080,756 | 3,567,347 |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (183,637) | (1,333,034 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 12,000,138 | (19,705,288 |
| CASH AND CASH EQUIVALENTS, beginning of period | 12,007,537 | 28,334,777 |
| CASH AND CASH EQUIVALENTS, end of period | $ 24,007,675 | $ 8,629,489 |
| SUPPLEMENTAL CASH FLOW INFORMATION - | | |
| Income taxes paid | $ 1,026,403 | $ 1,048,522 |
| Interest paid | $ -- | $ 5,997 |

The accompanying notes are an integral part of these consolidated financial statements.



PPOL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ORGANIZATION:

PPOL, Inc. ("PPOL" or "the Company") incorporated on May 19, 1993 in California. On August 15, 2002, the Company amended its articles of incorporation to increase its authorized shares of common stock from 10,000,000 to 100,000,000, change its name to PPOL, Inc. and effected a 1 for 7 reverse stock split. All share data presented in these consolidated financial statements reflect the reverse stock split.

Effective April 1, 2002, AJOL Co., Ltd. ("AJOL") was acquired by PPOL in a transaction accounted for as a reverse merger. The Company, upon closing of the transaction on August 15, 2002, issued 899,746 shares (post split) of its common stock for all of the issued and outstanding common stock of AJOL. For legal purposes, PPOL is the acquirer. For accounting purposes, AJOL has been treated as the acquirer and accordingly, AJOL is presented as the continuing entity, and the historical financial statements are those of AJOL. Prior to the reverse merger PPOL had no business activity, thus pro-forma

information as though PPOL and AJOL had been combined for all periods has not been provided.

AJOL is primarily engaged in sales of multi-functional telecommunications equipment called MOJICO. AJOL distributes MOJICO throughout Japan through a network marketing system and has a network of registered distributors located throughout Japan that introduce purchasers to AJOL. Using MOJICO, AJOL provides original telecommunication services called "Pan Pacific Online," including MOJICO bulletin board and mail services. AJOL also provides various other on-line services through Pan Pacific Online such as ticket and mail-order services. These sales and services are provided in Japan.

On May 30, 2005, the Company completed the 100% acquisition of K.K. U Service, a Japanese Corporation ("USC") based in Tokyo, Japan. Pursuant to the Purchase Agreement dated May 30, 2005, by and between the Company, USC and K.K. Green Capital, a Japan corporation (the "Seller"), the Company purchased from the Seller all of the issued and outstanding shares of USC in exchange for an amount equal to $3,522,422 (JPY380,000,000). USC is a development stage company that is expected to commence revenue generating operations in the second half of the fiscal year ending March 31, 2006. It is expected to be involved in the business of planning, development, sales and marketing, and import/export of telephones, fax machines, copiers, computer and peripheral equipment.

BASIS OF PRESENTATION:

The unaudited consolidated financial statements have been prepared by PPOL, Inc. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the prospective periods. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the years ended March 31, 2004 and 2003 included in the Company's Form 10-K. The results of the three months ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year ending March 31, 2006.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include accounts of PPOL, Inc. and its wholly owned subsidiaries, AJOL, Ltd. and K.K. U Service. All significant intercompany balances and transactions have been eliminated upon consolidation.

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NET (LOSS) INCOME PER SHARE:

The Company reports both basic net income per share, which is based on the weighted average number of common shares outstanding, and diluted net income per share, which is based on weighted average number of

common shares outstanding and dilutive potential common shares. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the numerator is increased by the amount of interest expense attributable to any convertible notes payable and the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. For the three months ended June 30, 2005 and 2004, all of the 1,300,000 issued and outstanding common stock options have also been excluded as they would have an antidilutive effect.

STOCK BASED COMPENSATION

The Company grants stock options with an exercise price equal to at least the fair value of the stock at the date of grant. The Company has elected to continue to account for its employee stock-based compensation plans using an intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. Under APB 25, because the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company has adopted only the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." It applies Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its Stock Option Plan and does not recognize compensation expense for its Stock Option Plan other than for restricted stock and options issued to outside third parties.

The Company uses the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of employee stock options.

Pro forma information using the Black-Scholes method at the date of grant was based on the following assumptions: average risk free interest rate of 2.70% for 2005 and 2004; dividend yield of 0.0% for each of the years 2005 and 2004; average volatility factor of the expected market price of the Company's common stock of 216% for 2005 and 2004; and an expected life of the options of 10 years for both 2005 and 2004.



