



**GIGAMEDIA Third-Quarter 2008  
Financial Results  
CONFERENCE CALL SCRIPT  
NOVEMBER 18, 2008 AT 8 A.M. (EST)**

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**Brad:** Thank You. This is Brad Miller, investor relations director of GigaMedia. Welcome to our third-quarter 2008 results conference call for GigaMedia Limited. Here to speak with you and answer your questions today are Arthur Wang, our CEO, Thomas Hui, our President and COO, and Quincy Tang, our CFO.

Before I turn it over to today's speakers, I would like to remind you that a number of forward-looking statements will be made during this conference call. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of GigaMedia and there can be no assurance that such expectations will prove to be correct. Because forward-looking statements involve risks and uncertainties, GigaMedia's actual results could differ materially from these statements. Information about factors that could cause, and in some cases have caused, such differences can be found in GigaMedia's Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission in June 2008.

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The agenda for today's call includes first a review by Arthur Wang of Q3 2008 business activities and financial performance. Thomas Hui will then discuss some of our latest operational developments and results, and Quincy Tang will conclude with details on our financial results during the third quarter. After the speaker

presentations, we will go into a question and answer session. With that, I would like to turn the call over to Arthur, our CEO.

**Arthur:** Thanks Brad and thank you all for joining us.

Thomas and Quincy will take us through the operational and financial highlights of the Quarter while I will focus on our overall business outlook and new initiatives.

Before continuing, a word on the stock markets...as we are all aware, the crisis in the financial markets has created a tremendous loss of confidence throughout the capital markets. Along with so many others, GigaMedia's stock has been hit hard by the turmoil. But I would like to emphasize that for GigaMedia, nothing fundamental has changed...

- we continue to operate a high growth business with outstanding prospects
- we continue to generate very high free-cash flow, with every business unit profitable, and
- we continue to have a strong balance sheet and report today a cash position of over US\$100 million with no net debt.

Let me turn now to the specific business units and highlight why we are so excited about our progress in building a leading online entertainment company.

### **Everest Poker and Casino Business**

First, to review the latest good news, we are very pleased that Everest Poker has been awarded the "Poker Operation of the Year" for the second straight year by the independent industry journal e-Gaming Review. We believe this is further recognition of the strong Everest Poker offering which in just three years has grown to be one of the most popular poker sites in the world, currently ranked fourth in terms of player activity – and this ranking including sites that still operate in the large United States market illegally. We especially appreciate this recognition – now for a second consecutive year - because it validates and underscores the fundamental mission statement at GigaMedia: to provide the highest quality software and service to our players. We look to continue to drive our growth and business expansion on this principle, cheered by this external recognition.

Coming out of our traditional slow quarter – more challenging this year due to strong competition from the Olympics, we are pleased to see a ramp-up of player activity in October and in November. Let me highlight a few of the additional initiatives which we believe will fuel our continued growth.

First, the sponsorship of the World Series of Poker. The final event of the 2008 WSOP has just concluded but for us, it is actually the beginning. In our key markets – in Continental Europe – television broadcast of the WSOP tournament and WSOP finals is only just beginning. From now and through 2009, ESPN will be airing thousands of hours of the WSOP – all with Everest Poker on the center felt and on the inside rung, most visible as players check their pocket cards. Ultimately, the WSOP will reach an estimated 300 million households. We are very proud to be the multi-year sponsor of the WSOP which this year was the largest and richest ever with over 58,000 players from 118 countries, all playing for a prize pool of over \$180 million. We believe the broad syndication of WSOP broadcasts across our markets in the Fourth Quarter and in 2009 will give us a strong boost through-out the year.

Second, Sports Betting. Later this fourth quarter we will be launching our Everest Sports Betting product representing one of our most significant product expansions since the launch of Everest Poker. By having a sports betting product to join with Everest Poker and Everest Casino, we provide a broader and more complete entertainment offering to our players – while at the same time beginning to monetize from the largest and richest segment of the online entertainment market. Our entry into this market will be in partnership with one of the leading brands in the business, a partnership which will enable us to have the best of sports offerings from the start as well other potential cooperations in the future. We believe we will see improved per player revenues driving even greater growth in 2009.

Third, branded casino games. We are also excited to welcome the Incredible Hulk, X-men and Spiderman to the GigaMedia team. These new branded casino games will increase visibility and further the attractiveness of the entire gaming platform. We believe adding the muscle of the Super Heroes will surely strengthen our offering.

