

Digital Garage, Inc.
FYE 2009 Financial Report

August 14, 2009



Digital Garage

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Mission & Business Model



Context Company

Digital Garage creates innovative business "context" for the new internet age and provides unique business solutions for Japan's new lifestyles, society and industries by linking:

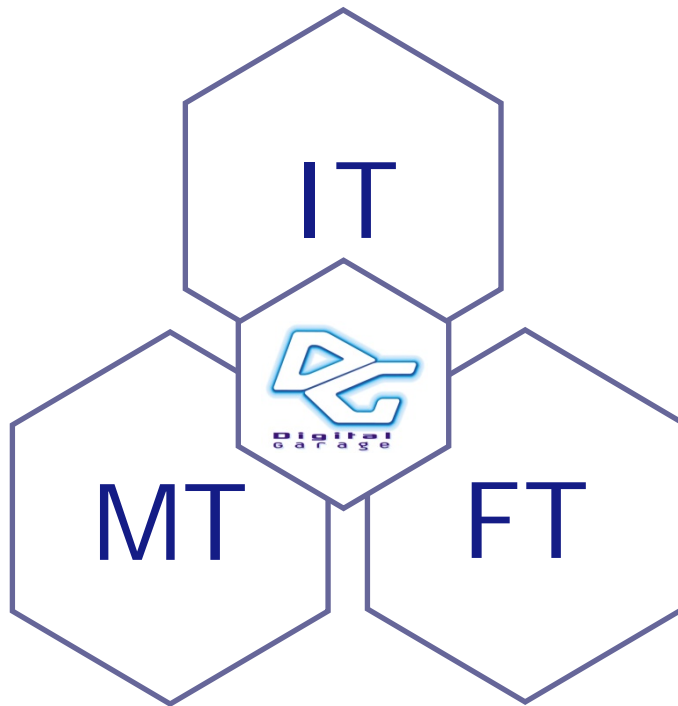
Real & **Cyber**
Local & **International**
Marketing & **Technology**
Present & **Future**



A black and white photograph of a man in a suit standing in a narrow alleyway, looking thoughtful with his hand to his chin. A blue square with a white ampersand is overlaid on the wall to his left. The text 'Context Company' is written in a serif font across the bottom of the image.

C o n t e x t C o m p a n y

Produce and incubate Japan's Internet businesses
with optimal use of our three core strengths: IT, MT and FT



- ★ Information Technology
- ★ Marketing Technology
- ★ Financial Technology

Group Financial Performance Review



Intensive and targeted resource allocation: Business re-engineering aiming at mid- to long-term growth

◆ Business re-organization

1. Sale of Kakaku.com stock (consolidated subsidiary) to CCC and business alliance with CCC
2. MBO sale of DG Communications (consolidated subsidiary)
3. Sale of DG Incubations (consolidated subsidiary) to IT Holdings
(formation of new DG Incubation as wholly-owned subsidiary)

◆ Aims and effects

1. Optimal allocation of business resources
 - ⇒ Re-organization of business portfolio
 - ⇒ Emphasis on media/incubation businesses
2. Financial re-structuring
 - ⇒ Effective utilization of capital raised through sale of Kakaku.com
 - ⇒ Significantly improved financial balance
 - Capital-to-asset ratio: 12% (FYE 2008) ⇒ 40% (FYE 2009)

(¥ million)	FYE 2008 (Actual)	FYE 2009 (Actual)	Year-on-Year (Amount)
Net sales	39,582	34,499	-5,084
Operating income	-172	981	+1,153
Ordinary income	-375	537	+912
Net income	-2,430	5,450	+7,880

□ Performance Review

- Net sales down 13% year-on-year; operating income up 1,153 million yen (FYE 2009: 981 million yen vs. FYE 2008: -172 million yen)
- Net income record-high due to Kakaku.com stock sale of 15,854 million yen

□ Highlights of Year-on-Year Increases and Decreases

- Sales** - DG Communications (formerly Sogei) revenue decrease (approx. 7,300 million yen)
- Profit** - Positive impact from strong performance by Kakaku.com
- DG&Ibex (formerly DGMM) posting full-year profit
- CGM Marketing posting Q4 profit
- Kakaku.com stock sale of 15,854 million yen
- Business restructuring cost (extraordinary loss totaling 4,424 million yen)

FYE 2009 Balance Sheet (Consolidated)

(¥ million)	FYE 2008 (Actual)	FYE 2009 (Actual)	Year-on-Year (Amount)
Current assets	29,855	24,000	-5,855
Incl. cash and deposits	9,898	13,133	+3,235
Fixed assets	10,202	6,274	-3,928
Total assets	40,057	30,275	-9,782
Current debt	27,635	17,360	-10,275
Fixed debt	2,704	925	-1,780
Incl. interest-bearing debt	10,656	5,833	-4,823
Net assets	9,716	11,989	+2,273
Total debt/net assets	40,057	30,275	-9,782

