

August 27, 2008

For Immediate Release:

Company name: Digital Garage, Inc.  
Representative: Kaoru Hayashi, President/CEO  
(JASDAQ code: 4819)  
(URL <http://www.garage.co.jp/>)  
Direct inquiries to: Board Director Kota Sakurai,  
TEL: +81-3-5465-7747

## **Announcement of Group Realignment Merger and Divestiture of Subsidiaries**

Digital Garage, Inc. ("the Company") is pleased to announce that the Company's Board of Directors passed a resolution in its meeting held on August 27, 2008 to authorize the surviving company of Digital Garage, Inc. to absorb and merge with the dissolving companies of DG Solutions Co., Ltd., a wholly-owned subsidiary of the Company, and DG & Ibex, Inc. ("DG & Ibex"), Creative Garage, Inc. ("Creative Garage"), and DG Media Marketing, Inc. ("DG Media Marketing"), all of which are wholly-owned subsidiaries of DG Solutions, and entered into a merger agreement with these dissolving companies. The merger is subject to the demerger of Sogei Inc. ("Sogei"), a wholly-owned subsidiary of DG Solutions, in which Sogei inherits the rights and obligations of DG Media Marketing concerning its e-marketing business. The demerger is scheduled for October 27, 2008, the same day as the effective date of the merger. DG Marketing and Sogei entered into a demerger agreement on August 27, 2008.

In addition, the Company's Board of Directors resolved in its meeting held on August 27, 2008 to authorize the surviving company of Digital Garage, Inc. to absorb and merge with the dissolving company of ECONTEXT, Inc. ("ECONTEXT"), and entered into an absorption merger agreement with ECONTEXT. For details of this merger, please refer to the separate press release dated August 27, 2008.

### Notes

#### Purpose of the Merger and Demerger Concerning the Subsidiaries

Digital Garage, Inc. was founded in 1995 to conduct advertising, planning, production, and other businesses via the Internet. It operates according to a management vision to create new contexts (foundations in diversifying values) and contribute to society by organically connecting a variety of complex data and further enhancing the value of existence for corporations, customers, and data. It aims to do this by utilizing the Company's solution expertise based on its achievements since the early days of the Internet industry, and effective utilization of the state-of-the-art Internet technologies. The Company adopted a pure holding company system through a company split in January 2006 in order to strengthen its group management function, clarify the profitability and

management responsibilities of each of its businesses, and enhance the speed and flexibility of decision-making in each of its businesses. The Company operates in four core business areas: the solution business for IT construction, marketing promotion support, and Internet advertising-related business; the portal/blog business for Internet media businesses, such as Kakaku.com; the incubation business for investment in and development of venture and other companies; and the financing business for settlement and logistics, such as ECONTEXT's e-commerce, as well as foreign exchange margin transactions.

The corporate solution business is increasingly required to hybridize by comprehensively connecting "real" business and cyber (Internet) business. In the Digital Garage Group, we have DG & Ibex that promotes "real" and cyberspace businesses; DG Media Marketing that has established web advertising as its business domain; and Creative Garage that runs a creative production business. In addition, ECONTEXT, which conducts settlement business, can be defined in a broader sense as a corporate solution business. Digital Garage, a pure holding company, believes that the Company has succeeded in offering unique solutions that its competitors are unable to provide, by encouraging close working relationships between its solution companies.

In this environment, disharmony began to arise between Digital Garage and its solution companies and ECONTEXT, because business collaboration was strengthened largely due to the pure holding company structure. Specifically, issues such as the following have become evident between the group business companies, including ECONTEXT: slower decision-making, conflicts in the distribution of human resources, and time-consuming adjustment processes for transaction prices and profit sharing. These issues, in turn, led to conflicting interests that hindered the maximization of group value through maximizing business synergy. In addition, awareness has arisen of problems in the areas of internal control system introduction and appropriate distribution of management resources, as the cost of managing stock exchange listings increased. In addition, the need to offer total solutions to maximize customer profits has grown rapidly, including settlement. Digital Garage has determined that an integrated organizational system needs to be constructed and the diffused management resources need to be optimally redistributed to solve these issues, implement strategies for further growth, and conduct business in a flexible manner. The Company has therefore decided to transform itself from a pure holding company to an operating holding company. On August 27, 2008 it entered into an absorption merger agreement with the following four companies: DG Solutions, DG & Ibex, Creative Garage, and DG Media Marketing.

