PPOL INC
Form 10-Q
February 15, 2005

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

FORM 10-Q

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

For Quarter Ended December 31, 2004

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.)
11661 San Vicente Boulevard, Suite 901, Los Angeles, California	90049
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (310) 979-8513

1 City Boulevard West, Suite 870, Orange, California	92868
(Former address of principal executive offices)	(Zip Code)

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

Yes [X] No [ ]

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

Common Stock $0.001 par value	17,993,752
(Class)	(Outstanding at February 14, 2005.)

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PART 1:
ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

PPOL, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2004	March 3

ASSETS	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,715,570	$ 12,0
Trade accounts receivable	1,280,118	3
Merchandise inventories	2,435,891	2,6
Deferred costs	51,774,889	63,1
Deferred income taxes	8,298,701	9,4
Prepaid expenses and other	888,613	2
Total current assets	72,393,782	87,95
RESTRICTED CASH	20,652,302	16,2
PROPERTY AND EQUIPMENT, net	1,194,096	1,2
SOFTWARE, net	10,599,738	7,4
DEFERRED COSTS	33,617,164	37,0
DEFERRED INCOME TAXES	5,125,294	5,4
LEASE DEPOSITS	873,536	7
DEPOSITS	4,502,799	3,9
OTHER ASSETS	423,742	1
TOTAL ASSETS	$ 149,382,453	$ 160,3
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable, including related parties	$ 10,677,590	$ 11,2
Advances received	3,017,296	1,3
Deferred revenue	71,505,438	84,6
Due to majority shareholder	3,311,985	
Income taxes payable	5,514	1,0
Other current liabilities	1,684,331	1,8
Total current liabilities	90,202,154	100,25
DEFERRED REVENUE	44,712,399	49,1
ADVANCES RECEIVED - CUBE	20,652,302	16,2
CAPITAL LEASE OBLIGATIONS	94,320	
Total liabilities	155,661,175	165,6
SHAREHOLDERS' DEFICIT:		
Common Stock; $0.001 par value; 100,000,000 shares authorized; 17,993,752 shares issued and outstanding as of December 31, 2004 (unaudited) and March 31, 2004, respectively	17,994	
Additional paid-in capital	3,362,359	3,3
Total other comprehensive income	264,389	3
Accumulated deficit	(9,923,464)	(8,9
Total shareholders' deficit	(6,278,722)	(5,2
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 149,382,453	$ 160,3

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

PPOL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three months ended December 31, 2004	Three months ended December 31, 2003
	(Unaudited)	(Unaudited)
NET REVENUE:		
Product sales and network services	$ 25,906,504	$ 29,540,639
Other on-line services	5,914,417	4,916,892
Total	31,820,921	34,457,531
COSTS AND EXPENSES:		
Cost of sales	9,358,981	7,598,685
Distributor incentives	15,336,634	17,505,163
Selling, general and administrative expenses	7,333,691	5,854,820
Total costs and expenses	32,029,306	30,958,668
OPERATING (LOSS) INCOME	(208,385)	3,498,863
OTHER EXPENSE, net	(245,822)	(6,688)
(LOSS) INCOME BEFORE INCOME TAX PROVISION	(454,207)	3,492,175
INCOME TAXES (BENEFIT):		
Current	(88,736)	(279,512)
Deferred	(340,086)	1,224,161
Total income taxes	(428,822)	944,649
NET (LOSS) INCOME	(25,385)	2,547,526
OTHER COMPREHENSIVE GAIN (LOSS)		
Foreign currency translation	1,259,464	(69,213)
COMPREHENSIVE INCOME	$ 1,234,079	$ 2,478,313
NET (LOSS) EARNINGS PER COMMON SHARE,		
Basic	$ (0.001)	$ 0.14
Diluted	$ (0.001)	$ 0.14
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	17,993,752	17,993,908
Diluted	17,993,752	17,993,908

