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PPOL INC  
Form 10-Q  
November 19, 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 September 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 September 30, 2003.)

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PPOL, Inc.  
2003 Quarterly Report on Form 10-Q  
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Part 1: FINANCIAL INFORMATION  
Item 1: Consolidated financial statements

PPOL, INC.

CONSOLIDATED BALANCE SHEETS

September 30,

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	2003	
	-----	
ASSETS	(unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 20,758,881	\$
Trade accounts receivable, net of allowance for doubtful accounts of \$0 and \$212	616,188	
Merchandise inventories	987,048	
Advance payments	2,497,307	
Deferred costs	65,907,745	
Deferred income taxes	10,239,108	
Prepaid expenses and other current assets	426,201	
	-----	
Total current assets	101,432,478	
PROPERTY AND EQUIPMENT, net	9,322,381	
DEFERRED COSTS	43,518,116	
DEFERRED INCOME TAXES	6,113,136	
LEASE DEPOSITS, INCLUDING RELATED PARTIES	716,791	
OTHER ASSETS	2,626,939	
	-----	
	\$ 163,729,841	\$ 1
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable, including related parties	\$ 10,369,949	\$
Advance received	12,342,007	
Deferred revenue	88,234,991	
Income taxes payable	1,525,848	
Other current liabilities	1,858,465	
	-----	
Total current liabilities	114,331,260	1
DEFERRED REVENUE	57,520,433	
OTHER LIABILITIES	44,799	
	-----	
Total liabilities	171,896,492	1
	-----	
SHAREHOLDERS' EQUITY:		
Common Stock; \$0.001 par value; 100,000,000 shares authorized; 17,994,920 shares issued and outstanding as of September 30, 2003 (unaudited) and March 31, 2003, respectively	17,995	
Additional paid-in capital	3,367,157	
Total other comprehensive income	1,820,993	
Accumulated deficit	(13,372,796)	(
	-----	
Total shareholders' equity	(8,166,651)	(
	-----	
	\$ 163,729,841	\$ 1
	=====	=====

The accompanying notes are an integral part of these

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consolidated financial statements.

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PPOL, INC.

## CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

	Three months Ended September 30, 2003	Three months Ended September 30, 2002
	----- (Unaudited)	----- (Unaudited) (Restated)
NET REVENUE:		
Product sales and network services	\$ 28,427,695	\$ 30,676,934
Other on-line services	4,874,857	4,444,445
Consulting revenue	483,858	--
	-----	-----
Total	33,786,410	35,121,379
	-----	-----
COSTS AND EXPENSES:		
Cost of sales	10,090,801	7,981,315
Distributor incentives	15,455,809	18,265,172
Selling, general and administrative expenses	6,378,653	6,924,677
	-----	-----
Total costs and expenses	31,925,263	33,171,164
	-----	-----
OPERATING INCOME	1,861,147	1,950,215
OTHER (EXPENSE) INCOME, net	(46,336)	(644)
	-----	-----
INCOME BEFORE INCOME TAXES	1,814,811	1,949,571
	-----	-----
INCOME TAXES:		
Current	1,361,866	1,121,725
Deferred	(1,714,437)	96,229
	-----	-----
Total income taxes	(352,571)	1,217,954
	-----	-----
NET INCOME	2,167,382	731,617
OTHER COMPREHENSIVE GAIN (LOSS)		
Foreign currency translation	(1,753,081)	5,472,579
	-----	-----
COMPREHENSIVE INCOME	\$ 414,301	\$ 6,204,196
	=====	=====

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NET INCOME PER COMMON SHARE, Basic and diluted	\$ 0.12	\$ 0.04
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	17,994,920	17,323,839
	=====	=====

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

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PPOL, INC.

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

	Six months Ended September 30, 2003	Six months Ended September 30, 2002
	(Unaudited)	(Unaudited) (Restated)
NET REVENUE:		
Product sales and network services	\$ 57,007,051	\$ 59,245,267
Other on-line services	9,554,690	8,215,354
Consulting revenues	483,858	--
	-----	-----
Total	67,045,599	67,460,621
	-----	-----
COSTS AND EXPENSES:		
Cost of sales	17,772,614	15,065,420
Distributor incentives	32,799,173	35,299,136
Selling, general and administrative expenses	12,366,648	12,869,241
	-----	-----
Total costs and expenses	62,938,435	63,233,797
	-----	-----
OPERATING INCOME	4,107,164	4,226,824
OTHER (EXPENSE) INCOME, net	642,317	15,513
	-----	-----
INCOME BEFORE INCOME TAXES	4,749,481	4,242,337
	-----	-----
INCOME TAXES:		
Current	1,449,840	1,484,621
Deferred	(38,567)	(721,412)
	-----	-----
Total income taxes	1,411,273	763,209

