

FINAL TRANSCRIPT

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OSTK - Q3 2004 Overstock Com Inc Earnings Conference Call

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PRESENTATION

Operator

Good morning. I would like to welcome everyone to Overstock.com's third quarter 2004 financial results conference call. At this time all lines are in a listen-only mode. Later we will announce the opportunity for questions and instructions will be given at that time. [Caller Instructions] This call is being recorded and will be available for replay beginning today through October 29, 2004. The replay can be accessed 719-457-0820 internationally, or 888-203-1112 from the United States; and entering the access code of 861801. At this time, I would be like to turn the conference call over to the Treasurer of Overstock.com, Ms. Kathryn Huang Hadley. Ms. Hadley, you may begin is.

Kathryn Huang Hadley - *Overstock Com Inc - Treasurer*

Thank you and good morning. Welcome to Overstock.com's third quarter 2004 conference call. Participating on the call today are Dr. Patrick Byrne, Chairman and President and Dave Chidester, Vice President of Finance. Before I turn the call over to Dave,

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please keep in mind that the following discussions and responses to your questions reflect management's views as of today, October 22, 2004 only. As you listen to today's call, I encourage to you have our press release in front of you, since our financial results, detailed commentary and the president's letter to shareholders are included and will correspond to much of the discussion that follows. As we share information today, to help you better understand our business, it is important to keep in mind that we will make statements in the course of this conference call that state our intentions, hopes, beliefs, expectations or predictions of the future. These constitute forward-looking statements for the purpose of the Safe Harbor provisions under the Private Securities Litigation Reform within the meaning of section 27 A of the Securities Act of 199 and section 21 E of the Securities Exchange Act of 1934.

These forward-looking statements involve certain risks and uncertainties that could cause Overstock.com's actual results to differ materially from those projected in these forward-looking statements. Overstock.com disclaims any intention or obligation to revise any forward-looking statements. Additional information, containing important factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in documents that the Company files with the SEC including, but not limited to, its most recent reports on the forms 10-K, 10-Q, 8-K, and S-1. With that introduction, I will turn the call over to Vice President of Finance, Dave Chidester.

Dave Chidester - *Overstock Com Inc - VP-Finance*

Thank you, Catherine and good morning. This quarter marks the fourth straight quarter of improvement in the underlying metrics of the business. The biggest improvements were in the areas of sourcing and operations as reflected in our increased gross margins and operating margins compared to the previous year. Moreover, we accomplished this in another quarter of rapid year-over-year growth. Before I go through the specific financial highlights, please note that it was one year ago, the third quarter of 2003, that we began recording fulfillment partner sales on a gross basis instead of a net basis. That means year-over-year, total revenue growth is again a valid or appropriate comparison and much closer aligned to the growth in gross bookings. I will also note that we did launch Overstock auctions during Q3, however, it was only six days before the end of the quarter; so the auctions business did not contribute revenue or gross bookings in Q3. With that said, let me move on to the financial highlights for the quarter.

Total revenue was 103.4 million, up 79% from 57.8 million in the third quarter of 2003; and up 18% from Q2. Gross bookings increased 87% to 114.4 million, up from just 61 million in the third quarter last year. Within gross bookings, the B2C business continued to accelerate at triple digit growth rates, increasing 119% year-over-year, and 115% year-to-date. Most impressively, gross margins were up to 13.3%, up 2 full percentage points from 11.3 in Q2; and 3 percentage points from 10.3 in Q1. And, albeit on a smaller scale, we still expect to see additional improvements in gross margins in Q4. As a result of these improvements to gross margins, gross profit dollars increased 223% over the third quarter last year, to 13.7 million. And for the first nine months of 2004, gross profit dollars are up 135% over the first nine months last year, while operating expenses re up just 74%.

Our operating loss for the first nine months of 2004 was 2.6% of gross bookings, a 270 basis points improvement, from 5.3% of gross bookings for the first nine months last year. And this shows we've added almost 3 points to operating margin so far this year while still growing the business at an 85% rate. Due to the seasonality of our business, we expect to see additional gains in operating margins in the fourth quarter, as we leverage fixed costs over a much larger revenue base. The net loss for the quarter was \$3 million, or a 16 cent loss per share, from a loss of \$3.7 million, or a 23 cent loss per share, in the third quarter last year. The net loss for the first nine months of 2004 is 7.5 million, or a 44 cent loss per share, down from a loss of 8.7 million, or a 56 cent loss per share, a year earlier. We ended the quarter with 62.6 million in cash and marketable securities on the balance sheet, down from 66.9 at the end of the second quarter. And the small decrease from the previous quarter can be attributed primarily to 3.8 million in capital expenditures this quarter related to our preparations for fourth quarter growth which included setting up our co-location data center, building the back end of the auctions business, and general capacity increases for the B2C website and warehouse operations.