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

PPOL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Nine months ended December 31, 2004	Nine months ended December 31, 2003
	(Unaudited)	(Unaudited)
NET REVENUE:		
Product sales and network services	$ 79,247,405	$ 86,473,350
Other on-line services	16,994,869	14,459,798
Consulting revenue	--	483,858
Total	96,242,274	101,417,006
COSTS AND EXPENSES:		
Cost of sales	26,463,333	25,421,127
Distributor incentives	46,875,285	50,295,825
Selling, general and administrative expenses	21,571,065	18,237,187
Total costs and expenses	94,909,683	93,954,139
OPERATING INCOME	1,332,591	7,462,867
OTHER (EXPENSE) INCOME, net	(242,397)	708,593
INCOME BEFORE INCOME TAX PROVISION	1,090,194	8,171,460
INCOME TAXES:		
Current	487,396	1,214,872
Deferred	1,537,624	1,185,594
Total income taxes	2,025,020	2,400,466
NET (LOSS) INCOME	(934,826)	5,770,994
OTHER COMPREHENSIVE LOSS		
Foreign currency translation	(51,918)	(2,299,552)
COMPREHENSIVE (LOSS) INCOME	$ (986,744)	$ 3,471,442

NET (LOSS)EARNINGS PER COMMON SHARE,		
Basic	$ (0.05)	$ 0.32
Diluted	$ (0.05)	$ 0.32
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	17,993,752	17,994,586
Diluted	17,993,752	17,994,586

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

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PPOL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended December 31, 2004 (Unaudited)	Nine month ended December 31, (Unaudite
CASH FLOWS (USED FOR) PROVIDED BY OPERATING ACTIVITIES:		
Net (loss) income	$ (934,826)	$ 5,770,99
ADJUSTMENTS TO RECONCILE NET (LOSS) INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation and amortization	3,040,118	1,801,35
(Gain) loss on sales/disposal of property and equipment	(20,835)	101,90
Deferred income taxes	1,537,624	1,185,59
CHANGES IN ASSETS AND LIABILITIES:		
(INCREASE) DECREASE IN ASSETS:		
Restricted cash	(4,019,876)	(3,695,63
Trade accounts receivable	(929,701)	(590,77
Merchandise inventories	72,138	763,73
Advance payments to related parties	--	3,587,29
Deferred costs	15,095,110	18,084,29
Prepaid expenses and other	(1,139,721)	583,24
INCREASE (DECREASE) IN LIABILITIES:		
Accounts payable	(673,645)	3,304,43
Advances received	1,568,066	(450,80
Advances received - Cube	4,019,876	3,695,63
Deferred revenue	(18,061,854)	(23,343,65
Income taxes payable	(1,031,391)	(900,63
Other current liabilities	(86,430)	(11,58
Total adjustments	(630,518)	14,114,42
Net cash (used) provided by operating activities	(1,565,347)	9,885,41

CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Purchase of property and equipment	(369,645)	(2,726,55
Software and software CIP	(5,704,779)	
Proceeds from sales of property and equipment	338,824	
Other assets	309,763	(4,151,96
Net cash used for investing activities	(5,427,837)	(6,878,52
NET CASH PROVIDED (USED FOR) FINANCING ACTIVITIES:		
Loan from majority shareholder	3,297,769	-
Fractional share liquidation	--	(4,79
Net cash provided (used) for financing activities	3,297,769	(4,79
EFFECTS OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS	(672,571)	556,02
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,367,986)	3,558,12
CASH AND CASH EQUIVALENTS, beginning of period	12,083,556	5,102,43
CASH AND CASH EQUIVALENTS, end of period	$ 7,715,570	$ 8,660,5
SUPPLEMENTAL CASH FLOW INFORMATION -		
Income taxes paid	$ 1,643,634	$ 2,230,72
Interest paid	$ 24,446	$ 5,48

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

PPOL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED DECEMBER 31, 2004 AND 2003 (UNAUDITED)

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ORGANIZATION:

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

Effective April 1, 2002, AJOL Co., Ltd. ("AJOL") was acquired by PPOL in a transaction accounted for as a reverse merger. The Company, upon closing of the transaction on August 15, 2002, issued 899,746 shares (post split) of its common stock for all of the issued and outstanding common stock of AJOL. For legal purposes, PPOL is the acquirer. For accounting purposes, AJOL has been treated as the acquirer and accordingly, AJOL is presented as the continuing entity, and the historical financial statements are those of AJOL. Prior to the reverse merger PPOL had no business activity, thus pro-forma information as though PPOL and AJOL had been combined for all periods has not been provided.

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

Gatefor, Inc. (Gatefor), a wholly owned subsidiary of PPOL, was incorporated in Japan on June 16, 2004. The Company owned 6,000 shares or 100% of the issued and outstanding stock of Gatefor. Gatefor amended its articles of incorporation to increase its authorized shares of common stock from 8,000 to 45,000 shares, and the Company acquired an additional 24,000 shares in October 2004. As a result, the Company, as of December 31, 2004, owns 30,000 shares or 100% of the issued and outstanding common stock of Gatefor.

