



GIGAMEDIA:
Renewed Growth and Operating
Profitability in 2011 and Third-Quarter
2010 Financial Results
CONFERENCE CALL SCRIPT
JANUARY 26, 2011 AT 7:30 A.M. (EST)

Arthur:

Thank you all for joining us.

Before continuing, allow me to begin by wishing all of you in the West a Happy New Year and all of you in the East a Happy Lunar New Year, which we will celebrate next week on February 3.

As we are beginning a new year, today I'd like to focus on providing a strategic level overview of our business: where we have come from in 2010 and where we are going in 2011 and onward.

Asian Games Business

Beginning in 2006, we have embarked on building a Pan-Asian Online Entertainment Platform comprised of two key parts: (1) an operating and delivery platform and (2) a content creation and development capability.

In 2010, we took major steps to bring this strategic goal to reality.

Most importantly, we took a majority control position in Infocom Asia Holdings, a leading SE Asian game platform with over 35 million registered users. We believe SE Asia is a huge and fast growing market opportunity, similar to China's online game market several years ago. With EA's *FIFA Online* game addressing soccer/football lovers and Blizzard's *Starcraft II* for strategy gamers, we believe Infocom Asia is best positioned to capture the hearts, minds – and dollars – of the SE Asian gamers.

In addition, in 2010 we “green lit” several game development projects which when completed will be exciting and accretive additions to our game portfolio.

But 2010 was also a year of restructuring, retooling to improve our game business by enhancing operating efficiencies and improving our game sourcing and game development departments. We have also worked hard to improve our management capabilities, increasing efficiency and accountability.

So now as we begin 2011, we are excited about our Asian game business and our long-term growth prospects.

Our Pan-Asian game platform has a breadth and depth unmatched by any competitor, delivering top online entertainment in China, Taiwan, Hong Kong, Vietnam, Thailand, Malaysia, Singapore, Indonesia and the Philippines.

Far more than merely pointing a server in a new direction...we now have local distribution, marketing, payment channels and customer service – across Asia.

We are excited by the scope of our Asian game business for three reasons: (1) the enormous market size, comprising hundreds of millions of gamers, (2) the fast growth of this market, especially SE Asia, and (3) the potential operating synergies available to us.

In addition to – and in service of – our Pan-Asian Platform, we have a powerful and valuable content pipeline comprised of three prongs: licensing from major game developers, investments in game developers, and self development of games. Let's look at each category:

- Major game developers: we are proud to be partners with many of the top game studios in the world including Activision Blizzard, Electronic Arts and Take-Two from overseas, and JCE, Neowiz and others here in Asia. We believe the breadth and depth of our partnerships is unique and will be an important differentiator.
- Strategic investments in game studios/projects: we now have equity investments in nine game studios and projects. These investments offer us special access and game operation rights – and an opportunity to help shape games for our target marketplace. Let me point to just two examples of the exciting output we are getting from these investments: (1) XL Games is the game development studio of Jake Song, the legendary developer of the *Lineage I* and *Lineage II* games. XL Games has been hard at work on a major MMORPG titled *ArchAge* and the early buzz among gamers worldwide is tremendous. (2) *SpongeBob SquarePants*. We have joined in partnership with MTV International to produce an online SBSP game, and together with MTV, we are excited to bring this game to the worldwide market in late 2011 or early 2012.
- Finally, self development. We have continued to expand our internal development capability to form the third leg of our content pipeline. Our new flash-based MahJong game is the product of our in-house team and early player response has been great.

Overall, we believe our three-legged content pipeline will allow us to bring best of breed content to our Pan-Asian game platform and the

millions of gamers across Asia. Our investments in both platform and pipeline will allow us to have high quality content tailored to our operating markets, responsive to the continuing changes in our markets and in player preferences. We are confident that 2011 will see our return to operating profitability and return to growth.

Gambling Software Business

Let us turn now to look at our Gambling Software Business.

2010 was a major transition year for this business:

In May we formed a strategic partnership with the Mangas Gaming group by selling them a 60 percent stake in our gambling software business. By joining our Everest Poker with Mangas Gaming – one of the leaders in European online gambling – we have created one of Europe's largest and best gaming platforms, with the size and scale to claim leading market positions in Europe.

Moreover, Mangas Gaming is half owned by SBM, the hotel and casino operation of the Government of Monaco itself – bringing unmatched prestige and credibility to our Everest Poker platform.

In 2010, we also faced many operational challenges. Much time and energy was spent on the merger and integration of Everest and Mangas. Many additional resources were committed to meet the requirements of the new French regulators. And all of this against the backdrop of the continuing economic slowdown in Europe, creating a particularly challenging environment.

Despite these difficulties, we continued to advance our brand and build market awareness. Our special partnership with French TV Network M6, the best network for our target demographic, has started with two programs airing several times a week, including one hosted by Estelle Denis, a most famous TV hostess. We also continue as the jersey

sponsor of the Lyon Football Club, one of the most popular and successful in France.

