PPOL INC
Form 10-Q
August 23, 2004

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

FORM 10-Q

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

For Quarter Ended June 30, 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.)

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 [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 August 9, 2004.)

Table of Contents

PART 1:

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

PPOL, INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2004	March 31, 2004
ASSETS	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,629,489	$ 28,334,777

Restricted Cash	17,473,584	--
Trade accounts receivable, net of allowance for doubtful accounts of $ 0 and $ 0	364,274	309,063
Merchandise inventories	4,265,438	2,651,259
Deferred costs	55,800,702	63,159,328
Deferred income taxes	8,418,201	9,467,524
Prepaid expenses and other	581,651	281,784
Total current assets	95,533,339	104,203,735
PROPERTY AND EQUIPMENT, net	1,235,668	1,250,975
SOFTWARE, net	8,819,200	7,444,657
DEFERRED COSTS	31,164,114	37,042,494
DEFERRED INCOME TAXES	5,074,685	5,494,095
LEASE DEPOSITS	736,896	766,457
DEPOSITS	4,102,853	3,984,883
OTHER ASSETS	457,961	181,987
	$ 147,124,716	$ 160,369,283
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable, including related parties	$ 10,613,500	$ 11,281,024
Advances received - Cube	17,473,584	--
Advances received	2,160,462	17,604,942
Deferred revenue	75,089,228	84,644,397
Bank debt	2,768,038	--
Due to majority shareholder	830,412	--
Income taxes payable	7,188	1,086,260
Other current liabilities	1,975,782	1,888,976
Total current liabilities	110,918,194	116,505,599
DEFERRED REVENUE	41,207,575	49,155,662
Total liabilities	152,125,769	165,661,261
SHAREHOLDERS' DEFICIT:		
Common Stock; $0.001 par value; 100,000,000 shares authorized; 17,993,752 shares issued and outstanding as of June 30, 2004 (unaudited) and March 31, 2004, respectively	17,994	17,994
Additional paid-in capital	3,362,359	3,362,359
Total other comprehensive income	1,082,298	316,307
Accumulated deficit	(9,463,704)	(8,988,638)
Total shareholders' deficit	(5,001,053)	(5,291,978)
	$ 147,124,716	$ 160,369,283

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

PPOL, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Three months ended June 30, 2004	Three months ended June 30, 2003
	(Unaudited)	(Unaudited)
NET REVENUE:		
Product sales and network services	$ 26,485,853	$ 28,579,162
Other on-line services	5,522,895	4,680,027
Total	32,008,748	33,259,189
COSTS AND EXPENSES:		
Cost of sales	7,697,965	7,681,813
Distributor incentives	15,852,493	17,343,364
Selling, general and administrative expenses	7,396,202	5,987,994
Total costs and expenses	30,946,660	31,013,171
OPERATING INCOME	1,062,088	2,246,018
OTHER (EXPENSE) INCOME, net	(33,065)	686,895
INCOME BEFORE INCOME TAXES	1,029,023	2,932,913
INCOME TAXES:		
Current	35,356	86,217
Deferred	1,468,733	1,675,870
Total income taxes	1,504,089	1,762,087
NET (LOSS) INCOME	(475,066)	1,170,826
OTHER COMPREHENSIVE GAIN		
Foreign currency translation	765,991	363,240
COMPREHENSIVE INCOME	$ 290,925	$ 1,534,066
NET (LOSS) INCOME PER COMMON SHARE,		
Basic	$ (0.03)	$ 0.07
Diluted	$ (0.03)	$ 0.07

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	17,993,752	17,994,920
Diluted	17,993,752	17,994,920