Gatefor was created to implement the new growth strategy of the Company and will act as the distributor of US and European sourced technologies into Japan. Gatefor introduced its products of BridgeGate software and File Shelter software to the market in Japan in November 2004.

BASIS OF PRESENTATION:

The unaudited consolidated financial statements have been prepared by PPOL, Inc. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The information furnished herein

reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the prospective periods. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the years ended March 31, 2004 and 2003 included in the Company's Form 10-K. The results of the nine months ended December 31, 2004 are not necessarily indicative of the results to be expected for the full year ending March 31, 2005.

RECLASSIFICATIONS:

Certain reclassifications have been made to the prior period consolidated financial statements in order to conform to the current period presentation. These reclassifications had no effect on previously reported results of operations.

PRINCIPLES OF CONSOLIDATION:

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

NET (LOSS) INCOME PER SHARE:

The Company reports both basic net income per share, which is based on the weighted average number of common shares outstanding, and diluted net income per share, which is based on weighted average number of common shares outstanding and dilutive potential common shares. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the numerator is increased by the amount of interest expense attributable to any convertible notes payable and the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. For the nine months ended December 31, 2004, all of the 1,220,000 issued and outstanding common stock options have also been excluded as they would have an antidilutive effect.

COMPUTER SOFTWARE:

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

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

RECENT ACCOUNTING PRONOUNCEMENTS:

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company has evaluated the impact of the adoption of SFAS 151, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.152, "Accounting for Real Estate Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152"). This Statement amends FASB Statement No. 66, "Accounting for Sales of Real Estate," to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, "Accounting for Real Estate Time-Sharing Transactions." This Statement also amends FASB Statement No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects," to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005 with earlier application encouraged. The Company has evaluated the impact of the adoption of SFAS 152, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. The Board believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. The Company has evaluated the impact of the adoption of SFAS 153, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment". Statement 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities (other than those filing as small business issuers) will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently evaluating the impact of the adoption of SFAS 123(R).

(2) RELATED PARTY TRANSACTIONS:

The following summarizes amounts due to Forval and related transaction amounts.

	December 31, 2004	March 31, 2004
	(Unaudited)	(Unaudited)
Due to Forval - Principal	$3,298,000	--
Due to Forval - Interest	$14,000	--
Due to Forval - Total	$3,312,000	--

In June 2004, the Company borrowed (Y)90,000,000 Japanese yen (approximately $873,000 at current exchange rate) from its majority shareholder Forval, due December 30, 2004, with interest payable at two percent (2%) per annum. The borrowing would have been automatically converted to common stock at the closing market price on December 29, 2004 if there had been no additional capital contributions between the borrowing and due date. However, the loan agreement was amended on October 14, 2004 and the due date was extended to March 31, 2005. Under the amended loan agreement, the convertible feature was cancelled.

In October 2004, the Company borrowed an additional (Y)250,000,000 Japanese yen (approximately $2,425,000 at current exchange rate) from Forval to accommodate Gatefor's working capital needs. This loan is also due and payable on March 31, 2005, with interest payable at two percent (2%) per annum.

(3) SEGMENT INFORMATION:

With the new activity in Gatefor, the Company now has two operating segments: 1) network communications through sales of MOJICO and related services and 2) technology sales. (Prior to the quarter ended December 31, 2004, the Company was deemed to operate in one operating segment - network communications through sales of MOJICO and related services.) These operating segments were determined based on the nature of products and services offered and also based on their respective channels of distribution. Each of the two operating segments is managed by two separate subsidiaries of the Company. Substantially all operations and sales of the Company occur in Japan except for certain corporate administrative matters that are handled in the United States.

Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The Company evaluates performance based on several factors, of which the primary financial measure is income before income taxes. The following tables show the operations of the Company's reportable segments:

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Nine months ended December 31, 2004	Network Communications (MOJICO)	Technology Sales	Corporate and Eliminations
Sales to unaffiliated customers	$96,192,563	$ 49,711	--
Intersegment sales	--	--	--
Net sales	96,192,563	49,711	--
Income (loss) before tax	4,040,968	(1,309,656)	(1,706,118)

Three months ended December 31, 2004	Network Communications (MOJICO)	Technology Sales	Corporate and Eliminations
Sales to unaffiliated customers	$ 31,771,210	$ 49,711	--
Intersegment sales	--	--	--

Net sales	31,771,210	49,711	--
Income (loss) before tax	1,018,395	(741,177)	(721,425
Total assets - December 31, 2004	$147,361,182	$ 2,427,916	$ (406,645
Total assets - March 31, 2004	160,602,095	--	(232,812

(4) INVESTMENT:

On May 26, 2004, PPOL entered into a stock purchase agreement for an investment of $300,000 in Object Innovation's (hereafter, OI) common stock representing a 15% interest in OI. This investment is classified under Other Assets on the December 31, 2004 balance sheet. A vesting schedule, as defined in the agreement, for the ownership is tied to revenues derived from PPOL's sales of OI products under an exclusive Japan distribution agreement entered into concurrently. If revenue thresholds are not met, OI has the option to repurchase PPOL's investment at face value for the unvested shares. The Company accounts for this investment under the cost method of accounting.

(5) ADVANCES RECEIVED AND ADVANCES RECEIVED-CUBE:

AJOL had collected advance payments from distributors. Upon receiving orders from these distributors for goods or services, the distributor's account would be charged. On May 28, 2004, AJOL remitted approximately $16.3 million to Kamome Benefit Club, an unrelated non-profit organization, to administer the advance payments and orders from distributors which were maintained through a system known as "Cube." The effect of this transaction reduced Cash and Advances Received (a liability) by approximately $16.3 million while simultaneously increasing Restricted Cash and Advances Received - Cube (a liability). Future advance Payments, which increase Restricted Cash and Advances Received-Cube, and orders, which decrease Restricted Cash and Advances Received-Cube, from distributors will be received by the Kamome Benefit Club and not AJOL. A portion of Advances Received are still under a liability to AJOL as those advances (classified as restricted cash) were made under agreements directly with AJOL and not with the Kamome Benefit Club.

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(6) DEFERRED REVENUES AND DEFERRED COSTS:

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

	Deferred Costs		
	Current	Non-current	Curren
Beginning balance, April 1, 2004	$ 63,159,328	$ 37,042,494	$ 84,644

Additional deferrals	14,543,047	20,054,496	22,204
Released amounts	(26,293,081)	(23,777,894)	(35,882
Exchange rate effect	365,595	298,068	539
Ending balance, December 31, 2004	$ 51,774,889	$ 33,617,164	$ 71,505

(7) COMMITMENTS & CONTINGENCIES:

In August 2004, the Company, through its wholly owned subsidiary Gatefor, executed a Revised Letter of Understanding (the "Letter") pursuant to the Common Stock Purchase Agreement (the "Agreement") with Object Innovation. The Letter amends certain licensing terms of the Agreement. The Letter also defines 3 milestones which Object Innovation must meet in order to receive 3 payments of $60,000 each from the Company. These payments are to cover localization work performed by Object Innovation to prepare its BridgeGate software for the Japanese market and to purchase co-ownership intellectual property rights in the Japanese version of BridgeGate software. As of December 31, 2004, all of the three milestones have been achieved by Object Innovation for which they have received payment from Gatefor. The three payments made to Objective Innovation are capitalized and are being amortized in accordance with SFAS 86, "Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed."

Additionally, the Letter provides that commencing on the first month following completion of the third milestone, the Gatefor will pay Object Innovation $9,000 per month until April 2005 and $15,000 per month thereafter until the Company's subsidiary, Gatefor, becomes a publicly traded company. These payments are intended to allow Object Innovation to add additional staff to support sales in Japan through Gatefor. These payments, which begin in January 2005, will be included in the Selling, General and Administrative expenses of the Company. The Letter also provides for the issuance of stock warrants by Gatefor to Object Innovation equal to 5% of Gatefor's currently issued equity. Because the terms of this warrant are unspecified in the Letter, the Company is currently unable to calculate a value of the warrants under the Black-Scholes or other valuation model. Therefore any effect to expenses by this warrant is not ascertainable at this time.

On October 5, 2004, the Board of Directors of the Company authorized its Audit Committee to retain independent legal counsel to investigate and study internet rumors and other matters relating to the business operations of AJOL, Co., Ltd. ("AJOL"). Counsel completed their inquiry and report thereon (the "Report") on November 8, 2004. The Report found that the present manner in which AJOL conducts its business does not violate Japanese law.

