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PPOL INC  
Form 10-Q  
September 09, 2003

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

FORM 10-Q

Mark one:

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2003

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) 221-7250  
-----

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

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

17,994,920

-----  
(Class)

-----  
(Outstanding at June 30, 2003.)

PPOL, Inc.

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2003 Quarterly Report on Form 10-Q  
Table of Contents

PART 1:

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ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets as of June 30, 2003 and March 31, 2003

Consolidated Statements of Income and Comprehensive Income for  
the Three Months Ended June 30, 2003 and 2002

Consolidated Statements of Cash Flows for Three Months Ended June 30, 2003 and 2002

Notes to Consolidated Financial Statements

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4: CONTROLS AND PROCEDURES

PART 2:

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ITEM 1: LEGAL PROCEEDINGS

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

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

ITEM 5: OTHER INFORMATION

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURES

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CERTIFICATIONS

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EXHIBIT:

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Exhibit 99 - Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

2

Part 1:

Item 1: Consolidated financial statements

PPOL, INC.  
CONSOLIDATED BALANCE SHEETS

	June 30, 2003
	-----
	(Unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 16,290,502
Trade accounts receivable, net of allowance for doubtful accounts of \$0 and \$212	621,431
Merchandise inventories	3,318,004

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Advance payments	828,717
Deferred costs	61,370,471
Deferred income taxes	9,296,898
Prepaid expenses and other	734,732
	-----
Total current assets	92,460,755
PROPERTY AND EQUIPMENT, net	8,419,757
DEFERRED COSTS	40,490,059
DEFERRED INCOME TAXES	5,340,909
LEASE DEPOSITS, INCLUDING RELATED PARTIES	733,720
OTHER ASSETS	2,466,501
	-----
	\$ 149,911,701
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable, including related parties	\$ 9,674,244
Advances received	12,018,407
Deferred revenue	82,275,953
Income taxes payable	85,262
Other current liabilities	1,516,405
	-----
Total current liabilities	105,570,271
DEFERRED REVENUE	52,859,915
OTHER LIABILITIES	62,467
	-----
Total liabilities	158,492,653
	-----
SHAREHOLDERS' EQUITY:	
Common Stock; \$0.001 par value; 100,000,000 shares authorized; 17,994,920 shares issued and outstanding as of June 30, 2003 (unaudited) and March 31, 2003, respectively	17,995
Additional paid-in capital	3,367,157
Total other comprehensive income	3,574,074
Accumulated deficit	(15,540,178)
	-----
Total shareholders' equity	(8,580,952)
	-----
	\$ 149,911,701
	=====

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

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	Three months ended June 30, 2003 ----- (Unaudited)	Three months ended June 30, 2002 ----- (Unaudited)
NET REVENUE:		
Product sales and network services	\$ 28,579,162	\$ 28,568,333
Other on-line services	4,680,027	3,770,909
	-----	-----
Total	33,259,189	32,339,242
	-----	-----
COSTS AND EXPENSES:		
Cost of sales	7,681,813	7,084,105
Distributor incentives	16,629,674	17,033,964
Selling, general and administrative expenses	5,987,994	5,944,564
	-----	-----
Total costs and expenses	30,299,481	30,062,633
	-----	-----
OPERATING INCOME	2,959,708	2,276,609
OTHER (EXPENSE) INCOME, net	(26,795)	16,157
	-----	-----
INCOME BEFORE INCOME TAXES	2,932,913	2,292,766
	-----	-----
INCOME TAXES:		
Current	86,217	362,896
Deferred	1,675,870	(817,641)
	-----	-----
Total income taxes	1,762,087	(454,745)
	-----	-----
NET INCOME	1,170,826	2,747,511
OTHER COMPREHENSIVE GAIN (LOSS) -		
Cumulative foreign currency translation	363,240	(2,944,963)
	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ 1,534,066	\$ (197,452)
	=====	=====
NET INCOME PER COMMON SHARE,		
Basic and diluted	\$ 0.07	\$ 0.16
	=====	=====
WEIGHTED AVERAGE COMMON SHARES		
OUTSTANDING - BASIC AND DILUTED	17,994,920	17,095,174
	=====	=====