Had compensation cost for the Company's four stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

| | Three months ended June 30, | |
|---|---|---|
| | 2005 | 2004 |
| Net income (loss) as reported (in thousands $) | $ (2,823) | $ (475) |
| Stock compensation calculated under APB25 (in thousands $) | - | - |
| Stock compensation calculated under SFAS 123 (in thousands $) | - | - |
| Pro forma (in thousands $) | $ (2,823) | $ (475) |
| Primary earnings per share as reported | $ (0.15) | $ (0.03) |
| Pro forma | $ (0.15) | $ (0.03) |
| Fully diluted earnings per share as reported | $ (0.15) | $ (0.03) |
| Pro forma | $ (0.15) | $ (0.03) |

COMPUTER SOFTWARE:

Research and development costs are charged to expense as incurred. However, the costs incurred for the development of computer software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. These capitalized costs are subject to an ongoing assessment of recoverability.

Amortization of capitalized software development costs begins when the product is available for general release. Amortization is provided on a product-by-product basis on either the straight-line method or the sales ratio method. Unamortized capitalized software development costs determined to be in excess of net realizable value of the product are expensed immediately.

RECENT ACCOUNTING PRONOUNCEMENTS:

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections-A Replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 applies to all voluntary changes in accounting principle and requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable. SFAS No. 154 requires that a change in depreciation, amortization or depletion method for long-lived, non-financial assets be accounted for as a change of estimate affected by a change in accounting principle. SFAS No. 154 also carries forward without change the guidance in APB Opinion No. 20 with respect to accounting for changes in accounting estimates, changes in the reporting unit and correction of an error in previously issued financial statements. The Company is required to adopt SFAS No. 154 for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 is not expected to have a material effect on the Company's consolidated financial position or results of operations.

(2) RELATED PARTY TRANSACTIONS:

On May 30, 2005, the Company completed the acquisition of K.K. U Service, a Japanese Corporation ("USC") based in Tokyo, Japan. Pursuant to the Purchase Agreement dated May 30, 2005, by and between the Company, USC and K.K. Green Capital, a Japan corporation (the "Seller"), the Company purchased from the Seller all of the issued and outstanding shares of USC in exchange for an amount equal to $3,522,422 (JPY380,000,000). Seller is the majority owner in Foster

Strategic Management Partnership, a Singapore partnership, which in turn owns approximately 10,547,594 shares of the Company's common stock, representing approximately 58.62% of the Company's issued and outstanding stock.



The following summarizes the unaudited assets acquired and liabilities assumed in connection with the acquisition described in the preceding paragraph:

| | |
|---|---|
| Current assets | $ 899,446 |
| Deposits | 1,455,014 |
| Intangibles, including goodwill | 2,051,438 |
| Total assets acquired | 4,405,898 |
| Current liabilities assumed | (883,476) |
| Net assets acquired | $3,522,422 |

The purchase price represented a significant premium over the recorded net worth of USC's assets. In determining to pay this premium, we considered various factors, including the opportunities that USC offers to enhance our future growth opportunities, synergies with our present operations, cost and time advantages of establishing a comparable company on our own, contacts with prospective vendors and elimination of a potential competitor.

The Company has considered whether the acquisition included various identifiable intangible assets. As USC is in the development stage with no revenues, at this time, we believe no value can be ascribed to the trade names, trademarks, customers, and workforce. Accordingly, the Company has estimated that the entire premium of $1,761,211 over the recorded net worth to be attributable to Goodwill.

In conjunction with the acquisition of USC, we are currently reviewing the qualifications of valuation firms to assist us in the determination of what portion of the purchase price should be allocated to identifiable intangible assets. We believe the valuation of any identifiable intangible assets will be concluded by March 31, 2006 and could result in a portion of Goodwill, which may be reclassified to identifiable intangible assets. Nevertheless, the Company does not believe changes, if any, will be material to its financial position or results of operations.

These consolidated financial statements include the results of operations of USC from May 31, 2005 through June 30, 2005. The following (unaudited) pro forma consolidated results of operations have been prepared as if the acquisition of K.K. U Service had occurred at April 1, 2005:

| | 3 months ended June 30, 2005 |
|---|---|
| Sales | $ 32,630,216 |
| Net loss | (3,042,260) |
| Net loss per share - Basic | (0.16) |
| Net loss per share - Diluted | (0.16) |

The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition been consummated at that time, nor is it intended to be a projection of future results. Pro forma results are not provided to the three months ended June 30 2004 as K.K.U Service was not in existence at that time.

AJOL entered into a consulting contract with K.K. Seagull, a Japanese corporation and shareholder of 926,956 shares the Company's common stock. Under the consulting contract, K.K. Seagull is to provide information technology services to AJOL for a term of 12 months beginning on April 1, 2005 through March, 31, 2006 at approximately $20,000 per month.

(4) COMMON STOCK OFFERING:

On May 30, 2005, the Company sold to four purchasers a total of 2,549,129 shares of its common stock, $0.001 par value per share ("Common Stock") for an aggregate consideration of JPY1,100,000,000 (US $10,196,516) at $4 per share.