(8) CAPITAL LEASES

The Company leases certain machinery and equipment, primarily computers and peripheral equipment, under agreements that are classified as capital leases. The cost of equipment under capital leases is included in the Balance Sheet as Property and Equipment which was approximately $120,000 and $0 at December 31, 2004 and March 31, 2004, respectively. Accumulated amortization of the equipment under capital leases was approximately $3,000 and $0 at December 31, 2004 and March 31, 2004, respectively. Amortization of assets under capital leases is included in depreciation expense. The obligations under these capital leasese is included in the Balance Sheet in Other Current Liabilities and Other

Liabilities.

The future minimum lease payments required under the capital leases as of December 31, 2004 are as follows:

Year Ending December 31:	Amount
2005	$31,200
2006	31,200
2007	31,200
2008	31,200
2009	22,300
thereafter	-
Net minimum lease payments	147,100
Less: Amount representing interest	(30,198)
Present value of net minimum lease payments	$116,902

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 subsidiaries, AJOL, Ltd. ("AJOL"), a Japanese corporation, and Gatefor, Inc. ("Gatefor"), a Japanese corporation. At the present time, the Company has administrative functions occurring in California, but does not otherwise have any major business in the United States.

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

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RESULTS OF OPERATIONS - THREE MONTHS ENDED DECEMBER 31, 2004 AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2003

PRODUCT SALES AND NETWORK SERVICES. For the three months ended December 31, 2004, revenues of this category have decreased by approximately 12% in comparison to the same period of the prior year. The decrease is primarily due to a decline in MOJICO unit sales and corresponding new members and initial Pan Pacific Online subscription fees. Included in Product Sales and Network Services for the three months ended December 31, 2004 was approximately $50,000 of software sales by Gatefor. This represents sales in a new business segment (Technology Sales) and the Company expects sales in this area to continue into the foreseeable future.

OTHER ONLINE SERVICES REVENUE. For the three months ended December 31, 2004, revenues increased by approximately 20% over the comparable period of the prior year. This is a result of the Company's continuing efforts to expand the on-line service business which is a continuing corporate objective.

COST OF SALES. For the three months ended December 31, 2004, the cost of sales expressed as a percentage of sales increased approximately 7% to 29% over the 22% of the comparable period of the prior year. The increase in the percentage is primarily due to customers upgrading their old SF60 MOJICOs to the new SF70 MOJICO model. Customers who upgrade their MOJICOs are charged a reduced sales price whereas the cost of the unit remains constant. This situation effectively increases the cost of sales as a percentage of sales. The increase is also partially due to establishing allowances for goodwill gift/refund of Kamome insurance premiums for insureds with no claims. These allowances are new in the current year and reflect a change in the insurance policies now being issued.

DISTRIBUTOR INCENTIVES. For the three months ended December 31, 2004, distributor incentives decreased by approximately 12% in comparison to the same period of the prior year. The overall decrease in distributor incentives is primarily due to the decrease in sales. Additionally, it is the result of the product mix sold and customer mix. Sales of products requiring less percentage of incentives increased and sales to associate-members (which require payment of a smaller percentage of incentives) increased during the current period.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. For the three months ended December 31, 2004, selling, general and administrative expenses have increased by approximately $1.5 million in comparison to the same period of the prior year. The increase was primarily due to start-up costs incurred by the Company's new Gatefor subsidiary, as well as the increase by AJOL in training and development costs.

CURRENT INCOME TAX EXPENSE. For the three months ended December 31, 2004, current income tax benefit decreased approximately $191,000 from the same period of the prior year primarily from the decline in income. The decrease is due to (1) non-deductible expenses, for tax reporting purposes, which did not decline proportionate to the decline in pretax income, (2) head office expenses and start-up expenses incurred by Gatefor, our subsidiary in the development stage, which could not be consolidated with income from our operating subsidiary, and offset by (a) a decline in revenues we were required to recognize earlier under Japanese tax regulations than under US generally accepted accounting principles, and (b) absence, in the current period, of prior model MOJICO units writeoff that are not deductible until disposed of for tax purposes.

DEFERRED INCOME TAX EXPENSE. For the three months ended December 31, 2004, deferred income tax expense decreased approximately $1.6 million over the same period of the prior year. The decrease was primarily the result of the decline experienced in deferred costs and deferred revenues associated with the sales of the Company's MOJICO hardware and related Pan Pacific On-line subscription services in addition to other timing differences such as accrued vacation, depreciation and director bonuses.