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Lastly, I will go through six metrics that we disclose each quarter. Number one, total new customers in Q3 were up 100,000 to 514,000, that's a 24% increase over last quarter. The CPA for new customers was \$18.30, up from \$15.88 in the previous quarter. Revenue-- number three, revenue from repeat customers was 52%. This number has been between -- consistently between 50 and 60% over the past several quarters. Number four, total number of orders in Q3 were 1.2 million, up 83% over Q3 of last year. Number five, the average invoice is increasing and has trended from around \$70 an invoice, including BMV at the beginning of the year, to just under \$90 average invoice in Q3. And finally, number six, the BMV business was 10% of our total gross bookings, down from 12% in Q2 and 14% in Q1. And that covers my financial overview. I'll now turn the call over to Patrick.

Dr. Patrick Byrne - Overstock Com Inc - Chairman and President

Thank you, David. We're switching headsets here. I, once again, welcome you all to the call. As long-time shareholders, you know I much prefer to take questions. And I write these long letters in part so we can get to questions quickly. So I am going to hit a few points before we go to questions, maybe speak for five to ten minutes. First issue is I do hear that lots of people express a concern to Dave and to Kathryn that we are doing too much and are stretching ourselves too thin. Or that we must be, given the quantity of new projects and such. Let me address that. At the start of the year, we created a skunk works division to take on new projects. Some executives were assigned to keep the main business running smoothly, others were assigned to the skunk works efforts. The idea of this is to reduce competition over scarce internal resources and also to reduce coordination costs. The executives who are focused on the core business have done a superb job, I think, as our numbers demonstrate this quarter.

Top line is growing smoothly. Great improvements have been made in logistics costs as is detailed in my letter and, as I say in the letter, I still think that there is at least 100 to 200 basis points more savings we can squeeze out of logistics and maybe even more; setting aside the issues of noise that I outlined in the letter. Skunk works has been equally successful, but in a different way. I'd like to point out the metaphor I use to think of this is, there's basically two approaches to mountaineering. There's the English approach which is to go climb Everest you have, you know, 200 people at base camp supporting 30 people making an assault to a high camp, or mid-camp supporting six making, you know, getting to high camp, supporting two who go for the top. That's one way. The other alpine tradition typified by some like Reinhold Messner, is you get one guy with a backpack, full of baked beans or something charges up and down the mountain and there doesn't seem to be much in between. Well the same goes for development.

You can do development with these enormous teams of 200, 300, 500 people, like some of our competitors have. Or you can keep -- you can do it with very small lean and mean teams. And there's a real argument that that works even better, because in fact there is a very famous book on software development called "The Mythical Man Month" written by an early IBM developer who pointed out that if you've -- You know, in the early days of IBM when they were, you know, managing these big coding projects they thought well, if you've got a project that's going to take 10 people five months, well that must be 50 man months and if you just put 25 people on, it will take two months and, in fact, you put 25 people on and it takes a year. Well, if you pay attention to that, it means you can do -- we do -- we practice something called extreme programming, where we have very small teams of two or three people taking on enormous projects and it seems to be working. On top of all of that, the executive team, which is managing this, has really gotten a wonderful groove going. We have to meet for about two hours a week for an -- and all of our coordination can be done in two hours per week. So I don't think that we're spread thin. We don't -- we did rush to get things done by the end of the third quarter, so we could basically be locked down for the fourth quarter. And so there were some long nights here. But I think -- I think the results speak for themselves.

Just hitting some of the results for this quarter, again growth has stayed in basically the same range, the 80, 87% range. We've been about 85% all year. Underneath that, remember we're lapping the point last year where we had some Safeway business. And as we lap that, you know, underneath it all, we have sort of a -- well it was 119% growth going on, if you set aside the Safeway business. And so on the one hand, that might start revealing itself, you might see our growth rate actually tip up. On the other hand, we're also lapping the point last year where we had this tremendous inflection in our B2C sales and so that's

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going to make it harder to keep up such a high year-on-year growth rate. And as I say in my letter, you know, I don't know how those are going to balance each other.

Margins, I'm very proud of what's happened with the margins. We've added almost 400 basis points of margin since the end of last year. This has been done really by just good old-fashioned blocking and tackling. Tad Martin has done an exquisite job, has some wonderful people on his team. And I'm thrilled because we keep looking at it and we keep on seeing more pennies and nickels and dimes we can pull out of the system. Probably no more quarters but -- G&A, I alluded to in my letter the fact that we do expense everything we can expense. We don't like to capitalize all these development costs but we do try to keep track of what is our real payroll doing, what is our real G&A doing, setting aside if we weren't, you know, developing a competitor site to E-Bay, for example. And what we see is that our payroll is about 25% above where it was last year, if you exclude the development -- these development teams. That's pretty good. You have gross profits growing at 223%, or whatever it was, and you have payroll growing at 25 or 30%. As I've said before, if you extend that long enough, something -- something good has to happen.