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

4

PPOL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months Ended June 30, 2004 (Unaudited)	Three mont Ended June 30, 20 (Unaudited
CASH FLOWS (USED FOR) PROVIDED BY OPERATING ACTIVITIES:		
Net (loss) income	$ (475,066)	$ 1,170,82
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation and amortization	846,603	429,23
Loss on sales/disposal of property and equipment	2,351	61,51
Deferred income taxes	1,468,733	1,675,87
CHANGES IN ASSETS AND LIABILITIES:		
(INCREASE) DECREASE IN ASSETS:		
Restricted Cash - Cube	(17,473,584)	-
Trade accounts receivables	(66,377)	(479,67
Merchandise inventories	(1,697,146)	(446,48
Advance payments to related parties	--	2,639,70
Deferred costs	9,267,108	10,431,52
Prepaid expenses and other	(307,817)	733,13
INCREASE (DECREASE) IN LIABILITIES:		
Accounts payable	(230,627)	1,201,90
Advances received - Cube	17,473,584	
Advances received (paid) (note 4)	(14,599,581)	1,259,73
Deferred revenue	(12,204,165)	(13,069,70
Income taxes payable	(1,013,165)	(786,90
Other liabilities	153,769	715,34
Total adjustments	(18,380,314)	4,365,19
Net cash (used for) provided by operating activities	(18,855,380)	5,536,02

CASH FLOWS (USED FOR) PROVIDED BY INVESTING ACTIVITIES:		
Purchase of property and equipment	(156,954)	(47,23
Software & software CIP	(2,366,738)	(1,593,66
Investment in subsidiary	(300,000)	-
Other assets	(260,529)	(1,682,96
Net cash (used for) provided by investing activities	(3,084,221)	(3,323,86
CASH FLOWS (USED FOR) PROVIDED BY FINANCING ACTIVITIES:		
Short-term debt	2,736,935	-
Loan from majority shareholder	830,412	-
Net cash provided by financing activities	3,567,347	-
EFFECTS OF EXCHANGE RATE	(1,333,034)	(234,72
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,705,288)	1,977,43
CASH AND CASH EQUIVALENTS, beginning of period	28,334,777	14,313,06
CASH AND CASH EQUIVALENTS, end of period	$ 8,629,489	$ 16,290,50
SUPPLEMENTAL CASH FLOW INFORMATION -		
Income taxes paid	$ 1,048,522	$ 85,13
Interest paid	$ 5,997	$ -

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

5

PPOL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED JUNE 30, 2004 AND 2003 (UNAUDITED)

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ORGANIZATION:

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

Using MOJICO, the Company provides original telecommunication services called "Pan Pacific Online," including MOJICO bulletin board and mail services. The Company also provides various other on-line services through Pan Pacific Online such as ticket and mail-order services. These sales and services are provided in Japan.

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

Effective April 1, 2002, AJOL Co., LTD. ("AJOL") was acquired by PPOL in a transaction accounted for as a reverse merger. The Company, upon closing of the transaction on August 15, 2002, issued 899,746 shares (post split) of its common stock for all of the issued and outstanding common stock of AJOL. For legal purposes, PPOL is the acquirer. For accounting purposes, AJOL has been treated as the acquirer and accordingly, AJOL is presented as the continuing entity, and the 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."

Gatefor, Inc. (Gatefor) was incorporated in Japan on June 16, 2004. PPOL owns 2,000 shares of Gatefor common stock or 100% of the issued and outstanding stock of Gatefor which has 8,000 shares authorized. 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.

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 periods presented herein. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the years

ended March 31, 2004 and 2003 included in the Company's Form 10-K. The results of the three months ended June 30, 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 did not have any effect on previously reported net income or shareholders' deficit.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include accounts of the 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 3 months ended June 30, 2004, convertible notes payable has not been included in calculating diluted loss per share because the effect would be antidilutive.

FORFEITED DISTRIBUTOR COMMISSIONS:

In April 2003, the Company amended its policy regarding distributor commissions to state that distributor commissions are not paid out unless they exceed a minimum threshold of approximately $30.00. If a distributor does not attain the minimum commission threshold within one year, then the commissions will be forfeited to the Company. In the quarter ending June 30, 2003, the Company has recognized approximately $714,000 of other income for the write-off of previously accrued distributor commissions that exceeded the one year threshold at March 31, 2003. This amount, related to the change in accounting policy, is included in other income on the statements of income and comprehensive income for the three months ended June 30, 2003. Distributor commissions outstanding greater than one year for the three month periods ended June 30, 2004 and 2003 approximated $365,000 and $148,000, respectively. These amounts are offset against distributor incentives on the statement of income for the three months ended June 30, 2004 and 2003.