RESULTS OF OPERATIONS - NINE MONTHS ENDED DECEMBER 31, 2004 AS COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2003

PRODUCT SALES AND NETWORK SERVICES. For the nine months ended December 31, 2004, revenues of this category have decreased by approximately 8% in comparison to the same period of the prior year. The decrease is primarily due to a decline in MOJICO unit sales and corresponding new members and initial Pan Pacific Online subscription fees. Included in Product Sales and Network Services for the nine months ended December 31, 2004 was approximately $50,000 of software sales by Gatefor. This represents sales in a new business segment (Technology Sales) and the Company expects sales in this area to continue into the foreseeable future.

OTHER ONLINE SERVICES REVENUE. For the nine months end December 31, 2004, revenues increased approximately 17% over the comparable period of the prior year. This is a result of the Company's continuing efforts to expand the on-line service business which is a continuing corporate objective.

COST OF SALES. For the nine months ended December 31, 2004, the cost of sales expressed as a percentage of sales increased 2.3% to 27.5% versus 25.2% for the same period of the prior year. The increase was due to the increased cost of the new MOJICO SF 70 model. Additionally, the increase was due to customers upgrading their old SF60 MOJICOs to the new SF70 MOJICO model. Customers who upgraded their MOJICOs are charged a reduced sales price whereas the cost of the unit remains constant. This situation effectively increases the cost of sales as percentage of sales. DISTRIBUTOR INCENTIVES. For the nine months ended December 31, 2004, distributor incentives expressed as a percentage of sales remained relatively consistent with that of the same period of the prior year.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. For the nine months ended December 31, 2004, selling, general and administrative expenses have increased by approximately $3.3 million in comparison to the same period of the prior year. The increase is primarily due to the incurrence of software related research costs to develop AJOL's new commission calculation system, order & receiving system and to the costs incurred by the Company's new Gatefor subsidiary.

OTHER INCOME. For the nine months ended December 31, 2004, net change in other income was approximately $951,000 from 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 were to be forfeited. The decrease is primarily due to the Company recognizing in April 2003 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. No material amount of such income was recognized in the current period.

CURRENT INCOME TAX EXPENSE. For the nine months ended December 31, 2004, current income tax expense decreased approximately $727,000 from the same period of the prior year primarily from the decline in income. Our effective tax rate, expressed as a percentage of income before income taxes was 37% vs. 15% in the same period of the prior year. The increase is primarily due to non-deductible expenses, for tax reporting purposes, which remained relatively consistent with the prior period and did not decline proportionate to the decline in pretax income.

DEFERRED INCOME TAX EXPENSE. For the nine months ended December 31, 2004, deferred income tax expense increased by approximately $352,000 in comparison to the same period of the prior year. The increase was primarily the result of the activity associated with deferred costs and deferred revenues of the Company's MOJICO hardware and related Pan Pacific On-line subscription services.

Liquidity and Capital Resources

Historically, our principal needs for funds have been for operating expenses including distributor incentives, working capital (principally inventory purchases), capital expenditures and the development of operations throughout Japan. We have generally relied on cash flow from operations and short-term debt from our majority shareholder to meet our cash needs and business objectives without relying on long-term debt to fund operating activities.

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Cash and cash equivalents totaled $7,715,570 and $12,083,556 at December 31, 2004 and March 31, 2004, respectively. Cash (used for) provided from operations for the nine months ended December 31, 2004 and 2003 was $(1,565,347) and $9,885,419, respectively. Cash used for investing activities for the nine months ended December 31, 2004 and 2003 was $5,427,832 and $6,878,526, respectively. Cash of $3,297,769 was provided from financing activities for the nine months ended December 31, 2004 as a result of a loan obtained from the majority shareholder. Management believes that cash flow from operations, borrowings from our majority shareholder and the revolving credit facility will adequately meet the working capital needs for the foreseeable future.

Contractual Obligations

The Company's operating lease & purchase obligations as of December 31, 2004 are as follows:

	Payments due by period			
Contractual obligations	Total	Less than 1 year	2-3 years	4-5 yea

Operating Lease Obligations	$ 57,497	$ 57,497	--	
Capital Lease Obligations	147,065	31,193	$ 62,386	$ 53,4
Service Provider Contracts	368,380	368,380	--	
Professional Fees	169,628	157,698	11,930	
Loan repayments to majority shareholder	3,311,985	3,311,985	--	
Total	$4,054,555	$3,926,753	$ 74,316	$ 53,4

The Company projects that it will need to satisfy at least $3.9 million of lease and contract obligations within the twelve months following December 31, 2004.