Cash, fine with the amount of cash we have, 62 million. Basically, the cash we burn now is just what we put into capacity expansion, which I outlined at nauseum in last quarter's letter. We did finish, I think, every single one of those capacity projects I described in last quarter's letter. That was quite a bit of work, I can imagine. One area where again I don't think we're finished in the logistics costs is returns, we've made some improvements. But that's especially an area where I think there is another 100 basis points or more, actually, that we might be able to suck out of the costs there. Let's see. Those are the end of my prepared remarks. I thought I would do one other -- oh, actually I did want to touch on another area.

I know that the rule seems to be, as I said, that I'm the pinata and all these knuckleheads get to swing and I'm not supposed to respond. I never got issued that rule book so I -- since so many people have called and asked about some of these -- some of these things, I'm going to walk you folks through a couple examples. I hate to ever sound churlish, but as I said in my letter, it does put me in an awkward ethical spot when I see -- I'm totally fine when I see Derrick Brown and Rob Wilson and people out there write negative stuff on us. It's intellectually honest and I think they're just trying to do their job. No problem with that. But when I see other stuff out there, it really does put me in an ethical bind because as I want to turn the other cheek, it's bad information in the marketplace. So I'm going to start with a simple example.

On July 27, we sold 1,200 pounds of electronic D stock-- D stock is-- that's D for Delta is, it's nonworking product. We don't sell it to consumers but we sell it to jobbers and people use it to part it out and such-- to a company in Van Nuys, California called Universal Computers to a fellow there named Vaheed Coursan. A few days later he called saying he wanted to return the products, we resold that lot for someone on the east coast for about the same amount and arranged to have a freight company pick up the load from Vaheed Coursan. The freight company picked it up and both they and the second buyer on the East Coast confirmed that Vaheed only shipped 900 pounds of product. So we started pressing Vaheed Coursan for the other 300 pounds of product And shortly thereafter, someone named Hamed Coursan of BWS Financial-- being a Wall Street firm-- of Granada Hills, California; which, as I checked on map, it looks like it's a stiff three iron shot from Van Nuys, issued this report saying we were inflating our sales by selling products and buying it back at the same price.

Now, that's just silly. Because first of all, I don't know if it's just a coincidence that the report was written by a guy in the next town, with the same last name. We asked him what his relationship was to Vaheed and he would not answer. The report gave no indication that the transaction occurred three weeks prior, would not have shown up in any public filings or -- and in our own internal report -- you know, August financials, it was one percent of our revenue, it concerned a related party, probably. And the guy had no idea whatsoever how we were going to book that and in fact how you book something like that is you issue a credit memo against the first sale and then you book the second sale. This guy had absolutely no information on which to write a report. But Mr. Coursan number two writes a report, out of an abundance of fairness, he called us on I think it was a Sunday night he said and got no answer, and then published Monday morning. We understand that some government types actually have called this fellow and told him that that was basically one -- his one pass.

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But anyway, the point of that is the fact that Wall Street moved around tens of millions of dollars of stock and in retrospect, tens of millions of dollars of profit, based on this kind of foolishness is risible to me. What's especially irritating is that on the morning this happened, we were working on opening literally that -- we were opening -- turning on our Indiana warehouse, installing a SAN, moving to a new co-location facility, about to launch Gold and testing our new auction site; and I received probably 100 phone calls from Wall Street demanding an explanation of this. I actually did write a quick press release for Wall Street, but unfortunately, PR Newswire deemed it unpublishable so you never got it.

A second example is these fellows at Camelback. Now I have a report that they wrote, just a moment. I have a report that they wrote just a day or two before our last earnings call, and I'm just going to skim through. Just before this call, I skimmed through and highlighted some inaccuracies to give you an example. By the way I understand how Camelback works. It is that hedge funds hire them, you pay them 30 grand a year and then in return for which if you you're a head fund you get to call up once or twice a year and say please do a hatchet job on company X, whatever they want. So they came out with this report. I'm going back to the theme of last year where I'm grading my own analysts. In this report--so I'm referring to their July 21 report. Just starting on, let's see, the first page of the report, page three. They talk about my float cash approach to business. Float, this is just something I've explained so people don't get excited about how much cash we generated in last year's fourth quarter. It is not some super mystical feature I'm claiming about our business. Any bookkeeper--you know if these guys at Camelback don't understand float they could just ask some junior bookkeeper to explain it.