### **Asian Real-Money Games**

Together with Sports Betting, our Asian real-money games business is our largest and most significant expansion since the launch of Everest poker three years ago. We are pleased to report strong progress and growth, from an admittedly small base. Our products – pachinko and pachislo and mahjong – are the first of their kind in the market and our initial concern was whether we could deliver the quality of product and virtual experience necessary to meet the high standards of the Japanese consumer. The good news is since our launch this Summer, the market response has been enthusiastic – with strong positive reviews of our products driving player activity that is steadily increasing.

To support this nascent growth, in early October we released two new pachislo games

modeled on the most popular real world pachinko and pachislo machines, which I am happy to report led to another spike in software downloads and player registrations. An additional six games are in the development pipeline and set to launch in Q4 and Q1.

We continue to believe this is an enormous market opportunity and are building a foundation for this to be a large business and serious contributor to GigaMedia's operational results in 2009 and on.

### **Asian Online Games Platform**

The unfortunate truth about our Asian business is that several of the games originally schedule for launch in 2008 have been delayed. Certain other games - inherited when we acquired the Asian businesses – have failed to meet our internal standards and were therefore cancelled. As a result, our game offering this year has been thin, with our platform supported by old games still popular but unable to drive further growth.

While we have made good progress under the circumstances, the best is yet to come. I believe we stand at the start of the steep part of the curve, with very large and very exciting growth over the next 4 quarters. Later this year and into 2009 we are rolling out a number of games with potential to be megahits in the market and explosive growth drivers for GigaMedia. Let me highlight a few...

First, NBA Street Online from EA Sports, the undisputed leaders in sport games. We are excited to be bringing this hot arcade style game to the Greater China marketplace including China, Hong Kong, Taiwan and Macau – where basketball is king. We are preparing for closed beta now late first half 2009 with open beta and commercial launch following.

Second, WARHAMMER ONLINE: Age of Reckoning. We are very excited by the market response to Warhammer in the US and Europe, both markets which launched last month. Warhammer is a great game, loved by game reviewers and game players alike. It looks like the EA Mythic studio has produced another megahit and we are proud to be a partner in Asia. We are looking to launch in the first half of 2009.

Third, FIFA Online, also from EA Sports, is preparing for commercial launch in SE Asia through our affiliate Infocomm Asia. This game, already a proven hit in Korea, has great promise in SE Asia where soccer is the undisputed number one sport. We currently hold a 28% stake in Infocomm Asia and are in discussions to increase our position in this SE Asian leader.

Finally, at quarter end/early Q1 we will be launching Holic, a cute-style MMO developed by mGames, authors of a previous top ten game in China. We believe Holic will fill the market niche previously occupied by RO (Ragnarok Online), one of the all time most popular games across Asia. We are pleased to be releasing Holic in all of Greater China: China, Taiwan, Hong Kong and Macau.

In addition, we continue to strengthen our pipeline of new games through our investments in outside game studios and in in-house game development.

One example is our Chinese style MMO called the House of Flying Daggers – tied to the movie of the same name by China’s top director Zhang Yimou. This martial arts adventure game is set in the fascinating and breathtaking world of ancient China. We are looking forward to its release next year.

And, we will soon be announcing an exciting new partnership with MTV International. MTV and GigaMedia will co-develop and then operate a new online game based on one of the world’s most popular IPs. We look forward to providing more information in a formal announcement within the next two weeks.

In Asia, we are on our way to building an unrivaled gateway to online entertainment in the region, a one-stop shop for game developers and entertainment providers addressing the pan-Asian market. Today we have over 90 million registered users, with over 8 million active over the last 30 days, and we look to double these numbers and then double them again as we grow our pan-Asian platform.

## **Conclusion**

In this past quarter, we disposed of our final legacy business, thereby completing our transition, our transformation to the new GigaMedia. Over the last four years, we have shed our loss-making past as an ISP and music retailer and built a leading online entertainment firm.

In the third and now fourth quarter we continue to make strong progress on our top strategic initiatives, putting in place exciting drivers of accelerated growth and market position, building a dominant online entertainment business. We are indeed building a new GigaMedia with growing shareholder value as its cornerstone. We thank you for your interest and continued support.

With that I would like to hand the call over to Thomas.

**Thomas:** Thanks Arthur and thank you all for joining us.

Let me take you through our third quarter business and operational highlights now, starting with our gaming software business and following with our Asian online games business.

Revenues from our gaming software business grew 18 percent Y-o-Y as we continued to leverage our investments in the Everest brand. Poker revenues increased 7 percent Y-o-Y, driven by expansion of the Everest Poker player base. Casino revenues grew 51 percent from last year, fueled by strong cross-selling to Everest Poker players as we continue to integrate our poker and casino offerings.