The Company entered into separate Stock Purchase Agreements ("Stock Purchase Agreements"), each dated as of May 30, 2005, with (i) K.K. Contents Provider Tokyo, a Japan corporation, which paid JPY400,0000,000 (US$3,707,824); (ii) K.K. Seagull, a Japan corporation, which paid JPY400,000,000 (US$3,707,824); (iii) K.K. H.I. Consultants, a Japan corporation, which paid JPY200,000,000 (US$1,853,912); and (iv) K.K. System Partners, a Japan corporation, which paid JPY100,000,000 (US$926,956) (collectively, the "Investors"). The Company issued the Common Stock in a private placement without registration under the Securities Act of 1933, as amended (the "Act"), in reliance on one or more exemptions from the registration requirements under the Act, including Regulation D.

Pursuant to the Stock Purchase Agreements, the Company entered into a Registration Rights Agreement ("Registration Rights Agreement"), dated May 30, 2005, with each of the four Investors, which granted "piggy-back" registration rights to the Investors. Pursuant to the Registration Rights Agreement, if the Company at any time files a registration statement (other than a Form S-4 or Form S-8 registration statement) with the Securities and Exchange Commission under the Act, Registrant agrees to use its best efforts to include in such registration statement such shares of the Investors' Common Stock as the Investors may request, subject to the terms and conditions of the Registration Rights Agreement.

The Company used the proceeds from the above noted sale of equity securities to purchase 100% of the issued and outstanding common stock of K.K. U Service, a Japanese corporation.

The CEO of PPOL is also the Representative Director of K.K. H.I. Consultants.

(5) DEFERRED REVENUES AND DEFERRED COSTS:

Activity for deferred revenues and deferred costs are contained in the table below:

| | Deferred Costs | | Deferred Revenues | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-cur |
| Beginning balance, March 31, 2005 | $ 49,130,889 | $ 36,999,841 | $ 68,075,963 | $ 49,10 |
| Additional deferrals | 10,009,027 | 16,603,077 | 14,834,279 | 22,26 |
| Released amounts | (6,790,736) | (8,636,410) | (10,191,532) | (11,48 |
| Exchange rate effect | (1,435,873) | (1,235,728) | (1,994,663) | (1,64 |
| Ending balance, June 30, 2005 | $ 50,913,307 | $ 43,730,780 | $ 70,724,047 | $ 58,23 |

(6) STOCK OPTIONS:

The Company established a stock option plan in March 2004 (the "2004 Plan"). In accordance with the 2004 Plan, the Company is authorized to issue incentive stock options and non-qualified stock options for up to 2,000,000 shares of the Company's common stock to employees, directors and consultants.

A total of 1,220,000 options were granted to employees on March 25, 2004 which will vest 100% on March 25, 2006 (options will cliff vest two years after the grant date) and expire on March 25, 2014 (ten years after the grant date). A summary of the Company's stock option plan activity is presented below:

| | Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at March 31, 2005 | 1,300,000 | $4.00 |
| Granted | -- | -- |
| Exercised | -- | -- |
| Forfeited | -- | -- |
| Expired | -- | -- |
| Outstanding at June 30, 2005 | 1,300,000 | $4.00 |



The following table summarizes information about the stock options outstanding and exercisable at June 30, 2005:

| | | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|---|
| Fiscal Year Options Granted | Range of Exercise Prices | Options | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| 2004 | $4.00 | 1,220,000 | 8.75 | $4.00 | -- | -- |
| 2005 | $4.00 | 80,000 | 9.00 | $4.00 | -- | -- |
| 2006 | -- | -- | -- | -- | -- | -- |

| | | | | | |
|---|---|---|---|---|---|
| Total | 1,300,000 | 8.76 | $4.00 | -- | -- |

(7) COMMITMENTS:

As of June 30, 2005 the Company had various professional consulting service contracts and operating leases in effect which collectively will require payments of $2.0 million in the 12 months ending June 30, 2006.



ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note Regarding Forward-Looking Statements:

Certain matters discussed in this Quarterly Report on Form 10-Q are "forward-looking statements" intended to qualify for the safe harbor from liability provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as PPOL "believes", "anticipates", "expects", or words of similar import. Similarly, statements which describe PPOL's future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which are described in close proximity to such statements and which could cause actual results to differ materially from those anticipated as of the date of this Report. Shareholders, potential investors and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included herein are only made as of the date of this Report and PPOL undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances, except as required under applicable laws.

Overview

PPOL, Inc., a California corporation, conducts its business primarily through its wholly owned Japanese subsidiary, AJOL, Ltd. ("AJOL"), a Japanese corporation. Another wholly owned subsidiary, K.K. U Service ("USC"), a Japanese corporation, is a development stage company that is expected to commence revenue generating operations in the second half of the fiscal year ending March 31, 2006. At the present time, the Company has administrative functions occurring in California, but does not otherwise have any major business in the United States.