In addition, the business line of DG Media Marketing is scheduled to be divided into two areas: the Internet advertising agency business (e-marketing business) where corporate messages are communicated to Internet users via the Internet, and the solution business that seeks to share profits by helping to increase corporate sales through customer retention programs such as point systems. The former is expected to engender synergy with Sogei, a comprehensive advertising agency, due to the requirement to implement cross-media measures (in order to express messages in a variety of media) other than the web, and for that reason it will be split and absorbed by Sogei. The latter is expected to generate synergy with ECONTEXT (which conducts settlement business) and the Company's solution business, because accumulated points are considered semi-currencies and are likely to be supervised by the Financial Services Agency. For this reason, Digital Garage has decided to merge DGMM's solution business with the Company.

By amalgamating with its solution companies, Digital Garage will optimize its sales channels and conduct cross-marketing. This, in turn, will enable the Company to offer a more comprehensive consultation, marketing, and settlement unit that can solve customers' issues. From the

perspective of "Customer First," the Company will therefore be able to further enhance the corporate value of the DG Group.

The Company has chosen merger, which is the simplest and most effective management form for dissolving conflicts between maximizing the interests of each subsidiary and the group as a whole, reducing costs in indirect divisions, and constructing a system that can obtain large-scale orders and promptly implement unified growth strategies.

The upcoming group realignment is intended to further improve the group's competitiveness by offering an integrated solutions menu such as IT construction, advertising, marketing, and settlement infrastructure by merging the Company with the group solution companies as well as ECONTEXT, which provides settlement infrastructure as a solution business in a broader sense.

Going forward, Digital Garage plans to continue to develop its strategy from a group-wide perspective, so that the Company can operate its businesses more strategically and functionally as an operation holding company, while enhancing professionalization and creativity in the unified solution business incorporating Digital Garage, its solution companies, and ECONTEXT. In the incubation business, the Company has decided that it is most appropriate to continue to operate DG Incubation as a subsidiary, considering the special nature of investment business. Using DG Incubation as the core, the group plans to invest in state-of-the-art Internet ventures overseas, as well as conducting business incubation in Japan.

In addition, the media neutrality and independence of the Company's consolidated subsidiaries that conduct portal/blog business will be respected, as they will remain subsidiaries of the Company.

The Company plans to continue to reward its shareholders after the merger with its goal of enhancing the corporate and shareholder value of the overall Digital Garage group.

I. Outline of the Merger

1. Merger schedule

Meeting of the Board of Directors that resolved to undertake the merger (each company involved)	Wednesday, August 27, 2008
Conclusion of merger agreement (each company involved)	Wednesday, August 27, 2008
General meeting of shareholders to approve the merger (Digital Garage)	Friday, September 26, 2008 (planned)
Effective date of merger (the day on which the merger takes effect)	Monday, October 27, 2008 (planned)

(Note) The merger falls under the category of a short form merger as stipulated in Article 784, Paragraph 1 of the Companies Act of Japan. As a result, DG Solutions, DG & Ibex, Creative Garage, and DG Media Marketing will conduct the merger without being required to obtain approval at general meetings of shareholders.

Since the Company will sustain a so-called merger loss as a result of the merger, however, the Company has decided that the merger does not fulfill the requirements for a short form merger as stipulated in Article 796, Paragraph 3 of the Companies Act of Japan. For this reason, the Company plans to obtain approval for the absorption merger agreements at a general meeting of shareholders of the Company.

## 2. Merger method

The merger will be conducted by way of an absorption merger, with Digital Garage being the surviving company, and DG Solutions, DG & Ibex, Creative Garage, and DG Media Marketing being the dissolving companies.

## 3. Allocation of new shares in association with the merger

There will be no issuance of new shares and no increase of paid-in capital and reserves accompanying the merger, since DG Solutions is a wholly-owned subsidiary of the Company, and DG & Ibex, Creative Garage, and DG Media Marketing are wholly-owned subsidiaries of DG Solutions.

## 4. Treatment of stock acquisition rights and convertible bonds

DG Solutions, DG & Ibex, Creative Garage, and DG Media Marketing have not issued stock acquisition rights or convertible bonds.