But they blow it all out of proportion. They do call me -- they refer to my Hollywood charm so I got to give them credit for some judgment. Let's see. Let's see. What else did we have here. Going through. They've got the race for it's self proclaimed \$2 billion revenue grail. That's on page four. Well, as I explained in my letter, I think I've been very careful every time I talk about this, that, yeah, I plan on growing to a half a billion this year, and we do our planning around growing to a billion or two billion, that's all our capacity planning for the next two years. But that's not -- I'm not at all promising that we will hit those numbers. They say, okay, more float cash stuff, on page six, they talk about -- now, this is as perpercular an argument as I've ever seen. This is just somebody reaching for straws. They say at the bottom of the page six, with no restrictions on insider buying or --by Mr. Byrne or others for the last five months, I think they're talking about, no one stepped up to the plate to buy shares over the past five months. Well the truth is they haven't done their homework.

We have here a window that's the center 30 days of every quarter, employees can buy and sell stock, it's not -- so over there just didn't do their homework. It isn't for the last five months or something, in the center 30 days of every quarter, we buy or sell stock, it's a very restricted window. We chose that on purpose. They say-- on the other hand we believe Overstock officers and directors have essentially take an blood oath to refrain from selling at all costs as there has never been a single insider sale in the Company's public history. Well, that's just wrong. I'm looking at a Form 4 filed by Shawn Schwegman from May, so two months before it was written, it was up there on the Internet. That's an example of the detail research that these knuckleheads do. Let's see.

Going on on that page, they talk about an interlocking board relationship between Macklin and John Fisher having to do with the investment banking company Hambrecht & Quist. Somebody should alert them that Hambrecht and Quist is not -- maybe they are getting confused it with WR Hambrecht. Then they spend a paragraph picking on Gordon Macklin. Gordon Macklin gave them the courtesy of a very nice call, he's a 78-year-old guy and called to explain that he did have experience that would justify his sitting on an audit committee. That includes that he was the president of NASDAQ, he has been an investment banker for 50 years, and they just try to monkey around with his quotes. What else? Oh, they refer to some noxious-- curiously omitted from the Company's recent proxy statements, is a relationship between Macklin and Allison Abraham, at Catalyst IT Services. They neglect to mention that's a \$15,000 investment. They go on and talk about Hambrecht & Quist again, and that's the relationship between Macklin and Fisher. I mean it just goes on and on. Just shoddy, intellectually shoddy research.

And the, you know, the idea that these -- that widows and orphans money gets invested on the -- based on the work of these lickspidles as I call them, is really sad. Okay. And by the way, we have -- I sit in a different room here. Rich Poungo (ph) is managing the call from a different room, and he's got a computer screen showing everybody who's on the call. I heard that there was a guy named David Rocker who was claiming that we don't take his call. I don't see -- the truth is, I don't see who's on the call.

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But Rich Poungo, I'm instructing you that if any of these guys are on the call, please make sure their calls get taken. In fact, I invite Rocker or Camelback to call in. Okay, operator, let's go to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. The question-and-answer session will be conducted electronically. [Caller Instructions] We will take our first question from Aaron Kessler, Piper Jaffray.

Aaron Kessler - Piper Jaffray - Analyst

Hi, great quarter, guys.

Dr. Patrick Byrne - Overstock Com Inc - Chairman and President

Thank you.

Aaron Kessler - Piper Jaffray - Analyst

Wanted to see if you can expand on the gross margin improvements in the quarter. How much of this was a logistics improvements versus external factors such as better pricing from suppliers or maybe even higher prices on Overstock?

Dr. Patrick Byrne - Overstock Com Inc - Chairman and President

This is almost -- I would say it's three quarters logistics improvements. Just our costs--now we include customer service in logistics, although there's a different philosophy that you can include it elsewhere. But by logistics, we mean inbound freight or handling within the warehouse, outbound freight, credit card, customer service, fraud, and returns costs. And what this is, is this is just small to mid-size improvements in all of those areas. In fact, some of those areas I consider checked off. I consider checked off, but there is -- So the short answer to the question is it's three quarters or more actual improvement in logistics rather than buying better.

Aaron Kessler - Piper Jaffray - Analyst

Great. And then follow-up question, for the auctions business, it seems like there's a clear value proposition in the fixed price sales where you guys can--you can offer lower prices than on eBay for example. How do you add value and compete in a true auction format where it's typically scale wins?

