

# Summary of Interim Business Results for FY March 2008

Date: November 6, 2007

Company **D3 INC.** Listed on the JASDAQ  
 Stock Code 4311 URL: <http://www.d3i.co.jp>  
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 Expected date of filing of semiannual report: December 17, 2007

(Rounded down to the nearest 1 million yen)

## 1. Business Results for FY September 2007 (From April 1, 2007 to September 30, 2007)

### (1) Results of Operations

(% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
September 2007 interim	3,976	5.0	-306	—	-350	—	-500	—
September 2006 interim	3,787	—	123	—	130	—	-84	—
FY March 2007	9,784	—	542	—	594	—	147	—

	Net income per share	Diluted net income per share
	¥	¥
September 2007 interim	-23,865.15	—
September 2006 interim	-4,006.23	—
March 2007	7,039.77	6,978.54

(Reference) Earnings/loss on investments in equity-method affiliates

First half ended September 2007: — million yen

First half ended September 2006: — million yen

Fiscal year ended March 2007: — million yen

(Note) Since the consolidated fiscal year ended March 2006 was an irregular 5-month accounting period, the Company did not prepare interim financial results. Therefore, year-on-year changes for the first half ended September 2006 are not presented.

### (2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	¥ Million	¥ Million	%	¥
September 2007 interim	10,374	3,535	33.8	167,024.24
September 2006 interim	8,822	3,759	42.6	179,309.45
March 2007	8,804	4,019	45.5	190,887.71

(Reference) Shareholders' equity:

First half ended September 2007: ¥ 3,508 million

First half ended September 2006: ¥ 3,759 million

Fiscal year ended March 2007: ¥ 4,003 million

### (3) Results of Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities	Balance of cash and cash equivalents at the end of year
	¥ Million	¥ Million	¥ Million	¥ Million
September 2007 interim	-2,092	-357	1,933	2,182
September 2006 interim	-1,502	1	2,838	2,621
March 2007	-1,166	-16	2,572	2,694

## 2. Dividends

(Record date)	Dividend per share		
	End of interim	Year-end	Annual
March 2007	—	600.00	600.00
March 2008	—	—	—
March 2008 (forecast)	—	2,800.00	2,800.00

## 3. Forecast of Financial Performance in FY March 2008 (April 1, 2007 to March 31, 2008)

(% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%	¥
FY ending Mar. 2008	15,673	60.2	1,252	130.9	1,071	80.2	589	299.4	28,110.10

## 4. Others

- (1) Changes in important subsidiary during the period (changes in specified subsidiary due to changes in the scope of consolidation): Yes

New consolidated subsidiary: 1 (Company name: Vicious Cycle Software, Inc.)

Excluded: —

- (2) Changes in rules, procedures and indication methods of accounting process concerning the preparation of interim consolidated financial results

① Changes due to revision of accounting standards: Yes

② Changes other than ①: None

- (3) Shares outstanding (common shares)

① Number of shares outstanding at end of period (treasury stock included):

First half ended September 2007: 21,037 shares

First half ended September 2006: 21,000 shares

Fiscal year ended March 2007: 21,006 shares

② Treasury stock at end of period:

First half ended September 2007: 32 shares

First half ended September 2006: 32 shares

Fiscal year ended March 2007: 32 shares

## (Reference) Summary of Non-consolidated Financial Results

### 1. Business Results for FY September 2007 (From April 1, 2007 to September 30, 2007)

#### (1) Results of Operations

(% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
September 2007 interim	524	165.9	140	—	125	—	163	—
September 2006 interim	197	—	-30	—	3	—	2	—
March 2007	903	—	44	—	143	—	66	—

	Net income per share
	¥
September 2007 interim	7,810.44
September 2006 interim	102.68
March 2007	3,189.55

(Note) Since the consolidated fiscal year ended March 2006 was an irregular 5-month accounting period, the

Company did not prepare interim financial results. Therefore, year-on-year changes for the first half ended September 2006 are not presented.

## (2) Non-consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	¥ Million	¥ Million	%	¥
September 2007 interim	9,871	4,612	46.5	218,485.23
September 2006 interim	7,659	4,364	57.0	208,152.59
March 2007	7,591	4,442	58.4	211,227.23

(Reference) Shareholders' equity:

First half ended September 2007: ¥ 4,589 million

First half ended September 2006: ¥ 4,364 million

Fiscal year ended March 2007: ¥ 4,430 million

### ※ Explanation regarding appropriate use of business forecasts and other special instructions

Forecasts regarding future performance in these materials are based on information and assumptions at the time this report was prepared. Therefore, actual results may differ significantly from the forecasts.

