



GIGAMEDIA
Strategic Alliance with European
Leader Mangas Gaming and
Second and Third-Quarter 2009
Financial Results
CONFERENCE CALL SCRIPT
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Brad: Thank You. This is Brad Miller, investor relations director of GigaMedia. Welcome to our conference call to discuss GigaMedia's strategic alliance with European leader Mangas Gaming, as well as our second and third-quarter 2009 financial results.

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 2009.

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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:

Thank you all for joining us. Today I will focus on providing a high level overview of GigaMedia: where we are and where we are heading. I shall begin by reviewing the important transaction we signed and announced just last week, discussing the rationale and benefits to GigaMedia in the near and middle term. Afterwards, I'll look at the rest of GigaMedia and outline our plans going forward.

Background for our Strategic Alliance

Shortly after I joined GigaMedia, seeking a new strategic direction for the firm, we decided to enter the online entertainment business. In April 2004, we took our first step and acquired what is now our Everest poker and casino software operation. We paid a grand total of US\$32.5 million for a 100 percent stake. Over the past five years, we have worked hard and grown this business aggressively. Needless to say, it has proved to be an outstanding investment.

But about one year ago, we began another strategic review of this business unit, an evaluation of where the market was moving and where we were positioned in relation to such movements. We determined that despite our rapid growth and position as the fourth largest poker site in the world, a strategic move was necessary.

Several factors were and remain at play, all arguing for an increase in business size and scale by way of business combination...

- first, the trend toward individually regulated country markets in Europe, our primary marketplace and source of 75 percent of the revenues for this division, meant we needed much greater size and scale to operate efficiently. As England, then Italy and now France each establish separate regulatory regimes, limiting player pools to single country players and requiring heavy in-country investments in infrastructure and personnel, the ability to run an efficient pan-European operations was challenged.

- second, the need for tightly integrated full product offering: poker, casino, sports book and other gambling products on the same platform. Though our poker and casino products were competitive and our Everest brand valuable, without our own sports book operation tightly integrated into our own platform, it is difficult to realize the necessary synergies.

- finally, the continuing challenge from poker competitors operating illegally in the US, making hundreds of millions annually and using these illegal but enormous resources to compete against us in Europe.

Faced with these realities, we embarked on a strategic process, guided by our financial advisors Goldman Sachs and legal advisors Skadden Arps. And over the past year, we have been busy with the identification, discussion, structuring, negotiation and finally execution of a new strategic alliance. During this process, we looked at a full range of options to maximize shareholder value including various acquisition opportunities, partial and complete sale alternatives, partnerships, cooperations and strategic alliances.

The Strategic Alliance

In the end, we are very pleased to enter into a partnership, a truly strategic alliance with Mangas Gaming, who I believe is the strongest and best partner for GigaMedia. Mangas Gaming is one of the leading online gaming firms in Europe, with special strength in sports betting. With the Betclic, Expect and Bet-at-Homes brands, Mangas offers gaming services to over 4 million customers in 25 countries. Mangas Gaming is a fifty-fifty jointly owned by superb shareholders: media powerhouse Stephane Courbit and the Monte Carlo casino owners, SBM.

At closing, Mangas Gaming will become the 60 percent shareholder, with GigaMedia, an active 40 percent partner. The valuation of this 60 percent sale will be determined in early 2012, based on then fair market value, a step designed to reflect the true value of the Everest business, well after the current year macroeconomic blues. Mangas will make an initial US\$100 million payment at closing.

The strategic alliance with Mangas offers many benefits to GigaMedia in the short and medium term:

1. Fair and full valuation of the Everest business unit, based not on today's troubled valuations but instead on FMV in early 2012
2. Operating Synergies. Combining Everest and the Mangas Gaming platforms together will create one of the largest online gaming players in Europe. GigaMedia expects there are significant cost and revenue synergies from the partnership, including cross-marketing of products between Everest Poker and the Mangas Gaming clients as well as marketing and operating synergies.

3. Geographic Synergies. Importantly, MG has particular strength in Sports betting in certain key marketplaces such as France, long the top market for Everest, creating the opportunity for us together to capture dominant market and brand position – and reap the commensurate benefits.