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NET INCOME	3,338,208	3,479,128
OTHER COMPREHENSIVE GAIN (LOSS)		
Foreign currency translation	(1,389,841)	(2,527,616)
COMPREHENSIVE INCOME	\$ 1,948,367	\$ 951,512
NET INCOME PER COMMON SHARE,		
Basic and diluted	\$ 0.19	\$ 0.20
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	17,994,920	17,323,839

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

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PPOL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months Ended September 30, 2003	Six months Ended September 30, 2002
	(Unaudited)	(Unaudited) (Restated)
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Net income	\$ 3,338,208	\$ 3,479,128
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation and amortization	1,016,122	918,522
Loss on disposition of software	17,589	--
Loss on sales/disposal of property and equipment	62,024	1,058
Deferred income taxes	881,132	(721,412)
Loss on write-off of deposits	--	85,448
Other	--	(24,548)
CHANGES IN ASSETS AND LIABILITIES:		
(INCREASE) DECREASE IN ASSETS:		
Trade accounts receivables	(432,221)	1,832,350
Merchandise Inventories	1,988,800	(1,146,802)
Advance payments to related parties	1,134,765	(1,343,763)
Deferred costs	10,615,366	564,897
Prepaid expenses and other	453,878	(55,909)

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INCREASE (DECREASE) IN LIABILITIES:		
Accounts payable, including related parties	1,179,659	(2,330,635)
Advances received	718,370	3,881,372
Deferred revenue	(12,760,486)	(2,128,857)
Income taxes payable	563,426	(89,890)
Other current liabilities	827,018	(441,710)
Other liabilities	119,231	--
	-----	-----
Total adjustments	6,384,673	(999,879)
	-----	-----
Net cash provided by operating activities	9,722,881	2,479,249
	-----	-----
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,223,090)	(487,245)
Net decrease in lease deposits	675,285	--
Other assets	20,459	(50,314)
	-----	-----
Net cash used for investing activities	(3,527,346)	(537,559)
	-----	-----
CASH FLOWS USED FOR FINANCING ACTIVITIES		
Dividends paid	--	(947,270)
	-----	-----
Net cash (used for) financing activities	--	(947,270)
	-----	-----
EFFECTS OF EXCHANGE RATE	250,283	1,383,120
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,445,818	2,377,540
CASH AND CASH EQUIVALENTS, beginning of period	14,313,063	11,716,893
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 20,758,881	\$ 14,094,433
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION -		
Income taxes paid	\$ 2,477	\$ --
	=====	=====
Interest paid	\$ 5	\$ 1,765
	=====	=====

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

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PPOL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED SEPTEMBER 30, 2003 AND 2002 (UNAUDITED)

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### (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, changed 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 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 six months ended September 30, 2003 are not necessarily indicative of the results to be expected for the full year ending March 31, 2004.

#### PRINCIPLES OF CONSOLIDATION:

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



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

FORFEITED DISTRIBUTOR INCENTIVES:

In April 2003, the Company amended its policy regarding distributor incentives to state that distributor incentives are not paid out unless they exceed a minimum threshold of approximately \$30.00. If a distributor does not attain the minimum incentive threshold within one year, then the incentives will be forfeited to the Company. During the six months ending September 30, 2003, the Company has recognized approximately \$714,000 of other income for the write-off of previously accrued distributor incentives that exceeded the one year threshold at March 31, 2003. This amount, related to the change in distributor incentive policy, is included in other income on the statements of income and comprehensive income for the six months ended September 30, 2003. Distributor incentives outstanding greater than one year for the three month period ended September 30, 2003 and six month period ended September 30, 2003 approximated \$130,000 and \$278,000, respectively. These amounts are offset against distributor incentives on the statement of income for the three and six months ended September 30, 2003.

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

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issuing its own equity shares, depending on the nature of the relationship 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.

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

FIN 45 In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN45 did not have a material effect on the Company's financial position, results of operations, or cash flows.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation 46 changes the criteria by which one company includes another entity in its consolidated financial statements. Previously, the criteria were based on control through voting interest. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the primary beneficiary of that entity. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

During October 2003, the FASB issued Staff Position No. FIN 46 deferring the effective date for applying the provisions of FIN 46 until the end of the first interim or annual period ending after December 31, 2003 if the variable interest was created prior to February 1, 2003 and the public entity has not issued financial statements reporting that variable interest entity in accordance with FIN 46. The FASB also indicated it would be issuing a modification to FIN 46 prior to the end of 2003. Accordingly, the Company has deferred the adoption of FIN 46 with respect to VIEs created prior to February 1, 2003. Management is currently assessing the impact, if any, FIN 46 may have on the Company; however, management does not believe there will be any material impact on its consolidated financial statements,

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results of operations or liquidity resulting from the adoption of this interpretation.

