



## **Second-Quarter 2011 Financial Results**

### **CONFERENCE CALL SCRIPT**

**AUGUST 15, 2011 AT 10:00 P.M. (EST)**

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**Yichin:**

Thank you all for joining us.

Last quarter we began to build momentum toward turning around our business, reducing our losses and delivering the highest revenues in two years, driven by growth in Taiwan and HK game operations. In Q2, we largely sustained our momentum, again delivering solid Y-o-Y growth, with revenues up 11 percent in Taiwan and HK. Overall results however, were impacted by seasonality and continued restructuring of our operations in Southeast Asia.

In short, we have developed strong operations in Taiwan and HK, where we forecast continued robust results and sustained profitability. We still have work to do in Southeast Asia, but we are taking action and targeting profitability in Southeast Asia by yearend.

Driving all of this is implementation of a series of core process reviews designed to reduce our company's operational complexities, control costs and enhance efficiencies. This will take time – a few quarters. We had already seen effects of these reworked processes in the first quarter. We expect further impact of operational restructuring and cost controls going forward.

Much of this restructuring will focus on Southeast Asia, where we are injecting major management resources. We are sharpening our focus on high-potential markets and products in Southeast Asia, and implementing a strategic operational restructuring to enhance performance.

While we continue controlling costs and restructuring to increase efficiencies, we are also focused on growing our existing business and developing new value drivers to accelerate our turnaround. We are stepping up efforts to build a healthy game pipeline. This started with the successful launch of *A.V.A.*, a first-person-shooting game, and we are following up with *4Story*, Multi-Player iPad MahJong and iPhone MahJong, *SpongeBob Squarepants*, *ArcheAge*, and other high quality games. Our focus is clearly fixed on Web-based and mobile games that pit player vs. player - games that are competition-centric and make for exciting tournaments.

Underpinning these new games is our new *game tournament platform*. The heart of this is a system and standard operating procedures that combine on-line games with off-line activities to run large-scale and frequent tournaments. This quarter we have made significant progress, successfully launching several new tournament competitions and scheduling major 2011 events that will feature large prizes and international competition.

Other than these major initiatives, we are also engaging in several regional projects designed to better leverage our assets, upgrade service levels, and create new revenue bases. We look forward to sharing more about these projects with our investors going forward.

Finally, we are very focused on cash management, and remain in a very strong financial position -- As of Q2 we had net cash of approximately \$57.5 million. In the second half of this year we are

going to capitalize on several of our successful investments that will see us unlock significant value and strengthen our cash position.

To conclude, in the second half of 2011 we expect to continue making progress in the turnaround of our existing Asian online games business, with strong cost controls, stable contributions from core casual games and growing contributions from new MMOs. At the same time we will continue creating a foundation for further growth and enhanced shareholder value by expanding our platform and offering new products and services, with focus on Web-based and mobile games where we can leverage our strengths and capture new opportunities. I am very excited about our outlook, and look forward to sharing more details with you regularly as we go forward, beginning this month.

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 second quarter results were down from the first quarter, largely due to the impact of seasonality on our business. While results were down from last quarter, in many respects, business momentum was up from last year, and we are poised to continue strengthening our operations in the second half of this year.

In Taiwan and Hong Kong in the second quarter of 2011, our online game operations performed well. Y-o-Y, we reported a revenue increase of 11 percent and delivered strong improvements in operating and net profits compared to the same period last year. This Y-o-Y improvement was primarily driven by an improved product portfolio.

In Q2, we continued to drive the performance of our MMO products as part of our strategy to broaden our product offerings and diversify our revenue base.

Our MMO products in Taiwan and HK primarily consist of the licensed games *Tales Runner* and our new first-person-shooter game *A.V.A.* This summer we successfully concluded our first tournaments for *A.V.A.* with several thousand participants to date. Online and offline events for *A.V.A.* are scheduled throughout the remainder of 2011, including an international open, all of which will culminate in a January finale in Taipei. Looking ahead, we expect continued stable contributions from existing MMOs and growth from the launch of a new MMO called *4Story* in the third quarter. *4Story* has been a stable, successful MMO in Asia and we are confident it will prove popular in Taiwan and add to our product diversification strategy.

Next, let me also update our initiatives on 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, which has been very popular. To date, total downloads have exceeded 300,000. In Q3 we will launch an iPhone version of our MahJong game that will have new avatars, levels, and refined graphics. Following that, early next year, we will release a multiplayer version. Looking ahead, we will continue to invest in Web-based and mobile games. We will port over additional board and chess-type casual games that are currently on our platform, and add new functions and features to our MahJong products.

Finally, let me briefly update our business in Southeast Asia. In Southeast Asia in the second quarter of 2011, results of our operations continued to suffer from high overhead and certain loss-making products. While our key products *FIFA Online 2*, *Dragonica Online* and *Granado Espada* continue to make significant contributions, overall the

business remains unprofitable. To improve performance, we are currently restructuring the business. This involves building up operations in key markets that offer the highest potential and lowering our overall cost structure by focusing on proven games and reducing headcount. We are pushing to achieve profitability by year-end and look forward to sharing more with you on our plans for operations in Southeast Asia in the near future.

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 add some additional details on a few key items in our Q2 financial results.

Overall, results were in line with our expectations and our 2Q guidance. Revenues declined from the first quarter due largely to seasonal factors and we continued to control our operating expenses and cash burn.

Regarding revenues, I would like to highlight a few items. First, in Taiwan and HK our existing casual games continue to provide a very stable revenue stream. On top of that we are adding a new category of games, MMOs, which resulted in Y-o-Y growth. Our MMOs *Tales Runner* and *A.V.A.* are continuing to perform well in Taiwan and HK.

In Southeast Asia, revenues were down due to small contributions from *Dragonica Online*, one of the key games we operate. The decline was related to a lack of new patches and promotions for new content for *Dragonica* in the second quarter. Partially offsetting this decline in *Dragonica* was growth in *FIFA Online 2* in Thailand and Vietnam where we are increasing our focus.

Turning to costs, in Q2, we continued our strong focus on cost controls and as a result, we held G&A expenses steady quarter-over-quarter at \$5.2 million. Within this, we lowered our corporate general and administrative expenses from \$2.0 million in Q1 to \$1.6 million in Q2. Looking ahead we will continue to control these and other costs.

Consolidated non-operating expense during the second quarter of 2011 was \$3.2 million and included the following: 1) an equity loss of \$4.4 million reflecting GigaMedia's remaining interest in Everest Gaming, which more than offset 2) equity income of approximately \$893 thousand related to our Asian online games business.

Core net loss was \$1.7 million. This excludes results from discontinued operations and financial results related to our non-core gambling software business, share-based compensation expenses and certain non-cash or one-time items.

Finally, I want to highlight that we have significantly slowed down our cash burn. In Q2 our net cash position decreased by \$2.5 million Q-o-Q to about \$57.5 million. Operating cash outflow in the second quarter of 2011 was \$415 thousand. This was down substantially from the \$7.1 million cash burn in the previous quarter.

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 \$88.1 million in the second quarter.

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

Looking ahead, we are confident in our ability to manage our cost structure and we will continue building new initiatives to drive revenue

and profitability. We are well positioned to grow GigaMedia and have sufficient financial resources to fund our business initiatives.

Thank you.