4. Shareholder Strength. One of the key reasons we are so excited about this partnership is the quality of the partners: with top local knowledge, top local relations and top local reputation. Mangas Gaming brings the best to the table: on the one hand, Stephane Courbit, formerly head of France for European media giant Endamol...on the other, SBM, representing the principality of Monaco itself and owner of the world renowned le Grand Casino Monte Carlo. After building Everest poker from its humble roots, we now enjoy the allure, the reputation, the trust of the most famous casino in all of Europe – and one of the most famous world wide. The team is very excited to see where they can grow Everest now. And now armed with the top in European knowledge, relations and reputation, I too am very excited by where Everest can grow!

In summary, we now feel very confident that our Everest business will continue to grow and realize its position atop the international gaming markets.

Let me turn now to GigaMedia today and our path forward.

Overall 2009 has been a tough year for us without question. In Europe, the macro-economic challenges continued to slow our business and create margin pressures. Unfortunately, these macro-pressures combined with the larger strategic process to create special challenges for us. Our Everest team – one of the best in the business – faced both personal uncertainty as we explored different strategic paths – and distracting demands from a highly professional but time consuming due diligence process. (Fortunately all this is now finished). In addition, the Everest team were reluctant to aggressively cut or manage the downturn in light of the wide variety of different potential strategic outcomes. And as a result, the short term returns are not pretty. But we are confident as a management team that we made the right call to forge the partnership with Mangas, a highly value creative alliance.

In Asia, we also have had challenges, with some of our new games turning out to be less exciting than promised by the developers. In addition, we must also admit that our execution has not met the high standards we are used to and which we are committed to deliver. Again, senior management focus on the complex strategic deal in Europe may have been a distraction.

Looking ahead, we are excited about the prospects for 2010 and plan an aggressive year of internal restructuring/refinements as well as external m&a activity.

In Europe, we plan to be an active and value added minority partner. The entire Everest staff will continue and form the basis of the poker division for Mangas Gaming. We will work with the Mangas Team to realize the synergies – both cost and revenue – offered by the Mangas network. We will focus on Mangas shareholders Stephane Courbit and the Monte Carlo Casinos to explore the relationships, credibility and marketing power that they bring.

In Asia, we will continue to grow our Asian online entertainment platform. As a management team, we look forward to the greater focus we will now enjoy, both geographic and business line. We now can concentrate on online entertainment in Asia, where we live, where we have the information, contacts, relationships – all to drive our target marketplaces.

While this past year management has been spread a bit thin geographically working on identifying the best strategic partner, we this year will be focused on restructuring and refining our business in Asia. Though our Asian platform is still a work-in-progress, we plan to make major steps in 2010, in particular to expand the breadth and depth of our market penetration in several key markets by m&a activity. We have three very significant moves underway and look forward to announcing these deals when completed.

On balance, we are excited about our new strategic alliance and enthusiastic about aggressively growing our business in Asia by strong execution driving organic growth and m&a. We are 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.

Let me now turn to business and operational highlights, with a brief review of our gaming software and our Asian online games businesses.

As expected, the gaming software business faced significant operating challenges in the second and third quarters, which are the seasonal low periods in the industry when online gaming activity traditionally decreases. In addition to this seasonal factor,

the economic downturn in Europe and strong competition also continued to impact player behavior and result in revenue pressure. The effects of these factors on online poker in particular were observed industry-wide during the summer and fall. Within that context, our quarterly ARPU in poker decreased 11 percent in Q2, and in Q3 hit bottom, declining a further 4 percent sequentially. In addition to the decreased player spending we also experienced sequential decreases in our player metrics. However, the sequential decreases in active depositing players and new depositing players noted in our release today were for the most part superior to our historical trends on a percentage basis. Our key poker metrics were also in line with industry trends. To drive growth, as Arthur discussed we have entered into a strategic alliance with Mangas Gaming by selling a 60 percent stake in our gaming software business. We are confident that this strategic move will significantly increase business momentum and offer substantial upside.

In our Asian online games business we are continuing to build a pan-Asian platform from our existing positions in Greater China and Southeast Asia. Some of our new MMORPG game launches in 2009 did not meet our expectations, but currently plans are underway to rebuild our pipeline and our growth momentum, and we are confident we will deliver improved performance as we move ahead.