## 1. Results of Operations

### (1) Analysis of results of operations

In the first half of the fiscal year, Japan's economy continued to recover despite financial instability in other countries. Improving earnings at Japanese companies supported growth in capital expenditures, an upturn in employment and a recovery in consumer spending.

In the consumer game sector, the increasing popularity of handheld game consoles is fueling growth in the video game software market. In addition, there is a growing lineup of software for new home video game consoles. The result is steady expansion in the game software market as these new titles replace software for existing consoles.

In the mobile phone game sector, the performance of games is becoming more advanced along with improvements to the mobile phone infrastructure. For example, handsets have more advanced capabilities and carriers are offering new rate plans. Furthermore, competition has become more intense due to the diversification of user preferences involving services for mobile phones.

In the consumer game and mobile phone game sectors, the D3 Group (D3 and its consolidated subsidiaries) continued to offer a diverse and distinctive lineup of products and services. All products and services take advantage of the features of game consoles and mobile phones as well as match the desires of game users. As always, one goal is achieving greater satisfaction among game users. In addition, the Group continued to pursue synergies by offering a multiple-use content lineup and conducting global operations. The objective is to sell products to individuals who have the potential of becoming game users.

Due to these activities, first half consolidated net sales increased 5.0% to 3,976,603 thousand yen. However, the Group was unprofitable in the first half as higher earnings at subsidiaries in Japan were inadequate to offset losses caused by up-front business investments at overseas subsidiaries. As a result, there was an operating loss of 306,745 thousand yen compared with operating income of 123,165 thousand yen one year earlier. The ordinary loss was 350,134 thousand yen compared with ordinary income of 130,731 thousand yen and a net loss of 500,609 thousand yen compared with a net loss of 84,002 thousand yen one year earlier.

**Performance by business segment is outlined below.**

### [Computer Gaming Software Business]

In Japan, we added 16 new titles to the core *SIMPLE SERIES* of low-priced game software for casual game users. In the full-price game software category, we launched *CR Neon Genesis Evangelion – What's value of miracle –*, *Bakumatsu Renka Karyu Kenshiden*, and other titles. In response to advances in hardware performance and associated shifts in game user demands, we conducted the well-timed launches

of *Blazing Angel – SQUADRONS OF WWII* – for the Sony PS3 and *Saiyuki – Kinkaku Ginkaku no Inbo* – for the Nintendo DS.

In North America, new titles included *NARUTO 3* for the Nintendo DS platform along with *Dead Head Fred* and *DRAGON BLADE-Wrath of Fire*. Additionally, in response to advances in home network technology, we started distributing *MAD TRACKS* for Xbox Live Arcade.

In Europe, D3 continued to concentrate on selling game software from Japan and North America.

In the first half, consumer video game software sales totaled 1.43 million units, resulting in a 1.3% increase in first half segment sales to 3,534,813 thousand yen. However, since higher earnings in this segment in Japan could not offset losses at overseas subsidiaries, there was an operating loss of 475,800 thousand yen compared with operating income of 61,407 thousand yen one year earlier.

### **[Mobile Business]**

In the *SIMPLE100 SERIES* of low-priced games for casual users, we started distributing *THE Chokkan Bowling*, *THE Chokkan Kingyo Sukui* and other titles to take advantage of the latest functions of mobile phones. This series uses a membership-based software distribution system that generates monthly fees.

For *Kochira Munekyun Otome* members-only video game site for women, which generates monthly fees, we took actions aimed at attracting new members and enhancing the satisfaction of current members. We distributed a variety of content that was linked to introductions of games for women and events for fans in the Computer Gaming Software Business. Due to these activities, there were 1.13 million members at the end of the first half.

In the *SIMPLE500 SERIES* of rich game content, which uses a fee-based game download system, we distributed a steady stream of new content by using the multiple-use content approach developed in the Computer Gaming Software Business.

The result was a 48.7% increase in segment sales to 441,789 thousand yen and a 21.7% increase in operating income to 305,306 thousand yen.

### **Performance by geographic segment is outlined below.**

#### **[Japan]**

In the Computer Gaming Software Business segment, activities in the *SIMPLE SERIES* of low-priced game software mainly involved the launch of products for the Nintendo DS platform. In the full-price game category, shipments of *CR Neon Genesis Evangelion – What's value of miracle* – exceeded 160,000 units. The result was first half sales of 630,000 units.

In the Mobile Business segment, solid growth in the number of *SIMPLE100 SERIES* members raised total membership at the three carriers to more than 1.1 million.