As expected, revenues in the gaming software business in the third quarter were lower than that in the second quarter, reflecting normal seasonality. Poker metrics also reflected this. During the third quarter, our poker platform had approximately 176,000 active real-money customers, down 8 percent from the previous quarter. During the quarter, we added approximately 38,000 new real-money poker players, down 17 percent quarter-over-quarter.

While seasonality negatively impacted user activities in both the poker and casino verticals, our efforts to drive casino revenues through cross-selling were able to overcome the impact of seasonality and resulted in quarterly sequential growth in our casino vertical. Casino results were also boosted by the launch of 3 new games during the quarter.

During the quarter we continued to make good progress in developing our common wallet initiative. Approximately half of our total new real-money casino players for the quarter were also our poker players. During the third quarter, we saw our cross selling conversion ratio continue to increase and expect it to continue to do so in the next few quarters. Most of the remaining work here is database/programming oriented and will not have player-facing features.

During the quarter we also continued to develop our new VIP program and I am happy to say that with much of the back-end work complete, poker players in November are now being awarded points on a monthly basis, with different VIP categories conferring unique benefits, such as exclusive tournaments, free rolls, etc. Players can convert chips for real-money play, or into cash. Our overall objective here is to build a compelling retention program that we can use across the Everest Gaming platform and we are very pleased with progress to date.

On the marketing side, we continued to organize various online tournaments and offline activities to strengthen the Everest brand and enhance the overall player experience. We also ran television commercials in Sweden, Germany and the Netherlands. The big marketing event for Everest of course was the World Series of Poker where we had great media coverage with over 80 journalists filming and interviewing in the Everest lounge. We expect broadcasts of the WSOP in Europe to begin in Q4 in Germany and the Netherlands, and then continue throughout next year across our European markets. Overall, given the relatively low level of online user activity in the third quarter, we did not aggressively market during the period.

Looking into the fourth quarter, we are already seeing an increase in poker player activity and we will roll out 3 new casino games as well as certain flash-based games featuring some of Marvel's characters. We will also continue to expand our VIP program, and make further incremental steps toward delivering our common wallet initiative.

With regard to other growth initiatives, as Arthur mentioned, we continued to add to our Japanese game offerings and we expect our licensee of the Japanese game products to significantly ramp up marketing activities in December. On top of this, we also expect to add a complementary sportsbetting offering before year-end.

Turning now to our Asian online games business, revenues increased 11 percent Y-o-Y, driven by continued growth of our China platform, T2CN. Revenues were down 7 percent from the previous quarter, primarily reflecting the impact of the Beijing Olympics on T2CN and decreased revenues from FunTown.

As expected, we experienced sharply decreased player activity in T2CN's game *FreeStyle* during television broadcasts of the Beijing Olympics in the third quarter. This was particularly acute during the opening ceremonies, during which concurrent users dropped by as much as 50 percent.

T2CN's average monthly active paying accounts were approximately 398,000 during the third quarter, down 11 percent from the second quarter, and average monthly revenue per active paying account was \$4.06 during the period, up 2 percent quarter-over-quarter. Peak concurrent users of *FreeStyle* were approximately 118,000, a decrease of 15 percent from the second quarter.

FunTown's revenues decreased on a sequential basis due to a drop-off in revenues from the licensed game *Tales Runner* and decreased sales of virtual items in the third quarter. During the period we began to sell virtual items with limited rather than

unlimited lifetimes, which resulted in a lower volume of virtual item purchases. However, we expect this negative effect to be only transitional and temporary.

FunTown's average monthly active paying accounts were approximately 109,000 during the third quarter, down 6 percent from the second quarter, and average monthly revenue per active paying account was \$19.11 during the period, steady quarter-over-quarter. Peak concurrent users were approximately 46,000, a 4 percent increase from the second quarter.

As Arthur mentioned, we continue to be very excited about the prospects of our new game pipeline which we believe will provide significant growth to our Asian online game business. Let me now walk you through the key developments with regard to our new game titles, namely, *Holic*, *Warhammer Online*, and *NBA Street Online*.

Development of *Holic* has made great progress in 2008. The game is in pre-open beta in Korea now and there is a full open beta with complete marketing scheduled in Korea for the end of November. In Taiwan, we have now completed two small-scale beta tests and a third is currently ongoing. The game is now on track for a larger open-beta test and commercial launch in Taiwan in January 2009, and we expect launch in China soon after.

Turning to *Warhammer Online*, EA's new game has been an enormous hit with gamers in the US. The game has sold over 1.2 million copies and has over 800 thousand registered users.

We are now in the process of localizing the game for the Taiwan market. We expect to launch *Warhammer Online* for closed beta testing in Taiwan in Q1 2009 and open beta by Q2 next year.