## 5. Overview of parties to the merger (as of June 30, 2008)

(1) Company name	Digital Garage, Inc. (surviving company)	DG Solutions Co., Ltd. (dissolving company)	DG & Ibex, Inc. (dissolving company)
(2) Nature of business	Holding shares of group companies to manage their business activities	Intermediate holding company in the solution division	Marketing promotion support service, IT system design and development
(3) Date of establishment	August 17, 1995	January 5, 2006	September 18, 1983
(4) Location of head office	43-15, Tomigaya 2-chome, Shibuya-ku, Tokyo	43-15, Tomigaya 2-chome, Shibuya-ku, Tokyo	8-1, Sanban-cho, Chiyoda-ku, Tokyo
(5) Title and name of representative	President and CEO Kaoru Hayashi	Representative Director and CEO Masaharu Nishimoto	Representative Director and President Kazunari Higuchi
(6) Paid-in capital	1,831,833 thousand yen	100,000 thousand yen	100,000 thousand yen
(7) Number of shares issued	159,358 shares	2,100 shares	9,360 shares
(8) Net assets	2,750,045 thousand yen (non-consolidated)	1,560,904 thousand yen (non-consolidated)	1,045,123 thousand yen (non-consolidated)
(9) Total assets	11,776,438 thousand yen (non-consolidated)	3,805,219 thousand yen (non-consolidated)	4,920,644 thousand yen (non-consolidated)
(10) Fiscal year closing	June 30	June 30	June 30
(11) Major shareholders and shareholding ratios	Kaoru Hayashi: 27.9% State Street Bank & Trust Company: 7.0% TIS Inc.: 5.5% The Master Trust Bank of Japan, Ltd. (trust account): 5.2% BBH (LUX) Fidelity Funds Pacific Fund: 5.0%	Digital Garage: 100.0%	DG Solutions: 100.0%

(1) Company name	Creative Garage, Inc. (dissolving company)	DG Media Marketing, Inc. (dissolving company)
(2) Nature of business	Design and production of advertising graphics, video, web pages, etc., and general creative production such as publishing	Planning, development and sales of Internet ads, and marketing of group media
(3) Date of establishment	February 5, 2003	March 27, 2006
(4) Location of head office	43-15, Tomigaya 2-chome, Shibuya-ku, Tokyo	30-2, Uehara 1-chome, Shibuya-ku, Tokyo
(5) Title and name of representative	Representative Director and President Hitoshi Kiku	Representative Director and President Kinya Atsukawa
(6) Paid-in capital	30,000 thousand yen	75,000 thousand yen
(7) Number of shares issued	600 shares	34,000 shares
(8) Net assets	-13,164 thousand yen (non-consolidated)	210 thousand yen (non-consolidated)
(9) Total assets	134,741 thousand yen (non-consolidated)	266,997 thousand yen (non-consolidated)
(10) Fiscal year closing	March 31	June 30
(11) Major shareholders and shareholding ratios	DG Solutions: 88.8%	DG Solutions: 88.8%

(Note 1) The figures for net assets and total assets of Creative Garage are correct as of March 31, 2008, the final day of the most recent fiscal year.

(Note 2) The shareholding ratio of DG Media Marketing was 88.8% as of June 30, 2008, but has since increased to 100% as of August 27, 2008.

## 6. Post-merger situation

(1) Company name	Digital Garage, Inc.
(2) Nature of business	Solution business Settlement and logistics platform business in EC business, etc. Holding shares of group companies to manage their business activities
(3) Location of head office	43-15, Tomigaya 2-chome, Shibuya-ku, Tokyo
(4) Title and name of representative	President and CEO Kaoru Hayashi
(5) Paid-in capital	1,831,833 thousand yen (There will be no change to the amount of paid-in capital as a result of the merger.)
(6) Net assets	The amount has not yet been determined.
(7) Total assets	The amount has not yet been determined.
(8) Fiscal year closing	June 30

### (9) Overview of accounting treatment

Account treatment for the merger will be implemented by applying III. 4. Transactions under Common Control in the Accounting Standards for Business Associations (published on October 31, 2003 by the Business Accounting Council of the Financial Services Agency). No goodwill is expected to arise as a result of the merger.

