



First-Quarter 2011 Financial Results

CONFERENCE CALL SCRIPT

MAY 25, 2011 AT 10:00 P.M. (EST)

Yichin:

Thank you all for joining us.

Last quarter I emphasized that to turn around our performance, we are determined to better understand and engage our customers, and to provide the best services that actually matter to them.

I also emphasized that we have a renewed focus on **operations**. We are implementing a series of core process reviews designed to reduce our company's operational complexities. And, we are devoting significant resources into building an *operational platform* that we can bring to our markets to help create realizable synergies.

We are still early in the process of turning around our operations and our financial performance, but first quarter results show we are beginning to move in the right direction. We are beginning to deliver the games our customers want and improve our operational efficiency.

In Taiwan and HK, our core casual games are delivering improved performance. First quarter results were the best in two years. And we are benefiting from growth of the new MMO game *A.V.A.* which continues to be a success.

In Southeast Asia, we are sharpening our focus on high-potential markets and products, and have achieved improved margins in Q1.

Overall, we have been making progress in early 2011 with our existing business. We expect to continue this momentum, to develop new value drivers, and work harder to control costs.

Looking beyond, we are expanding our offerings in Web-based and mobile games. And we will focus on games that pit player vs. player, games that are competition-centric and make for exciting tournaments, such as sports games and first-person-shooter games. This strategic extension of our platform will allow us to better leverage our strengths and maximize opportunities in Asia.

Case in point is our legacy MahJong game, where in Q4 last year we delivered a Web-based version, and in Q1 we rolled out its iPad version – a first in the world and during the first two weeks of its introduction it became the top download on the iTunes AppStore in China Taiwan, Hong Kong and parts of Southeast Asia. This is momentum we will continue to build on. We also see it as a corner stone for our on-going effort to build out our China operation.

We are also going to pull our resources together to build out a *tournament* platform – which we believe is an area we can build a sustainable competitive advantage for GigaMedia. The heart of this is a system and standard procedures that combine on-line games with off-line activities to run large-scale and frequent tournaments. Running Web- and mobile-based, competition-centric games on this platform can more effectively drive up marketing exposure as well as game profitability. We have deep experience in making it work for conventional games, and are very confident that we will make it work for our new breed of games, across all Asian markets.

Supporting all of this is a very strong financial position -- As of Q1 we had net cash of approximately \$60 million. Our plans to dispose of certain studio investments in 2011 will unlock further value and strengthen our cash position.

To conclude, in 2011 we expect a continued turnaround of our existing Asian online games business, with stable contributions from core casual games and growing contributions from new MMOs. At the same time we are creating a foundation for further growth and enhanced shareholder value by building a game tournament platform, with focus on Web-based and mobile games where we can leverage our strengths and capture new opportunities.

We look forward to sharing more details with you as we go forward.

Thank you.

I will now turn the call over to Thomas, our President and COO.

Thomas: Thanks Yichin and thank you all for joining us.

As Yichin noted, overall during the first quarter we began to build momentum in our Asian online game business. Today I will review some of the key initiatives driving our performance in Q1.

In Taiwan and Hong Kong in the first quarter of 2011, both our casual games and MMO operations performed well, driving an increase in revenues and an expansion in operating margin.

Casual games consist mainly of online board and chess games, including our core product – MahJong. We ran a number of marketing events and promotions for the casual products during the first quarter to take advantage of the seasonally strong Chinese New Year holiday.

These activities were successful, driving up casual games revenues 18 percent Q-o-Q.

Our MMO products primarily consist of the licensed games *Tales Runner* and our new first-person-shooter game *A.V.A.* MMO revenues were up 106 percent sequentially. This growth was due to the success of our seasonal promotions and our first full quarter of commercial operations of *A.V.A.* as opposed to one month in Q4. MMOs are now a significant part of our business as they represented 29 percent of revenues in Taiwan and Hong Kong in the first quarter. Looking ahead, we expect continued stable contributions from MMOs.

As Yichin mentioned, during the first quarter we also broadened our platform reach with new Web-based and mobile products. We are now offering our leading MahJong game on a Web-based technology with no download required. We also recently launched a single person variation of our MahJong product on the iPad platform. Looking ahead in 2011, we will continue to invest in Web-based and mobile games. We will port over additional board and chess casual games, and add new functions and features to our MahJong products to increase our customer reach in Taiwan and Hong Kong and capitalize on new technology and social network platforms.

Next, let me briefly update our business in Southeast Asia. As I mentioned last quarter, we are focusing resources on proven and already profitable games in markets that offer the highest potential: namely, Vietnam, Thailand and Indonesia.

In line with this, in Indonesia in the first quarter, we continued testing a fully localized *FIFA Online 2* offering. We expect this to build on *FIFA Online*'s great success in other Southeast Asian countries, where it is a major hit and a top 3 game. Commercial launch is targeted for June.

