PPOL INC
Form 10-Q
March 23, 2006

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, 2005

OR

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

For the transition period from to _______

Commission File Number 000-50065

PPOL, Inc.

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

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

1 City Boulevard West, Suite 820, Orange, California	92868
(Address of principal executive offices)	(Zip Code)

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

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

Yes [X] No [ ]

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

Common Stock $0.001 par value	20,542,881
(Class)	(Outstanding at February 14, 2006)

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PART 1:
ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

PPOL, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2005	March 31, 2005
CURRENT ASSETS:	Unaudited	
Cash and cash equivalents	$ 7,579,694	$ 12,007,537
Trade accounts receivable	121,953	1,321,755
Merchandise inventories	2,113,971	1,064,082
Advance payments	--	1,054,393

Deferred costs, current	42,969,655	49,130,889
Deferred income taxes, current	7,052,023	8,358,713
Prepaid expenses and other current assets	654,879	515,905
Total current assets	60,492,175	73,453,274
Restricted cash	21,244,530	20,686,915
Property and equipment, net	525,351	905,703
Software, net	6,777,105	10,131,128
Deferred costs, non-current	31,957,441	36,999,841
Deferred income taxes, non-current	4,679,655	5,315,246
Lease deposits	--	742,583
Deposits	3,988,088	4,240,842
Goodwill	1,800,408	--
Other assets	73,097	112,778
	$ 131,537,850	$ 152,588,310
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 5,634,762	$ 12,665,017
Advances received	121,722	2,234,253
Loans payable	--	1,115,760
Deferred revenue, current	59,026,199	68,075,963
Income taxes payable	29,726	1,025,126
Other current liabilities	1,463,433	2,209,746
Total current liabilities	66,275,842	87,325,865
Advances received, Cube	21,244,530	20,686,915
Deferred revenue, non-current	41,297,405	49,106,165
TOTAL LIABILITIES	128,817,777	157,118,945
COMMITMENTS (NOTE 7)		
SHAREHOLDERS' EQUITY (DEFICIT):		
Common Stock; $0.001 par value; 100,000,000 shares authorized; 20,542,881 and 17,993,752 shares issued and outstanding as of December 31, 2005 and March 31, 2005, respectively	20,543	17,994
Additional paid-in capital	16,468,890	6,274,923
Total other comprehensive income	1,836,626	905,819
Accumulated deficit	(15,605,986)	(11,729,371)
Total shareholders' equity (deficit)	2,720,073	(4,530,635)
	$ 131,537,850	$ 152,588,310

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

PPOL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	Three months ended December 31, 2005	Three months ended December 31, 2004
	(Unaudited)	(Unaudited)
NET REVENUE:		
Product sales and network services	$ 20,285.161	$ 25,906,504
Other on-line services	5,939,440	5,914,417
Total	26,224,601	31,820,921
COSTS AND EXPENSES:		
Cost of sales	8,496,216	9,358,981
Distributor incentives	11,360,244	15,336,634
Selling, general and administrative expenses	5,066,862	7,333,691
Total costs and expenses	24,923,322	32,029,306
OPERATING (LOSS) INCOME	1,301,279	(208,385)
OTHER INCOME (EXPENSE), net	14,339	(245,822)
INCOME (LOSS) BEFORE INCOME TAX PROVISION	1,315,618	(454,207)
INCOME TAXES (EXPENSE)BENEFIT:		
Current	465,617	88,736
Deferred	(1,715,324)	340,086
Total income taxes	(1,249,707)	428,822
NET INCOME (LOSS)	65,911	(25,385)
OTHER COMPREHENSIVE GAIN		
Foreign currency translation	453,455	1,259,464
COMPREHENSIVE INCOME	$ 519,366	$ 1,234,079
NET INCOME (LOSS) PER COMMON SHARE,		
Basic	$ 0.00	$ (0.00)
Diluted	$ 0.00	$ (0.00)

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	20,542,881	17,993,752
Diluted	20,542,881	17,993,752

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

PPOL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	Nine months ended December 31, 2005	Nine months ended December 31, 2004
	(Unaudited)	(Unaudited)
NET REVENUE:		
Product sales and network services	$ 68,116,611	$ 79,247,405
Other on-line services	18,714,646	16,994,869
Consulting revenue	30,630	--
Total	86,861,887	96,242,274
COSTS AND EXPENSES:		
Cost of sales	26,859,631	26,463,333
Distributor incentives	37,029,920	46,875,285
Selling, general and administrative expenses	24,929,646	21,571,065
Total costs and expenses	88,819,197	94,909,683
OPERATING (LOSS) INCOME	(1,957,310)	1,332,591
OTHER INCOME (EXPENSE), net	27,326	(242,397)
(LOSS) INCOME BEFORE INCOME TAX PROVISION	(1,929,984)	1,090,194
INCOME TAXES (EXPENSE):		
Current	(4,350)	(487,396)
Deferred	(1,942,281)	(1,537,624)
Total income taxes	(1,946,631)	(2,025,020)
NET LOSS	(3,876,615)	(934,826)
OTHER COMPREHENSIVE GAIN (LOSS)		

Foreign currency translation	930,807	(51,918)
COMPREHENSIVE (LOSS) INCOME	$ (2,945,808)	$ (986,744)
NET LOSS PER COMMON SHARE,		
Basic	$ (0.19)	$ (0.05)
Diluted	$ (0.19)	$ (0.05)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	19,993,981	17,993,752
Diluted	19,993,981	17,993,752