RECENT ACCOUNTING PRONOUNCEMENTS:

In March 2004, the Financial Accounting Standards Board (FASB) approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain

Investments." The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. The accounting provisions of EITF 03-1 are effective for all reporting periods beginning after June 15, 2004, while the disclosure requirements for certain investments are effective for annual periods ending after December 15, 2003, and for other investments such disclosure requirements are effective for annual periods ending after June 15, 2004. The Company has evaluated the impact of the adoption of EITF 03-1 and does not believe the impact will be significant to the Company's overall results of operations or financial position.

7

(2) RELATED PARTY TRANSACTIONS:

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

	Three months ended June 30, 2004 (Unaudited)	Three months ended June 30, 2003 (Unaudited)
Due to Forval - convertible debt	$ 830,412	$ --

In June 2, 2004, the Company borrowed 90,000,000 Japanese yen ($830,412 at June 2, 2004) from its majority shareholder, due December 30, 2004, with interest payable at two percent (2%) per annum. The borrowing is unsecured and will automatically convert to common stock at the closing market price on December 29, 2004 if there has been no additional capital contributions between the borrowing and due date.

(3) 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. This investment is classified under Other Assets on the June 30, 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. This investment is accounted for under the cost basis method of accounting.

(4) ADVANCES RECEIVED AND RESTRICTED CASH:

AJOL had collected monthly cash advance payments from members through a prepayment system known as Cube. These prepayements were accounted for as a liability called Advances Received on AJOL's balance sheet. These advance payments were prepayments for orders that the members would place in the future via the Cube system. There were no restrictions on AJOL's use of this cash. Upon receiving orders from these members for goods or services, the member's account would be charged. On May 28, 2004, AJOL remitted approximately $16.3 million to Kamome Mutual Benefit Association (the Association), an unrelated non-profit membership organization, to administer these advance payments from AJOL members pursuant to the Cube Preservation Agreement (the Agreement) dated May 21, 2004. Subsequently, advance payments from members have been received by the the Association and not AJOL. Only AJOL members or their family may become members of the Association, but are not required to do so.

The Agreement provides that the Association will provide custodial services over the advances received from AJOL members. It also states that the cash will only be used in satisfaction of orders received from members. The agreement does not provide for the transfer of the liability associated with the Advances Received to Association. Therefore, AJOL now accounts for this cash as restricted cash to be used only in satisfaction of orders received from members.

The Association is an independent, non-profit membership organization. AJOL has no controlling interest in the Association and the Association does not meet the criteria to be classified as a Variable Interest Entity under FIN 46-Consolidation of Variable Interest Entities. As such, the Company is not required to include the Association into its consolidated financial statements.

8

(5) BANK LOAN:

AJOL drew (Y)300,000,000 (US $2,768,038) on an unsecured bank line of credit which was the maximum borrowing under the line of credit. The line of credit expires on August 31, 2004 and is automatically renewable for successive one year terms. Interest is payable at the annual rate of 1.06% as of June 30, 2004. This line of credit is generally used to finance temporary operating cash requirements. The Company expects to repay this debt within one year.

(6) DEFERRED REVENUES AND DEFERRED COSTS:

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

	Deferred Costs		Deferred
	Current	Non-current	Current
Beginning balance, April 1, 2004	$ 63,159,328	$ 37,042,494	$ 84,644,397
Additional deferrals	13,310,055	5,133,068	18,413,229
Released amounts	(18,177,512)	(9,532,859)	(24,633,242)
Exchange rate effect	(2,491,169)	(1,478,589)	(3,335,156)

Ending balance, June 30, 2004	$ 55,800,702	$ 31,164,114	$ 75,089,228

(7) OTHER ON-LINE SERVICES:

The Company's wholly owned subsidiary, AJOL, provides certain services to Kamome Mutual Benefit Association (The Association), an unrelated non-profit membership organization. In return, the Association pays AJOL a handling fee which is included in Other on-line services in the Company's income statement. The Association provides insurance services to its members. Only AJOL members and their family may join the Association, but are not required to do so. AJOL earned handling fees from the Association of $2,733,835 and $2,469,764 in the three months ended June 30, 2004 and 2003 respectively.

(8) SUBSEQUENT EVENTS:

On July 22, 2004, PPOL extended a working capital loan of approximately $243,000 to its wholly owned subsidiary, Gatefor, Inc. The loan is due and payable back to PPOL on December 30, 2004 with early repayment acceptable upon approval from PPOL. Interest accrues at the rate of 2% per annum and any unpaid, delinquent balance will be assessed a 14.6% penalty.