Dr. Patrick Byrne - Overstock Com Inc - Chairman and President

Well, we believe we can keep our -- we have more scale than might immediately be obvious. And just in terms of, you know, eBay has 58 million people a month, we've got 11 million uniques a month. So they've got five times the amount of traffic, of unique visitors, but they have far more products. In fact, we're carefully managing the ratio of traffic to products within the auction tab and we want to keep it -- that ratio, I think, we're going to be able to keep that five to ten times higher on our site than on eBay's site for quite some time. So you know, yeah, we don't have the complete scale that they have, but I guess -- I bet if you look back, you see we have as much traffic as they had, probably in -- I haven't checked this-- but I would guess it's about

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1999 or 2000. So, you know, and people thought they had scale then. David, do have you anything to add to that? Does that answer your question?

Aaron Kessler - *Piper Jaffray - Analyst*

That answered it great. And good quarter.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Thank you. And thanks for picking us up. That was quite a surprise.

Aaron Kessler - *Piper Jaffray - Analyst*

Sure thing.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Take care.

Operator

Thank you and we'll take our next question from David Rocker, Rocker Partners.

David Rocker - *Rocker Partners - Analyst*

Well, thank you very much for inviting me to call. After listening to your discussion, I hope you give me the opportunity to respond at least with a few questions. Number one the increase in the gross margins is about \$2 million over what people have been guided to. However, there was an increase in prepaids and other current assets of about \$8 million, which is about 115% increase over what it was in the most immediately preceding quarter and well above any other increase it's had in any other quarter. Obviously, you can put some things in here, so I'd like to you go through that.

Secondly, you've indicated -- with respect to the cash model you continue to burn more cash this year than you did last year. And when you talk about the diminution of cash, you're not talking about the increase in current liabilities, which went up nearly \$10 million. So let's start with those two, and then I look forward to the opportunity to ask other questions. And I thank you.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Well, thank you, David. Why don't you -- ask me the other questions you have now, and we'll answer, and then we'll come back, you know, we will do a few more of the other analysts and come back to you.

David Rocker - *Rocker Partners - Analyst*

Okay. The other--another question I have is it appears that inventory turnover is falling. That you were surprised or you were pleased that sales were higher than expected and yet there was not a particularly big increase in direct sales, it was mostly the other side. But your actual inventory turnovers, despite a lower level of inventory than would otherwise be the case, was indeed

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lower. The customer acquisition costs is, you know, is up 66% over last year. And so you might comment as to why that might be the case. And there's one other question, since you mentioned on national television my position in the stock, and when we began to take a short position in the stock, I'd like to know the basis for that.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Well, first of all, I didn't bring you out on national television. You brought you out on national television. You sent an e-mail to Jim Cramer which he read and identified you from -- on -- so he's the one who brought you out on national television.

David Rocker - *Rocker Partners - Analyst*

No, I didn't make any statements on national television. You did. So you told us -- you told the world what our position was, and where we first took a position. So tell me where you got that information.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Actually, you told -- first, I'm going to say you told the world. Well, you sent -- Jim Cramer is the guy who wrote the letter and identified you.

David Rocker - *Rocker Partners - Analyst*

The letter was not sent to Jim Cramer It was a posting on TheStreet.com. An open posting for anyone who reads the piece.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Well, Jim Cramer described it as an e-mail.

David Rocker - *Rocker Partners - Analyst*

It wasn't an e-mail. It was posted on the piece. And I'll be happy to send you a copy if you don't have it. But in any case, that isn't the issue. The issue is I did post.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

That may not be your issue. My issue is, Jim Cramer read something which he identified as an e-mail from you, so I responded. Sounds like you may have a beef with your buddy Jim Cramer.

David Rocker - *Rocker Partners - Analyst*

I don't have a beef with anybody other than you who made a statement with -- of fact which I would like to have you verify the basis. Regardless of how it came up. It doesn't really matter how it got there. But even if I accept your proposition, but leave that alone for a moment, you made a statement of where we took a position and how large it was. How did you get that information, and what was the basis for making it?

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Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Noted. Answer to your questions, why don't you take the first one, Dave Chidester. Gross margin--

Dave Chidester - *Overstock Com Inc - VP-Finance*

Increase in prepayments truly just prepaid inventory, that's just timing of when we paid for the inventory and when inventory arrived.

David Rucker - *Rucker Partners - Analyst*

Well, if I may interrupt for just a second, part of your cash model was that you pay for your inventory, you know, later than your customers pay for your inventory, and that's why you're supposed to be able to generate cash.

Dave Chidester - *Overstock Com Inc - VP-Finance*

That's on the fulfillment partner business. The direct business we do prepay for some inventory. So it's just timing. The inventory will arrive shortly in October and the prepayment will go down again. And same thing with inventory turnover. You know, we're comfortable with it. We analyze our inventory on a quarterly basis in very much detail, reserve accordingly. Sometimes the business grows on the partner side, sometimes it grows on the direct side. We're really agnostic to that. And you know, once again, that's not really an issue in our mind.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

As far as inventory build, you might be doing your calculation based on inventory building for the -- you know, we build inventory for the fourth quarter, we are -- what did it end at, David?