Overall results in the second and third quarters were mixed in the Asian online games business, with solid performance in existing offerings and disappointing results in new games.

In China, T2CN's leading sports game offering *FreeStyle* showed a modest decline in user numbers with peak concurrent users of approximately 85,000 in the third quarter. This represented a decrease of 10 percent from the second quarter, in line with expectations given that the second quarter benefited from strong marketing during the week-long Labor Day holiday. To drive growth, in 2010 T2CN will launch *FreeStyle Manager*, a new game in the *FreeStyle* franchise. We expect this game to be well received in China. Further to this, during the third quarter we made an investment in the developer of *FreeStyle*, JC Entertainment. GigaMedia and JC Entertainment will increase strategic cooperation to further develop the *FreeStyle* series of sports games with a focus on capturing growth opportunities in China.

In Taiwan and HK, FunTown's casual games offerings continued to deliver strong performance driving the unit's 13 percent year-on-year revenue growth in Q3. Average monthly revenue per active paying account was \$24.70 in the third quarter, reflecting strong monetization of FunTown's leading MahJong and other casual game offerings. To drive growth, in 2010 we are building on our casual games success by

adding many new products to the platform, including a flash version of our popular MahJong offering and a number of casino style games on a play-for-fun basis.

Turning now from existing core games to new game initiatives in the second and third quarters, which involved *Holic*, *Warhammer Online*, and *Luna Online*. Unfortunately, we have faced a number of challenges this year with our new game launches. These challenges included content issues, illegal player activities or hacking issues, software bugs, and other technical and operational issues. As a result of such challenges, each of the three games currently has a user base much smaller than we anticipated and contributed to the under performance of our Asian online games business in the second and third quarters. We are carefully monitoring performance of these games and will continue to adjust our marketing and operating strategies.

Looking ahead, we have been working hard to rebuild our pipeline for 2010 and beyond, maintaining a strong focus on markets in Greater China and Southeast Asia. In addition to the new *FreeStyle Manager* and the addition of casual games to FunTown I mentioned earlier, we also expect to launch several other game titles this coming year, putting the business back on a solid growth momentum for 2010.

Having taken the decision to put more management focus on winning in Asia, we intend to continue development and expansion of the Asian online games business going forward. More than ever before, we have the resources and financial flexibility necessary to expand our business regionally in Asia. Geographic and portfolio expansion combined with a focus on streamlining business processes, leveraging scale and enhancing execution will all be elements of GigaMedia's long-term growth success.

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

Quincy:

I would like to take next few minutes to review our Q2 and Q3 consolidated financial results. And then I will spend some time to highlight each of our core businesses – that is the Gaming Software Business and Asian Online Game Business. Following that will be a Q&A section.

Consolidated Q2/Q3 2009 Results

The financial results in both quarters were worse than expected. Second and third quarter revenues were \$37.7M and 37.2M respectively; second quarter net income of

\$128 thousand and third quarter net loss of \$2.4M; with fully diluted GAAP EPS of nil and loss per share of \$0.04.

Consolidated revenue for Q2 and Q3 2009 were \$37.7M and 37.2M respectively. These represented quarterly sequential decreases of 15 percent and 1 percent and also reflected traditional seasonality effects on both the Gaming Software Business and the Asian Online Game Business. In addition, the gaming software business continued to be negatively impacted by the global economic downturn on player spending and strong competitive pressures, including challenges from US facing sites.

Gross margin was 79 percent in Q1, and declined to 76 percent in Q2, and 75 percent in Q3. These declines were attributable to the following reasons:

- 1) Gross margins of Gaming Software Business decreased slightly as fixed costs did not decrease in line with revenue decline;
- 2) Gross margins of Asian online game business decreased more significantly due to the increased costs from newly launched licensed games, coupled with less than expected revenue generated there from; and
- 3) Revenue contribution from Gaming Software Business, which enjoys higher gross margin, decreased.

Let me take you through some key line items.

Product development and engineering expenses.

On a quarterly sequential comparison, product development and engineering expenses decreased by \$1.1 million to \$2.9 million in Q2 and increased by \$0.7 million to \$3.6 million in Q3. Decrease in Q2 was largely due to reduction of headcount by end of Q1 while increase in Q3 was due to a lower amount being capitalized for projects in that quarter from our Gaming Software Business.