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

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PPOL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended June 30, 2003 ----- (Unaudited)	Three months ended June 30, 2002 ----- (Unaudited)
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ 1,170,826	\$ 2,747,511
	-----	-----
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation and amortization	429,236	505,501
Loss on sales/disposal of property and equipment	61,517	--
Deferred income taxes	1,675,870	(817,641)
CHANGES IN ASSETS AND LIABILITIES:		
(INCREASE) DECREASE IN ASSETS:		
Trade accounts receivables	(479,675)	883,077
Merchandise Inventories	(446,487)	(829,619)
Advance payments to related parties	2,639,707	(2,132,143)
Deferred costs	10,431,523	(9,945,539)
Prepaid expenses and other	733,137	(308,030)
INCREASE (DECREASE) IN LIABILITIES:		
Accounts payable, including related parties	1,201,900	(3,777,168)
Advances received	1,259,734	10,312,013
Deferred revenue	(13,069,708)	12,876,600
Income taxes payable	(786,901)	(1,170,485)
Other liabilities	715,343	1,278,699
	-----	-----
Total adjustments	4,365,196	6,875,265
	-----	-----
Net cash provided by operating activities	5,536,022	9,622,776
	-----	-----
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,328,209)	(13,991)
Other assets	4,348	(15,373)
	-----	-----
Net cash used for investing activities	(3,323,861)	(29,364)
	-----	-----
CASH FLOWS USED FOR FINANCING ACTIVITIES -		
Dividends paid	--	(963,732)
	-----	-----
Net cash (used for) financing activities	--	(963,732)
	-----	-----

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EFFECTS OF EXCHANGE RATE	(234,722)	(3,690,731)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,977,439	4,938,949
CASH AND CASH EQUIVALENTS, beginning of period	14,313,063	11,716,893
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 16,290,502	\$ 16,655,842
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION -		
Income taxes paid	\$ 85,132	\$ 1,536,165
	=====	=====
Interest paid	\$ --	\$ --
	=====	=====

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

5

PPOL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2003 AND 2002 (UNAUDITED)

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ORGANIZATION:

PPOL, Inc. ("PPOL") (formerly Diversified Strategies, Inc.), incorporated on May 19, 1993 in California, is primarily engaged in sales of multi-functional telecommunications equipment called MOJICO. The Company distributes MOJICO throughout Japan through a network marketing system. The Company has a network of registered distributors located throughout Japan that introduce purchasers to the Company. The Company operates in one operating segment.

Using MOJICO, the Company provides original telecommunication services called "Pan Pacific Online," including MOJICO bulletin board and mail services. The Company 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 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

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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 and PPOL are collectively referred to herein as the "Company."

### 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, 2003 and 2002 included in the Company's Form 10-K. The results of the three months ended June 30, 2003 are not necessarily indicative of the results to be expected for the full year ending March 31, 2004.

6

### (1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### RECLASSIFICATIONS:

Certain reclassifications have been made to the prior period consolidated financial statements in order to conform to the current period presentation.

#### PRINCIPLES OF CONSOLIDATION:

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

#### FORFEITED DISTRIBUTOR COMMISSIONS:

In April 2003, the Company amended its policy regarding distributor commissions to state that distributor commissions are not paid out unless they exceed a minimum threshold of approximately \$30.00. If a distributor does not attain the minimum commission threshold within one year, then the commissions will be forfeited to the Company. In the quarter ending June 30, 2003, the Company has recognized approximately \$714,000 of other income for the write-off of previously accrued distributor commissions that exceeded the one year threshold at March 31, 2003. This amount, related to the change in accounting policy, is included in other income on the statements of income and comprehensive income for the three months ended June 30, 2003. Distributor commissions outstanding greater than one year for the three month period ended June 30, 2003 approximated \$148,000. This amount is offset against distributor incentives on the statement of income for the three months ended June 30, 2003.