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

PPOL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended December 31, 2005 (Unaudited)	Nine months ended December 31, 2004 (Unaudited)
CASH FLOWS (USED FOR) PROVIDED BY OPERATING ACTIVITIES:		
Net loss	$ (3,876,615)	$ (934,826)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation and amortization	2,756,565	3,040,118
Loss on sales/disposal of property, equipment and software	1,102,504	(20,835)
Deferred income taxes	1,942,281	1,537,624
CHANGES IN ASSETS AND LIABILITIES:		
(INCREASE) DECREASE IN ASSETS:		
Restricted cash	(2,493,138)	(4,019,876)
Trade accounts receivable	1,141,137	(929,701)
Merchandise inventories	(1,087,761)	72,138
Advance payments	1,012,713	--
Deferred costs	3,856,643	15,095,110
Prepaid expenses and other	76,988	(1,139,721)
INCREASE (DECREASE) IN LIABILITIES:		
Accounts payable and accrued liabilities	(7,014,014)	(673,645)
Advances received	(2,017,807)	1,568,066
Advances received - Cube	2,493,138	4,019,876
Deferred revenue	(6,947,850)	(18,061,854)
Income taxes payable	(962,199)	(1,031,391)
Other current liabilities	(626,785)	(86,430)
Total adjustments	(6,767,585)	(630,521)

Net cash used for operating activities	(10,644,200)	(1,565,347)
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Purchase of property and equipment	(262,675)	(371,645)
Proceeds on sale of fixed assets	--	--
Software and software CIP	(21,144)	(5,704,779)
Proceeds from sales of property and equipment	1,945	338,824
Guaranteed Deposits	(123,138)	--
Lease deposits	713,229	--
Purchase of subsidiary	(3,522,422)	--
Cash of acquired entity - K.K. U Service	760,812	--
Other assets	687,168	309,763
Net cash used for investing activities	(1,766,225)	(5,427,837)
CASH PROVIDED BY FINANCING ACTIVITIES:		
Proceeds from loan from majority shareholder	--	3,297,769
Repayment of loan from majority shareholder	(1,115,760)	--
Issuance of common stock	10,196,516	--
Net cash provided by financing activities	9,080,756	3,297,769
EFFECTS OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS	(1,098,174)	(672,571)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,427,843)	(4,367,986)
CASH AND CASH EQUIVALENTS, beginning of period	12,007,537	12,083,556
CASH AND CASH EQUIVALENTS, end of period	$ 7,579,694	$ 7,715,570
SUPPLEMENTAL CASH FLOW INFORMATION -		
Income taxes paid	$ 985,403	$ 1,643,634
Interest paid	$ 11,721	$ 24,446

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

PPOL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ORGANIZATION:

PPOL, Inc. ("PPOL" or "the Company") incorporated on May 19, 1993 in California. On August 15, 2002, the Company amended its articles of incorporation to increase its authorized shares of common stock from 10,000,000 to 100,000,000, to change its name to PPOL, Inc. and to effect 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 of registered distributors located throughout Japan that introduces 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. It is also expected to be involved in the business of planning, development, sales and marketing, and import/export of telephones, fax machines, copiers, computer and peripheral equipment.

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

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 ("SEC"). 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, 2005 and 2004 included in the Company's Form 10-K. The results of the nine months ended December 31, 2005 are not necessarily indicative of the results to be expected for the full year ending March 31, 2006.

PRINCIPLES OF CONSOLIDATION:

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

RESTATEMENT:

We have determined that Goodwill was understated by $205,991 at acquisition of USC (Note 2) on May 30, 2005. The impact of the understatement of Goodwill on the financial statements for the quarters ended June 30, 2005 and September 30, 2005 were as follows:

	Balance Sheet		Statement of income: 3 months	Statement of income: 6 months (YTD)
June 30, 2005	Goodwill	Comprehensive Income	Other comprehensive gain Foreign currency translation	
As stated in 10-Q	$1,761,211	$1,149,223	$ 243,404	n/a
As restated	$1,919,068	$1,307,080	$ 401,261	n/a
Impact	$ 157,857	$ 157,857	$ 157,857	n/a
September 30, 2005				
As stated in 10-Q	$1,761,211	$1,383,171	$ 233,948	$ 477,352
As restated	$1,877,803	$1,499,763	$ 192,683	$ 593,944
Impact	$ 116,592	$ 116,592	$ (41,265)	$ 116,592

NET (LOSS) INCOME PER SHARE:

The Company reports both basic net income per share, which is based on the weighted average number of common shares outstanding, and diluted net income per share, which is based on weighted average number of common shares outstanding and dilutive potential common shares. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the numerator is increased by the amount of interest expense attributable to any convertible notes payable and the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. For the three months ended December 31, 2005, all of the 1,300,000 issued and outstanding common stock options have also been excluded as they would have an antidilutive effect.

STOCK BASED COMPENSATION:

The Company grants stock options with an exercise price equal to at least the fair value of the stock at the date of grant. The Company has elected to continue to account for its employee stock-based compensation plans using an intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations.

Under APB 25, because the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

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

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

Pro forma information using the Black-Scholes method at the date of grant was based on the following assumptions: average risk free interest rate of 4.34% for 2005 and 2004; dividend yield of 0.0% for each of the years 2005 and 2004; average volatility factor of the expected market price of the Company's common stock of 251% for 2005 and 216% 2004; and an expected life of the options of 9 years for 2005 and 10 years for 2004.