■ Financial stability established

◆ Current ratio

FYE 2008 108% → FYE 2009 138%

◆ Percentage of interest-bearing debt

FYE 2008 27% → FYE 2009 19%

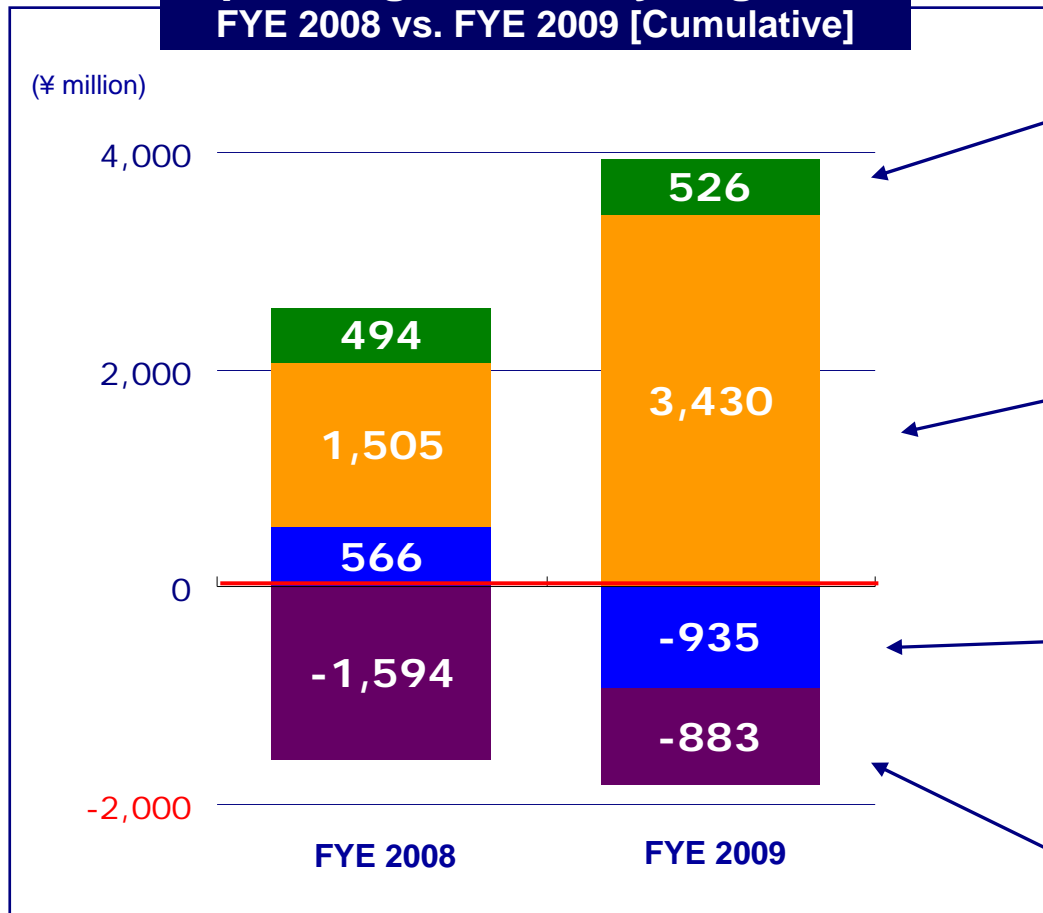
◆ Capital-to-asset ratio

FYE 2008 12% → FYE 2009 40%

* Kakaku.com and DG Communications are not included in FYE 2009 B/S (consolidated).

* Financial ratios for each year are calculated based on year-end figures.

Operating income by segment FYE 2008 vs. FYE 2009 [Cumulative]



■ Finance

+32 million yen (year-on-year)

Profit maintained despite e-context merger expenses

■ Portal/Weblog

+1,925 million yen (year-on-year)

Positive impact from strong performance of Kakaku.com group

■ Solutions

-1,501 million yen (year-on-year)

Deterioration of real estate market; loan losses incurred

■ Incubation

+711 million yen (year-on-year)

Scheduled sale delayed

Operating income by segment

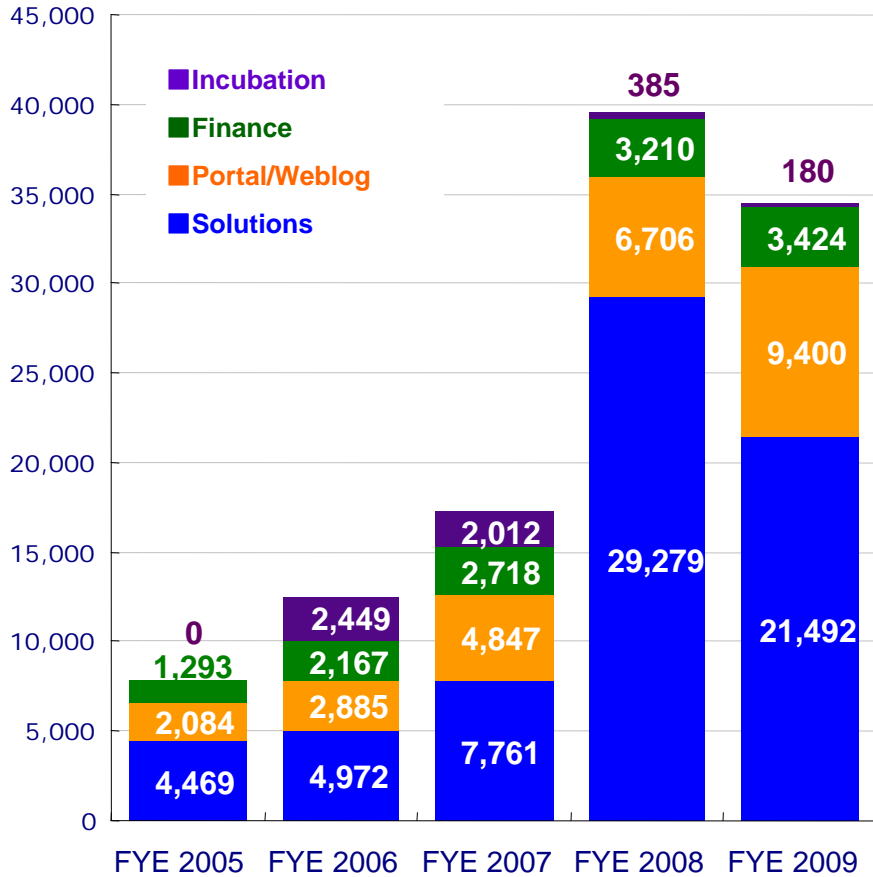
972 million yen → 2,131 million yen

(up 1,159 million yen year-on-year)