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### RECENT ACCOUNTING PRONOUNCEMENTS:

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement amends Statement 133 for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to Statement 133, (2) in connection with other Board projects dealing with financial instruments, and (3) in connection with implementation issues raised in relation to the application of the definition of a derivative, in particular, the meaning of an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, the meaning of underlying, and the characteristics of a derivative that contains financing components. The Company does not anticipate that the adoption of this Statement will have a material effect on the financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The remaining provisions of this Statement are consistent with the Board's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship

7

### (1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### RECENT ACCOUNTING PRONOUNCEMENTS (CONT.):

established between the holder and the issuer. While the Board still plans to revise that definition through an amendment to Concepts Statement 6, the Board decided to defer issuing that amendment until it has concluded its deliberations on the next phase of this project. That next phase will deal with certain compound financial instruments including puttable shares, convertible bonds, and dual-indexed financial instruments. The Company does not anticipate that the adoption of this Statement will have a material effect on the financial statements.

### (2) RELATED PARTY TRANSACTIONS:

The Company leased the majority of its office space from Forval, its parent, until March 31, 2003. Forval subsequently returned a lease



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deposit to the Company during the three months ended June 30, 2003. The following summarizes amounts due from or to Forval and related transaction amounts.

	Three months ended June 30, 2003	Three months ended June 30, 2002
	----- (Unaudited)	----- (Unaudited)
Due from Forval- Lease deposit	\$ --	\$ 597,806
Due to Forval - Accounts payable	--	1,343
Transactions with Forval:		
Rental expenses	--	186,814
Other	--	868

PPOL entered into separate agreements with Forval and Leo Global Fund, its two majority shareholders, in which PPOL is to provide certain consulting services during fiscal 2003. As provided for in the agreements, PPOL received \$493,858 from Forval and Leo Global Fund. Since the Company has not completed the consulting services called for in the agreements prior to June 30, 2003, the payments received are included in advances received, as a liability, at June 30, 2003. There is no assurance that PPOL will receive such projects from Forval and Leo Global Fund in the future.

8

### (3) RESTATEMENT OF PRIOR FINANCIAL INFORMATION

The Company had conducted an internal review of its revenue recognition policies under the direction of the Company's Chief Financial Officer. The Company sells its MOJICO hardware for approximately \$2,900 per unit and simultaneously charges admission fees of approximately \$150 to customers which afford them the right to be a distributor for one year. As a result of the review, the Company noted that customers renew and remain distributors with the Company for an average of 3 years in total. As such, the Company has revised its revenue recognition policy on sales of MOJICO units. Revenues and related costs of MOJICO units are now deferred and recognized over 3 years. The Company previously recognized revenue from MOJICO sales over a period of 3 months. Therefore, in connection with this internal review, the financial results for each of the years ended March 31, 2002, 2001 and 2000 are being restated. Additionally, the company has restated the three and nine months ended December 31, 2002 and 2001, the three and six months ended September 30, 2002 and 2001 and the three months ended June 30, 2002. The total impact of the adjustments as of and for the three months ended June 30, 2002 is as follows:

Three Months Ended June 30, 2002		
----- Restated	----- Original	----- Change increased (decreased)
-----	-----	-----

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Product sales and network services	\$ 28,568,333	\$ 30,815,864	\$ (2,24
Cost of sales	7,084,105	7,642,042	(55
Distributor incentives	17,033,964	19,356,990	(2,32
Operating income	2,276,609	1,631,382	64
Income before income taxes	2,292,766	1,642,539	65
Income taxes - deferred	(817,641)	313,742	(1,13
Net income	2,747,511	963,117	1,78
Cummulative foreign currency translation	(2,944,963)	415,399	(3,36
Comprehensive (loss) income	(197,452)	1,378,516	(1,57
	=====	=====	=====

The changes noted above are entirely attributable to revenue recognition and associated deferral of costs of product sales and network service revenues as noted above. The restatement resulted in an increase in earnings per share of \$0.10 (from \$0.06 to \$0.16) for the three months ended June 30, 2002. The financial results presented in this report reflect the restatement of the Company's financial results. Based on the substantial work done to date, the Company does not expect any further restatements as a result of its internal review.