The Company's revenues are currently derived from network communication sales by AJOL of (1) its "MOJICO" hardware, a multifunctional facsimile based machine with networking capabilities, (2) subscriptions to PPOL's proprietary "Pan Pacific Online" interactive database that can only be accessed through its MOJICO hardware and (3) various consumer products that utilize the Company's "Kamome" brand.

RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2005 AS COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2004

Product Sales And Network Services. For the three months ended June 30, 2005, revenues of this category have increased by approximately 1.9% in comparison to the same period of the prior year. The increase is primarily due to an increase in MOJICO unit sales and corresponding new members and initial Pan Pacific Online subscription fees. Underlying the change was a substantial increase in current sales bookings, the majority of which was deferred to future periods for accounting principles generally accepted in the US which was offset by amortization of deferred revenues generated in prior periods.

Other Online Services Revenue. For the three months ended June 30, 2005, revenues increased by approximately 2.0% over the comparable period of the prior year. This is a result of the Company's continuing efforts to expand the on-line service business which is a continuing corporate objective.

Cost Of Sales. For the three months ended June 30, 2005, the cost of sales expressed as a percentage of sales increased to 29.5% of sales from 24.0% of sales for the comparable period of the prior year. The increase in the percentage is primarily due to a monthly accrual for a promotional program to increase the number of members who join a mutual heath insurance plan administered by AJOL. Under this program, new members will receive a refund of $94 (Japanese Yen(JPY)10,000) of their insurance premiums if they do not make any claims in their first year.

Distributor Incentives. For the three months ended June 30, 2005, distributor incentives decreased by approximately $1.5 million or 9.1% in comparison to the same period of the prior year. The overall decrease in distributor incentives is primarily due to change in the product mix to lower incentive rate goods and services. The sum of cost of sales and distributor incentives expressed as a percentage of sales has remained stable at 73.6%.



Selling, General And Administrative Expense. For the three months ended June 30, 2005, selling, general and administrative expenses have increased by approximately $3.9 million or 54.0% in comparison to the same period of the prior year. The increase was primarily due to research and inspection costs to develop a voice recognition engine, an on-line shopping cart function and a gateway function.

Current Income Tax Expense. For the three months ended June 30, 2005, current income tax expense increased approximately $1.4 million from the same period of the prior year. Current taxes are calculated under Japanese tax law wherein current income from ordinary operations was approximately JPY300,000,000 compared to approximately JPY18,000,000 in the prior year.

Deferred Income Tax Expense. For the three months ended June 30, 2005, deferred income tax expense decreased approximately $2.9 million over the same period of the prior year. The decrease was primarily the result of the decline experienced in deferred costs and deferred revenues associated with the sales of the Company's MOJICO hardware and related Pan Pacific On-line subscription services in addition to other timing differences such as accrued vacation, depreciation and director bonuses.

Liquidity and Capital Resources
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Historically, our principal needs for funds have been for operating expenses including distributor incentives, working capital (principally inventory purchases), capital expenditures and the development of operations throughout Japan. We have generally relied on cash flow from operations and short-term debt

from our majority shareholder to meet our cash needs and business objectives without relying on long-term debt to fund operating activities. However, during the quarter ended June 30, 2005, our cash position had a net increase of $12,000,138, primarily from a common stock offering that netted the Company $10,196,516.

Cash and cash equivalents totaled $24,007,675 at June 30, 2005. Cash (used for) provided from operations for the three months ended June 30, 2005 and 2004 was $5,429,467 and $(18,380,314), respectively. Cash used for investing activities for the three months ended June 30, 2005 and 2004 was $2,326,346 and $3,084,221, respectively. Cash of $9,080,756 and $3,567,347 was provided from financing activities for the three months ended June 30, 2005 and 2004. Management believes that cash flow from operations and the revolving credit facility will adequately meet the working capital needs for the foreseeable future.

Contractual Obligations

The Company's operating lease & purchase obligations as of June 30, 2005 are as follows:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| Contractual obligations | Total | Less than 1 year | 2-3 years | 4-5 years | More th 5 year |
| Operating Lease Obligations | $ 791,064 | $ 791,064 | - | - | |
| Service Provider Contracts | 1,242,167 | 1,242,167 | - | - | |
| Total | $ 2,033,231 | $ 2,033,231 | $ - | $ - | $ |

The Company projects that it will need to satisfy at least $2.0 million of lease and contract obligations within the twelve months following June 30, 2005.

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Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the US requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. The following accounting policies involve a "critical accounting estimate" because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made. In addition, while we have used our best estimates based on facts and circumstances available to us at the time, different estimates reasonably could have been used in the current period, and changes in the accounting estimates we used are reasonably likely to occur from period to period which may have a material impact on the presentation of our financial condition and results of operations. We review these estimates and assumptions periodically and reflect the effects of revisions in the period that they are determined to be necessary.