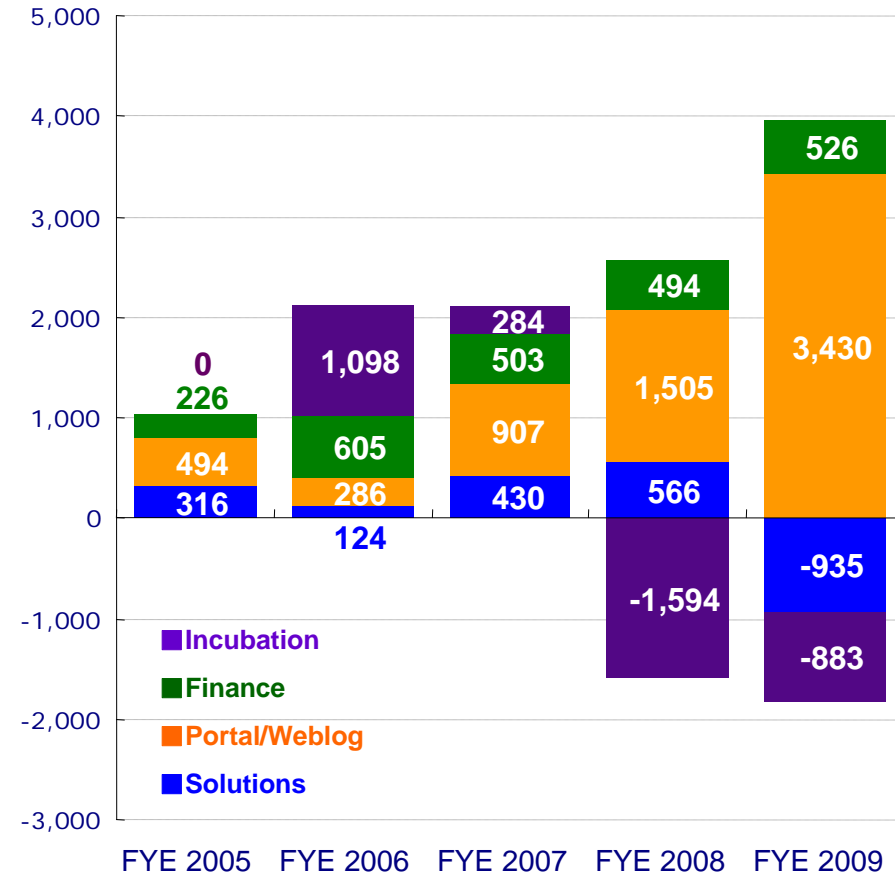
(¥ million)

Net sales



(¥ million)

Operating income



FYE 2009 Segment Performance Review



I

Solutions segment

IT system design and development, design/plan/implement marketing activities

II

Portal/Weblog segment

Portal business (e.g., Kakaku.com, CGM and weblog services)

III

Finance segment

Internet financial services for settlement, currency exchange and insurance, etc.

IV

Incubation segment

Investment promotion for Internet enterprises (business incubation)

I Solutions Segment - To B Solution Businesses

➔ Offering one-stop solutions as a “Hybrid Solution Partner” through business integration

- ◆ Engaged in commissioned businesses (To B) such as IT and MT solutions as stable revenue base of DG Group
- ◆ Sold DG Communications in MBO deal
- ◆ Focused on development of major media incubation projects similar to MS Store for Microsoft
- ◆ Proceeded with preparation for community-style media incubation projects using Twitter as part of capital/business alliance with CCC

Consolidated companies	Establishment/Subsidiary dates	Descriptions
➤ Digital Garage	95.8/ -	
➤ DG&Ibex Company	83.9/08.10 merged with DG	Next-generation solutions provider for sales-focused business
➤ Creative Garage Headquarters	03.2/08.10 merged with DG	Comprehensive media services (graphics, video, etc.)
➤ DG Media Marketing Headquarters	06.3/08.10 merged with DG	Group's media business operation and comprehensive web advertising solicitation

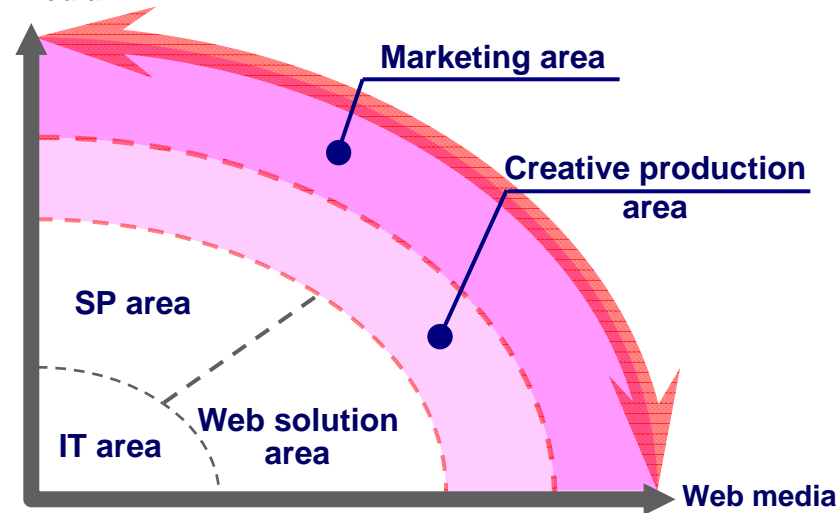


(Digital Garage DG&Ibex Company)