## I. Summary of corporate divestiture concerning subsidiaries

### 1. Corporate divestiture schedule

Board of Directors meeting approving corporate divestiture agreement (both companies):	August 27, 2008
Conclusion of corporate divestiture agreement:	August 27, 2008
General meeting of shareholders to approve the corporate divestiture agreement (both companies):	September 25, 2008
Date of corporate divestiture (effective date):	October 27, 2008

### 2. Method of corporate divestiture

Absorption split with DG Media Marketing as the split company and Sogei as the succeeding company.

### 3. Allocation in association with the corporate divestiture

All of the 500 shares issued by Sogei at the time of the company split will be allocated to DG Media Marketing.

### 4. Increase in the amount of paid-in capital due to the corporate divestiture

There will be no change in the amount of paid-in capital.

### 5. Treatment of stock acquisition rights and convertible bonds

Not applicable.

### 6. Rights and obligations to be inherited by the succeeding company

Sogei will inherit any and all rights and obligations concerning DG Media Marketing's e-marketing business.

### 7. Prospect for fulfillment of debt obligations

The Company believes that the split company and succeeding company will not have any difficulties fulfilling their respective debt obligations to be performed on and after the effective date of the corporate divestiture.

### 8. Overview of parties to the corporate divestiture (as of June 30, 2008)

(1) Company name	DG Media Marketing, Inc. (split company)	Sogei Inc. (succeeding company)
(2) Nature of business	Planning, development and sales of Internet ads, and marketing of group media	Any and all advertising business including, but not limited to, planning, proposal-making, producing and implementation of advertising, marketing research, sales promotion, public relations.
(3) Date of establishment	March 27, 2006	November 27, 1962
(4) Location of head office	30-2, Uehara 1-chome, Shibuya-ku, Tokyo	15-7, Tsukishima 1-chome, Chuo-ku, Tokyo

(5) Title and name of representative	Representative Director and President Kinya Atsukawa	Representative Director and CEO Masaharu Nishimoto Representative Director and President Kimitoshi Ikeda
(6) Paid-in capital	75,000 thousand yen	100,000 thousand yen
(7) Number of shares issued	34,000 shares	275,000 shares
(8) Net assets	210 thousand yen (non-consolidated)	10,717 thousand yen (non-consolidated)
(9) Total assets	266,997 thousand yen (non-consolidated)	7,520,780 thousand yen (non-consolidated)
(10) Fiscal year closing	June 30	March 31
(11) Major shareholders and shareholding ratios	DG Solutions: 100.0%	DG Solutions: 100.0%

(Note 1) The figures for net assets and total assets of Sogei are correct as of March 31, 2008, the final day of the most recent fiscal year.

## 9. Overview of the split business division

(1) Nature of the business of the split division  
e-marketing business

(2) Business performance of the split division

(Unit: million yen)

	Fiscal year ended June 30, 2007	Fiscal year ended June 30, 2008
Sales	181	369
Gross operating profit	37	33
Operating income	6	-21
Ordinary income	6	-21

(3) Items and amount of assets and liabilities (as of June 30, 2008)

(Unit: million yen)

Assets		Liabilities	
Item	Book value	Item	Book value
Current assets	69	Current assets	66
Fixed assets	0	Fixed assets	—
Total	69	Total	66

(Note) Final amounts will be determined by adding or subtracting any increases and decreases in the above amounts up to the effective date.

## 10. Post-company split situation

(1) Split company

(i) Company name  
DG Media Marketing, Inc.

(ii) Nature of business

Planning, development and sales of Internet ads, and marketing of group media

(iii) Location of head office

30-2, Uehara 1-chome, Shibuya-ku, Tokyo

(iv) Representative

Representative Director and President: Kinya Atsukawa

(v) Amount of paid-in capital

There will be no change in the amount of paid-in capital as a result of the split.

(vi) Fiscal year closing

June 30

(2) Succeeding company

(i) Company name

Sogei Inc.

(ii) Nature of business

Any and all advertising business including, but not limited to, planning, development and sales of Internet advertising; sales of Group media; planning, proposal-making, producing and implementation of advertising; marketing research; sales promotion; public relations.

(iii) Location of head office

15-7, Tsukishima 1-chome, Chuo-ku, Tokyo

(iv) Representative

Representative Director and CEO: Masaharu Nishimoto

Representative Director and President: Kimitoshi Ikeda

(v) Amount of paid-in capital

There will be no change in the amount of paid-in capital as a result of the split.

(vi) Fiscal year closing

March 31

End of Document