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 though its wholly owned Japanese subsidiary, AJOL, Ltd., a Japanese corporation (hereafter, collectively referred to as PPOL or the

"Company.") At the present time, the Company has administrative functions occurring in California, but does not otherwise have any business in the US.

The Company's revenues are currently 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 it MOJICO hardware and (3) various consumer products that utilize the Company's "Kamome" brand.

Results of Operations - Three Months Ended June 30, 2004

PRODUCT SALES AND NETWORK SERVICES. For the three months ended June 30, 2004, revenues of this category have decreased by 7.3% in comparison to the same period of the prior year. The decrease is primarily due to a decline in MOJICO unit sales and corresponding initial Pan Pacific Online subscription fees.

OTHER ONLINE SERVICES REVENUE. For the three months end June 30, 2004, revenues increased 18.0% over the comparable period of the prior year. This is a result of the Company's continuing efforts to expand the on-line service business which is a continuing corporate objective.

COST OF SALES. For the three months ended June 30, 2004, the change in cost of sales, expressed as a percentage of sales, increased 0.95% in comparison to the same period of the prior year. The increase is due to the higher costs involved in producing the more advanced MOJICO SF 70 model in comparison to the MOJICO SF 60 in the prior period.

10

DISTRIBUTOR INCENTIVES. For the three months ended June 30, 2004, distributor incentives declined by approximately $1.5 million or 8.6% in comparison to the same period of the prior year. The overall decrease in distributor incentives is primarily the result of lower sales in the current period.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. For the three months ended June 30, 2004, selling, general and administrative expenses have increased by approximately $1.4 million or 23.5% in comparison to the same period of the prior year. The increase is primarily due the incurrence of approximately $1.1 million of software related research costs to develop its new commission calculation system, order & receiving system and software development for the next generation MOJICO.

OTHER INCOME. For the three months ended June 30, 2004, other income decreased approximately $720,000 in comparison to the same period of the prior year. Effective in April 2003, the Company revised its commission policy to state that the Company would not pay any commissions less than a minimum threshold of approximately $30.00. If the distributor does not earn the minimum threshold within one year, then the commissions 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.

DEFERRED INCOME TAX EXPENSE. For the three months ended June 30, 2004, deferred income tax expense decreased approximately $207,000 or 12.4% in comparison to 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.

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 to meet our cash needs and business objectives without relying on long-term debt to fund operating activities.

Cash and cash equivalents totaled $8,629,489 and $28,334,777 at June 30, 2004 and March 31, 2004, respectively. Cash (used) provided from operations for the three months ended June 30, 2004 and 2003 was $(18,380,314) and $4,276,288, respectively. The use of cash in operations for the three months ended June 30, 2004 was primarily due to the $17.5 million transfer of cash to Kamome Mutual Benefit Association wherein such cash has now been classified as restricted cash - see note 4 to the financial statements. Cash used for investing activities for the three months ended June 30, 2004 and 2003 was $3,084,221 and $2,064,127, respectively. The cash used for investing activities for the quarter ended June 30, 2004 was primarily for the purchase of software and software in progress. No cash was used for financing activities in the three months ended June 30, 2003. Cash provided by financing activities for the three months ended June 30, 2004 was primarily the result of a bank loan and a short term convertible loan from our majority shareholder, Forval Corporation. This revolving bank credit facility is generally used to finance temporary operating cash requirements and was fully utilized at June 30, 2004. Management believes that cash flow from operations, the revolving credit facility and contemplated financings will adequately meet the working capital needs for the foreseeable future.

Contractual Obligations

The Company's operating lease, purchase, and debt obligations as of June 30, 2004 are as follows:

	Payments due by period			
Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years
Operating Lease Obligations	$ 837,610	$ 727,801	$ 109,809	$ --

Short term loan repayments	3,598,450	3,598,450 (1)	--	--
Service Provider Contracts	1,499,668	1,499,668	--	--
Total	$5,935,728	$5,825,919	$ 109,809	$ --

The Company projects that it will need to satisfy at least $5.9 million of lease, contract and debt service obligations within the fiscal year ending March 31, 2005.

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.

----

(1) Includes $830,412 of debt payable to Forval Corporation which may be converted into equity. See footnote (2) to the financial statements.