FYE 2009 Highlights

- **Achieved steady growth in total order amount** from foreign companies (cosmetics/pharmaceuticals/digital content providers/manufacturers)
- Launched **Microsoft® Store**, online shopping platform for Microsoft products, as group-wide collaborative project
- Increased profit of digital media business through consulting services for major web-based projects and conducted preparatory work targeting business expansion in FYE 2010
- Maintained stable level of orders for ongoing projects from major telecommunications carriers and **expanded sales** in non-digital media areas
- **Posted first full-year profit** for MM Headquarters (formerly DG Media Marketing) with healthy growth in cosmetics/financial areas
- Expanded increasing return businesses such as "Point Mall Service"

Real media



Evolve into business entity that offers multi-directional client supports (July 2009 onward)

Entering into full-fledged operational phase as Hybrid Solution Partner

Mid- and long-term strategy

- ◆ Secure Hybrid Solution projects similar to Microsoft® Store through systematic improvements for facilitating partnerships with national clients
- ◆ Diversify revenue base by developing original products and business models with increasing return through effective use of Twitter, in addition to commissioned businesses

II Portal/Weblog Segment - To C Solution Businesses

➔ Promote monetization by positioning Twitter as next key growth driver following Kakaku.com

- ◆ DG Mobile: proceed with monetization process in talent/content areas in collaboration with Twitter
- ◆ Technorati: move into different business areas in support of Twitter-focused efforts
- ◆ Kakaku.com: continuously support growth as top shareholder and accelerate alliance with new strategic businesses

Consolidated companies	Establishment /Subsidiary dates	Investment ratio	Descriptions
>CGM Marketing, Inc.	06.8/06.8	51%	Drive forward promotional businesses using blogs and Twitter
>DG Mobile, Inc.	04.2/04.2	100%	Mobile e-book distribution platforms and content
>Technorati Japan, Inc.	05.1/05.1	70%	Blog search engine "Technorati Japan"

Equity-method affiliate FYE 2010 onward			
>Kakaku.com, Inc.	97.12/02.6	20.3%	Price comparison website "Kakaku.com"



CGM Marketing

FYE 2009 Highlights

- Achieved **surplus in FYE 2009 Q4**, setting up growth base for next three years
- Completed framework for **co-development of media business/improved profitability** with contents holders



- Started offering solutions for corporate use as Japanese agent for **twitter**

DG MOBILE

FYE 2009 Highlights

- Market expansion and steady growth in **contents distribution business, ensuring DG's continuous surplus**

Number of e-book websites launched by DG Mobile

Period	Free websites	Client websites (development assisted by DG)	DG websites
06.12	9	11	0
07.6	9	25	0
07.12	9	33	0
08.6	6	54	7
08.12	6	65	7
09.6	7	79	7

- Mobile-compatible services **twitter** under review

Technorati JAPAN

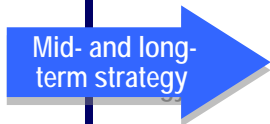
FYE 2009 Highlights

- Transition from blog search to **twitter** (mini-blog) under review

Twitter-linked services for TRUS



Position **twitter** business as new focus in media incubation



- ◆ Engage in business utilizing Twitter, the world's fastest growing web media that is also attracting a great deal of attention in Japan, as new media incubation focus after Kakaku.com
- ◆ Establish new Twitter-based profitability model linked with existing business assets while further expanding existing business

III

Finance Segment



**e-context to consolidate businesses as Hybrid Solution
in order to respond to changes in settlement market conditions**

- ◆ Facilitate diversification of client usages and settlement methods as part of capital/business alliance with CCC
- ◆ Engage in various preparations for Twitter-linked settlement methods as new settlement focus
- ◆ Develop new C to C settlement businesses in line with relaxation of settlement-related regulations