In addition, we strengthened our position in the key market of Thailand. During the first quarter we increased our stake in our Thai operating subsidiary to a majority position to better capture growth in this market. As a result, revenues from online games from our Southeast Asia operations were up 37 percent Q-o-Q.

Finally, a brief update with regard to our gaming software business, where we retain a 40 percent in Everest Gaming

First, in France, Everest continues to enjoy a very strong strategic position. Everest's poker offering remains one of the most popular in the market and we are optimistic that over time market conditions in France will improve and the profitability of our French poker business will increase as a result.

Second, beyond France, several other countries are expected to regulate in 2011. Everest is preparing to take advantage of this by selectively entering certain newly regulated or soon-to-be regulated markets in Europe.

Third, we see huge potential opportunities in the giant US poker market if Federal legislation is passed to license and regulate online poker. We believe Everest is well positioned to capture a fair share of this large US market. In line with this, we are in discussions with several US-based parties regarding strategic partnerships designed specifically to capture the US opportunities.

We believe the investments made in the Mangas Everest business will deliver improved performance and continue to see significant financial upside potential from the true-up mechanism for the 60 percent stake we already sold and the put-call agreement for the remaining 40 percent we retain in Mangas Everest.

Thank you. That concludes my remarks and I will now turn the call over to Quincy for a review of our financial performance.

Quincy: Thanks Thomas. Next, I would like to review Q1 financial results and provide additional color on a few key items.

First, on the revenue side, first-quarter revenues in our Asian online games business increased 17 percent Q-o-Q to \$10.4 million from \$8.9 million. This was driven by solid results in MMOs and casual games in Taiwan and HK.

In Taiwan and HK, revenues increased year-over-year and quarter-over-quarter. Results in Taiwan and HK were the strongest in the past two years. Growth was driven by strong performance in casual games and MMOs. Our player numbers were up Q-o-Q and we achieved a 6 percent increase in ARPU Q-o-Q through successful game promotions. Results clearly demonstrated our business is turning around.

In Southeast Asia, revenues decreased Q-o-Q. However, last quarter we benefited from game box sales promotions. Revenues from box sales represented 53 percent of revenues in Q4 versus 32 percent in Q1. During the first quarter we increased our stake in a Thai subsidiary to a majority position and consolidated their results in Thailand, one of the key markets in Southeast Asia. As a result we grew online game revenues 37 percent Q-o-Q. This helped offset the decrease in game box revenues I just mentioned; it also helped gross margins as online game revenues carry higher margins. The largest contributions in online game operations came from *FIFA Online 2*, *Dragonica Online*, and *Granado Espada*. As mentioned, IAHGames is launching in Indonesia a new fully-localized version of *FIFA Online 2*, and as a result we expect contributions from this game to grow in 2011, starting in June.

On the operating expense side, we are strongly focused on controlling costs and expenses. Selling and marketing trended up slightly quarter-over-quarter, but this was in line with our plans to promote our games during the traditionally strong Chinese New Year period.

General and administrative expenses declined 23 percent quarter-over-quarter. Corporate, or headquarters, expenses declined even more, down 52 percent quarter-over-quarter. We successfully controlled legal and other costs in Q1 and will continue to focus on cost controls going forward.

As a result of solid revenue growth and more effective cost controls, consolidated loss from operations narrowed quarter-over-quarter to \$2.7 million.

Consolidated non-operating expense during the first quarter of 2011 was \$2.2 million and included the following: 1) an equity loss of \$3.4 million reflecting GigaMedia's remaining interest in Everest Gaming, which more than offset 2) equity income of approximately \$1 million related to our Asian online games business.

Core net loss was \$975 thousand. This excludes results from discontinued operations and financial results related to the gambling software business, share-based compensation expenses and certain non-cash or one-time items.

Finally, let's close with a look at our balance sheet and what is ahead. Our net cash position decreased by \$7.1 million to about \$60 million. Our cash burn in Q1 was substantially reduced from the \$12.3 million cash burn last quarter. Operating cash outflow in the first quarter of 2011 was \$7.2 million. This included major one-off items including payments of upfront game costs for games not yet launched, professional fees related to our ongoing legal dispute in China and 2010 year-end bonuses, which all together totaled approximately \$4.1

million.

Marketable securities – noncurrent plus investments, consisting of GigaMedia’s strategic holdings in game studios, developers and other related entities and the company’s remaining 40 percent interest in Everest Gaming, were \$103.3 million in the first quarter.

In sum, our balance sheet is solid. Management also plans to dispose certain game developer investments to realize gains and bring in cash on the company’s balance sheet.

Looking ahead, we remain focused on managing our cost structure while building new initiatives to drive revenue and profitability. We are well positioned for growth and expansion and have sufficient financial resources to fund our business initiatives.

Thank you.