GIGAMEDIA First-Quarter 2009 Financial Results

CONFERENCE CALL SCRIPT

JUNE 9, 2009 AT 8 A.M. (EST)

Brad: Thank You. This is Brad Miller, investor relations director of GigaMedia. Welcome to our first-quarter 2009 results conference call for GigaMedia Limited.

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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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.

Today, we have Thomas Hui, our President and COO and Quincy Tang, our CFO with me. I will begin with a strategic overview of our business; followed by Thomas who will discuss operational highlights and finally Quincy will take us through the numbers in more detail.

In the First Quarter, the global economic downturn caused consumer confidence and spending to fall dramatically, especially in our key markets in continental Europe. The resulting drop in per player spending and betting in our European business was greater than we expected – and frankly outpaced our ability to realign our cost structure. As a result, the top-line softness has led to disproportionately soft bottom-line results.

Despite this near-term weakness, our businesses remain healthy, our long-term outlook remains strong and we are taking the rights steps to drive improved performance.

And in Asia, we have one of the strongest game pipelines in the region and expect 2009 to be a record year – our best ever, with strong growth of the top and bottom lines.

Let me turn now to the specific business units and highlight what we are doing to strengthen our business and sustain our momentum.

Poker and Casino Software Business

We believe our Q1 financial performance for this division was directly related to the global economic downturn, which drove a sharp drop in consumer spending on online entertainment such as our Everest poker and casino offerings.

Behind the black clouds, however, the silver lining is that the key player metrics in Q1 – including active player days, daily average players and in particular, new player sign-ups – remained solid, being comparable or slightly better than Q4, demonstrating the continued appeal and entertainment value of the Everest gaming platform. Players continue to come – but as a result of the recession in Europe and a weaker euro, they are betting less. We are entirely confident that when macro-economic conditions return to normal, that player spending will return to historical levels.

In the mean time, we have taken strong steps to rationalize our cost structure without affecting the long term strength of the platform. Let me review a few of the larger steps:

First, Staff Reductions. In late March, we initiated a staff layoff of about 8 percent of our Everest team, yielding approximately $2.1M in annual savings or ~ 500k per quarter. Additional savings will come from a reduction in non-cash stock option compensation expenses. We do not expect this cut to materially impact execution of our 2009 plan.

Second, Partner Program Improvements. We anticipate that cost savings of approximately $500k per quarter will come from CPA cost containment functionality within our affiliate software (to be deployed this month) and renegotiated CPA and revenue share agreements with top partners emphasizing the acquisition of higher value players.

Third, Payment Processing Costs. We have identified new payment processing channels with more competitive rates which should yield significant savings. This initiative has been implemented in Q2 and we anticipate ~$200-400K in quarterly savings once migration is complete.

Fourth, Mass Media Marketing. We have taken a hard look at our direct marketing expenses given the decrease in player spend during this economic downturn. For example, we have slowed our mass media campaign in Germany, which though effective in driving acquisition is now less profitable than other marketing programs.

Q1 was a busy quarter for us despite the difficult macroeconomic pressures. In the first quarter, we began operation under our new European Community license based in Malta and launched a VIP store-which allows players to use VIP/loyalty points to purchase merchandise – a cost effective way to extend player lifetime. We also released a suite of new Flash based casino games and launched Teaser Flash games running on websites-no download to improve conversion. We held the EPEC finale in Portugal, sponsored the Spanish Poker Tour and began promotional build-ups to 2009 WSOP where we will be sending over 50 players to the main event.

While the challenging operating environment continues, the good news is that we believe we have hit bottom in this cyclical downturn. Our player metrics are stabilizing and consumer sentiment appears to be improving.

Everest Poker remains the fourth largest site in the world. Everest remains one of the most popular and well-known Poker rooms in continental Europe, awarded Poker Operation of the Year the past two years in a row by independent industry journal eGaming Review. Despite the economic downturn, Everest Poker continues to perform as well or better than almost all of our competitors.

For the rest of 2009, we will continue to drive the business hard as a leaner and more efficient operation. Moreover, we invested heavily in numerous initiatives during 2008 and we are excited to begin to see the yield on these investments now in 2009. Let me highlight some examples…

Cross Marketing. We will be launching the next phase of our common wallet technology in Q2, a major step in our next-generation platform. This will allow us to more effectively cross-register players seamlessly between our existing two verticals as well as our new Everest Bets and future products. We anticipate that this phase will materially improve the rate of cross-registrations from poker to casino. Despite some initial steps, our monetization between poker and casino is still but a fraction of our competitors, which suggests we have considerable additional monetization available here.