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

	Nine months ended December 31: 2005	2004
Net income (loss) as reported (in thousands $)	(3,877)	(935)
Stock compensation calculated under APB25 (in thousands $)	--	--
Stock compensation calculated under SFAS 123 (in thousands $)	(815)	(751)
Pro forma (in thousands $)	(4,692)	(1,686)
Basic earnings per share as reported	(0.19)	(0.05)
Pro forma	(0.23)	(0.09)
Diluted earnings per share as reported	(0.19)	(0.05)
Pro forma	(0.23)	(0.09)

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (revised 2004), "Share-Based Payment," which is a revision of Statement 123. Statement 123(R) supersedes Opinion 25, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) generally requires share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized in the statement of operations based on their fair values. Pro forma disclosure of fair value recognition will no longer be an alternative.

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

- Modified prospective method: Compensation cost is recognized beginning with the effective date of adoption (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date of adoption and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of adoption that remain unvested on the date of adoption.

- Modified retrospective method: Includes the requirements of the modified prospective method described above, but also permits restatement using amounts previously disclosed under the pro forma provisions of SFAS No. 123 either for (a) all prior periods presented or (b) prior interim periods of the year of adoption.

In April 2005, the SEC announced that the effective transition date for SFAS No. 123(R) would be extended to annual periods beginning after June 15, 2005. We are required to adopt this new standard on April 1, 2006, with early-adoption permitted.

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.

During the nine months ended December 31, 2005, it was decided that the best course of action was to integrate the operations of USC and AJOL rather than have two separately run organizations. Within this framework, it was determined that we should abandon certain software projects that were being undertaken by USC. Accordingly, approximately $0.7 million in software was expensed during the nine months ended December 31, 2005.

RECLASSIFICATIONS

Reclassifications have been made to the financial statements for the nine months ended December 31, 2004 to conform to presentation for the nine months ended December 31, 2005.

RECENT ACCOUNTING PRONOUNCEMENTS:

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

On June 29, 2005, the FASB ratified the Emerging Issues Task Force's ("EITF's") Issue No. 05-06, "Determining the Amortization Period for Leasehold Improvements." Issue No. 05-06 provides that the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease be the shorter of (a) the useful life of the assets or (b) a term that includes required lease periods and renewals that are reasonably assured upon the acquisition or the purchase. The provisions of Issue No. 05-06 are effective on a prospective basis for leasehold improvements purchased or acquired in reporting periods beginning after June 29, 2005. Early application of the consensus is permitted in periods for which financial statements have not been issued. We do not believe the adoption of Issue No. 05-06 will have a material effect on our consolidated financial position, results of operations or cash flows.

(2) RELATED PARTY TRANSACTIONS:

On May 30, 2005, the Company completed the acquisition of USC. Pursuant to the Purchase Agreement dated May 30, 2005, by and between the Company, USC and K.K. Green Capital, a Japan corporation (the "Seller"), the Company purchased from the Seller all of the issued and outstanding shares of USC in exchange for an amount equal to $3,522,422 (JPY380,000,000). Seller is the majority owner in Foster Strategic Management Partnership, a Singapore partnership, which in turn owns approximately 10,547,594 shares of the Company's common stock, representing approximately 51.34% of the Company's issued and outstanding stock.

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

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

Net assets acquired	$3,522,422

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

The Company has considered whether the acquisition included various identifiable intangible assets. As USC was in the development stage with no revenues, we believe no value can be ascribed to the trade names, trademarks, customers, and workforce. Accordingly, the Company has estimated that the entire premium of $1,967,092 over the recorded net worth to be attributable to Goodwill.

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

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

	3 months ended December 31, 2005	9 months ended December 31, 2005
Sales	$ 26,224,601	$ 86,861,887
Net income (loss)	65,911	(4,082,496)
Net income (loss) per share - Basic	0.00	(0.20)
Net income (loss) per share - Diluted	0.00	(0.20)

The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition been consummated at that time, nor is it intended to be a projection of future results. Pro forma results are not provided for the three months and nine months ended December 31, 2004 as USC was not in existence at that time.

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

(3) COMMON STOCK OFFERING:

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

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

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

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

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

(4) STOCK OPTIONS:

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

A total of 1,220,000 options were granted to employees on March 25, 2004 which will vest 100% on March 25, 2006 (options will cliff vest two years after the grant date) and expire on March 25, 2014 (ten years after the grant date). An additional 80,000 options were granted to two directors on July 1, 2004 which did vest 100% on July 1, 2005. A summary of the Company's stock option plan activity is presented below:

	Options	Weighted Average Exercise Price

Outstanding at March 31, 2005	1,300,000	$ 4.00
Granted	--	--
Exercised	--	--
Forfeited	--	--
Expired	--	--
Outstanding at December 31, 2005	1,300,000	$ 4.00

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2005:

		Options Outstanding			Optio
Fiscal Year Options Granted	Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options
2004	$4.00	1,220,000	8.25	$4.00	-
2005	$4.00	80,000	8.50	$4.00	80,000
2006	-	-	-	-	-
		1,300,000	8.27	$4.00	80,000

(5) DEFERRED REVENUES AND DEFERRED COSTS:

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

	Deferred Costs		Deferred Revenues	
	Current	Non-current	Current	Non-current
Beginning balance, March 31, 2005	$ 49,130,889	$ 36,999,841	$ 68,075,963	$ 49,106,165
Additional deferrals	15,066,362	19,182,676	21,973,900	24,248,775
Released amounts	(17,024,630)	(21,081,052)	(25,226,995)	(27,943,531)
Exchange rate effect	(4,202,966)	(3,144,024)	(5,796,669)	(4,114,004)
Ending balance, December 31, 2005	$ 42,969,655	$ 31,957,441	$ 59,026,199	$ 41,297,405

(6) INCOME TAXES

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

PPOL files stand-alone tax returns in the US as it is not permitted to file consolidated tax returns with its Japanese subsidiaries, AJOL and USC. In Japan, AJOL and USC file their own separate tax returns. Income taxes imposed by the national, prefecture and municipal governments of Japan. The deferred tax assets result primarily from the recognition of revenues and costs for Japanese tax reporting purposes that are deferred for US financial reporting purposes.