(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 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.

	Six months Ended September 30, 2003	Six months Ended September 30, 2002
	----- (Unaudited)	----- (Unaudited)
Due from Forval- Lease deposit	\$ --	\$ 588,549
Due to Forval - Accounts payable	--	--
Transactions with Forval:		
Rental expenses	--	364,262
Other	--	1,253

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(2) RELATED PARTY TRANSACTIONS: (continued)

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 year 2003. Since the Company has completed the consulting services called for in the agreements in this quarter, the payments that were included in advances received, at June 30, 2003 for the amount of \$483,858 were recognized in this quarter ending September 30, 2003. There is no assurance that PPOL will receive such projects from Forval and Leo Global Fund in the future.

(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 have been 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 six months ended September 30, 2002 is as follows:

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	September 30, 2002		
	Restated	Original	Change increase (decrease)
Deferred costs - current	\$ 68,337,369	\$ 9,834,153	\$ 58,503,216
Deferred costs - long term	53,230,327	--	53,230,327
Deferred income taxes - current	10,371,505	2,607,348	7,764,157
Deferred income taxes - long term	7,099,337	722,672	6,376,665
<b>Total assets</b>	<b>168,536,850</b>	<b>42,662,485</b>	<b>125,874,365</b>
Other current liabilities	\$ 1,323,951	\$ 1,532,376	\$ (208,425)
Deferred revenues - current	91,164,006	13,988,262	77,175,744
Deferred revenues - long term	68,394,831	--	68,394,831
<b>Total liabilities</b>	<b>180,368,013</b>	<b>35,005,863</b>	<b>145,362,150</b>
Total other comprehensive income (loss)	4,011,243	(1,450,871)	5,462,114
Retained earnings (accumulated deficit)	(19,227,558)	5,722,341	(24,949,899)
<b>Total shareholders' equity (deficit)</b>	<b>(11,831,163)</b>	<b>7,656,622</b>	<b>(19,487,785)</b>
<b>Total liabilities and shareholders' equity (deficit)</b>	<b>168,536,850</b>	<b>42,662,485</b>	<b>125,874,365</b>

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(3) RESTATEMENT OF PRIOR FINANCIAL INFORMATION: (continued)

	Six Months Ended September 30, 2002		
	Restated	Original	Change increase (decrease)
Product sales and network services	\$ 59,245,267	\$ 61,464,604	\$ (2,219,337)
Cost of sales	15,065,420	15,727,035	(661,615)
Distributor incentives	35,299,136	37,549,511	(2,250,375)
Operating income	4,226,824	3,172,694	1,054,130
Income before income taxes	4,242,337	3,182,960	1,059,377
Income taxes - deferred	(721,412)	26,211	(747,623)
Net income	3,479,128	1,672,128	1,807,000
Cumulative foreign currency translation	(2,527,616)	311,247	(2,838,863)
Comprehensive (loss) income	951,512	1,983,375	(1,031,863)

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 \$0.10 to \$0.20) for the six months ended September 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.

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### (4) FINANCIAL ADVISOR:

The company entered into an agreement with an investment bank, Rodman & Renshaw (the "Investment Bank"), in connection with the Company's proposed public listing and financing.

The Company agreed to pay the Investment Bank certain fees as follows:

- a. As a retainer, Fifty Thousand Dollars (\$50,000) upon execution of the Agreement, and four (4) monthly installments of Twenty Five Thousand Dollars (\$25,000) will be paid 30 days, 60 days, 90 days, and 120 days after the execution of the agreement.
- b. Upon successful closing of the Company's public listing, (i) 3.0% of the gross proceeds raised in the form of equity, equity-linked or convertible securities, (ii) 2.5% of the gross proceeds raised in the form of non-convertible subordinated debt, and (iii) 2.0% of the gross proceeds raised in the form of senior debt (including lines of credit or commitments to fund which are undrawn at closing)
- c. As an additional success fee, warrants to purchase an amount equal to ten percent (10%) of the Company's equity securities (or equity security equivalents) placed by the Investment Bank. The warrants will be exercisable for five (5) years and will have an exercise price of 100% of the actual or applied price per share of the Company's common stock as determined by the Transaction. The warrants will also contain customary terms and conditions.