Outside of France, we continued to integrate Everest with the Mangas Group, and will bring the BetClic, Expect and Bet-at-Home player base on to the Everest platform.

And now, as the European macro-economic situation improves and as our marketing campaigns gather momentum, we look forward to growing our market position in France and through Europe in 2011.

In addition, we continue to prepare for new market openings, especially the United States, which has seen a flurry of activity recently. Most notably, the New Jersey state legislature has just adopted a landmark measure legalizing online poker and casino gaming in New Jersey. The bill has moved to the Governor Christie's desk – and now awaits his signature, his veto or neither, in which case the bill will become law within 45 days. If the measure becomes law, we believe more states will follow, driven in large part by the dire fiscal condition of so many states.

As we have outlined before, we believe we have special advantages in the US marketplace. Our Everest team is all based in Boston, our software written in the "US of A." Everest is audited according to US GAAP and has complied with the strictest SEC rules and regulations, including the Sarbanes-Oxley requirements. Moreover, we have the cleanest legal record, never having operating in the US nor ever run afoul of US law. In short, we are pleased with the continued momentum in the US towards a legalized and regulated online poker market and excited about the enormous market opportunity which awaits.

In summary, we believe our Everest Poker business, now joined with Mangas, will continue to be a highly important and valuable growth driver for GigaMedia's shareholders for many years to come.

Conclusion

In conclusion, in 2010 we expanded our Asian games platform into SE Asia through the acquisition of Infocomm Asia – and reworked, restructured our Asian games business to sharpen our operations and execution, as we build a platform and content pipeline of unmatched quality. In 2010 we also successfully completed a major strategic transition for our gambling software business that we believe will position us strongly for strong growth in Europe – and the United States upon legalization.

We believe our strategic position is strong and that our many investments in our game pipeline and platform will drive an exciting 2011. We look forward with confidence to a return to growth and remain committed to building a stronger GigaMedia with growing shareholder value as its cornerstone.

We thank you for your interest and continued support.

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

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

Today, I will focus on current and future operational initiatives and then turn the call over to Quincy for a look at financial details. During the third quarter and into the fourth quarter we focused on strengthening our Asian online games business. New game launches in the third and fourth quarters demonstrated steady progress. Let me now highlight some of the progress we made and what we are focused on going forward.

First, let's discuss Southeast Asia. As noted in our press release today, for the first time we reported results from our online game operations in Southeast Asia. We have been very busy in the region during the

second half of 2010. One of the keys to future success will be building on our strategic partnership with Blizzard Entertainment.

In late July we launched box sales of Blizzard's hit game *StarCraft II*. Following this, in late October we launched a time-based subscription model for *StarCraft II*, providing an additional, flexible payment option alongside the existing boxed version of the game for players in Thailand, Malaysia, the Philippines, Singapore, Hong Kong/Macau and Indonesia

Our agreement with Blizzard prevents us from disclosing regional specifics on game sales. However, we emphasize that, together with Blizzard, we have a long term commitment in creating the region's premier online gaming destination.

Complementing the Blizzard initiatives and equally significant was a new promotion in Q3 for *FIFA Online 2* showcasing professional football stars in Singapore and Malaysia. *FIFA Online 2* is IAHGames' leading offering with nearly 11 million registered players in Southeast Asia, primarily in Vietnam, Thailand and Singapore. The game continues to perform well with average monthly active paying accounts of approximately 266,000 in the third-quarter and PCCUs in the region of nearly 110,000.

Next, let's turn to Taiwan and Hong Kong. In Taiwan in the third quarter we continued testing of our new first-person shooter MMO game, *A.V.A.* In December we began commercial operations of *A.V.A.* The launch of *A.V.A.* has been successful. The game is currently one of the top 3 in its genre in Taiwan. PCCUs for *A.V.A.* is currently at approximately 10,000 and we see further upside potential. We believe *A.V.A.* will be an important contributor to the FunTown platform and our financials going forward.

During Q3 and into Q4, we continued to work hard on building our game pipeline on the casual game platform. We took a significant step forward in strengthening our board and chess offerings by developing a flash-based version of our leading MahJong offering, which was launched in January 2011. This product allows FunTown members to access our MahJong game via either their Facebook accounts or Yahoo accounts with no client downloads required. Initial results of this product launch have been very encouraging. An important product direction of our board and chess casual platform for 2011 will be to convert additional existing games on our casual platform from a client-download version to a flashed-based version.

Finally, a few words with regard to our gambling software business.