PPOL, on a stand-alone basis, does not conduct revenue generating activities. Its primary source of income has been and will continue to be dividends from AJOL for the foreseeable future. Thus, PPOL on a stand-alone basis is not expected to have any taxable income unless it receives dividends from its operating subsidiaries. At March 31, 2005, PPOL had net operating loss carry forwards of approximately $1.2 million and $2.5 million for federal and California reporting purposes, respectively, expiring through March 31, 2025. For the nine months ended December 31, 2005, PPOL's stand-alone loss of $1.3 million resulted in an increase of the NOL by that amount and approximately a $0.5 million addition to the deferred tax asset. A 100% valuation allowance on such loss carryforwards continues to be provided at December 31, 2005 as it is not likely that the Company will utilize such losses to offset income in the future.

(7) COMMITMENTS & CONTINGENCIES:

As of December 31, 2005 the Company had various professional consulting service contracts and operating leases in effect which collectively will require payments of $0.6 million in the 12 months ending December 31, 2006.

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

Special Note Regarding Forward-Looking Statements:

Certain matters discussed in this Quarterly Report on Form 10-Q are "forward-looking statements" intended to qualify for the safe harbor from liability provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as PPOL "believes", "anticipates", "expects", or words of similar import. Similarly, statements which describe PPOL's future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which are described in close proximity to such statements and which could cause 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. At the present time, the Company has administrative functions occurring in California, but does not otherwise have any major business in the United States.

Commencing in January 2006, the Company's revenues will be derived from direct marketing 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.

Acquisition of USC and its impact on direct marketing

In response to the slowing of activity and declining membership in Acube, the MOJICO users' organization, changing attitudes toward network marketing, and recent changes in laws and regulations that network marketing is subject to in Japan, we have begun a transition in sales focus from network marketing to direct marketing. One of the primary reasons for the declining membership in Acube is attributable to the high initial cost. We needed to reduce the initial cost to a fraction of what we were able to offer our flagship product under network marketing.

We have determined that the direct marketing method is the best suited to reduce the initial cost and also not the subject of the recent changes in laws and regulations affecting network marketing in Japan. In addition consumer surveys have indicated more receptivity to direct marketing.

As discussed in Note 2 to the financial statements, we acquired USC in May 2005. The acquisition of USC played a crucial role in our ability to transition from network marketing to direct marketing much more quickly than would otherwise have been possible. USC had the critical leadership personnel with experience in setting up and running direct marketing operations.

For us to establish a direct marketing operation, we would have had to recruit personnel with relevant experience. In the current environment, speed is a critical element. We estimated it would have taken six to nine months longer to start a direct marketing organization. By combining USC's experience and our assembled workforce, we believe we will enhance our future growth opportunities.

With a delayed transition to direct marketing, there was also a high likelihood that USC would become a formidable competitor. Moreover, prior to the acquisition, we had learned that USC had been approaching our existing manufacturer of the SF-70 to manufacture their products. If they successfully consummated an arrangement with our existing manufacturer, this would have reduced their ability to supply our products due to capacity constraints.

Two defining characteristics of direct marketing contribute to its appeal as a sales system: the location of sales and the cost of sales. First, although the actual sale may occur inside a retail location, the initiation of the sale occurs outside of the place of business. We hope that this style of sales will facilitate the widening of contacts for our members. Secondly, in contrast to network marketing, direct marketing does not require the seller to assume the responsibility for any specific costs related to the sale. While network marketing has certain conditions for the receipt of income from the sale, direct marketing does not have complicated eligibility procedures. The reduction of sales costs and the overall simplification of income generation makes the direct marketing process more attractive to prospective participants and current members of Acube. Our decision to redefine our sales focus reflects our continuing dedication to the constant development of our business and our sensitivity to the concerns of our members. As part of our redirection of sales focus we stopped accepting new distributor applications for network marketing activities as of October, 2005. The anticipated effects of our new strategy on profits and cost of sales are as follows:

	Network marketing	Direc
		SF-70
Sales per unit	$ 3,224	$ 726
Monthly usage rate	$ --	$ 23
Projected revenues over three years	$ 3,224	$ 1,569
Revenues expressed as a % of network marketing sales	100.0%	48.7%
Gross profit per unit	$ 769	$ 369
Gross profit expressed as a % of gross profit through network marketing	100.0%	48.0%

Under the direct marketing structure, the sales price per unit is 22.5% and 25.0% for the SF-70 and U-Phone, respectively in comparison to the sales price of the SF-70 under the former networking structure used through this quarter. However, the projected revenues per unit utilizing the average customer relationship period for the SF-70 under the network marketing structure indicates such revenues to be 48.7% and 51.2% for the SF-70 and U-Phone, respectively, of total revenues for the SF-70 over the average customer relationship period under the network structure. In addition, while the gross profit is lower per unit, we believe we can make up the difference through increased unit sales as a result of the significantly lower sales price per unit.

Since the direct marketing program is still in its formative phases, the gross profit is significantly less than that for network marketing. We believe that this allowance for a decline in gross profit is necessary and a temporary condition for the future success of PPOL. In addition, similar sales strategies such as mail order services targeting current Acube members are being explored to augment our new direct marketing approach.