9

### 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., a Japanese corporation (hereafter, collectively referred to as PPOL or the "Company.") At the present time, the Company has administrative functions occurring in California, but does not otherwise have any business in the US.

The Company's revenues are derived from the sales 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

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products that utilize the Company's "Kamome" brand.

### RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2003

PRODUCT SALES AND NETWORK SERVICES. For the three months ended June 30, 2003, overall revenues of this category have remained consistent in comparison to the same period of the prior year.

OTHER ONLINE SERVICES REVENUE. For the three months end June 30, 2003, revenues increased 24.1% 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. Additionally, the Company has implemented new operational systems and procedures to increase efficiencies in processing and handling Other Online Services Revenues.

COST OF SALES. For the three months ended June 30, 2003, the change in cost of sales, expressed as a percentage of sales, increased 1.2% in comparison to the same period of the prior year. The increase is consistent with the increase in revenues.

10

DISTRIBUTOR INCENTIVES. For the three months ended June 30, 2003, the change in distributor incentives, expressed as a percentage of sales, decreased by 0.5%. In April 2003, the Company amended its distributor commission policy to state that the Company would not pay any commissions less than a minimum threshold of approximately \$30.00. If the distributor does not earn the minimum threshold at the end of one year, then the commissions will be forfeited to the Company. The decrease is the result of the forfeited distributor commissions during the quarter ended June 30, 2003, which offset distributor incentives by approximately \$148,000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. For the three months ended June 30, 2003, selling, general and administrative expenses have remained consistent with same period of the prior year. The company is continually focusing efforts on reducing costs. The Company's monthly member magazine was redefined as a bi-monthly magazine which resulted in material savings. However, these savings were offset as the Yen strengthened against the US dollar.

OTHER INCOME. For the three months ended June 30, 2003, other income increased approximately \$671,000 in comparison to the same period of the prior year. Effective in April 2003, the Company revised its commission policy to state that the Company would not pay any commissions less than a minimum threshold of approximately \$30.00. If the distributor does not earn the minimum threshold within one year, then the commissions will be forfeited. The increase in primarily due to the Company recognizing approximately \$714,000 of income associated with commissions that did not meet the minimum threshold of the new commission policy and had been outstanding greater than one year as of March 31, 2003.

DEFERRED INCOME TAX EXPENSE. For the three months ended June 30, 2003, deferred income tax expense increased approximately \$2.5 million. The increase was primarily the result of deferred tax assets reversing against income.

### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled \$16,290,502 and \$16,655,842 at June 30, 2003 and 2002, respectively. Cash provided from operations for the three months ended June 30, 2003 and 2002 was \$5,536,022 and \$9,622,776, respectively. Cash used

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for investing activities for the three months ended June 30, 2003 and 2002 was \$3,323,861 and \$29,364, respectively. The cash used for investing activity for the quarter ended June 2003 was primarily for the purchase of property and equipment. No cash was used for financing activities in the three months ended June 30, 2003. Cash used for financing activities was \$963,732 for the three months ended June 30, 2002 which was for the payment of dividends to shareholders. The Company also has an available line of credit of approximately \$2.5 million. This revolving bank credit facility is generally used to finance temporary operating cash requirements. Management believes that cash flow from operations and the revolving credit facility will adequately meet the working capital needs for the foreseeable future.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, impairment of long-lived and intangible assets, depreciation and amortization, financing operations, inventory valuation, income tax and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of the Company's consolidated financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described in the notes to the consolidated financial statements for the years ended March 31, 2003 and 2002 included in our Form 10-K.

11

### Item 3: Quantitative and Qualitative Disclosures about Market Risk

#### LIMITED OPERATING HISTORY

AJOL has a limited operating history in Japan upon which it can be evaluated. Any investment in the Company 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 AJOL will be successful in addressing these risks.