The Investment Bank will be the exclusive financial advisor to the Company with respect to the Company's public listing and financing for a period of five (5) months commencing on the date of the Agreement, subject to the termination provisions. The engagement and the terms will be renewed automatically, on a month-to-month basis, until the proposal is successfully completed or until this engagement is terminated, as described in the Agreement.

### (5) INVENTORY WRITE DOWN:

The Company has recorded an expense approximating \$539,000 in the September 30, 2003 quarter for a write down of SF-60 hardware that remained in inventory. With the introduction of the SF-70 hardware in August 2003, the Company determined that a certain number of the remaining SF-60 units were not going to be sold resulting in the write off.

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## 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

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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 valuating 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 is not engaged in substantial 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 products that utilize the Company's "Kamome" brand.

On August 29, 2003, AJOL, Ltd., a wholly owned subsidiary of PPOL, Inc., announced the release of its newest version of its MOJICO flagship product, the SF-70, a multi-functional facsimile-based machine with L-mode compatible networking capabilities. L-mode is an Internet portal service and enables access to information services, transaction services, e-mail and other services.

### A. RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2003 AS COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2002

PRODUCT SALES AND NETWORK SERVICES. For the three months ended September 30, 2003, overall revenues of this category have declined approximately \$2,249,000 or 7.3% as compared with the second quarter of 2002. Sales declined as a number of prospective customers anticipated the release of our new product which reduced demand for the SF-60 model.

OTHER ONLINE SERVICE REVENUE. For the three months ended September 30, 2003, revenue increased approximately \$430,000 or 9.7%. The increase is the result of the continuous effort to expand the on-line service business, which is one of our business goals. The Cube system (automatic monthly deposit system) contributed to the increase in mail-order sales.

CONSULTING REVENUES. PPOL entered into separate agreements with Forval and Leo Global Fund, its two majority shareholders to provide certain consulting services during fiscal year 2003. In this quarter, the company recognized consulting revenue of approximately \$484,000.

COST OF SALES. For the three months ended September 30, 2003, the increase in cost of sales, expressed as a percentage of sales, was 7.1% as compared to the same period of the prior year. Inventory of obsolete SF-60 hardware was written-down by approximately \$539,000 and the new SF-70 model costs the Company approximately 12% more per unit than the previous model, resulting in the higher cost of sales percentage.

DISTRIBUTOR INCENTIVES. For the three months ended September 30, 2003, the distributor incentives decreased approximately \$2,809,000 or 15.4%, which in ratio to sales revenue decreased from 52% to 46% compared to the same period of prior year. Distributor incentive expense increases or declines based on the associated increase or decline in Product Sales. Also, in April 2003, the Company amended its distributor incentive policy to state that the Company would not pay any incentives less than a minimum threshold of approximately \$30.00. If a distributor does not earn the minimum threshold by the end of one year their incentives are forfeited to the Company. This change of policy resulted in an offset of distribution incentives of approximately \$130,000 in this quarter.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. For the three months ended September 30, 2003, selling, general and administrative expenses have decreased approximately \$546,000 or 7.9% in comparison to the same period of the prior year. The company is continually focusing efforts on reducing costs. A significant reason is the reduced sales promotion costs realized by changing the monthly member magazine to bimonthly publication, saving the Company approximately \$443,000 this quarter.

DEFERRED INCOME TAX BENEFIT AND EXPENSE. Deferred income tax expense for the three months ended September 30, 2002 was approximately \$96,000. Deferred income tax benefit for the three months ended September 30, 2003 is approximately \$1,714,000. The main reason for this deferred income tax benefit is due to the large change of deferred tax assets in dollar amounts caused by relatively large fluctuation of dollar-Yen exchange rate from the end of the previous quarter to the end of this quarter.

B. RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003 AS COMPARED TO THE SIX MONTHS ENDED SEPTEMBER 30, 2002

PRODUCT SALES AND NETWORK SERVICES. For the six months ended September 30, 2003, overall revenues of this category have declined approximately \$2,238,000 or 3.8%, compared with the same period of 2002. The entire decline is attributable to the second quarter as described in the previous section.

OTHER ONLINE SERVICES REVENUE. For the six months ended September 30, 2003, revenues increased approximately \$1,339,000 or 16.3% over the comparable period of the prior year. The increase is the result of the continuous effort to expand the on-line service business, which is one of our business goals. Especially, the Cube system (automatic monthly deposit system) contributed to the increase in mail-order sales. The mail-order sales in the six months ended September 30, 2002 were approximately \$1,585,000 while it was approximately \$2,523,000 in the six months ended September 2003, which resulted total increase of approximately \$938,000.

CONSULTING REVENUES. 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 year 2003. In the six-month period ended September 30, 2003, the company recognized the revenue of approximately \$484,000.