Local Marketing Partnerships. In 2009 we look to expand our brand and our market presence by entering into marketing partnerships with strong local media groups and entertainment firms. We currently are in discussions with leading media groups and other potential partners in Italy, France, Germany and Spain – and look to finalize deals soon.

New Generation Everest Poker. We are very excited about our new Everest Poker front-end client to be release in Q2. Our customer tests showed an 18 percent lift in downloads/conversions from this new front-end client.

Sports Book – This remains a young initiative which began at the end of 2008. We are working with our partner Victor Chandler and are bullish about the future. We believe that the key driver in 2009 will be a more tightly integrated solution, where the players remain on a common wallet, and are able to easily move chips/funds between the verticals, and obtain and utilize loyalty points throughout the Everest portfolio.

US Poker Market. We are optimistic about the eventual opening of the US market to online poker. The emerging success of regulation in Europe; the adverse WTO ruling; a more liberal Administration and Congress; and both state and Federal governments desperate for new revenue sources during a deep recession are all strong positives for market opening. We note that recently three pro-gaming bills were submitted to Congress in April/May, backed by a growing number of politicians. As the only

NASDAQ listed poker firm with poker software 100 percent developed in Boston, MA, we believe we are best positioned to obtain a license when first available.

World Series of Poker. While TV broadcasts of the 2008 WSOP continue to air in Europe, we are very optimistic about the 2009 event which will be of special and improved benefit to Everest. Greater visibility for and participation by Everest in European broadcasts will allow us to optimize the timing and spend of our marketing and dramatically increase the value of this key partnership. And naturally, we believe that our exclusive poker sponsorship of the WSOP and branding on the felt of every table will continue to help prepare us for the eventual reopening of the giant US poker market.

Traditional Asian Games. Our unique platform of pachinko, pachislo and Asian games launched in the Fall of last year and has grown double digits, and in some cases triple digits, month on month since then. Player retention has been solid. We have recently added a new pachi game to the lineup and three more games are scheduled for launch over the next four months. We continue to believe that traditional Asian games are a huge market opportunity and are building this business methodically to become a major contributor, ramping up from this year into 2010. As with our build out of Everest Poker, we plan to release more operational metrics as our business develops.

Before concluding on this division, I know many of you are interested in the status of potential strategic transactions, so let me give a brief update. Currently we are in final discussions with two parties concerning a potential strategic sale or partnership of our poker and casino software business. Whether or not we proceed with a deal and if so, of what nature and on what terms, cannot be determined at present. Naturally, because the discussions are continuing, I cannot comment further at this time. But we will be back to you soon.

Asian Online Games Business

We are happy to note in these difficult times that Q1 performance of our Asian online games was strong with the online game business in Asia little impacted by the global economic downturn.

In Asia, we are building a powerful platform for the delivery of online entertainment to the MTv Generation, the highly valued 15-35 year old cohort. Our progress to date has been delayed by development delays in our new line of games. Fortunately, the waiting is over.

We look forward this year to the launch of several exciting new games including *Warhammer, Luna, NBA Street Online, Holic* and others – with more to come in 2010. Thomas will provide a fuller discussion of this in a moment.

In summary, we are very confident that the other strong games in our line-up will make 2009 a record year – our best ever with strong top and bottom line growth both for 2009 and beyond.

Conclusion

To conclude, despite difficult operating conditions, we remain confident in the strength of our business and the value of the online entertainment platform we are building. For 2009, our accelerated growth in Asia and careful management in Europe point to another good year for 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 business and operational highlights now, starting with our gaming software business and following with our Asian online games business.

In our gaming software business, we are undertaking a series of restructuring efforts in response to the global economic downturn. While monetizing in the current environment is challenging, overall the Everest brand and our market position remain strong. Key metrics point to a sound userbase and a business with viable long-term growth potential. While we expect the steps we are taking will improve performance as we move ahead, our first quarter results did not reflect the benefits from our restructuring efforts to date.

As I mentioned, even during this downturn we are continuing to attract a healthy number of players. During the first quarter, our poker platform had approximately 183,000 active real-money customers, virtually unchanged from the previous quarter. During the quarter, we added approximately 45,000 new real-money poker players, up 3 percent quarter-over-quarter.