See Note 1, Organization and Summary of Significant Accounting Policies, in our notes to the consolidated financial statements for the years ended March 31, 2005 and 2004 included in our Form 10-K, for a detailed discussion of the application of these and other accounting policies.

Financial Instruments:

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, trade accounts receivable, accounts payable, and advance payments approximate their fair values as of June 30 and March 31, 2005.

Stock-Based Compensation

The Company grants stock options with an exercise price equal to at least the fair value of the stock at the date of grant. The Company has elected to continue to account for its employee stock-based compensation plans using an intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. Under APB 25, because the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company has adopted only the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." It applies Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its Stock Option Plan and does not recognize compensation expense for its Stock Option Plan other than for restricted stock and options issued to outside third parties.

The Company uses the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of employee stock options.

Computer Software:

The Company follows the guidance in Statement of Position ("SOP") 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP 98-1 requires that entities capitalize certain internal-use software costs once certain criteria are met. Under SOP 98-1, overhead, general and administrative and training costs are not capitalized. Capitalized software costs are being amortized on a straight-line basis principally over 5 years. The Company reviews the carrying value of Computer Software on a quarterly basis or whenever events and circumstances indicate that the carrying value of an asset may not be recoverable.



Advances received:

Advances received represent the balance of customer receipts prior to shipment. Upon shipment, the balances transfer to deferred revenue where it then is amortized into revenue in accordance with the Company's revenue recognition policy.

Revenue Recognition:

Revenue from MOJICO product sales is recognized over the weighted average customer relationship period of three years. Revenue from sales of annual online subscription services to Pan Pacific Online is recognized over one year. The revenue and associated costs deferred for revenue recognition purposes are recorded as deferred revenue and deferred costs, respectively. Deferred costs are comprised of costs of the MOJICO hardware and distributors incentive commissions. Deferred costs are directly related to deferred revenues. Deferred costs are amortized into income over the weighted average customer relationship period of three years or the online subscription period of one year, as applicable.

Product Warranty Costs:

AJOL, the Company's wholly owned subsidiary, sells MOJICO units to customers along with a repair or replacement warranty for one full year from the date of purchase. Warranty costs are expensed as incurred due to their immaterial nature to financial statements taken as a whole.

Income Taxes:

Income taxes are provided based on the asset and liability method of accounting pursuant to SFAS No. 109, "Accounting for Income Taxes". Deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at year-end. These deferred taxes are measured by applying currently enacted tax laws. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Limited Operating History
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We have a limited operating history in Japan upon which we can be evaluated. Any investment in us must be considered in light of the risks, expenses and difficulties encountered by companies in the early stage of development in new and rapidly evolving markets, including the risks described herein. There can be no assurances that we will be successful in addressing these risks.

Unproven Business Model
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We cannot predict whether or not we will be successful because our business model is unproven and its market is developing. It is too early to reliably ascertain market penetration for our products and services. If future demand for AJOL's products and services, including, but not limited to demand for the MOJICO hardware and Kamome brand products is lower than anticipated, or the costs of attracting subscribers is higher than anticipated, then our financial condition and results from operations will be materially and adversely affected.



Fluctuations In Operating Results
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Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control. These factors include the demand for the telecommunications products and services offered by us, introduction of new products or services by us or our competitors, delays in the introduction or enhancement of products and services by us or our competitors, changes in our pricing policies or those of our competitors, our ability to anticipate and effectively adapt to developing markets and rapidly changing technologies, changes in the mix or Japanese vs. non-Japanese revenue, changes in foreign currency exchange rates, the mix of products and services sold by us and the channels through which those products and services are sold, general economic conditions, and specific economic conditions in Internet and related industries. Additionally, in response to evolving competitive conditions, we may elect from time to time to make certain pricing, service, marketing or acquisition decisions that could have a material adverse affect on its financial performance.

## Foreign Currency (Japanese Yen) Fluctuations

Substantially all of our revenue and expenses are received and incurred in Japanese Yen (JPY). Variation in foreign exchange rates may substantially affect our revenue, expenses, and net income in U.S. dollar terms. In preparing our financial statements, we translate revenue and expenses from JPY into U.S. dollars using weighted average exchange rates. If the U.S. dollar strengthens relative to the JPY, our reported revenue, gross profits and net income will likely be reduced. For example, in 2001, the JPY significantly weakened, which reduced our operating results on a U.S. dollar reported basis. The Company's fiscal 2006 operating results could be similarly harmed if the JPY weakens from current levels. Given the unpredictability of exchange rate fluctuations, we cannot estimate the effect these fluctuations may have upon future reported results, product pricing or our overall financial condition.

## Poor Japanese Economic Conditions

Economic conditions in Japan have been poor in recent years and may worsen or not improve. Continued or worsening economic and political conditions in Japan could further reduce our revenue and net income.