Consolidated companies

Establishment/Subsidiary dates

Descriptions

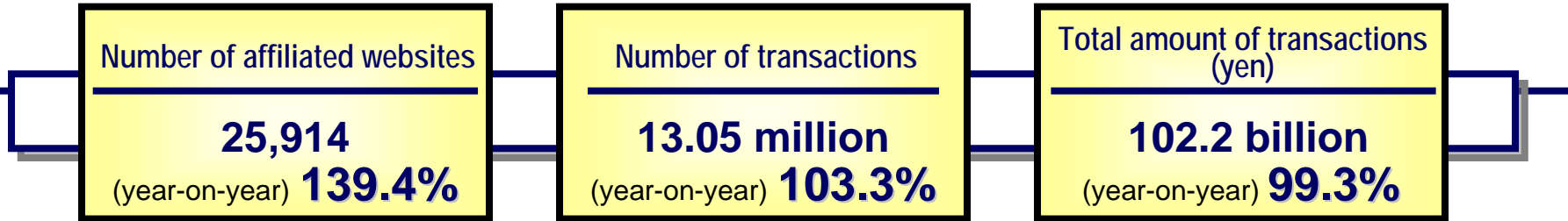
➤ Digital Garage

➤ e-context Company

00.5/08.10 merged with DG

Settlement/logistics platforms

FYE 2009 Actual



FYE 2009 Highlights

- September 2008: Provided collaborative services for ticket distribution and membership administration to Yoshimoto Kogyo and PIA
- November 2008: Given **administration** contract for Microsoft's online store "**Microsoft® Store**" [Hybrid Solution project]
- January 2009: Fully-compliant with PCI DSS, international information security standards for payment card industry
- April 2009: Started offering new settlement services using "Jibun Bank," mobile-phone-based Internet bank
- June 2009: **Provided fee settlement services for restaurants on tabelog.com**, a word-of-mouth restaurant information website

Overview

- Number of affiliated websites steadily increased as e-commerce market grew
- Meanwhile, total transaction value dropped slightly due to increasingly strong downward pressure on game-related unit prices

Microsoft® Store



Signed comprehensive contract for Microsoft's first online download store for software products to provide services from site development to administration (site opened in November)
Number of sales and downloads steadily increasing

Jibun Ginko (settlement services)



Started offering settlement services using "Jibun Bank" launched by KDDI Corp. and Bank of Tokyo-Mitsubishi UFJ
Further expanded corporate client base for mobile sites (e.g., HMV Online)

Future focus areas

- Development and implementation of new services for real-business
- Stronger collaboration with external partners such as CCC
- Development of Twitter-linked settlement services

IV Incubation Segment

➔ Create leading-edge Internet business, which is DG's corporate philosophy

- ◆ Play supportive role for further growth for each DG segment and achieve steady profit contribution to Group.
- ◆ Strengthen incubation focus on international/leading-edge Internet businesses
 - ⇒ Newly-formed DG Incubation to provide business localization support for overseas investment projects
- ◆ DG's equity in DG & Partners and domestic investment funds under its management sold to IT Holdings (ITH) with sale of former DG Incubation

Consolidated companies	Establishment /Subsidiary dates	Investment ratio	Descriptions
➤ Newly-formed DG Incubation	09.6/09.6	100%	Foreign investments and domestic business developments
➤ Former DG Incubation	05.7/05.7	0%	Sold to ITH
➤ DG & Partners, Inc.	05.9/05.9	0%	Equity in GP sold to ITH
➤ DG New Context Fund	05.10/05.10	0%	Equity in LP sold to ITH



■ FYE 2009 Highlights

- ▼ Revised and **reorganized** incubation strategies to reflect current severe business environment
- ▼ **Twitter**, in its second year of existence in Japanese, was **widely adopted** by domestic users
 - **Signed MOU** between U.S. Twitter HQ and DG and launched **development of mobile-phone services for domestic users** (scheduled to be officially available in Fall 2009)
 - **Used by various celebrities and politicians** (e.g., Ryuichi Sakamoto, IKKO, Kazuyo Katsuma and Kohmi Hirose), accelerating popularity among general users (Note: U.S. Twitter HQ does not disclose total number of Twitter users)
 - Use by major media companies, led by **NHK, TBS, Asahi Shimbun, Mainichi Shimbun**, accelerated further in 2009



CEO: Evan Williams



Strengthen localization support for existing invested businesses

Mid- and long-term strategy

- ◆ Due to overall slowdown in exits from investments triggered by global financial crisis, limit new investments and focus on localization support for existing overseas invested businesses for time being
- ◆ Maintain existing network with overseas market, while conduct ongoing reviews on angel round investment for promising services

New Mid-Term Management Plan



“Post-Kakaku.com” Strategy: Second Stage of DG Group Operation

Continuously support growth of Kakaku.com, as top shareholder and consolidated company, while maintaining existing operational/personnel relationships