UNDERSTATEMENT OF GOODWILL AT JUNE 30, 2005 AND SPETEMBER 30, 2005

As disclosed in Note 1 to the financial statements, we have determined that Goodwill was understated by $205,991 at acquisition of USC, discussed in the preceding section, on May 30, 2005. This understatement did not effect income from continuing operations, net income or related per share amounts. The impact of the understatement of Goodwill on the financial statements for the quarters ended June 30, 2005 and September 30, 2005 follows:

	Balance Sheet		Statement of income	
			3 months	6 months (YTD)
	Goodwill	Comprehensive Income	Other comprehensive gain Foreign currency translation	
June 30, 2005				
As stated in 10-Q	$1,761,211	$1,149,223	$ 243,404	n/a
As restated	$1,919,068	$1,307,080	$ 401,261	n/a
Impact	$ 157,857	$ 157,857	$ 157,857	n/a
September 30, 2005				
As stated in 10-Q	$1,761,211	$1,383,171	$ 233,948	$ 477,352
As restated	$1,877,803	$1,499,763	$ 192,683	$ 593,944
Impact	$ 116,592	$ 116,592	$ (41,265)	$ 116,592

RESULTS OF OPERATIONS - THREE MONTHS ENDED DECEMBER 31, 2005 AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2004

PRODUCT SALES AND NETWORK SERVICES.
The three month period ended December 31, 2005 saw a decrease in product sales and network services of 21.7% as a result of a change in sales focus. Starting in October of the current year, the Company discontinued its solicitation of agent applications for its network marketing activities. Instead, the Company decided to concentrate its efforts on the development of direct marketing sales and services. We believe this shift in focus to be in the best long term interests of PPOL given the current economic environment and consumer attitudes towards network marketing.

COST OF SALES. The cost of sales for the 3 month period ended December 31, 2005 declined 9.2% compared to the corresponding period of 2004, a smaller decline than our sales decline. This is attributable to our fixed overhead remaining comparable to the prior year while net sales declined in 2005. Thus the cost (fixed overhead plus variable cost) per sale was greater in 2005.

DISTRIBUTOR INCENTIVES. The overall decrease in distributor incentives of 25.9%, which is 4.2% more than the decline in sales, is primarily due to change in the product mix to lower incentive rate goods and services.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. In the three month period ended December 31, 2005, selling, general and administrative expense decreased by 30.9% relative to the same period of 2004. The three month period ended December 31, 2004 included start-up costs for the Gatefor subsidiary which did not recur in 2005. Additionally, the costs for training and events were reduced in 2005.

OTHER INCOME (EXPENSE), NET. This category represents non-recurring items. There was a swing of $260,000 from other expenses, net of $246,000 in the comparable period of the prior year to net other income of $14,000 in the current year's three months ended December 31, 2005. The change was a primary result of recognizing into income approximately $40,000 in expired gift certificates and the absence of one time non-recurring expenses incurred in the prior year in the current year.

INCOME TAXES. In the prior year's comparable quarter, we had an income tax benefit of approximately $429,000 vs. an expense of close to $1,250,000 in the quarter ended December 31, 2005. This is primarily a result of a pretax income at AJOL, our Japanese operating subsidiary of approximately $1.65 million. As consolidated returns cannot be filed in Japan, losses at PPOL, a California entity, and USC, a Japanese entity that was merged into AJOL in December 2005, could not be offset against AJOL income. The current year's tax provision also includes a $490,000 addition resulting from an unfavorable exchange rate conversion of our yen denominated tax accounts.

RESULTS OF OPERATIONS - NINE MONTHS ENDED DECEMBER 31, 2005 AS COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2004

PRODUCT SALES AND NETWORK SERVICES. The nine month period ended December 31, 2005 declined by 14.0% ($11.1 million)from the prior year's comparable period. This was primarily due to the current economic environment and consumer attitude toward network marketing, which resulted in a $5.5 million reduction in revenues for the six months ended September 30, 2005. As discussed above in the Overview and three month results, we are evolving into a direct marketing organization. This resulted in an additional $5.6 million reduction in revenues from the prior year's comparable nine months.

OTHER ON-LINE SERVICES For the nine months ended December 31, 2005, increased by 10.1% over the comparable period of the prior year. This was especially attributable to increases in the area of mail order sales of Kamome branded goods and services provided by the Company.

COST OF SALES. The increase in cost of sales was 1.5% over the comparable nine month period of the prior year even though total revenues declined by 9.75%. This was a result of fixed overhead costs which could not be reduced in line with the decline in sales. In addition, we had a monthly accrual for a promotional program to increase the number of members who join a mutual heath insurance plan administered by AJOL. Under this program, new members will receive a refund of $94 (Japanese Yen (JPY)10,000) of their insurance premiums if they do not make any claims in their first year. This promotional program is an investment in the future aimed at increasing the number of renewing members.

DISTRIBUTOR INCENTIVES. The increase in mail order sales for the nine month period ended December 31, 2005 compared to equivalent period of the previous year was comprised of the sale of lower-cost products which did not qualify distributors for significant commissions. As a result, in the nine month period ended December 31, 2005, the cost of distributor incentives decreased by 21.0% relative to the corresponding period of the previous year.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. For the nine months ended December 31, 2005, selling, general, and administrative expenses increased by 15.6% relative to the corresponding period of the prior year. Three factors contributed to this increase. First, the move to a new office resulted in two rent expenses. Also associated with the change in office locations was the cost of restoring the old office space to its original condition. Second, the cost of system maintenance increased. Third, we incurred research and inspection costs to develop a voice recognition engine, an on-line shopping cart function and a gateway function. Finally, there were approximately $2.2 million in new general and administrative items incurred by USC.