As expected, poker revenues declined both Y-o-Y and Q-o-Q. This was largely attributable to a lower yield per player as a result of the economic conditions and currency fluctuation in our core European markets. Average Revenue Per Active Account in the first quarter decreased approximately 10% sequentially. Our player base held steady. The number of active real-money customers decreased less than 1 percent sequentially.

Turning to casino, revenues grew 18 percent Y-o-Y, driven by enhancements to the poker software that enable cross-selling of casino games. Q-o-Q revenues declined 8 percent, reflecting the impact of economic conditions on player spending.

In sum, while our gaming software business faces challenges, we remain confident about the long term future of the business. Everest Poker remains one of the favorite sites of European players. We expect Everest Poker to continue to hold its leading positions in continental Europe going forward.

Let me turn now to our Asian online games business. Our pan-Asian platform had an outstanding quarter with very strong growth in key metrics. Moreover, this strong performance was mainly driven by organic growth of existing games. We look forward to launching several new major game titles this year to accelerate our growth, which I will review in a moment.

In China, T2CN's average monthly active paying accounts were approximately 404,000 in Q1, up 20 percent from Q4, and average monthly revenue per active paying account was $4.08 during the period, up 18 percent quarter-over-quarter. Peak concurrent users of *FreeStyle* were approximately 119,000, an increase of 7 percent from the fourth quarter. Growth in T2CN's metrics was related to improved performance of FreeStyle, following a hacking incident that we resolved at year-end last year.

In Taiwan and HK, FunTown's average monthly active paying accounts were approximately 105,000 during the first quarter, up 2 percent from the fourth quarter. Average monthly revenue per active paying account increased to $24.40 during the period, up 25 percent quarter-over-quarter. Peak concurrent users were approximately 50,000, a 32 percent increase from the fourth quarter driven by the growth in casual games and the launch of Holic.

Looking ahead, we are very excited about the prospects of our new game pipeline. Let me now go over the key developments with regard to several of our new game titles, including *Warhammer Online*, *Luna Online,* and *NBA Street Online*.

We have successfully completed closed beta testing of *Warhammer Online* and are now in open beta. Open beta began on May 28 in Taiwan. So far, the game has been very well received. We look forward to an exciting commercial launch in the end of June after this final testing.

Next, the launch of another major new game title, *Luna Online*. We have conducted some early pre-closed beta testing of this game in China and expect open beta in early Q3. Initial test results have been excellent. *Luna* has been a major hit in several Asian markets. We have exclusive license rights for the China market and look forward to launching *Luna* in China in Q3 2009.

Finally, *NBA Street Online*. As we demonstrated with our basketball game *FreeStyle*, sports games are an underserved niche in Asia and there is strong demand for online basketball games. Given the high appeal of EA's sports brand, the excitement of NBA stars, and the enthusiasm for basketball in China, we expect *NBA Street Online* to be a major hit in China and Taiwan. EA is taking great care to finalize refinements to the game for Asian markets. We continue to expect that it will be ready for commercial launch in China and Taiwan by Q3/Q4 this year.

In summary, we remain confident about the long term potential of our gaming software business and are very excited about the growth of our Asian online games businesses.

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.

Let me now take a few minutes to review our Q1 consolidated financial results. Following that I'll highlight some key factors affecting Q1 results in each of our core business units. There will then be an opportunity for you to ask questions.

Consolidated First-Quarter 2009 Results

Results of our online entertainment businesses were mixed in the first quarter of 2009. Our gaming software business continued to face challenging operating conditions, as the global economic downturn is negatively impacting player behavior. Balanced against this, our Asian online games business delivered excellent results, as it has continued to see growth in player metrics despite the economic crisis.

Consolidated results reflected this. Steps to cut costs and increase efficiencies in our gaming software business, and major new product launches to build scale and efficiencies in our Asian online games business will together drive improved performance going forward. However, we did not realize the benefits of these initiatives in the first quarter of 2009.

Consolidated revenues decreased 13 percent Y-o-Y due to the slowdown in our gaming software business, but held steady Q-o-Q as strong growth in Asian online games revenues offset a quarterly sequential decline in our gaming software revenues.

Gross profit margin in Q1 declined to 79.1 percent from 82.3 percent a year ago and from 80.7 percent in 4Q 2008 due to decreases in the proportions of contributions from the higher margin gaming software business during the periods, and the effect of revenue declines outpacing decreases in certain fixed costs.