Selling and marketing expenses.

Compared with Q1, Q2 selling and marketing expenses held steady at \$18.2 million. The savings of \$1.2 million from partner commissions in the Gaming Software Business as a result of revenue decline was offset by a \$1.3 million increase in advertising and promotion campaigns related to new MMO games launches in the Asian Online Game Business.

Compared with Q2, Q3 selling and marketing expenses grew \$1.4 million, around 8% to \$19.6 million. The increase was mainly due to heavy advertising and promotion expense incurred in the Asian Online Game Business for the launches of new games.

General and administrative expenses.

General and administrative expenses held steady each quarter at around \$7.6 to \$7.7 million this year.

Next, let's take a look at each business unit's performance.

Gaming Software Business

Let's focus on the Gaming Software Business first.

Traditionally, Europe's summer holiday is the low season. Apart from this, both global economic downturn and strong competition has negatively impacted operating environment. Compared to previous quarter, Q2 revenue declined 18 percent, and Q3 revenue declined 3 percent sequentially.

For each vertical, in a quarter-over-quarter comparison, poker revenue decreased 19 percent in Q2 and 9 percent in Q3, as both active depositing real-money customers and average revenue per active paying account decreased quarter-over-quarter in Q2 and Q3.

Casino revenue declined 15 percent in Q2 - while it increased 11 percent in Q3. While there were continuous decreases in player numbers in both quarters, the average revenue per active paying account in Q3 has improved.

To face challenging operating environment, management focused on cost control and efficiency improvement. However, revenue decline outpaced the cost and expenses reduction. The operating margin decreased to 9 percent in Q2, from 15.3 percent in Q1, and then further declined to 4.7 percent in Q3.

Asian Online Games Business – FunTown and T2CN

Now, let's turn to our Asian Online Games Business.

Quarter-over-quarter, Q2 revenue declined 8 percent compared with Q1. We had strong results in Q1 due to successful promotions during Chinese New Year and the resolution of a hacking incident for FreeStyle occurred in Q4 2008. Q3 revenue grew 1 percent, primarily attributable to revenue contributions from the new games Warhammer and Luna.

As for FunTown, revenue decreased 5 percent and 3 percent in Q2 and Q3, respectively. Revenue from the new games WarHammer and Holic was offset by a seasonal decrease in casual game revenue.

As for T2CN, revenue declined 12 percent in Q2, while it grew 8 percent in Q3. The increase in Q3 was due to launch of the new game Luna. Both monthly active paying players and ARPU grew 1 percent quarter-over-quarter in Q3.

Regarding operating cost, most of the licensed game costs are relatively fixed in nature, e.g. license fees, bandwidth costs, server depreciation, software amortization and payroll costs. These expenses increased in Q2 and Q3 due to launch of new MMO games. Coupled with less than expected revenue performance of the newly launched licensed games, gross profit margin decreased from 71 percent in Q1 to 65 percent in Q2, and 60 percent in Q3.

Total selling and marketing expense trended up quarter-over-quarter in Q2 and Q3, mainly reflecting increase in mass media promotion and advertising expenses, with extensive marketing campaigns to support launches of WarHammer and Luna.

Therefore, operating margins went down in both Q2 and Q3, owing to the aforementioned increased operating cost and selling and marketing expense that outpaced the revenue growth.

Q4 Outlook

Looking ahead to Q4 2009, we expect revenues in the gaming software business to benefit from a high single digit to low double digit favorable seasonal growth. At the same time, we anticipate a small double-digit quarterly sequential revenue decrease from the Asian online games in the absence of new games in the fourth quarter. In addition, management expects to record non-cash write offs in the range of US\$35 million to \$45million in the fourth quarter related to certain legacy games, game intangibles, underperforming games and game investments.

Notwithstanding the challenges that we had in 2009, we are well positioned for further growth and expansion. When the strategic alliance with Mangas is completed, we will not only anticipate a one time substantial gain on the sale of the 60 percent interest in the gaming software business but also enjoy the upside on the enlarged business from the remaining 40 percent interest. With the substantial improvement in cash position after the deal is completed, we also have sufficient financial resources to

grow our Asian online games business through M&A initiatives on top of our organic growth initiatives.

Thank you.