OTHER INCOME (EXPENSE), NET. This category represents non-recurring items. There was a swing of $270,000 from other expenses, net of $242,000 in the comparable period of the prior year to net other income of $27,000. The in the current year's three months ended December 31, 2005. The change was a result of recognizing into income approximately $40,000 in expired gift certificates and the absence of one time non-recurring expenses incurred in the prior year in the current year.

INCOME TAXES. Our income tax expense was comparable to the same period of the prior year even though we had a pretax loss of $1,930,000 in comparison to a pretax income of $1,090,000 in the prior year. Both years are impacted from the income of our subsidiary AJOL, a Japanese corporation, being unable to be consolidated with the losses incurred by PPOL, a California entity, and USC, a Japanese corporation that was merged into AJOL in December 2005, this year and the losses at PPOL and Gatefor, a Japanese corporation, which was disposed of in March 2005 in the prior year. The pretax income of AJOL was $1,580,000 and $4,100,000 for the nine months ended December 31, 2005 and 2004, respectively. The unfavorable exchange rate conversion of our yen denominated tax accounts contributed to an additional expense of $1,160,000 this period..

Liquidity and Capital Resources

Since inception, we have funded our operations primarily through equity investments and short-term borrowings. On May 30, 2005, we sold 2,549,129 shares of our Common Stock for an aggregate consideration of $10.2 million at $4 per share to four investors. The Company issued the Common Stock in a private placement without registration under the Securities Act of 1933, as amended (the "Act"), in reliance on one or more exemptions from the registration requirements under the Act, including Regulation D.

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

The Company used the proceeds from the above noted sale of equity securities to purchase 100% of the issued and outstanding common stock of USC. The former CEO of PPOL, who had resigned in December 2005, is also the Representative Director of one of the investors, which purchased 463,478 shares for $1.9 million.

Our operating activities consumed $10.6 million and $1.6 million of cash during the nine months ended December 31, 2005 and 2004, respectively. Cash consumed in 2005 consisted of primarily of $3.9 million in net loss, adjusted by depreciation ($2.8 million), loss on sales/disposal of property, equipment and software ($1.1 million), deferred income taxes ($1.9 million), and a net change in assets and liabilities of ($12.6 million). Cash provided in 2004 consisted primarily of $0.9 million in net loss, adjusted by depreciation ($3.0 million), deferred income taxes ($1.5 million), and a net change in assets and liabilities ($5.2 million). The change in cash used by operating activities is attributable to the shift in our business focus to the development of direct marketing from the previous use of network marketing. This was a major factor in the net change in assets and liabilities of ($12.6 million).

Investing activities consumed $1.8 million and $5.4 million of cash during the nine months ended December 31, 2005 and 2004, respectively. Cash consumed in

2005 consisted primarily of the purchase of USC, noted above, of $3.5 million, offset by $0.8 million cash held by USC at acquisition date and $0.7 million reduction in other assets. Cash used in 2004 was primarily related to the purchase of software of $5.7 million and $300,000 reduction in other assets.

Financing activities provided $9.1 million and $3.3 million of cash during the nine months ended December 31, 2005 and 2004, respectively. Cash provided in 2005 consisted of $10.2 million equity financing, noted above, and repayment of $1.1 million in loans from our majority shareholder. Cash provided in 2004 was entirely from majority shareholder.

As of December 31, 2005, our cash of $7.6 million was $4.4 million less than our cash balance at March 31 2005 of $12.0 million. This was primarily a result of the net loss for nine months ended December 31, 2005 of $3.9 million, adjusted by cash used for operating activities $6.8 million, cash used for investing activities of $1.8, negative impact of exchange rate changes on cash and cash equivalents of $1.1 million, offset by $9.1 million provided by financing activities.

While we believe that our current cash on hand, together with cash we expect to generate from future operations, will be sufficient to satisfy our anticipated cash requirements and capital expenditures for the next 12 months, we will consider additional sources of financing if is deemed to be in the best interests of the Company.

Contractual Obligations

The Company's operating lease & purchase obligations as of December 31, 2005 are as follows:

	Payments due by period		
Contractual obligations	Total	Less than 1 year	More than 1 year
Operating Lease Obligations	$ 203,340	$ 203,340	--
Service Provider Contracts	377,651	377,651	--
Total	$ 580,991	$ 580,991	$ --

Critical Accounting Policies and Estimates

PPOL's significant accounting policies are discussed in Note 1, Organization and Summary of Significant Accounting Policies, in our notes to the consolidated financial statements for the (1) years ended March 31, 2005 and 2004 included in our Form 10-K, and (2) nine months ended December 31, 2005 included in this document. The application of certain of those policies requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported.

The following accounting policies involve a "critical accounting estimate" because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made. In addition, while we have used our best estimates based on facts and circumstances available to us at the time, different estimates reasonably could have been used in the current period, and changes in the accounting estimates we used are reasonably likely to occur from period to period which may have a material impact on the presentation of our financial condition and results of operations. We review these estimates and assumptions periodically and reflect the effects of revisions in the period that they are determined to be necessary.

Revenue Recognition:

The Company commenced sales of its MOJICO product utilizing the Direct Marketing method ("Direct Method") in January 2006. Revenues derived from the Direct Method are recognized when (a) products are shipped or services are provided, (b) customer payment is fixed, (c) free of contingencies and significant uncertainties, and (d) collection is probable. Under the Direct Method, our customers may purchase only the deliverables they choose to purchase and are not required to purchase multiple deliverables for one price. Accordingly, our revenues and related profits will decline if our customers do not choose to purchase the multiple deliverables they were previously required to purchase.