First half sales in Japan increased 12.0% to 2,440,127 thousand yen and operating income decreased 16.5% to 474,138 thousand yen.

#### **[North America]**

First half shipments totaled 630,000 units as we launched 6 new titles in the full-price game category, including *NARUTO 3* for the Nintendo DS platform. Shipments of *NARUTO* series games, both new and existing titles, were strong, resulting in total first half shipments of 350,000 units in this series.

The result was a 6.4% increase in sales to 1,695,732 thousand yen. However, the operating loss increased from 201,623 thousand yen one year earlier to 434,756 thousand yen.

#### **[Europe]**

Due to the launch in Europe of 12 game software titles from Japan and North America, first half sales rose 109.1% to 156,371 thousand yen. Unfortunately, this growth did not cover operating expenses, resulting in an operating loss of 172,971 thousand yen compared with a loss of ¥53,925 thousand yen one year earlier.

For the fiscal year ending in March 2008, we expect to see even more fierce competition in the video game market. Price reductions have been announced for some titles created for new game consoles. Furthermore, many more new titles, primarily for popular game consoles, will be introduced in the third quarter to target the overseas Christmas shopping season and the New Year shopping season in Japan. In the fiscal year's fourth quarter, there will probably be even greater use of new game consoles following the year-end holiday season. Consequently, this is likely to be a time for selling a large volume of software for these consoles.

To capitalize on these trends, the D3 Group will continue to focus on global operations and the multi-use content strategy in line with the spirit of “taking on revolutionary challenges,” which is one element of our management philosophy.

In the second half of the fiscal year, the Computer Gaming Software Business plans to start sales of *darkSector*, a global content title. This business also plans to continue offering a diverse selection of full-price games. In the *SIMPLE SERIES*, we plan to introduce six titles for the Wii platform as the *SIMPLE Wii SERIES*.

In the Mobile Business, one goal is further increasing the number of *SIMPLE100 SERIES* members, which currently exceed 1.1 million for the three carriers. We intend to accomplish this mainly by continuing to launch applications for new models. Plans also include frequent introductions of new titles for rich game content, mainly in the *SIMPLE500 SERIES*.

Based on this outlook, we have made no revisions to the original forecasts for the fiscal year. We expect net sales of 15,673 million yen, operating income of 1,252 million yen, ordinary income of 1,071 million yen and net income of 589 million yen.

These figures are based on fiscal year-end exchange rates of 110 yen to the U.S. dollar, 150 yen to the euro, 210 yen to the British pound, and average exchange rates of 115 yen to the U.S. dollar, 150 yen to the euro, 220 yen to the British pound

## **(2) Analysis of financial condition**

### **Assets, liabilities and net assets**

At the end of the first half, assets amounted to 10,374,841 thousand yen, an increase of 1,570,027 thousand yen compared with the end of the previous fiscal year. This was mainly attributable to a 1,132,996 thousand yen increase in inventories.

Liabilities increased 2,054,363 thousand yen to 6,839,591 thousand yen. Long-term loans decreased 332,000 thousand yen, but there was a 2,453,000 thousand yen increase in short-term borrowings.

Net assets decreased 484,336 thousand yen to 3,535,250 thousand yen mainly because of a 513,194 thousand yen decline in retained earnings.

### **Cash flows**

Cash and cash equivalents at the end of the first half totaled 2,182,162 thousand yen, a decrease of 512,389 thousand yen compared with the end of the previous fiscal year. Funds provided by loans and other sources were more than offset by cash used for the increase in inventories, income tax payments and other items.

First half cash flows and their major components are outlined below.

### **(Operating activities)**

Net cash used in operating activities decreased 39.3% year on year to 2,092,487 thousand yen. The primary reasons were the first half loss before income taxes of 348,320 thousand yen, income tax payments of 736,137 thousand yen and a 1,136,348 thousand yen increase in inventories.

### **(Investing activities)**

Net cash used in investing activities was 357,327 thousand yen compared with a positive cash flow of 1,612 thousand yen one year earlier. This was primarily due to payments of 284,711 thousand yen for the acquisition of a company that is now a consolidated subsidiary.

### **(Financing activities)**

Net cash provided by financing activities decreased 31.9% to 1,933,531 thousand yen. There were payments of 385,334 thousand yen for the repayment of long-term loans and 129,259 thousand yen for the provision of collateral, but net proceeds from short-term borrowings totaled 2,453,000 thousand yen.