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 June 30, 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

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 of our 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 generated by our subscribers. We may be exposed to liability with respect to this content. Our insurance may not cover claims of these types or may not be adequate to indemnify us for all liability that may be imposed. Our liability coverage limit is 100,000,000 Japanese yen, approximately $950,000 at current exchange rates, per occurrence. There is a risk that a single claim or multiple claims, if successfully asserted against us, could exceed the total of our coverage limits. There is also a risk that a single claim or multiple claims asserted against us may not qualify for coverage under our 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 our reputation, financial condition, and operating results.

RELIANCE ON EXISTING DISTRIBUTORS AND NEED TO RECRUIT ADDITIONAL DISTRIBUTORS

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

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

DEPENDENCE ON MR. AOTA

We are highly dependent upon our 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 us and our success. The diminution or loss of the services of Mr. Aota, and any negative market or industry perception arising from that diminution or loss, would have a material adverse affect on our business. We are investigating, but have not obtained "Key Executive Insurance" with respect to Mr. Aota.

One of our business strategies is to reduce our 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 we are unsuccessful in accomplishing this strategy, and Mr. Aota's services become unavailable, our business and prospects could be materially adversely affected. We do not have an employment agreement with Mr. Aota. If we lose Mr. Aota's services, for any reason, including as a result of Mr. Aota's voluntary resignation or retirement, our business could be materially 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.

COMMENCING FOREIGN OPERATIONS

We continue to explore 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 we commence business activities in these nations, future instability will have a material adverse affect on our ability to do business in these nations and may jeopardize our investment in establishing business operations in those countries.

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 change, 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 approximately 94.4% of PPOL.

MINORITY SHAREHOLDER STATUS

Forval Corporation and Leo Global Fund, former direct shareholders of AJOL, hold 58.62% and 35.79% 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 94.40% of PPOL's outstanding shares, representing 94.4% 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.

PART 2:

ITEM 1: LEGAL PROCEEDINGS
None

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS
None

ITEM 3: DEFAULTS UPON SENIOR SECURITIES
None

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None

ITEM 5: OTHER INFORMATION
None

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

A - Exhibits:

Exhibit 10.1 - LICENSING AND EXCLUSIVE DISTRIBUTION AGREEMENT WITH OBJECT INNOVATION, INC. (PREVIOUSLY FILED WITH THE SEC AS AN EXHIBIT TO THE COMPANY'S FORM 8-K FILED ON JUNE 1, 2004 AND IS INCORPORATED HEREIN BY REFERENCE.

Exhibit 31.1 - CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Exhibit 31.2 - CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Exhibit 32.1 - CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(B) OF THE EXCHANGE ACT AND 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

B - Reports on Form 8-K

1. On April 5, 2004, the Company furnished a report on Form 8-K relating to its new growth strategy focused on in-licensing proven and promising information technologies developed in the United states and Europe for introduction to Asia.

2. On April 21, 2004, the Company furnished a report on Form 8-K relating to the naming of Mr. Hideo Ohkubo as honorary chairman of PPOL, Inc.

3. On April 26, 2004, the Company furnished a report on Form 8-K announcing that Yoshihiro Aota, would step down from the post of President effective April 26, 2004 in order to focus his efforts on AJOL, Co., PPOL's wholly owned subsidiary and that Peter Pomeroy would succeed as president.

4. On June 1, 2004, the Company furnished a report on Form 8-K that it had signed a licensing and exclusive distribution agreement on May 26, 2004 with Object Innovation, Inc. Additionally, the Company had made an investment of $300,000 in the form of purchasing 1,500 shares of Object Innovation's common stock, representing 15% of Object Innovation's equity,

subject to a certain vesting schedule tied to revenues derived on the sale of the BridgeGate software by PPOL.

5. On June 30, 2004, the Company furnished a report on Form 8-K announcing that it has named Mr. Toshiaki Shimojo as Chief Financial Officer and Secretary, effective immediately, replacing Mr. Yoichi Awagakubo.

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)
August 20, 2004	/s/ Hideo Ohkubo
Date	Hideo Ohkubo, Chief Executive Officer
August 20, 2004	/s/ Toshiaki Shimojo
Date	Toshiaki Shimojo, Chief Financial Officer