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, 2004 and 2003 included in our Form 10-K.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Investment In Privately Held Company

We have invested in a privately held company which can still be considered in the startup or in the development stage. This investment is inherently risky as the markets for the technologies or products they have under development are typically in the early stages and may never materialize or may never be fully developed. We could lose our entire initial investment in this company. As of December 31, 2004, this investment was $300,000.

We Will Rely On The Availability Of Third-Party Licenses

Many of our future products to be sold under our new growth strategy will include software or other intellectual property licensed from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of these products. There can be no assurance that the necessary license would be available on acceptable terms, if at all. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could have a material adverse effect on our business, operating results, and financial condition.

Limited Operating History

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

Unproven Business Model

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

Fluctuations In Operating Results

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

Foreign Currency (Yen) Fluctuations

Substantially all of our revenue and expenses are received and incurred in Japanese Yen. Variation in foreign exchange rates may substantially affect our revenue, expenses, and net income in U.S. dollar terms. In preparing our financial statements, we translate revenue and expenses from Japanese Yen into U.S. dollars using weighted average exchange rates. If the U.S. dollar strengthens relative to the Yen, our reported revenue, gross profits and net income will likely be reduced. For example, in 2001, the Japanese Yen significantly weakened, which reduced our operating results on a U.S. dollar reported basis. The Company's 2005 operating results could be similarly harmed if the Japanese Yen weakens from current levels. Given the unpredictability of exchange rate fluctuations, we cannot estimate the effect these fluctuations may have upon future reported results, product pricing or our overall financial condition.

Poor Japanese Economic Conditions

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

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

Dependence On New Subscribers

Our operating results generally depend on revenues received from sales of the MOJICO product. In previous years, MOJICO sales have accounted for up to 78% of our annual revenue. MOJICO sales are primarily made to our new customers. As a result, future revenues are primarily dependent on our ability to generate new customers for our MOJICO hardware and Pan Pacific Online services. There can be no assurances that we will be able to continue to generate new subscribers at the rate that we have been able to in the past, nor that we will be able to generate sufficient new subscribers to remain profitable. We do not have any substantial historical basis for predicting the rate of increase in our subscriber base.

Dependence On Subscribers For Content Of Network

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

Liability For Content Of Network

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

Reliance On Existing Distributors And Need To Recruit Additional Distributors

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

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

Dependence on Key Employees

One of our business strategies is to reduce our dependence on any one employee. This has been, and will continue to be, done through additional external training courses of employees and structuring of the organization to three (3) levels, namely, senior management, leaders and 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. We believe that the current officers of AJOL are fully capable of effectively and efficiently managing the day-to-day operations of AJOL consistent with AJOL's policies, procedures and business model, and that there are several capable motivational speakers among AJOL's distributors. However, if we are unsuccessful in accomplishing our strategy to reduce our dependence on any one employee, our business and prospects could be materially adversely affected.

Failure Of New Products And Services To Gain Market Acceptance

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

Losing Sources Of Kamome Products

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

Competition With Technically Superior Products And Services

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

Internet Usage Rates And Long Distance Telephone Rates

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

Reliance On Internet As Transmission Medium

Our future success will depend upon our ability to route our customers' traffic through the Internet and through other data transmission media. Our success is largely dependent upon the viability of the Internet as a medium for the transmission of subscriber related data. There can be no assurance that the Internet will prove to be a viable communications media, that document transmission will be reliable, or that capacity constraints which inhibit efficient document transmission will not develop. The Internet may not prove to be a viable avenue to transmit communications for a number of reasons, including lack of acceptable security technologies, lack of access and ease of use, traffic congestion, inconsistent quality or speed of service, potentially inadequate development of the necessary infrastructure, excessive governmental regulation, uncertainty regarding intellectual property ownership or lack of timely development and commercialization of performance improvements.

Technological Changes Of The Messaging And Communications Industry

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

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

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

Possible Inadequate Intellectual Property Protections

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

Possible Infringement Claims

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

Possible System Failure Or Breach Of Network Security

Our operations are dependent on our ability to protect our network from interruption by damage from fire, earthquake, power loss, telecommunications failure, unauthorized entry, computer viruses or other events beyond our control. As precautions, we utilize distributed processing systems, back-up systems, Internet firewalls, 24/7 installation environment surveillance, and private power generators as backup. There can be no assurance that our existing and planned precautions of backup systems, regular data backups and other procedures will be adequate to prevent significant damage, system failure or data loss.