I

Promote Group's Twitter-focused platform

- Group-wide total support for full-scale expansion of Twitter use in Japan

II

Development of strategic alliances with business partners

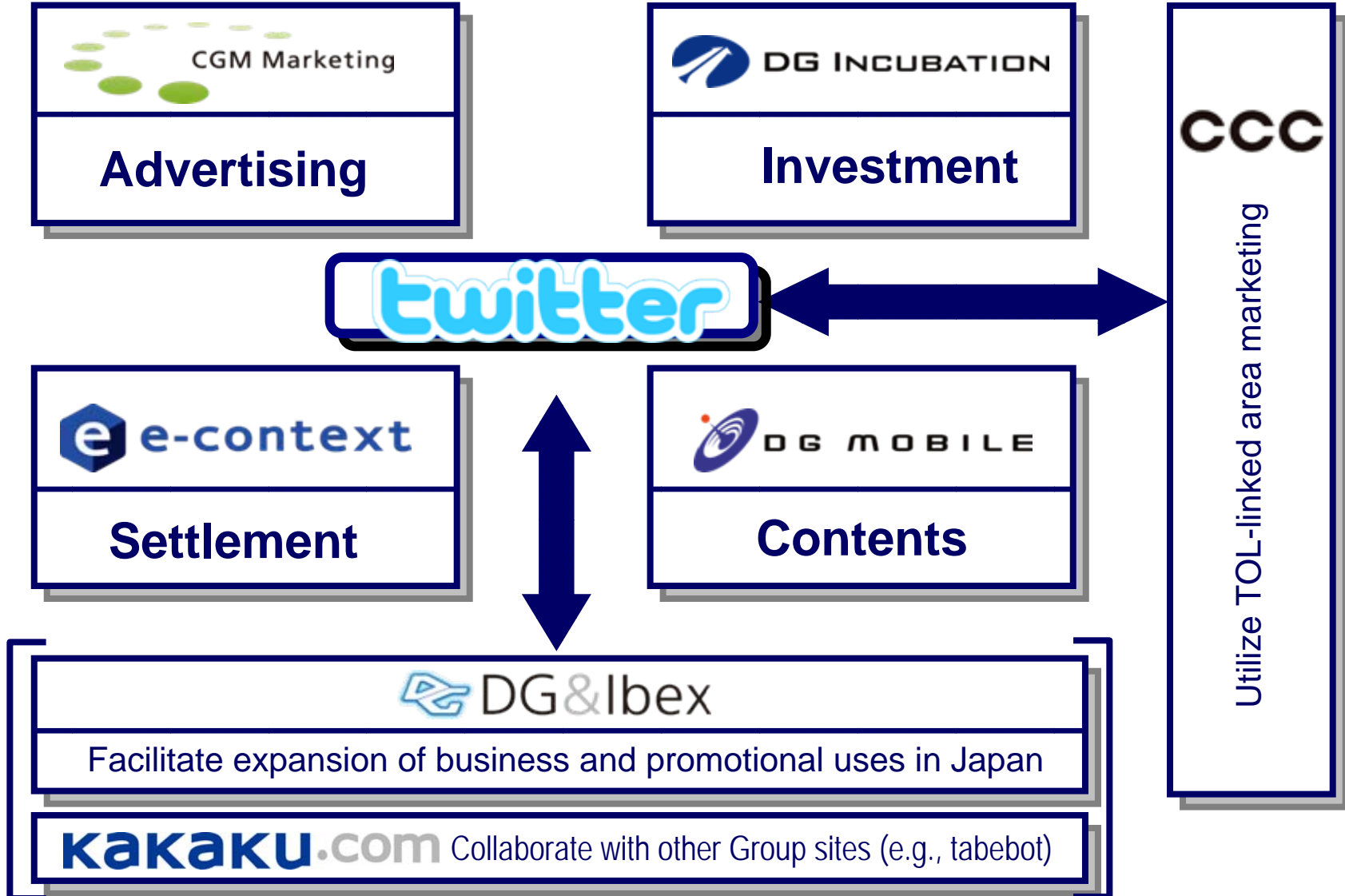
- Capital/business alliance with CCC

III

Solidifying of "Hybrid Solution" operational base and "DG" brand

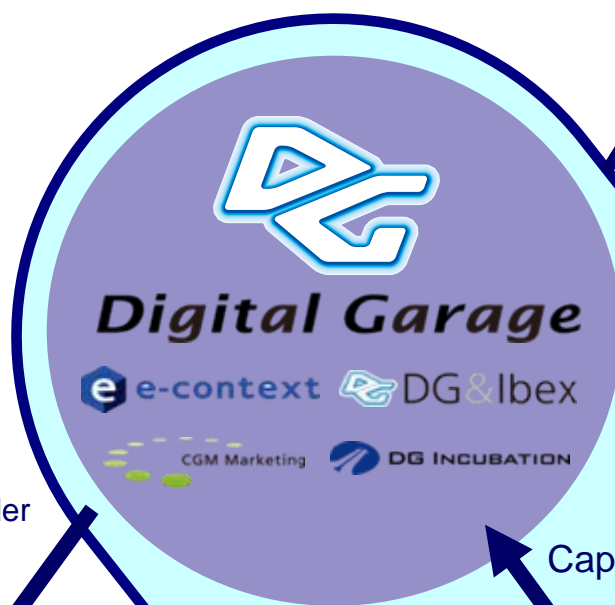
- Group of "e-Business professionals" that comprehensively covers every aspect from upstream to downstream

Comprehensive support for promoting Twitter in Japan





Capital/business alliance with CCC

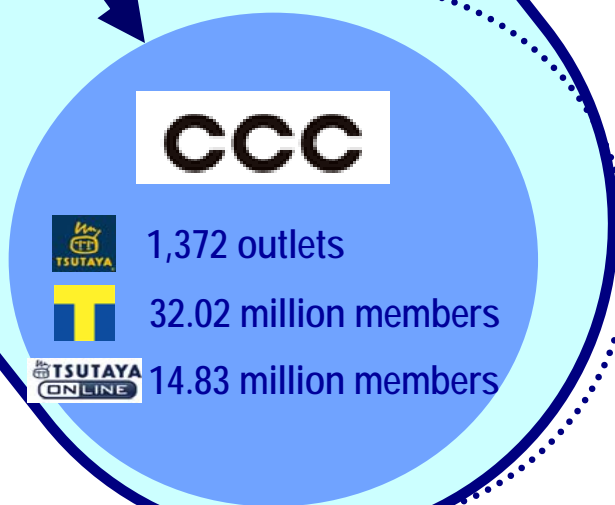


- ☑ Collaborate using e-context settlement services
- ☑ Build TSUTAYA member community
- ☑ Develop new profit-generating business for TSUTAYA Online
- ☑ Conduct joint R&D for next-generation Internet
- ☑ Develop Twitter-based area marketing