#### UNPROVEN BUSINESS MODEL

AJOL cannot predict whether or not it will be successful because its business model is unproven and its market is developing. It is too early to reliably ascertain market penetration for AJOL's 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 AJOL's financial condition and results from operations will be materially and adversely affected.

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### FLUCTUATIONS IN OPERATING RESULTS

AJOL's operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of AJOL's control. These factors include the demand for the telecommunications products and services offered by AJOL, introduction of new products or services by AJOL or its competitors, delays in the introduction or enhancement of products and services by AJOL or its competitors, changes in AJOL's pricing policies or those of its competitors, AJOL's ability to anticipate and effectively adapt to developing markets and rapidly changing technologies, changes in the mix Japanese vs. non-Japanese revenue, changes in foreign currency exchange rates, the mix of products and services sold by AJOL 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, AJOL 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 (YEN) FLUCTUATIONS

Substantially all of AJOL's revenue and expenses are received and incurred in Japanese Yen. Variation in foreign exchange rates may substantially affect AJOL's revenue, expenses, and net income in U.S. dollar terms. In preparing its consolidated financial statements, the Company translates revenue and expenses from Yen into U.S. dollars using weighted average exchange rates. If the U.S. dollar strengthens relative to the Yen, the Company's reported revenue, gross profits and net income will likely be reduced. For example, if the Japanese Yen significantly weakened, it would result in a reduction of the Company's operating results on a U.S. dollar reported basis. Given the unpredictability of exchange rate fluctuations, the Company cannot estimate the effect these fluctuations may have upon future reported results, product pricing or the Company's overall financial condition.

12

### 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 the Company's revenue and net income.

### RELIANCE ON HANDWRITTEN MOJI (CHARACTERS) AS PREFERRED METHOD OF WRITTEN COMMUNICATIONS

The Company relies 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 AJOL and its business.

### DEPENDENCE ON NEW SUBSCRIBERS

AJOL's operating results generally depend on revenues received from sales of the

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MOJICO product. In the current period, MOJICO sales have accounted for approximately 75% of AJOL's annual revenue. MOJICO sales are primarily made to new customers of AJOL. As a result, future revenues are primarily dependent on AJOL's ability to generate new customers for its MOJICO hardware and Pan Pacific Online services. There can be no assurances that AJOL will be able to continue to generate new subscribers at the rate that it has been able to in the past, nor that AJOL will be able to generate sufficient new subscribers to remain profitable. AJOL does not have any substantial historical basis for predicting the rate of increase in its subscriber base.

### DEPENDENCE ON SUBSCRIBERS FOR CONTENT OF NETWORK

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

13

### LIABILITY FOR CONTENT OF NETWORK

As a provider of messaging and communications services, AJOL 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 AJOL's information network. There can be no assurances that AJOL will be able to effectively screen all of the content generated by AJOL's subscribers. AJOL may be exposed to liability with respect to this content. AJOL's insurance may not cover claims of these types or may not be adequate to indemnify AJOL for all liability that may be imposed. There is a risk that a single claim or multiple claims, if successfully asserted against AJOL, could exceed the total of AJOL's coverage limits. There is also a risk that a single claim or multiple claims asserted against AJOL may not qualify for coverage under AJOL's insurance policies as a result of coverage exclusions that are contained within these policies. Any imposition of liability, particularly liability that is not covered by insurance or is in excess of insurance coverage, could have a material adverse affect on AJOL's reputation, financial condition, and operating results.

### RELIANCE ON EXISTING DISTRIBUTORS AND NEED TO RECRUIT ADDITIONAL DISTRIBUTORS

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

The loss of a high-level distributor or a group of leading distributors in the distributor's network of lower levels, distributors, whether by their own choice or through disciplinary actions for violations of Company policies and procedures could negatively impact the growth of distributors and the Company's revenue.

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In addition, the Company's 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

The Company is highly dependent upon its President 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 AJOL and the Company's 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 the Company's business. The Company is investigating, but has not obtained "Key Executive Insurance" with respect to Mr. Aota.