(Reference) Performance indicators associated with cash flows

	Year ended Oct. '04	Year ended Oct. '05	Year ended March '06	Year ended March '07	Six months ended Sept. '07
Equity ratio (%)	55.1	74.4	74.9	45.5	33.8
Equity ratio based on market cap (%)	81.6	129.4	139.7	67.9	60.7
Cash flows/debt multiple (years)	162.5	—	—	—	—
Interest coverage ratio (times)	48.7	—	—	—	—

(Notes) Equity ratio = Equity/Total assets

Equity ratio based on market cap = Market capitalization/Total assets

Cash flows/debt multiple = Interest-bearing debt/Operating cash flows

Interest coverage ratio = Operating cash flows/Interest expenses

※All indicators are computed using consolidated figures.

※Market capitalization is computed using shares issued net of treasury stock.

※Operating cash flows are the net operating cash flows shown in the consolidated statement of cash flows for the first half of this fiscal year. Interest-bearing debt is the sum of all liabilities on the first half consolidated balance sheet on which interest must be paid. Interest expenses are these expenses as shown in the first half consolidated statement of cash flows.

※A cash flows/debt ratio and interest coverage ratio are shown only for the fiscal year that ended in October 2004 because operating cash flows were negative in all other fiscal periods in the table.

**(3) Fundamental policy for allocation of earnings and current fiscal year dividend**

Returning earnings to shareholders is one of the highest priorities of D3. Our fundamental policy is to distribute earnings to shareholders based on the business climate, results of operations, the dividend payout ratio and other factors, as well as the need to strengthen the base of operations and financial position.

In accordance with this policy, we plan to pay an ordinary dividend of 2,800 yen per share following the end of this fiscal year. This dividend reflects both the demand for funds for business investments and the goal of benefiting shareholders from a long-term perspective.

Retained earnings are used as a source of funds for reinforcing overseas activities and making other investments to increase corporate value. We will also use retained earnings to increase shareholder value from a long-term perspective. Furthermore, we plan to continue basing the dividend payout ratio on consolidated earnings.

**(Segment information)**

## a. Business segments

First half of previous fiscal year (Six months ended September 30, 2006)

Yen in Thousands

	Computer Gaming Software Business	Mobile business	Total	Eliminations or corporate	Consolidated
Sales					
(1) Sales to external customers	3,490,428	297,028	3,787,457	—	3,787,457
(2) Inter-segment sales and transfers	—	—	—	—	—
Total	3,490,428	297,028	3,787,457	—	3,787,457
Operating expenses	3,429,020	46,068	3,475,089	189,202	3,664,291
Operating profit	61,407	250,960	312,367	(189,202)	123,165

(Notes) 1. Business segments are based on product categories and similarities of product markets.

## 2. Major products in each segment

Segment	Major products
Computer gaming software business	Home video game software and other package software, development of home video game software under consignment, overseas sales of licenses
Mobile business	Content for mobile phones

3. The eliminations and corporate component of operating expenses includes unallocated expenses of 189,202 thousand yen, which mainly represents the expenses of administrative departments.

First half of current fiscal year (Six months ended September 30, 2007)

Yen in Thousands

	Computer Gaming Software Business	Mobile business	Total	Eliminations or corporate	Consolidated
Sales					
(1) Sales to external customers	3,534,813	441,789	3,976,603	—	3,976,603
(2) Inter-segment sales and transfers	—	—	—	—	—
Total	3,534,813	441,789	3,976,603	—	3,976,603
Operating expenses	4,010,614	136,482	4,147,097	136,251	4,283,348
Operating profit (loss)	(475,800)	305,306	(170,494)	(136,251)	(306,745)

(Notes) 1. Business segments are based on product categories and similarities of product markets.

## 2. Major products in each segment

Segment	Major products
Computer gaming software business	Home video game software and other package software
Mobile business	Content for mobile phones

3. The eliminations and corporate component of operating expenses includes unallocated expenses of 136,251 thousand yen, which mainly represents the expenses of administrative departments.

Previous fiscal year (Year ended March 31, 2007)

Yen in Thousands

	Computer Gaming Software Business	Mobile business	Total	Eliminations or corporate	Consolidated
Sales					
(1) Sales to external customers	9,121,497	662,727	9,784,224	—	9,784,224
(2) Inter-segment sales and transfers	—	—	—	—	—
Total	9,121,497	662,727	9,784,224	—	9,784,224
Operating expenses	8,860,528	155,079	9,015,608	226,263	9,241,872
Operating profit	260,968	507,647	768,616	(226,263)	542,352

(Notes) 1. Business segments are based on product categories and similarities of product markets.