Top shareholder
20.3%

Capital/business alliance

Top share holder
20.3%

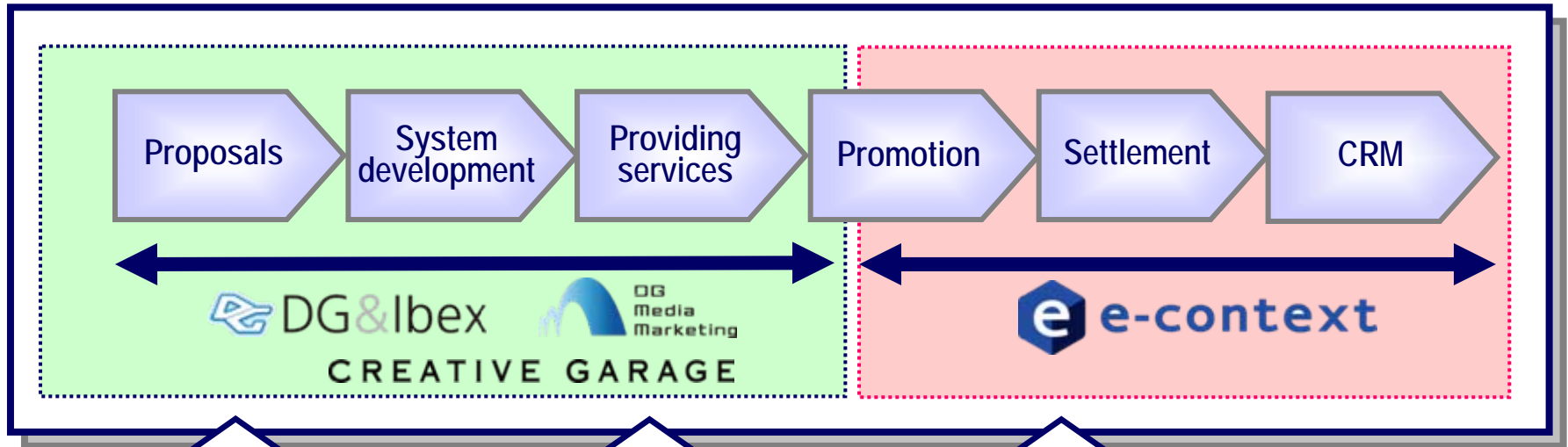


under review



➔ Seamless solution provider for e-Business: settlement + system development + promotion

Japan's only "Hybrid Solution Partner"



Microsoft® Store



twitter



CCC



... **NEXT** ➔



Hybrid Solution Segment

- Former Solutions and Finance segments consolidated as Hybrid Solution



Media Incubation Segment

- Former Portal/Weblog segment; focus on Twitter-centered media incubation



Venture Incubation Segment

- Localization support provider for existing overseas VCs
(services formerly provided to both domestic/overseas VCs)

	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012
Net sales	39,582	34,499	11,000	18,500	22,000
(year-on-year)		87.2%	31.9%	168.2%	118.9%
Operating income	-172	981	300	1,600	3,200
(to sales)		2.8%	2.7%	8.6%	14.5%
Ordinary income	-375	537	800	2,300	4,200
(year-on-year)			149%	288%	183%
Net income	-2,430	5,450	500	1,300	2,700

Net sales by segment

	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012
◆ Hybrid Solutions	32,086	24,348	9,500	13,500	15,000
◆ Media Incubation	7,110	9,969	1,500	5,000	5,700
◆ Venture Incubation	385	180	0	0	1,300
Total	39,582	34,498	11,000	18,500	22,000