Dave Chidester - *Overstock Com Inc - VP-Finance*

35 million.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

35 million. You'll see it-- it's probably -- if it ended the quarter at 35, it's probably up in the mid-40s by now. So we -- certainly the calculation that you're going to do on inventory turn is probably is based off that -- that ending number, but we've built that for -- and we've already been building it for the fourth quarter at that point. I'm actually very comfortable with the way our inventory is -- my biggest problem has been we've been running on too -- too few days of inventory. I've been trying to get them to build to what we look at internally as about 100 to 120 days of inventory. Although on a GAAP basis that shows up at about 50 or 60 and we had trouble -- had trouble getting them ahead of the curve.

And then on the other issue, look, if you're making public statements, and you know, my -- I've got a lot of questions about this, Dave. We've got Jim, you know, you're the second biggest investor in Jim Cramer's fund. Jim Cramer, I don't know if he's got investment in your fund, I don't know if you're short, it's certainly what I hear. It's what people tell me. It's what some of your own letters that you've sent have even -- some of them have come my way. Things you say about us. Now, Jim, I go on TV--Jim Cramer says that he's reading an e-mail from you. Now, what's interesting to me is that Jim Cramer wrote an essay the next day blasting our stock. Which is fine. With him. Fine for him to do but at the end of the essay he says he doesn't have a position in Overstock.com.

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Well my research says you're the second biggest investor of your fund and I'm curious to know if he's an investor in your fund. Because if he's an investor in your fund, you're short us and he is out there writing articles like that. I think it's a little -- I think it's clearly very incestuous and it's a little disingenuous of him to be saying he doesn't have a position while he's writing an article like that. It sounds to me that you ought to be -- ought to be more careful about what you post publicly, Mr. Rocker. Where you ought to be a little less thin-skinned when you get taken to the wood shed about it. Operator, next question.

Operator

We'll take our next question from Bill Lennan, WR Hambrecht.

Bill Lennan - *WR Hambrecht - Analyst*

Boy, and I thought Yankees/Red Sox was interesting, interesting debate. Okay. I have some fairly boring questions. Fairly boring dialogue, I hope. Patrick, could you -- why the surge in partner revenue in the quarter? Is that just an anomaly? Or is it due to some testing of certain types of partner products? I mean partner surging versus you're own stuff where you take inventory?

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

It's not part of any grand plan. It's -- we're opportunistic, and so it -- all that really reflects is where the opportunities are at the moment. It's a little bit like saying, you know, adding up at the end of the quarter, in a football game, how many plays you ran versus how many you passed. There's not really, you know, you can't -- the truth is, you're calling each play based on the situation. And there's not some overarching goal that we're trying to hit. So each of these deals come to us and we make that decision on a case by case basis. I actually like, at this point, we've got such good feel for the way some products sell, I like going to the partners and saying hey, let us commit a million dollars of capital and buy from you and bring them inhouse. And we're trying to do that more and more, but we're also just discovering good product partners-- partner products that take off for us. Dave, do you have --why did our -- do you have anything?

Dave Chidester - *Overstock Com Inc - VP-Finance*

No I don't think -- the business has gotten so big now that it's really difficult for one item to have a significant effect on that, and we haven't gotten into any real new categories. So I think it's just what Patrick said.

Bill Lennan - *WR Hambrecht - Analyst*

Okay. As far as books, movies and video is concerned, where does it go in Q4 and beyond? As you recall, last Christmas time, it was fairly significant, it's a big gift giving product. So just for the near term, next quarter, and then beyond that, do you have a plan or a target mix for BMV?

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

We don't have a target mix. We have gotten it from being a drain to a small profit. And by which I mean it's actually running at about 3.8% gross profit. And that's after our credit card, customer service, all those costs. We think we can make a couple little more changes and get it to about 5%. But then the money that that generates we're just going to spend advertising the program. So I'm thinking of it more and more as like a heat-seeking missile. We're releasing on the tailpipe of Amazon. If we've got something that, you know, it did -- it's come to now, what, about 3, 3.5 million a month. If we can get it to 5 million a month, and generating 5% gross profit, that's 250,000 that we can put into advertising that exact program.

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And actually, take out 10 grand a week to cover the cost of the department, and then put all the rest into advertising that program, and we can have a business that, on the one hand, requires no capital; two, accelerates like crazy; and three, gets new customers at break-even for us. What --it's changed our economics a lot to get some of the kinks worked out of the system, such that we have it to a -- we -- we've taken it to, like I say, a plus 3 or 4% gross profit. Dave Chidester?