COST OF SALES. For the six months ended September 30, 2003, the cost of sales increased approximately \$2,707,000 or 18.0%, which in ratio to

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sales revenue, increased from 22% to 27% in comparison to the same period of the prior year. Inventory of obsolete SF-60 hardware was written-down by approximately \$539,000 and the new SF-70 model costs the Company approximately 12% more per unit than the previous model, resulting in the higher cost of sales percentage.

DISTRIBUTOR INCENTIVES. For the six months ended September 30, 2003, the distributor incentives decreased approximately \$2,500,000 or 7.1%. In April 2003, the Company amended its distributor incentive policy to state that the Company would not pay any incentives less than a minimum threshold of approximately \$30.00. If a distributor does not earn the minimum threshold by the end of one year, their incentives are forfeited to the Company. The ratio of distributor incentives as a percentage of net revenue improved from 52.3% to 48.9% for this six-month period. The absence of incentives for SF60 admission fees is the main reason for this improvement.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. For the six months ended September 30, 2003, selling, general and administrative expenses have decreased approximately \$503,000 or 3.9% in comparison to the same period of the prior year. One of the major reasons is the reduced sales promotion cost. A significant reason is the reduced sales promotion costs realized by changing the monthly member magazine to bimonthly publication, saving the Company approximately \$700,000 this period. Also, the number of distributor events decreased. In the prior year, there was a Mongolia tour for distributors that cost approximately \$200,000. This tour was eliminated this year.

OTHER (EXPENSE) INCOME, NET. For the six months ended September 30, 2003, the company recognized other income of approximately \$642,000. In the same period of 2002, the company recognized other income of approximately \$16,000. The increase is mainly due to forfeited distributor incentive income of \$714,000 in the first quarter of this year. Please refer to the forfeited distributor incentives disclosure contained in NOTE(1).

### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents. Cash and cash equivalents totaled \$20,758,881 and \$14,313,063 at September 30, 2003 and March 31, 2003, respectively. Cash provided from operations for the six months ended September 30, 2003 and 2002 was \$9,722,881 and \$2,479,249, respectively. Cash used for investing activities for the six months ended September 30, 2003 and 2002 was \$3,527,346 and \$537,559, respectively. The cash used for investing activity for the quarter ended September 2003 was primarily for the purchase of property and equipment. No cash was used for financing activities in the six months ended September 30, 2003. Cash used for financing activities was \$947,270 for the six months ended September 30, 2002 which was for the payment of dividends to shareholders. The increase of the cash balance is due mainly to an increase in MOJICO shipments, of approximately \$8,483,000, for the three-month period ended September 30, 2003 as compared to the three month period ended March 31, 2003.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial



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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.

### 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.

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#### 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.

#### 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

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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 effect 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. 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.

### 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 material adverse effect on AJOL and its business.

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### DEPENDENCE ON NEW SUBSCRIBERS

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

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### 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.

### 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.

### 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 effect on the Company's business. The Company is investigating, but has not obtained "Key Executive Insurance" with respect to Mr. Aota.

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.

### 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 effect 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

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

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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.

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### 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

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may not successfully determine subscriber and 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.

### 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.

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### 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

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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 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.

### 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.

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### 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

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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.

### 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.

#### 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.

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#### Part 2: OTHER INFORMATION

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

- a) PPOL, Inc. held its annual meeting of shareholders on September 25, 2003;
- b) The following individuals were elected as directors of PPOL, Inc. at the annual meeting: Nobuo Takada; Yoshihiro Aota; and Kazushige



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Shimizu

- c) Mr. Takada received 17,283,121 votes for election as a director; Mr. Aota received 17,283,121 votes for election as a director; and Mr. Shimizu received 17,283,121 votes for election as a director. Additionally, Shareholders approved the appointment of Stonefield Josephson, Inc. as the independent auditor of PPOL, Inc. for the fiscal ending March 31, 2004, with a total vote of 17,282,888 shares.

Item 5: Other Information  
None

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

99(a) - Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002;

99(b) - Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K during the quarter ended September 30, 2003

A Form 8-K was filed on August 19, 2003, under Item 5, announcing the delay of 10-Q filing deadline of August 19, 2003, for the quarter ended June 30, 2003.

A Form 8-K was filed on August 19, 2003, under Item 5, regarding the issuance of a press release about the introduction of its next generation MOJICO unit, the SF-70.

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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)

November 19, 2003

/s/ Nobuo Takada

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Date

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Nobuo Takada, Chief Executive Officer

November 19, 2003

/s/ Kazushige Shimizu

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Date

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Kazushige Shimizu, Chief Financial Officer

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