Revenue from MOJICO product sales sold under the Network Marketing method ("Network Method") is accounted for in accordance with guidelines established by the Emerging Issues Task Force Issue of the Financial Accounting Standards Board Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," or EITF 00-21. Under the Network Method, customers were required to purchase multiple deliverables for one price.

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

The weighted average customer relationship period will increase if we are successful in increasing the length of time a customer maintains their relationship with us. This translates into a longer period over which we would recognize revenues from the sales of the MOJICO resulting in lower quarterly revenues unless we are able to make up for the reduction by an increase in our current MOJICO shipments and other revenues where deferred revenue recognition is not required. Our other revenues where deferred revenue recognition is not required is dependent, in part, on the length of our average customer relationship period as this implies a broader base of customers from whom we can derive revenues from. Conversely, if our average customer relationship period declined, this would have the direct opposite effect of what was heretofore discussed in this paragraph.

While we have terminated sales under the Network Method, in October 2005, we continue to recognize revenues derived from the Network Method as required by EITF 00-21.

The impact of termination of the Network Method is a systematic reduction of our existing largest asset and liability on our balance sheet, deferred costs and deferred revenues, respectively, over the course of the next three years.

Deferred revenues and costs will be recognized as revenues and cost of sales, respectively. It is expected that the difference by which our existing deferred revenues exceed deferred costs will be recognized as gross profit to the Company over the next three years. Any changes in the average customer relationship period will result in the recognition of such gross profit over a period shorter or longer than three years. While the Company, at this time has no plans to dispose of its AJOL subsidiary, such gross profit will only be partially recognized if the Company were to dispose AJOL.

Software

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

Our computer software is also subject to review for impairment as events or changes in circumstances occur indicating that the amount of the asset reflected in the Company's balance sheet may not be recoverable.

Goodwill

The acquisition of USC was at a premium over the net recorded net worth of $1.8 million. In determining to pay this premium, we considered various factors, including the opportunities that USC offers to enhance our future growth opportunities, synergies with our present operations, cost and time advantages of establishing a comparable company on our own, contacts with prospective vendors and elimination of a potential competitor.

In its determination of the amount to be ascribed to Goodwill, the Company has considered whether the acquisition included various identifiable intangible assets. As USC is in the development stage with no revenues, at this time, we believe no value can be ascribed to the trade names, trademarks, customers, and workforce. Accordingly, the Company has estimated that the entire premium to be attributable to Goodwill.

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

On a go forward basis, we will evaluate Goodwill for possible impairment using the guidance in SFAS No. 142, "Goodwill and Other Intangible Assets" on at least an annual basis. The review for impairment requires the use of significant judgments about the future performance of the PPOL's operating subsidiaries.

Income Taxes:

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Limited Operating History

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 fiscal 2006 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 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. In addition, our operations in Japan face significant competition from existing and new competitors. Our operations would also be harmed if our planned growth initiatives fail to generate continued interest and enthusiasm among our distributors in this market and fail to attract new distributors.

Dependence on Mr. Aota

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

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

Failure Of New Products And Services To Gain Market Acceptance

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

Losing Sources Of Kamome Products

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

Competition With Technically Superior Products And Services

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

Internet Usage Rates And Long Distance Telephone Rates

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

Reliance On Internet As Transmission Medium

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

Technological Changes Of The Messaging And Communications Industry
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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, nonstop, 24 hour, continuous installation environment surveillance, and private power generators as backup. There can be no assurance that our existing and planned precautions of backup systems, regular data backups and other procedures will be adequate to prevent significant damage, system failure or data loss.

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

Reliance On Third Party Access For Telecommunications

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

Effect Of Government Regulations

We provide access to our database and services through data transmissions over public telephone lines and other facilities provided by telecommunications companies. These transmissions are subject to regulatory government agencies. These regulations affect the prices that subscribers must pay for transmission services, the competition we face from telecommunications services and other aspects of our market. There can be no assurance that existing or future laws, governmental action or rulings will not materially and adversely affect our operations. Additionally, we operate through various 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.

Minority Shareholder Status

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

No Lock-up Agreement Between Foster Strategic Investment Partnership

To date, PPOL has not entered into a separate lock-up arrangement with Foster Strategic Investment Partnership pursuant to which these shareholders would agree to be subject to volume and sale restrictions that will limit their ability to sell shares in addition to the restrictions set forth under Rule 144. If a suitable lock-up agreement is not in effect, then Foster Strategic Investment Partnership may be eligible to sell a large volume of shares, which could cause the price of PPOL's shares to decline.

No History As Reporting Company

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

Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission.

Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the aforementioned disclosure controls and procedures were not effective as of December 31, 2005 and must be revised, as described in the following paragraphs. There were no other significant changes made in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

Our independent registered public accounting firm, Windes & McClaughry, has advised our audit committee and management that it considers the two matters to be "material weaknesses" as that term is defined under standards established by the Public Company Accounting Oversight Board (United States).

The first matter related to the fact that our independent registered public accounting firm identified a material adjustment which was required to be made to the financial statements for the nine months ended December 31, 2005. The adjustment was to our provision for income taxes whereby we did not provide for the tax benefit of an operating loss carryforward that was needed by AJOL, our Japanese operating subsidiary. The adjustment has been reflected in the financial statements included in this Form 10-Q. Had such adjustment not been recorded, non-current deferred tax assets would have been understated by $532,540 at December 31, 2005 and the net loss for the nine months ended December 31, 2005, would have been overstated by $532,540.