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

Reliance On Third Party Access For Telecommunications

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

Effect Of Government Regulations

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

Dependence On Vendor

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

Control By Officers And Directors

Our executive officers, directors and entities affiliated with them, in the aggregate, beneficially own common stock representing the majority of PPOL.

Minority Shareholder Status

Forval Corporation and Leo Global Fund, former direct shareholders of AJOL, hold approximately 58% and approximately 17% respectively of PPOL's common stock. Acting alone, Forval Corporation, as a majority shareholder, has significant influence on PPOL's policies. Forval Corporation and Leo Global Fund, collectively, control the majority of PPOL's outstanding shares, representing the majority of PPOL's voting power. As a result, Forval Corporation 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 PPOL's entire Board of Directors, any merger, consolidation or sale of all or substantially all of PPOL's assets, and the ability to control PPOL's and our management and affairs.

No Lock-Up Agreement Between Forval Corporation And Leo Global Fund

To date, PPOL 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 PPOL's shares to decline.

No History As Reporting Company

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

ITEM 4: CONTROLS AND PROCEDURES

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

The Company intends to initiate planning for the implementation of Section 404 of the Sarbanes-Oxley Act by April 2005. However, the Company has not yet hired an outside firm to assist in the implementation to start its evaluation process. The implementation of Section 404 will involve significant costs and commitments in terms of the Company's financial and personnel resources, and there is a possibility that the Company may not complete its Section 404 compliance responsibilities by the established deadline.

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 . As reported in our Form 8-K, filed on December 14, 2004 (incorporated herein by reference), independent counsel concluded, among other things, that Leo Global Fund ("Leo") engaged in an offer and sale of certain of its shares of our common stock to residents of Japan in violation of certain provisions of Japanese securities laws (the "Leo Sales"), and that AJOL Co., Ltd. ("AJOL"), our wholly-owned subsidiary, also violated certain provisions of Japanese securities

laws in connection with its solicitation and facilitation of the Leo Sales. We reported at that time that we believed that the Leo Sales were made to approximately 6,000 Japanese residents, and further believed that Leo sold in excess of 3,500,000 of its shares of our common stock. We also reported at that time that we believed the purchase prices received by Leo ranged from $3.00 to $4.00 per share. As of the date of this report, we have not yet confirmed the foregoing. However, we have confirmed that under Japanese law, while Leo and AJOL may have violated certain provisions of the Securities and Exchange Law of Japan in connection with the Leo Sales, such sales transactions in Japan were not invalid as a result of such violations. We also confirmed that despite the violations, our stock purchased by Japanese residents from Leo is eligible to be sold in Japan and could be listed on a Japanese stock exchange. Accordingly, we will now treat the Japanese residents who purchased our stock from Leo as shareholders of the Company.

As reported in Item 5 of our Form 10-Q for the quarter ended September 30, 2004 (incorporated herein by reference), our board determined on November 12, 2004, to defer any decision as to the acceptance of Leo Global Fund's ("Leo") proposal to acquire 2,500,000 newly issued shares of our common stock at a price of $4.00 per share for an aggregate investment of $10,000,000. Our board has now fully considered the Leo offer and determined at its January 19, 2005, meeting to reject it.

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

A - Exhibits:

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

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

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

Exhibit 10-8 - (Y)90,000,000 yen loan agreement with Forval Corporation

Exhibit 10-9 - Amendment to (Y)90,000,000 yen loan agreement with Forval Corporation

Exhibit 10-10 - (Y)250,000,000 yen loan agreement with Forval Corporation

B - Reports on Form 8-K

1. On November 1, 2004, the Company furnished a report on Form 8-K announcing the relocation of US corporate headquarters to Los Angeles.

2. On December 14, 2004, the Company furnished a report on Form 8-K announcing the resignation of its board member and Chief Operating Officer, Mr. Yoshihiro Aota, and its board member, Mr. Nobuo Takada.

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.
	(Registrant)
February 14, 2005	/s/ Hideo Ohkubo
Date	Hideo Ohkubo, Chief Executive Officer
February 14, 2005	/s/ Toshiaki Shimojo
Date	Toshiaki Shimojo, Chief Financial Officer