Dave Chidester - *Overstock Com Inc - VP-Finance*

No, I think you hit it right on the head.

Bill Lennan - *WR Hambrecht - Analyst*

Okay, and then last for me and I'll duck out here. Patrick, you referred to the cost savings in margin, you know, freight handling returns, you say you picked the low hanging and middle hanging fruit. On the customer analytics side, where would you-- how would you assess the progress in customer analytics to date. Are you still in low hanging fruit? Are you into middle?

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

I'd say we're still in low. We're in low on both sides is how I'd put it, actually. We've gotten a really good feel for who our most profitable customers are. There is about 60,000 customers that I should personally deliver flowers to. There is about 60,000 ones that are very -- that, you know, that -- it's highly leptocritic. There is a small percentage of the people who give, you know, the vast bulk of the profits. But what we're learning is how to find more people like that who are already in our database and are already buying a little bit, and getting them to become great customers. So that's the kind of analysis, I'd say we're further along in that analysis than we are in the collaborative filtering stuff. Although we have finished a good first pass model for the collaborative filtering, and we're actually sort of testing it in different parts of our site this week.

Bill Lennan - *WR Hambrecht - Analyst*

Okay. And then on that customer analytics, what metrics do you think -- where will improvements manifest themselves besides revenue going up the obvious one? Is it percentage of repeat business, is it order size, or all of the above? Like which metrics should we watch for real improvement should you start realizing analytics improvements?

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Well, the collaborative filtering should lead to improvements in conversion. Although we have something working against us there that I'll get back to. The analytics in terms of customer segmentation, that you will see an increase in dollars of repeat business. You know, we give this -- our business has a lot of different pieces and we give you three or four and you can sort of figure out the other two. Well we give you the percentage of the business that's repeat, and that lets you calculate, of course, the dollars of the business that's repeat. And you should see that dollar of the business that's repeat go up if we get better at finding the right buttons within our pot of customers.

Going back to the conversion, there's something that's working against us in conversion. We have different segments, and segments convert at quite different rates. If somebody's already a customer, and they come back, they might buy 7 to 10% of the time that they come back. If somebody's a new untracked customer, meaning they knew they've never been here and untracked means they're just saying, you know, they're just typing our name in their URL. That's the lowest converting group and that's. maybe, just a little over 1%. So our overall conversion, which is sort of 2.5 to 3%, ends up being a blend of these six different segments. That -- that--now that we have waves of new traffic coming, of people who have never been here before and that traffic has sort of a natural conversion of 1%, that tends to bring our overall conversion down. On the other hand, as

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we get better with collaborative filtering, and personalizing the site, we should be able to -- that's driving conversion up. So it is just another of those areas where I don't know how it balances itself out.

Bill Lennan - *WR Hambrecht - Analyst*

Okay. Thanks a lot.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Thank you, Bill.

Operator

We will take our next question from Derrick Brown, Pacific Growth.

Derrick Brown - *Pacific Growth - Analyst*

Hi, thanks. A couple of questions that are sort of interrelated, I guess. First of all, can you kind of address the ASP change, the average selling price, and help me understand, you know, how or why that moved around so much quarter-to-quarter and year-over-year and what that might expect to be kind of going forward, is there a target range? Also, on the customer acquisition costs and marketing front, obviously that number jumped up quite a bit and I'm wondering how we should think about that going forward and do you guys have target numbers that you're really looking to work towards? Both for 2005 and also Q4? Lastly, I shouldn't say lastly, are there any other secret projects that you guys are working on that we should at least, you know, keep in mind as we try to build out models and anticipate where the business is going? And then lastly, how should we think about profit opportunity both in the fourth quarter but also in 2005?

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Well, that's a lot of good questions. Can I take a crack at this quickly, Dave and you jump in?

Dave Chidester - *Overstock Com Inc - VP-Finance*

Yup.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

On average selling price, a small part of it is a function of the shift in BMV from being 14 to 12 to 10%. The average BMV sales is really about 30 bucks, 2.5 units, \$12 a unit. The average sale of something that doesn't include BMV is 110 or something. So it's blended out to 70 in the past. Well, as we are getting more \$110 sales and BMV has dropped from 14 to 10% of revenue, that accounts for some of that shift from 70 to 90 in average order size. However, some of it is also coming out of our customer analysis. As we know what our best customers want, we have a very good feedback system that has been created where we now know what our best customers want, and we're going out and buying more of that stuff. And making sure we're always well stocked in that stuff. And as we get -- as we do that, I'd say that's probably responsible for about half. Do you have, Dave, anything to add?