Q1 2009 consolidated operating income decreased to $5.4 million from $12.7 million a year ago, and decreased from $7.9 million in the previous quarter.

The Y-o-Y decrease resulted from the decrease in sales and a lower gross profit margin. This was largely related to the impact of the global downturn on our gaming software business and increased expenses in our Asian online games business as we began scaling up the business to support future growth.

Q-o-Q, our consolidated operating margin decreased to 12.2 percent from 17.7 percent, due to seasonal factors and certain one-off events. We expect operating margins to improve over current levels as a result of two factors: (1) we are continuing to implement cost controls in our gaming software business, and (2) we are on track for new game launches in our Asian online games business.

Let me now highlight the Q-o-Q variations in a few key line items.

Product development and engineering expenses. Product development and engineering expenses grew to $3.9 million in the first quarter from $2.6 million last quarter, largely due to increases in our gaming software business. The variation was related to a write-back of compensation related expenses in the previous quarter and severance payments incurred in our gaming software business in Q1 with a view to reducing headcount and controlling costs.

Selling and marketing expenses. Selling and marketing expenses decreased to $18.1 million from $20.8 million in the fourth quarter of 2008 due to decreases in our gaming software business as marketing in the gaming software business traditionally peaks in Q4 and begins declining in Q1. This decrease offset increased selling and marketing expenses in the Asian online games business FunTown surrounding the Chinese New Year holiday.

General and administrative expenses. General and administrative expenses increased to $7.5 million from $4.4 million in the previous quarter. The variation reflected the write back of compensation related expenses in Q4 2008 in light of the challenging business environment, as well as severance payments in Q1 following the workforce reduction we announced.

We continued to maintain a strong balance sheet in the fourth quarter. Cash, cash equivalents, and current marketable securities at the end of Q1 were $97.5 million.

Next, let's look at the performance of each of our business units.

Gaming Software Business

First-quarter revenues for the gaming software business decreased 17 percent year-over-year. As expected, revenues were down 9 percent from the fourth quarter.

In poker, revenues declined 27 percent year-over-year and 10 percent quarter-over-quarter. Casino revenues grew 18 percent year-over-year and decreased 8 percent quarter-over-quarter.

Selling and marketing expenses trended down both Y-o-Y and Q-o-Q. The 20 percent quarterly sequential variation was mainly related to marketing initiatives peaking in Q4, decreased affiliated marketing expenses in line with revenue trends, and tightened spending in Q1 following a tough Q4.

The quarterly sequential decrease in selling and marketing expenses more than offset lower gross profit as well as increased product development and engineering expenses, resulting in a small improvement in operating margin, to 15.3 percent from 14.7 percent last quarter.

As I mentioned, steps to cut costs and increase efficiencies in our gaming software business have yet to take full effect, and we are working hard to improve performance going forward.

Asian Online Games Business – FunTown and T2CN

Let me now turn to our Asian online games business.

Our Asian online games business delivered excellent results, with record results in FunTown and near-record performance in T2CN. Despite the global economic crisis, the business continues to post solid growth.

Quarter-over-quarter, revenues jumped 33 percent driven by strong organic growth in both FunTown and T2CN. FunTown revenues grew 27 percent Q-o-Q from strong promotions during the Chinese New Year holiday of new and existing games. FunTown's ARPU hit a record $24.40 during the first quarter. T2CN revenues surged 43 percent Q-o-Q from strong performance of the online basketball game *FreeStyle* following the resolution of a hacking issue in Q4 last year.

While these are strong results, the Asian online games business is only beginning to deliver on our investments. We are committed to greatly expanding the business and have an exciting lineup of major new titles scheduled for launch over the next several quarters, as Thomas outlined. To support the addition of these products to our platform, during the first quarter we continued to scale up the business. Related increases in general and administrative expenses, as well as the aforementioned increase in selling and marketing, outpaced revenue growth in the first quarter, resulting in a Q-o-Q decline in operating margin.

Looking ahead, we expect revenues to grow significantly and operating margins to expand 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 *Warhammer, Luna Online* and *NBA Street Online*.

In conclusion, in Q1 we faced strong operating challenges, but we have in place the the right initiatives to build and strengthen our businesses, we are executing well and despite the economic headwinds, we are excited about our prospects for 2009.

Thank you.