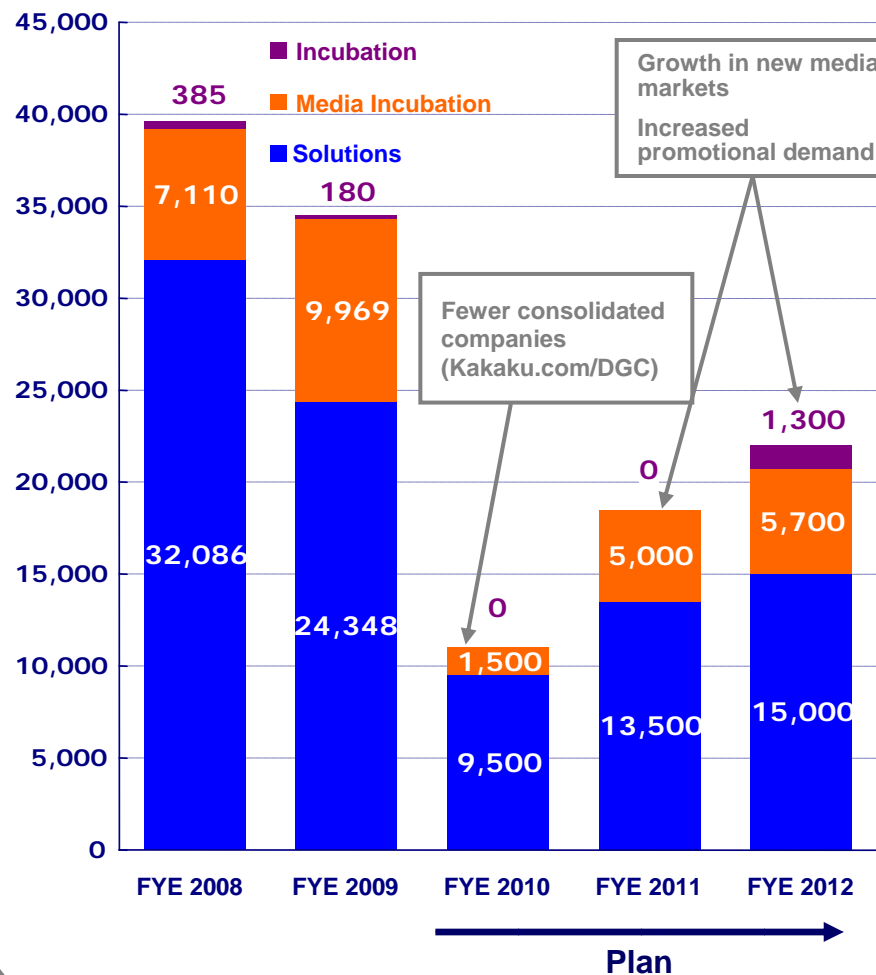
Operating income by segment

	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012
◆ Hybrid Solutions	1,146	-526	1,350	1,800	2,250
◆ Media Incubation	1,422	3,542	300	1,200	1,400
◆ Venture Incubation	-1,594	-883	-130	-150	850
Total	973	2,131	1,520	2,850	4,500

3-year performance plan (consolidated)

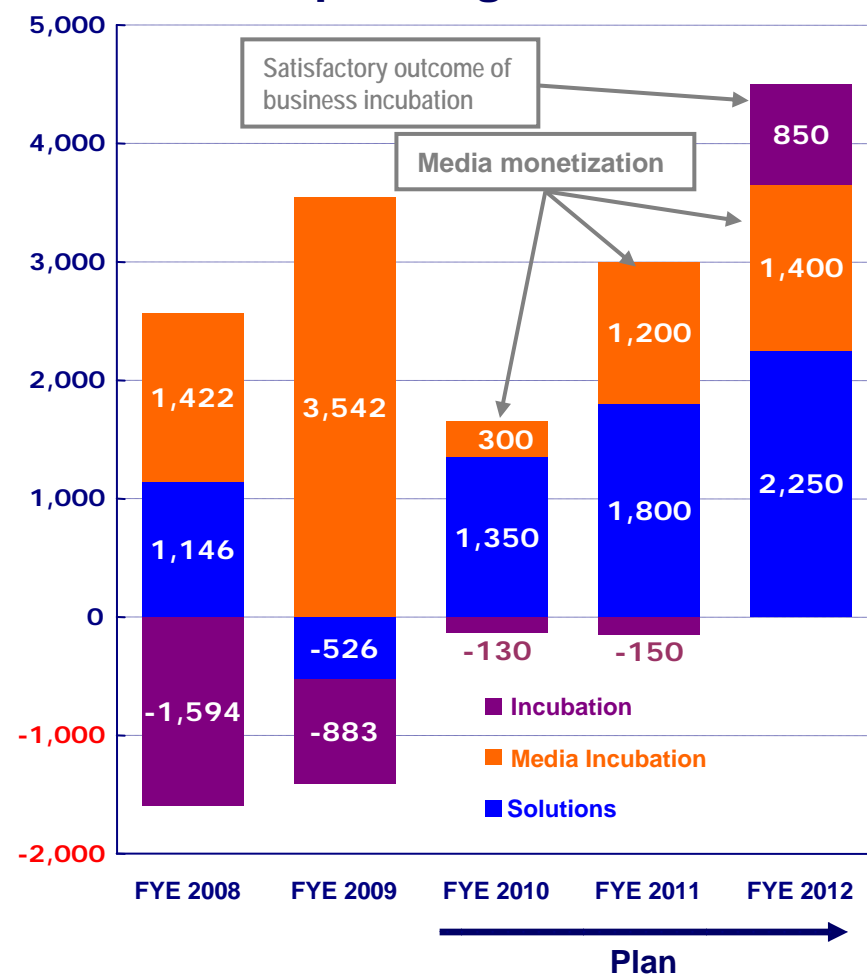
(¥ million)

Net sales

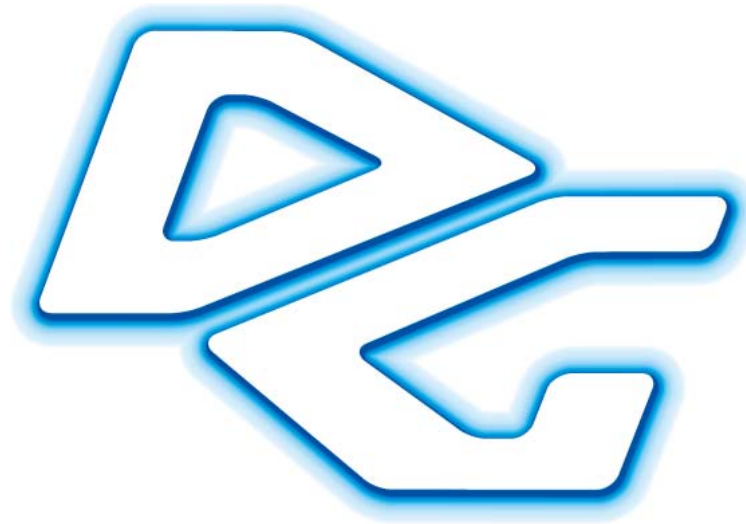


(¥ million)

Operating income



* Operating income: based on figures prior to Group tax deduction



Digital Garage

Please note that the business forecasts and strategies covered in this presentation are based on our current evaluation and future results may vary significantly depending on unforeseeable events or circumstances.