The second matter was that during the course of our procedures, we determined that Goodwill was understated by $205,991 for the acquisition of USC on May 30, 2005. The impact of the understatement of goodwill on the financial statements is as follows:

		Statement of income	
	Balance Sheet	3 months	6 months (YTD)
	Comprehensive	Other comprehensive gain	

June 30, 2005	Goodwill	Income	Foreign currency translation	
As stated in 10-Q	$1,761,211	$1,149,223	$ 243,404	n/a
As restated	$1,919,068	$1,307,080	$ 401,261	n/a
Impact	$ 157,857	$ 157,857	$ 157,857	n/a
September 30, 2005				
As stated in 10-Q	$1,761,211	$1,383,171	$ 233,948	$ 477,352
As restated	$1,877,803	$1,499,763	$ 192,683	$ 593,944
Impact	$ 116,592	$ 116,592	$ (41,265)	$ 116,592

The Board of Directors has concluded that the understatement of Goodwill, the material adjustment to deferred taxes discovered by our independent registered public accounting firm and the related delay in submitting this Form 10-Q were the result of insufficient staffing and the lack of internal expertise in international tax accounting. To ensure such adjustments and filing delays will be avoided in the future, we have hired a full time assistant to the CFO and retained the services of a consultant who was formerly a Director of International Tax at a Big Four accounting firm with over 20 years of experience. With the retention of the aforementioned staff and consultant, we believe that the controls and procedures designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission as adequate.

We have initiated our planning for the implementation of Section 404 of the Sarbanes-Oxley Act (Section 404). We have hired two full time individuals who will be responsible for the implementation of Section 404 under the guidance of the CFO. While they will report directly to the CFO on a day to day basis, they have direct access to the Board of Directors. The implementation of Section 404 will involve significant costs and commitments in terms of our financial and personnel resources, and there is a possibility that we may not complete our 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

None.

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

A - Exhibits:

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

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

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

B - Reports on Form 8-K

1) On July 13, 2005 the Company filed a Current Report on Form 8-K under item 8.01, "Other Events," which reported the anticipated delay in filing the Company's Form 10-K beyond the extended due date of July 14, 2005.

2) On July 26, 2005 the Company filed a Current Report on Form 8-K under item 8.01, "Other Events," which reported the sale of the Company's stock sold by a shareholder and affiliate of the Company to Japanese purchasers.

3) On August 23, 2005 the Company filed a Current Report on Form 8-K under item 3.01, "Notice of Delisting or Failure to Satisfy a Continued Listing Rule or Standard; Transfer Listing," which reported that the Company had initiated a hearing with the OTC Bulletin Board Filing Department of the National Association of Securities Dealers to discuss the Company's SEC reporting status.

4) On September 9, 2005 the Company filed a Current Report on Form 8-K under item 4.01, "Changes in Registrant's Certifying Accountant," which reported that the Company's auditors, Stonefield Josephson, Inc., had declined to stand for reelection as the Company's auditors. Additionally, concerns raised by Stonefield Josephson, Inc. were noted in this filing.

5) On September 22, 2005 the Company filed a Current Report on Form 8-K under item 4.01 "Changes in Registrant's Certifying Accountant," which reported that the Company's relationship with its auditor, Stonefield Josephson, Inc., would cease and that the Company's Board of Directors had engaged Windes and McClaughry Accountancy Corporation for the quarter ended June 30, 2005. The Company also reported under item 3.01, "Notice of Delisting or Failure to Satisfy a Continued Listing Rule or Standard; Transfer Listing," which noted that it was delinquent in filing its first quarter Form 10-Q and that it had scheduled a hearing with the OTCBB Filings Department regarding its SEC reporting status.

6) On September 22, 2005 the Company filed a Current Report on Form 8-K/A under item 4.01, "Changes in Registrant's Certifying Accountant," which

reported that the Company's auditors, Stonefield Josephson, Inc., had declined to stand for reelection as the Company's auditors. Additionally, concerns raised by Stonefield Josephson, Inc. were noted in this filing. As an exhibit to this filing was Stonefield Josephson's letter addressed to the SEC regarding the Company's filing on September 9, 2005.

7) On September 26, 2005 the Company filed a Current Report on Form 8-K/A under item 4.01, "Changes in Registrant's Certifying Accountant," which reported that the Company's auditors would be changing from Stonefield Josephson, Inc. to Windes and McClaughry Accountancy Corporation. Additionally, concerns raised by Stonefield Josephson, Inc. were noted in this filing.

8) On December 15, 2005 the Company filed a Current Report on Form 8-K under item 5.02, "Departure of Directors or Principle Officers; Election of Directors; Appointment of Principle Officers" reporting the resignation of Mr. Hisao Inoue as Chief Executive Officer and Member of the Board of Directors of PPOL, Inc., effective December 15, 2005. It was also reported that in addition to fulfilling the responsibilities of his previous position as the Chief Operating Officer of the Company, Mr. Masao Yamamoto is scheduled to assume the position of Chief Executive Officer upon Mr. Hisao Inoue's resignation.

9) On January 24, 2006 the Company filed a Current Report on Form 8-K/A under item 4.01, "Changes in Registrants' Certifying Accountant" and item 9.01, "Financial Statements and Exhibits" reporting the engagement of Windes and McClaughry Accountancy Corporation as the Company's auditors. This report also discussed the concerns of the Company's previous auditors, Stonefield Josephson, Inc., and their resignation. A signed letter to the SEC from Stonefield Josephson regarding item 4.01 of the Company's Form 8-K/A of September 26, 2005 was included as an exhibit.

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)

March 23, 2006	/s/ Masao Yamamoto
Date	Masao Yamamoto, Chief Executive Officer
March 23, 2006	/s/ Richard Izumi
Date	Richard Izumi, Chief Financial Officer