14

One of the Company's business strategies is to reduce its dependence on Mr. Aota. This will be done through additional external training courses of employees and flattening of the organization to three levels, senior management, leaders, general, so more employees get on the job training from senior management. We have also involved more staff on strategic planning and product development task teams. Externally, our distributors have become more knowledgeable and are making presentations to prospective subscribers. If the Company is unsuccessful in accomplishing this strategy, and Mr. Aota's services become unavailable, the Company's business and prospects could be materially adversely affected. Neither the Company nor AJOL has an employment agreement with Mr. Aota. If the Company loses Mr. Aota's services, for any reason, including as a result of Mr. Aota's voluntary resignation or retirement, the Company's business could be materially adversely affected.

### FAILURE OF NEW PRODUCTS AND SERVICES TO GAIN MARKET ACCEPTANCE

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

### LOSING SOURCES OF KAMOME PRODUCTS

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

### COMMENCING FOREIGN OPERATIONS

AJOL is exploring the possibility of commencing business activities in South Korea, China, and Taiwan. In past years, these nations have experienced significant economic and/or political instability. If AJOL commences business activities in these nations, future instability will have a material adverse affect on AJOL's ability to do business in these nations and may jeopardize AJOL's investment in establishing business operations in those countries.

### COMPETITION WITH TECHNICALLY SUPERIOR PRODUCTS AND SERVICES

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

### INTERNET USAGE RATES AND LONG DISTANCE TELEPHONE RATES

AJOL's subscribers obtain access to AJOL's network via either the Internet or telephone service. The costs that subscribers incur in obtaining access to the AJOL 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 AJOL's products and services.

15

### RELIANCE ON INTERNET AS TRANSMISSION MEDIUM

The Company's future success will depend upon the Company's ability to route the Company's customers' traffic through the Internet and through other data transmission media. The Company's 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 change, changes in user and customer requirements and preferences, and the emergence of new industry standards and practices that could render the Company's existing services, proprietary technology and systems obsolete.

The Company's success depends, in part, on the Company's ability to develop new services, functionality and technology that address the needs of existing and prospective subscribers. If the Company does not properly identify the feature preferences of subscribers and prospective subscribers, or if the Company fails to deliver features that meet their standards, the Company's ability to market the Company's 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. The Company may not be able to keep pace with the latest technological developments. The Company may also be unable to use new technologies effectively or adapt services to customer requirements or emerging industry standards.

The Company must accurately forecast the features and functionality required by subscribers and prospective subscribers. In addition, the Company must design and implement service enhancements that meet subscriber requirements in a timely and efficient manner. The Company may not successfully determine subscriber and



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prospective subscriber requirements and may be unable to satisfy their demands. Furthermore, the Company 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 the Company, the Company's reputation could be damaged. If the Company fails to accurately determine desired feature requirements or service enhancements or to market services containing such features or enhancements in a timely and efficient manner, the Company's business and operating results could suffer materially.

16

### POSSIBLE INADEQUATE INTELLECTUAL PROPERTY PROTECTIONS

The Company's success depends to a significant degree upon the Company's proprietary technology. The Company relies on a combination of patent, trademark, trade secret and copyright law and contractual restrictions to protect the Company's 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 the Company's intellectual property rights. In addition, the Company may face challenges to the validity and enforceability of the Company's proprietary rights and may not prevail in any litigation regarding those rights. Any litigation to enforce the Company's intellectual property rights would be expensive and time-consuming, would divert management resources and may not be adequate to protect the Company's business.

### POSSIBLE INFRINGEMENT CLAIMS

The Company could be subject to claims that the Company has infringed the intellectual property rights of others. In addition, the Company may be required to indemnify the Company's distributors and users for similar claims made against them. Any claims against the Company could require the Company to spend significant time and money in litigation, pay damages, and 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 the Company could have a material adverse effect on the Company's business, prospects, financial conditions and results of operations.