## Reliance On Handwritten Moji Characters As Preferred Method Of Written Communications

We rely on the desire of subscribers and potential subscribers to use handwritten Moji (characters) as their preferred method of written communication as an underlying material assumption for the continuing success of its business. A subscriber's or potential subscriber's desire to use handwritten Moji (characters) is a matter of personal preference, which is unpredictable. Any negative changes in perception by subscribers and potential subscribers as to their desire to use handwritten Moji characters as their preferred method of written communication, for any reason, including the emergence of new, different, or alternative forms of written communications, could have a materially adverse affect on us and our business.

## Dependence On New Subscribers

Our operating results generally depend on revenues received from sales of the MOJICO product. In previous years, MOJICO sales have accounted for up to 78% of our annual revenue. MOJICO sales are primarily made to our new customers. As a result, future revenues are primarily dependent on our ability to generate new

customers for our MOJICO hardware and Pan Pacific Online services. There can be no assurances that we will be able to continue to generate new subscribers at the rate that we have been able to in the past, nor that we will be able to generate sufficient new subscribers to remain profitable. We do not have any substantial historical basis for predicting the rate of increase in our subscriber base.



Dependence On Subscribers For Content Of Network

The information transmitted to our subscribers via our information network Pan Pacific Online is primarily generated by other subscribers. There can be no assurances that our subscribers will continue to generate information that other subscribers will find sufficiently entertaining, useful, or desirable so as to allow us to profitably market the products and services that provide access to our network.

Liability For Content Of Network

As a provider of messaging and communications services, we may incur liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials transmitted via our information network. To minimize our liability, we use a centralized hub to manually process and screen hard copies for adult themes, slander, patent/copyright infringement and objectionable material. However, there can be no assurances that we will be able to effectively screen all of the content. We have no insurance to cover claims of these types. Any imposition of liability could have a material adverse affect on our reputation, financial condition, and operating results.

Reliance On Existing Distributors And Need To Recruit Additional Distributors

We depend on subscriber distributors to generate substantially all of our revenues. To increase our revenue, we must increase the number of and/or the productivity of our distributors. Our distributors may terminate their status as a distributor at any time. The number of distributors may not increase and could decline in the future. We cannot accurately predict how the number and productivity of distributors may fluctuate because we rely upon our existing distributors to recruit, train and motivate new distributors. Our operating results could be harmed if our existing and new business opportunities and products do not generate sufficient interest to retain existing distributors and attract new distributors.

The loss of a group of high-level distributors, or a group of leading distributors in the distributor's network of lower level distributors, whether by their own choice or through disciplinary actions for violations of our policies and procedures could negatively impact the growth of distributors and our revenue. There is no leading distributor whose departure, alone, will have a material impact on the financial position or results of operations. In addition, our operations in Japan face significant competition from existing and new competitors. Our operations would also be harmed if our planned growth initiatives fail to generate continued interest and enthusiasm among our distributors in this market and fail to attract new distributors.

Dependence on Mr. Aota

We are also highly dependent upon AJOL's Honorary Chairman, Yoshihiro Aota, to recruit and retain subscribers. Mr. Aota represents the personification of AJOL. Mr. Aota's talents, efforts, personality and leadership have been, and continue to be, critical to us and our success. The diminution or loss of the services of Mr. Aota, and any negative market or industry perception arising from that diminution or loss, would have a material adverse affect on our business. We are investigating, but have not obtained "Key Executive Insurance" with respect to Mr. Aota.

Also, if Mr. Aota's services become unavailable, our business and prospects could be materially adversely affected. We do not have an employment agreement with Mr. Aota. If we lose Mr. Aota's services, for any reason, including as a result of Mr. Aota's voluntary resignation or retirement, our business could be materially and adversely affected.

### Failure Of New Products And Services To Gain Market Acceptance

A critical component of our business is our ability to develop new products and services that create enthusiasm among our distributor force. If any new product or service fails to gain market acceptance, for any reason including quality problems, this could harm our results of operations.



### Losing Sources Of Kamome Products

The loss of any of our sources of Kamome products, or the failure of sources to meet our needs, could restrict our ability to distribute Kamome products and harm our revenue as a result. Further, our inability to obtain new sources of Kamome products at prices and on terms acceptable to us could harm our results of operations.

### Competition With Technically Superior Products And Services

Our products and services utilize the facsimile-like MOJICO hardware and rely on human personnel to screen and process information for our database. Our products and services are much less technically sophisticated than those offered by other companies offering interactive telecommunications products and services. This may put us at a substantial competitive disadvantage with present and/or future competitors.

### Internet Usage Rates And Long Distance Telephone Rates

Our subscribers obtain access to AJOL's network via either the Internet or telephone service. The costs that subscribers incur in obtaining access to our network via these channels are beyond the control of AJOL. Any increase in long distance telephone rates or rates for accessing the Internet could materially and adversely affect demand for our products and services.