2. Major products in each segment

Segment	Major products
Computer gaming software business	Home video game software and other package software
Mobile business	Content for mobile phones

3. The eliminations and corporate component of operating expenses includes unallocated expenses of 226,263 thousand yen, which mainly represents the expenses of administrative departments.

4. Change in accounting policy

Beginning with the fiscal year that ended in March 2007, D3 has applied "Accounting Standard for Stock Options" (Accounting Standards Board of Japan No. 8, December 27, 2005) and "Implementation Guidance for Accounting Standard for Stock Options" (Accounting Standards Board of Japan Implementation Guidance No. 11, May 31, 2006). Compared with the previous accounting method, this change increased operating expenses by 11,436 thousand yen in the computer gaming software business segment and 918 thousand yen in the mobile business segment and increased the eliminations or corporate item by 3,523 thousand yen, reducing operating income by the same amounts.

b. Geographic segments

First half of previous fiscal year (Six months ended September 30, 2006)

Yen in Thousands

	Japan	North America	Europe	Total	Eliminations or corporate	Consolidated
Sales						
(1) Sales to external customers	2,130,213	1,582,471	74,772	3,787,457	—	3,787,457
(2) Inter-segment sales and transfers	48,079	11,053	—	59,132	(59,132)	—
Total	2,178,292	1,593,525	74,772	3,846,590	(59,132)	3,787,457
Operating expenses	1,610,781	1,795,148	128,697	3,534,628	129,663	3,664,291
Operating profit (loss)	567,511	(201,623)	(53,925)	311,962	(188,796)	123,165

(Notes) 1. Countries and regions are based on geographic proximity

2. Countries and regions, other than Japan, include the following:

(1) North America: U.S.A.

(2) Europe: Italy, Great Britain

3. The eliminations and corporate component of operating expenses includes unallocated expenses of 189,202 thousand yen which mainly represents the expenses of administrative departments.

First half of current fiscal year (Six months ended September 30, 2007)

Yen in Thousands

	Japan	North America	Europe	Total	Eliminations or corporate	Consolidated
Sales						
(1) Sales to external customers	2,266,477	1,553,754	156,371	3,976,603	—	3,976,603
(2) Inter-segment sales and transfers	173,650	141,978	—	315,628	(315,628)	—
Total	2,440,127	1,695,732	156,371	4,292,231	(315,628)	3,976,603
Operating expenses	1,965,989	2,130,488	329,342	4,425,820	(142,472)	4,283,348
Operating profit (loss)	474,138	(434,756)	(172,971)	(133,589)	(173,156)	(306,745)

(Notes) 1. Countries and regions are based on geographic proximity

2. Countries and regions, other than Japan, include the following:

(1) North America: U.S.A.

(2) Europe: Italy, Great Britain

3. The eliminations and corporate component of operating expenses includes unallocated expenses of 136,251 thousand yen which mainly represents the expenses of administrative departments.

Previous fiscal year (Year ended March 31, 2007)

Yen in Thousands

	Japan	North America	Europe	Total	Eliminations or corporate	Consolidated
Sales						
(1) Sales to external customers	4,122,474	4,415,487	1,246,262	9,784,224	—	9,784,224
(2) Inter-segment sales and transfers	643,186	26,608	—	669,795	(669,795)	—
Total	4,765,661	4,442,095	1,246,262	10,454,020	(669,795)	9,784,224
Operating expenses	3,861,883	4,658,151	1,157,674	9,677,709	(435,837)	9,241,872
Operating profit (loss)	903,777	(216,055)	88,587	776,310	(233,957)	542,352

(Notes) 1. Countries and regions are based on geographic proximity

2. Countries and regions, other than Japan, include the following:

(1) North America: U.S.A.

(2) Europe: Italy, Great Britain

3. The eliminations and corporate component of operating expenses includes unallocated expenses of 226,263 thousand yen which mainly represents the expenses of administrative departments.

4. Change in accounting policy

Beginning with the fiscal year that ended in March 2007, D3 has applied "Accounting Standard for Stock Options" (Accounting Standards Board of Japan No. 8, December 27, 2005) and "Implementation Guidance for Accounting Standard for Stock Options" (Accounting Standards Board of Japan Implementation Guidance No. 11, May 31, 2006). Compared with the previous accounting method, this change increased operating expenses by 3,095 thousand yen in Japan, 8,884 thousand yen in North America, and 374 thousand yen in the Europe and increased the eliminations or corporate item by 3,523 thousand yen, reducing operating income by the same amounts.