### POSSIBLE SYSTEM FAILURE OR BREACH OF NETWORK SECURITY

The Company's operations are dependent on the Company's ability to protect the Company's network from interruption by damage from fire, earthquake, power loss, telecommunications failure, unauthorized entry, computer viruses or other events beyond the Company's control. As precautions, we utilize distributed processing systems, backup systems, Internet firewalls, 24/7 installation environment surveillance, and private power generators as backup. There can be no assurance that the Company's 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, the Company's 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 the Company's services, which may result in significant liability to the Company and also may deter current and potential subscribers from using the Company's services. Any damage, failure or

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security breach that causes interruptions or data loss in the Company's operations or in the computer systems of the Company's customers could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

17

### RELIANCE ON THIRD PARTY ACCESS FOR TELECOMMUNICATIONS

The Company relies on third party to provide its 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, the Company's business, prospects, financial condition and results of operations could be materially and adversely affected.

### EFFECT OF GOVERNMENT REGULATIONS

The Company provides access to its 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 the Company faces from telecommunications services and other aspects of the Company's market. There can be no assurance that a existing or future laws, governmental action or rulings will not materially and adversely affect the Company's operations.

### CONTROL BY OFFICERS AND DIRECTORS

AJOL's executive officers, directors and entities affiliated with them, in the aggregate, beneficially own common stock representing approximately 95% of the Company.

### DEPENDENCE ON VENDOR

The MOJICO machine is produced by Funai Electric Co ("Funai") which is a former shareholder of AJOL. Should Funai 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. AJOL owns the patent rights to the MOJICO and the technical production requirements of the MOJICO can be met by other electronics manufacturers.

### MINORITY SHAREHOLDER STATUS

Forval Corporation and Leo Global Fund, former direct shareholders of AJOL, hold 59.17% and 35.83% respectively of the Company's common stock. Acting alone, Forval Corporation, as a majority shareholder, has significant influence on Company policies. Forval Corporation and Leo Global Fund, collectively, control 95% of the Company's outstanding shares, representing 95% of the Company's voting power. As a result, Forval and Leo Global Fund, acting together, will have the ability to control the outcome of all matters requiring stockholder approval, including the election and removal of the Company's entire Board of Directors, any merger, consolidation or sale of all or substantially all of the Company's assets, and the ability to control the Company's management and affairs.

18

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### NO LOCK-UP AGREEMENT BETWEEN FORVAL CORPORATION AND LEO GLOBAL FUND

To date, the Company has not entered into a separate lock-up arrangement with Forval Corporation and Leo Global Fund 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 Forval Corporation and/or Leo Global Fund may be eligible to sell a large volume of shares, which could cause the price of shares to decline.

### NO HISTORY AS REPORTING COMPANY

Prior to the effective date of the Company's filing of Form 10, the Company has never been a public company, subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended, and the Company expects that the obligations of being a public company, including substantial public reporting and investor relations obligations, will require significant additional expenditures, place additional demands on the Company's management and may require the hiring of additional personnel. The Company may need to implement additional systems in order to adequately function as a reporting public company. Such expenditures could adversely affect the Company's financial condition and results of operations.

19

### 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.

### Part 2:

Item 1: Legal Proceedings  
None

Item 2: Changes in Securities and Use of Proceeds  
None

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

Exhibit 99 - Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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20

## 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.

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(Registrant)

September 9, 2003

/s/ Nobuo Takada

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Date

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Nobuo Takada, Chief Executive Officer

September 9, 2003

/s/ Kazushige Shimizu

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Date

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Kazushige Shimizu, Chief Financial Officer

21

## CERTIFICATIONS

I, Nobuo Takada, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPOL, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America;

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c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Date: September 9, 2003

/s/ Nobuo Takada  
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Nobuo Takada  
Chief Executive Officer

22

CERTIFICATIONS

I, Kazushige Shimizu, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPOL, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such

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internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Date: September 9, 2003

/s/ Kazushige Shimizu

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Kazushige Shimizu  
Chief Financial Officer