



Third-Quarter 2011 Financial Results

CONFERENCE CALL SCRIPT

NOVEMBER 17, 2011 AT 9:00 P.M. (EST)

Yichin:

Thank you all for joining us.

Today I will briefly review third quarter results, provide a short summary of the state of our business, and conclude with an outline of our next step actions.

In the third quarter, in Taiwan and HK revenues were up 20 percent from last year due to the addition of new MMO games to our portfolio. Quarter on quarter however, total revenues were down three percent. MMO game revenues were up sharply from last quarter, but this was offset by a decrease in contributions from casual games.

In SE Asia, we took an important step by ending boxed-game sales and focusing on online games. As a result, gross margin climbed to 33.7 percent from 11.9 percent last quarter.

Our business operation is much tighter now, and the result shows. Our online games business in Taiwan and HK is profitable and we forecast continued Y-o-Y growth and sustained profitability. In SE Asia, as a result of our restructuring we are closing the gap and target cash flow breakeven by yearend.

Looking ahead, we have some promising games in our pipeline, including *SpongeBob SquarePants* and *ArcheAge*, which we look forward to launching next year.

But it's important to balance claims of success with recognition of problems and challenges that we face. Many of our past game launches and initiatives have not been successful. In the third quarter, launch of *4Story* in Taiwan and *FIFA Online 2* in Indonesia were both below our expectations. We have discovered weaknesses in our operations as a pure-play third-party publisher in a changing business landscape, and to date our corrective actions have not been sufficient. For this we apologize.

Beginning in the fourth quarter we will be taking strong steps to adjust our business structure. We will start to move GigaMedia from a pure-play third-party publisher to cover other activities in the game value chain.

Today the entire business landscape in games is changing. Games are rapidly moving from console to Web to mobile and the role of a pure-play third-party game publisher is diminishing. Our plan is to take aggressive steps to cover two fronts – one in content development, and the other in service platform. In line with this strategy, today we announced our first step forward, partnering with Mark Jacob's team at City State Entertainment to develop new games and brands for mobile, tablet, PC and social networking platforms. Together with Mark, we will be expanding our product offerings to games for Internet-enabled mobile devices. We will also be putting great effort into developing compelling IPs that we can use for multiple business models.

We will take steps to enter the cloud space, seeking to fundamentally change the way we publish our IP's.

Complementing this, we will also beef up our effort in building a differentiated service platform. Our tournament platform was the first element in this build-out, and we will start to add differentiated customer service features to make it stand out.

Beyond the restructuring of our online games business, we will also start to look at adjacent value chains in the media sector to seek growth. In 2012, we will add off-line, real-world services that will allow us to reach out to and connect with the same young demographic as our games business. This initiative will allow us to simultaneously deepen our customer connections and lower our risk profile with businesses that are more easily planned and managed.

Let me conclude by going back to operations: we will work very closely with our board, continue to micromanage our online games business, optimizing operations, sharing resources across business units, and protecting our cash. We recognize the inherent risks of the third-party publishing model and the upcoming BIG economic uncertainty that is 2012, and will restructure our portfolio to one that is less risky.

Our balance sheet remains strong, and in Q4 I will make sure that we strengthen it even further.

Thank you.

I will now turn the call over to Quincy, our CFO.

Quincy:

Thanks Yichin. Next, I would like to add some details on a few key items in our Q3 financial results.

Overall, revenues were slightly below forecast. This was the result of two factors. First, the casual games offered by FunTown in Taiwan and

HK were down Q-o-Q due to lighter in-game sales than expected. Second, our launch of *4Story* in Taiwan did not gain much traction, and its contributions were less than forecast.

The decrease in FunTown's casual games revenues in the third quarter more than offset continued revenue growth in FunTown's MMO games. FunTown's MMOs performed well in the third quarter and continued to represent a growing percentage of its total game business revenues. FunTown's MMOs represented approximately 40 percent of its 3Q revenues. Growth of our MMO products is in line with our strategy to broaden our product offerings and diversify our revenue base.

Our MMO *Tales Runner* achieved record results in the third quarter, with revenues up a very strong 57 percent Q-o-Q. This was driven by very successful small online tournaments, demonstrating the effectiveness that tournaments can have on player activity.

Our other MMO game, *A.V.A.*, also made strong contributions in the third quarter. *A.V.A.* continued to grow Q-o-Q and revenues were up approximately 10 percent from the second quarter. Growth was again driven by contests. In line with our focus on expanding our tournament platform, during the third quarter we sponsored the only e-sports league in Taiwan and held several online and offline tournament events, including an international open for *A.V.A.* Over 100 teams have attended these competitions to date. Online and offline tournament events for *A.V.A.* are scheduled throughout the remainder of 2011, culminating in an exciting January finale in Taipei.

Let me turn now to results of for *IAHGames* in Southeast Asia. In Southeast Asia, revenues were down from last quarter due to two factors. First, last quarter we recorded approximately \$500 thousand in game box sales. This quarter we recorded effectively none, as we have terminated this initiative to focus on higher margin online games. Second, revenues from online games were down approximately 17

percent Q-o-Q, mainly due to a drop in revenues from an MMO game *Bomberland*. Revenues from the core games consisting of *FIFA Online 2*, *Granado Espada*, and *Dragonica Online*, were down approximately 6 percent from last quarter.

Turning to costs, in Q3 our operating costs were in line with our expectations. We continued our strong focus on cost controls and as a result, operating expenses were stable Q-o-Q.

Consolidated non-operating expense during the third quarter of 2011 was \$5.2 million and included the following: 1) an equity loss of \$5.6 million reflecting GigaMedia's remaining interest in Everest Gaming and 2) an equity loss of approximately \$131 thousand related to our Asian online games business, which more than offset a one-time gain of \$665 thousand related to the termination of the partnership with Blizzard.

Core net loss was \$3.8 million. This excludes results from discontinued operations and financial results related to our non-core gambling software business, share-based compensation expenses and certain non-cash or one-time items.

Finally, let me review our cash and our balance sheets. In Q3 our net cash position decreased by \$13.0 million Q-o-Q to about \$44.4 million. Operating cash outflow in the third quarter of 2011 was \$4.1 million. During the period we made a loan to Everest Gaming to support its growth and made payments related to development of *SpongeBob SquarePants*; we also continued to buy back shares.

On our balance sheets, I would like to highlight that marketable securities – noncurrent plus investments was up sharply by \$11.3 million from last quarter to \$99.4 million. This consists of GigaMedia's strategic holdings in game studios, developers and other related entities and the company's remaining 40 percent interest in Everest

Gaming. The Q-o-Q increase mainly reflected increases in fair values based on share prices of certain investments. As we have stated before, we are committed to the disposal of certain Asian studio investments within the year to realize gains and crystallize value.

Looking ahead, we are confident in our ability to manage our cost structure and as Yichin outlined we will continue building new initiatives to drive revenue and profitability. We are well positioned to grow GigaMedia and have sufficient financial resources to fund our business initiatives.

Thank you.