### Reliance On Internet As Transmission Medium

Our future success will depend upon our ability to route our customers' traffic through the Internet and through other data transmission media. Our success is largely dependent upon the viability of the Internet as a medium for the

transmission of subscriber related data. There can be no assurance that the Internet will prove to be a viable communications media, that document transmission will be reliable, or that capacity constraints which inhibit efficient document transmission will not develop. The Internet may not prove to be a viable avenue to transmit communications for a number of reasons, including lack of acceptable security technologies, lack of access and ease of use, traffic congestion, inconsistent quality or speed of service, potentially inadequate development of the necessary infrastructure, excessive governmental regulation, uncertainty regarding intellectual property ownership or lack of timely development and commercialization of performance improvements.

## Technological Changes Of The Messaging And Communications Industry

The messaging and communications industry is characterized by rapid technological changes, changes in user and customer requirements and preferences, and the emergence of new industry standards and practices that could render our existing services, proprietary technology and systems obsolete.

Our success depends, in part, on our ability to develop new services, functionality and technology that address the needs of existing and prospective subscribers. If we do not properly identify the feature preferences of subscribers and prospective subscribers, or if we fail to deliver features that meet their standards, our ability to market our products and services successfully and to increase revenues could be impaired. The development of proprietary technology and necessary service enhancements entail significant technical and business risks and require substantial expenditures and lead-time. We may not be able to keep pace with the latest technological developments. We may also be unable to use new technologies effectively or adapt services to customer requirements or emerging industry standards.

We must accurately forecast the features and functionality required by subscribers and prospective subscribers. In addition, we must design and implement service enhancements that meet subscriber requirements in a timely and efficient manner. We may not successfully determine subscriber and prospective subscriber requirements and may be unable to satisfy their demands. Furthermore, we may not be able to design and implement a service incorporating desired features in a timely and efficient manner. In addition, if subscribers do not favorably receive any new service offered by us, our reputation could be damaged. If we fail to accurately determine desired feature requirements or service enhancements or to market services containing such features or enhancements in a timely and efficient manner, our business and operating results could suffer materially.



## Possible Inadequate Intellectual Property Protections

Our success depends to a significant degree upon our proprietary technology. We rely on a combination of patent, trademark, trade secret and copyright law and contractual restrictions to protect our proprietary technology. However, these measures provide only limited protection, and the Company may not be able to detect unauthorized use or take appropriate steps to enforce our intellectual property rights. In addition, we may face challenges to the validity and enforceability of our proprietary rights and may not prevail in any litigation regarding those rights. Any litigation to enforce our intellectual property rights would be expensive and time-consuming, would divert management resources and may not be adequate to protect our business.

## Possible Infringement Claims

We could be subject to claims that we have infringed the intellectual property rights of others. In addition, we may be required to indemnify our distributors and users for similar claims made against them. Any claims against us could require us to spend significant time and money in litigation, pay damages, develop new intellectual property or acquire licenses to intellectual property that is the subject of the infringement claims. These licenses, if required, may not be available at all or on acceptable terms. As a result, intellectual property claims against us could have a material adverse effect on our business, prospects, financial conditions and results of operations.

## Possible System Failure Or Breach Of Network Security

Our operations are dependent on our ability to protect our network from interruption by damage from fire, earthquake, power loss, telecommunications failure, unauthorized entry, computer viruses or other events beyond our control. As precautions, we utilize distributed processing systems, back-up systems, Internet firewalls, continuous installation environment surveillance, and private power generators as backup. There can be no assurance that our existing and planned precautions of backup systems, regular data backups and other procedures will be adequate to prevent significant damage, system failure or data loss.

Despite the implementation of security measures, our infrastructure may also be vulnerable to computer viruses, hackers or similar disruptive problems. Persistent problems continue to affect public and private data networks, including computer break-ins and the misappropriation of confidential information. Computer break-ins and other disruptions may jeopardize the security of information stored in and transmitted through the computer systems of the individuals and businesses utilizing our services, which may result in significant liability to us and also may deter current and potential subscribers from using our services. Any damage, failure or security breach that causes interruptions or data loss in our operations or in the computer systems of our customers could have a material adverse effect on our business, prospects, financial condition and results of operations.

## Reliance On Third Party Access For Telecommunications

We rely on third parties to provide our subscribers with access to the Internet. There can be no assurance that a third party's current pricing structure for access to and use of the Internet will not change unfavorably and, if the pricing structure changes unfavorably, our business, prospects, financial condition and results of operations could be materially and adversely affected.