As expected, Q3 results were down Q-o-Q, reflecting traditional seasonality in the business, limited marketing, difficult operating conditions, and strong competition. Overall, the market in France has not developed as rapidly as the industry expected, largely due to high taxes. All operators have been impacted by this, with the common denominator being reduced player yields. However, we remain one of the top three operators in France with a large player base and a top gaming brand. We are only beginning to leverage our media savvy and land-based casino shareholders. As part of our plans to drive growth, in an important partnership with French TV Network M6, Mangas Everest is producing two weekly poker programs. The first, "100% Poker" began October 17 and the second, "Men vs Women" begins at the end of March. Qualification tournaments to participate in this show began on January 24.

In sum, we are focused on launching and growing new products in our Asian online games business, creating a strong foundation for improved financial performance. We expect to drive growth both organically and via acquisitions and we have the resources and financial flexibility necessary to expand our business regionally in Asia.

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. I would like to turn now to focus on Q3 financial results.

Overall, deconsolidation of our China online games operations and the consolidation of IAHGames in the third quarter significantly impacted financial results.

On the revenue side, total 3Q revenues declined to \$7.8 million resulting from the deconsolidation of China operations, partially offset by consolidation of IAHGames. Total revenues were composed entirely of revenues from our Asian online games business.

Revenues in the Asian online game business decreased 34 percent year-over-year and 28 percent compared with the second quarter. We generated approximately 67 percent of our revenues from online game operations in Taiwan and HK with the remaining 33 percent in Southeast Asia.

Revenues from online games in Taiwan and HK decreased both year-over-year and quarter-over-quarter. The decreases were caused by declines in contributions from MahJong and other casual games. These declines reflect the disruptions of highly popular social networking game operations on the casual game genre. Our player numbers in Taiwan and HK decreased in Q3 due to competition, but we achieved a 5 percent increase in ARPU through successful *Tales Runner* game promotions in HK. Partially offsetting the revenue declines in Taiwan and HK were new contributions from operations in Southeast Asia. Revenues from IAHGames in the third quarter were \$2.5 million. The largest contributions came from *FIFA Online 2*, *Dragonica Online*, and *Granado Espada*.

Gross profit was \$4.3 million in Q3, all from the Asian online games business. Asian online games gross profit margin in Q3 decreased to 54 percent from 60 percent in 2009 and 67 percent in the second quarter. The gross margin declines were due to the deconsolidation of the China online games operations and new contributions from operations in Southeast Asia, where margins are currently low.

On the operating expense side, as a result of the deconsolidation of the gambling software business, operating expenses decreased by 70 percent Y-o-Y, to \$9.2 million. Operating expenses also decreased sharply quarter-over-quarter, down 52 percent, reflecting the deconsolidation of GigaMedia's China operations in Q3. The quarterly sequential variation was also attributable to several one-off expenses totaling \$10.1 million in Q2.

We incurred operating expenses in the gambling software business in Q3 amounting to \$0.5 million, mainly related to general and administrative expenses, reflecting management involvement in the ongoing development of Mangas Everest as 40 percent minority holders.

Operating expenses for the Asian online games business were \$4.8 million, down from \$8.3 million a year ago and from \$10.3 million last quarter. The year-period decline was due to deconsolidation of GigaMedia's China operations. The quarterly sequential variation reflected this same factor, as well as the previously mentioned write-downs and contract termination costs of about \$2.7 million and the front loaded expense related to the development of the *Spongebob SquarePants* game title of \$1.6 million in Q2.

Corporate operating expenses decreased to approximately \$3.8 million in the third quarter. Corporate operating expenses were skewed last

quarter by additional compensation costs of about \$5.8 million recorded in Q2 related to the sale of the gambling software business.

We recorded an operating loss of \$4.9 million in Q3. In Q2, if we excluded the one-off items totaling approximately \$10.1 million, the adjusted operating loss was about \$1.7 million. The quarterly sequential increased operating loss between Q2 and Q3 reflected the deconsolidation of GigaMedia's China operations and continued build-out of online game operations, particularly in Southeast Asia. Up front costs and expenses at this point are ahead of revenues, resulting in decreased gross profit and larger operating losses. Looking ahead, we are closely focused on controlling costs and driving improved operational efficiencies.

Consolidated non-operating income during the third quarter of 2010 decreased to a loss of \$4.8 million from income of \$204 thousand in the third quarter of 2009 and income of \$70.6 million in the second quarter of 2010. Third-quarter non-operating loss included losses on equity method investments of \$5.7 million related to the gambling software business which more than offset income on equity investment of \$1.2 million related to the Asian Online games business. The huge quarterly sequential variation was due to the gain in Q2 of approximately \$75.8 million on the deconsolidation of the gambling software business.

As a result of the above items, we recorded a net loss of \$10.0 million in Q3.

Finally, let's close with a look at our balance sheet and what is ahead. Our net cash position decreased by \$23 million to about \$80 million as a result of the deconsolidation of GigaMedia's China operations, and negative operating cash flow.

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.