Finally, we also plan to launch another game title from EA next year, *NBA Street Online*. As we have stated in the past, sports games are an underserved niche in Asia and basketball is one of the most popular sports in the region. Given this, the built-in brand appeal of EA's sports brand, and the excitement of playing with or against NBA stars in this game, we expect *NBA Street Online* to be a major hit in China and Taiwan. The game was in open beta in Korea in late July, and is now undergoing additional development. Our expectation is that it will be ready for commercial launch in Korea near yearend 2008 and that we will start closed beta testing in China and Taiwan by Q2/Q3 next year.

In summary, we continue to be very excited about our gaming software and Asian online games businesses. In Europe, our strategy to broaden the gaming software platform and leverage the Everest brand positions us to drive continued long-term growth. And in Asia our multi-prong game sourcing approach, solid pipeline and massive reach give us powerful assets to accelerate our growth strongly.

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

**Quincy:** Thanks Thomas.

Let me now take a few minutes to review our Q3 consolidated financial results. Following that I'll highlight some key factors affecting Q3 results in each of our core business units. There will then be an opportunity for you to ask questions.

One quick reminder - following the sale of our non-core legacy ISP business, to allow for meaningful comparisons, all period results are presented on a continuing operations basis, unless otherwise noted.

#### **Consolidated Third-Quarter 2008 Results**

Overall, third-quarter results were in line with our expectations, despite a challenging operating environment.

Beginning with revenues, year-over-year, we grew consolidated revenues from continuing operations 16 percent, to \$45.7 million. Growth was led by our gaming software business, which increased 18 percent Y-o-Y and remained our largest business segment. Complementing this was continued growth in our Asian online games business, up 11 percent year-over-year.

On a sequential basis, our revenues decreased by 7 percent. This was largely due to two factors: 1) the traditional seasonal downturn in online gaming activities in Europe during the summer months, which impacted our gaming software business; and 2) a significant decrease in online game activity in Asia during the Beijing Olympic Games, which affected our Asian online games business.

Our gross profit margin in Q3 was 81 percent which remained steady Y-o-Y and Q-o-Q.

Turning to consolidated operating income, as noted in our release today, operating results were affected by the results from discontinued operations and several non-

cash items related to our Asian Online Game business. These items included the following:

- 1) income from discontinued operations in the third quarter of approximately \$8.0 million.
- 2) a write-off of approximately \$2.6 million related to loan receivables from Flagship Studios, the developer of *Hellgate: London*;
- 3) impairments totaling approximately \$1.3 million related to capitalized costs for certain games, the impact of which after minority interest was approximately \$1.1 million; and
- 4) a write-off related to certain investments recorded in T2CN, the impact of which was approximately \$2.1 million after minority interest.

Third-quarter 2008 operating income and net income on a GAAP basis included these results from discontinued operations and non-cash items.

GAAP consolidated net income, which includes the aforementioned items, grew 24% to \$12.0 million from the third quarter of 2007 and increased by 7% from the second quarter of 2008.

Looking at the key line item details, general and administrative expenses decreased Y-o-Y by approximately \$588 thousand, or 9.4 percent. This helped offset a Y-o-Y increase of \$2.8 million, or 220 percent, in product development and engineering expenses attributable mainly to the hiring of more engineers for our gaming software business, as well as a Y-o-Y increase of approximately \$3.1 million, or 22 percent, in selling and marketing expenses related to growth in television advertising and other initiatives surrounding our online poker products. On a Q-to-Q comparison, general and administrative expenses decreased by approximately \$1.7 million, or 23 percent. This more than offset a Q-o-Q increase of approximately \$488 thousand, or 14 percent, in product development and engineering expenses related to our gaming software business, and an increase of approximately \$265 thousand, or 2 percent, in selling and marketing expenses related to increased initiatives in our Asian online games business.

Non-GAAP figures excluding the aforementioned items are provided in addition to GAAP results in our 3Q release, as we believe that the items recorded in the third quarter are not indicative of our core operating results and that our non-GAAP measures allow for more meaningful period comparisons.

Let's look at non-GAAP results now, as we believe this will be more useful in understanding our core operating results and trends. Third-quarter non-GAAP operating income increased 12 percent Y-o-Y to \$10.7 million from the same period in

2007. Growth was primarily attributable to strong operating income growth in our China online games platform combined with the effect of cost controls over our general and administrative expenses in the gaming software business.

Quarter-over-quarter, non-GAAP operating income decreased in line with expectations, down 15 percent compared to our Q2 results, reflecting the impact of seasonality. As a result, non-GAAP consolidated operating margin declined slightly Q-o-Q, to 23.5 percent in Q3 2008 from 25.8 percent in Q2.