## Effect Of Government Regulations

We provide access to our database and services through data transmissions over public telephone lines and other facilities provided by telecommunications companies. These transmissions are subject to regulatory government agencies. These regulations affect the prices that subscribers must pay for transmission services, the competition we face from telecommunications services and other aspects of our market. There can be no assurance that existing or future laws, governmental action or rulings will not materially and adversely affect our operations. Additionally, we operate through a network marketing strategy which is subject to government regulation concerning consumer protection. Changes in these regulations could affect compliance with these regulations and jurisdictions where we carry on our business.

Dependence On Vendor
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The MOJICO machine is produced by an unrelated third party. Should this third party become incapable or unwilling to produce the MOJICO for any reason, we could face a temporary decline in MOJICO sales until another electronics manufacturer is sourced and ready to produce the machines.

Minority Shareholder Status
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Foster Strategic Investment Partnership ("Foster") holds 51.3% of PPOL's common stock. Acting alone, Foster, as a majority shareholder, has significant influence on PPOL's policies. As a result, Foster will have the ability to control the outcome of all matters requiring stockholder approval, including the election and removal of PPOL's entire Board of Directors, any merger, consolidation or sale of all or substantially all of PPOL's assets, and the ability to control PPOL's and our management and affairs.

No Lock-up Agreement Between Foster Strategic Investment Partnership
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To date, PPOL has not entered into a separate lock-up arrangement with Foster Strategic Investment Partnership pursuant to which these shareholders would agree to be subject to volume and sale restrictions that will limit their ability to sell shares in addition to the restrictions set forth under Rule 144. If a suitable lock-up agreement is not in effect, then Foster Strategic Investment Partnership may be eligible to sell a large volume of shares, which could cause the price of PPOL's shares to decline.

No History As Reporting Company
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Prior to the effective date of the PPOL's filing of Form 10, PPOL has never been a public company, subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended, and PPOL expects that the obligations of being a public company, including substantial public reporting and investor relations obligations, will require significant continuing additional expenditures, place additional demands on our management and may require the hiring of additional personnel. We may need to implement additional systems in order to adequately function as a reporting public company. Such expenditures could adversely affect our financial condition and results of operations.

ITEM 4: CONTROLS AND PROCEDURES

We have established and maintain disclosure controls and procedures and conclude these controls/procedures are effective based on our evaluation as of the "Evaluation Date," which is as of the end of the period covered in the filing of this 10-Q. There were no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Company intends to initiate planning for the implementation of Section 404 of the Sarbanes-Oxley Act. However, the Company has not yet hired an outside firm to assist in the implementation to start its evaluation process. The implementation of Section 404 will involve significant costs and commitments in

terms of the Company's financial and personnel resources, and there is a possibility that the Company may not complete its Section 404 compliance responsibilities by the established deadline.

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PART 2:

ITEM 1: LEGAL PROCEEDINGS

None

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

On May 30, 2005, the Company sold to four (4) purchasers a total of 2,549,129 shares of its common stock, $0.001 par value per share ("Common Stock") for an aggregate consideration of JPY1,100,000,000 (US $10,196,516) at $4 per share.

The Company entered into separate Stock Purchase Agreements ("Stock Purchase Agreements"), each dated as of May 30, 2005, with (i) K.K. Contents Provider Tokyo, a Japan corporation, which paid JPY400,0000,000 (US$3,707,824); (ii) K.K. Seagull, a Japan corporation, which paid JPY400,000,000 (US$3,707,824); (iii) K.K. H.I. Consultants, a Japan corporation, which paid JPY200,000,000 (US$1,853,912); and (iv) K.K. System Partners, a Japan corporation, which paid JPY100,000,000 (US$926,956) (collectively, the "Investors"). The Company issued the Common Stock in a private placement without registration under the Securities Act of 1933, as amended (the "Act"), in reliance on one or more exemptions from the registration requirements under the Act, including Regulation D under the Act.

Pursuant to the Stock Purchase Agreements, the Company entered into a Registration Rights Agreement ("Registration Rights Agreement"), dated as of May 30, 2005, with each of the four Investors, which granted "piggy-back" registration rights to the Investors. Pursuant to the Registration Rights Agreement, if the Company at any time files a registration statement (other than a Form S-4 or Form S-8 registration statement) with the Securities and Exchange Commission under the Act, Registrant agrees to use its best efforts to include in such registration statement such shares of the Investors' Common Stock as the Investors may request, subject to the terms and conditions of the Registration Rights Agreement.

The Company used the proceeds from the above noted sale of equity securities to purchase K.K. U Service.

The CEO of PPOL is also the Representative Director of K.K. H.I. Consultants.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5: OTHER INFORMATION

None

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K:

A - Exhibits:

Exhibit 31.1 - Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 - Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

B - Reports on Form 8-K

1) None.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | PPOL, Inc.<br>(Registrant) |
| October 19, 2005<br>Date | /s/ Hisao Inoue<br>Hisao Inoue, Chief Executive Officer |
| October 19, 2005<br>Date | /s/ Richard Izumi<br>Richard Izumi, Chief Financial Officer |