Turning to net income, non-GAAP consolidated net income in the third quarter grew 22 percent year-over-year to \$10.7 million and decreased 10 percent sequentially. The sequential decline in net income was primarily due to lowered Q3 net income from the Asian online games business.

We continued to maintain a strong balance sheet in the third quarter. Cash, cash equivalents, and current marketable securities at the end of Q3 were \$103.7 million and total debt decreased to \$29.5 million. In Q3, our net cash position improved by \$24.9 million which was attributable to mainly from the proceeds from the disposal of our legacy ISP business.

Next, let's look in greater detail at the performance of our core business units.

### **Gaming Software Business**

The gaming software business entered the seasonally quiet period of online gaming. The summer months, when many Europeans have long vacations and generally spend less time online, are always a challenge for our gaming software business, which targets the European markets. The third quarter is traditionally the weakest quarter for the business.

Within this context of a challenging operating environment, revenues for the gaming software business grew 18 percent year-over-year, but declined 6 percent sequentially. This was in line with our expectations, given the challenges faced.

In poker, revenues grew 7 percent year-over-year and decreased 14 percent sequentially. Looking into the fourth quarter, as Thomas noted, poker metrics are trending up.

In casino, cross-selling efforts targeting Everest Poker players continued a very high level of success. Casino revenues were a record \$11.0 million in the third quarter, up

51 percent Y-o-Y and up a strong 15 percent Q-o-Q. We expect ongoing cross-selling initiatives to continue to drive user and revenue growth.

Gross profit margin in Q3 was 84 percent, a decrease of approximately 2 percent Y-o-Y and steady Q-o-Q, with the Y-o-Y decrease reflecting a more competitive operating environment during the year.

Operating income in our gaming software business decreased 2 percent to \$9.3 million year-over-year and decreased 10 percent sequentially. The quarter-over-quarter decrease reflected reduced revenues from the business unit, as well as increased product development and engineering expenses in Q3.

In sum, we delivered a solid quarter despite a challenging operating environment in Q3, and we are confident we are on track for good growth in Q4.

#### **Asian Online Games Business – FunTown and T2CN**

Let me now turn to our Asian online games business. We are continuing to scale up and build our pan-Asian platform and are pleased with our progress.

Total third-quarter revenues from the Asian online games business grew 11 percent year-over-year to \$11.2 million. As expected, third-quarter revenues were below second-quarter results, due largely to the effects of the Beijing Olympic Games.

Let's break down revenues by business unit. Revenues from T2CN, our China platform, climbed 27 percent year-over-year to \$4.9 million. This was driven by growth of the basketball game *FreeStyle*. On a sequential basis, revenues decreased 9 percent in Q3 2008 from Q2, reflecting a decrease in revenues from *FreeStyle* during the period. As Thomas mentioned, metrics for *FreeStyle* dropped during the Beijing Olympic Games.

Revenues from FunTown, our Taiwan and Hong Kong online game platform, were steady Y-o-Y at \$6.2 million and decreased 6 percent sequentially on lower revenues from *Tale Runner* and a decrease in sales of virtual items.

Gross profit margin in Q3 was 73 percent, up from 69 percent in the third quarter last year and remaining steady Q-o-Q.

Turning to operating income, again I want to emphasize that results and period comparisons were distorted by several non-cash items in the third quarter this year and last year. Excluding such items, operating income for the Asian online games

business was \$1.6 million and operating margin was 14.6 percent for the third quarter 2008.

Quarter-over-quarter, excluding the aforementioned items, Q3 operating income decreased 48 percent to \$1.6 million from \$3.2 million. This was mainly due to lower gross profit and increased selling and marketing expenses in the quarter related to a new patch for FreeStyle 2008 and Mahjong 3.0.

Looking ahead, we expect revenues to grow in the fourth quarter and accelerate in 2009 as we begin to more fully leverage our unique regional platform and launch the outstanding set of new game titles Thomas mentioned earlier, including *Holic*, *Warhammer* and *NBA Street Online*.

In conclusion, in Q3 we faced strong operating challenges, but we again delivered solid results – we continued to build and strengthen our businesses and we are on track for a very exciting end to 2008 and beyond.

Thank you.

**Brad:** Thanks Quincy.

We will now move into a question and answer session. Operator, at this point, we would like to open the call up to questions.

**- Q&A Session -**

**Brad:** Thank you again for joining us today. For further information about GigaMedia or if you have questions and would like to contact the company, please visit our Web site at <http://www.gigamedia.com.tw>.