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Dave Chidester - *Overstock Com Inc - VP-Finance*

I think one other thing that's pushing it up is our Club O program which we've seen Club O members, you know, at this point, have bought bigger orders. And you know, part of that's a reflection of they get a 5% discount and they're trying to make back their \$30 membership fee. But in general, that's been a successful program and I think that has pushed the average order size up as well.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Yeah, on CPA, remember you can't -- what was our CPA last year, Derrick, for the year? 11 bucks or so?

Derrick Brown - *Pacific Growth - Analyst*

For the year? I have it as something -- yeah about \$12.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

\$12. So it's 18 now. But remember, we're coming into the fourth quarter. You got to look year-on-year. I suspect that you see it drop. I suspect that our year -- the CPA for the full year will be something closer to the 12. It won't be as low as 12. It might be 15 or something. But -- so just looking at one quarter is a bit of a -- is a bit misleading. But as I've said, in the letter, you are seeing starch in the online pricing. There's definitely been starch at the big portals.

Key words have gotten bit up. I think key words have been gotten bit up past, in many cases, certainly the center of the bell curve has been gotten bit up past their real value. What has happened is a lot of -- I don't want to say dumb money, but a lot of branding of money. A lot of people who two years ago-- I think I may have told this story on the last conference call-- that a year and a half ago, I was at a conference and there was some advertising execs there, and they were excited because their big clients, meaning say some of the big three auto companies, and big branding-driven companies were saying move my budget from 4% to 10% online. And then this year, I ran into some of the same people and they're saying take it from 10% to 30%. So you're seeing a lot of money flood into online advertising, and it's not very experienced and they tend to overbid. They don't really have the calculation down, as best as I can tell, of what it is really worth to them. So I do see overbidding. Especially in the center 20 or 30,000 words. But out of details, not -- they're not there yet because it's just too hard to manage.

And again, in the portals, the portals have seen real -- got some real starch their pricing. So we keep on trying to avoid and find places online where that -- where it's still underpriced but they're getting scarcer. On the other hand, we're doing a lot of TV. You've seen our -- if you watch Major League Baseball, you saw-- we have about three advertisements in this pennant race. So just remember, you can sort of guess how much they cost and just remember that when do you your model for the fourth quarter.

As for as projects, I think if they were really secret projects, I couldn't answer this question. But I think I can answer it in that we don't have any secret earth-shattering kind of projects. Yeah, we are working on projects, we're doing things with, you know, automated self help, where we're making it easier for people to get help on our site and things like that. But nothing that you would consider a massive project like taking on eBay.

As far as profit opportunity, in this quarter and next, you know, we don't give guidance, but I do think in terms -- I'm still comfortable with our projection, where I've said that I thought this year we would get to--You know, I was shooting for half a billion at break even, where break even was defined as plus or minus a percent. I think that that's still a reasonable goal for us. And I think that means making about 3 million this quarter. In the future, I don't think that it's a -- you know, we may continue growing at sort of these triple-digit rates, or 85 or 119, depending on what you look at. But I think that it's more prudent to say I see that Piper just came out with -- I didn't even realize we were talking to Piper and I'm thrilled that they picked us up. And

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they came out, I think they plugged 60% growth for the next couple years and that seems to me a prudent growth assumption. And then sort of how -- where the profits come out, I think we should be able to be profitable next year, certainly on a year basis. Dave Chidester, anything to add to those?

Dave Chidester - *Overstock Com Inc - VP-Finance*

No, I think you're right, we -- I kind of know where everybody's expectations are, and I think you've seen our gross margins improve, but you've also seen our operating expenses go up. And I think you'll see the same kind of model in the fourth quarter. And so I think, you know, where the expectations are that I see out there are, I think they're right on.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Okay. Derrick, anything else?

Derrick Brown - *Pacific Growth - Analyst*

That's really it for right now. Thank you.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Thank you.

Operator

We will take our next question from Scott Devitt, Legg Mason.

Scott Devitt - *Legg Mason - Analyst*

Great. Thank you and good morning. I had actually five questions. I will give them to you and let you run with them. The -- other than BMV, do you have the product category share break down in the quarter? That would be nice to see. And then related to that, as you grow the business from 500 million to a billion and so on, do you expect any shift in that product category share of your business.

Secondly, your historical belief has been that you're displacing small and medium sized liquidators. As the business has grown have you seen a change in your sourcing competition as of yet? And if you've not, do you expect to see a change in the future as to who you're competing with to access inventory?

On the revenue as a percentage of gross bookings, the third quarter of '03, it was 94.7 and this quarter it was 90.4. I assume that there's some differences in the fact that you just initiated in July of '03. So there may have been a delay as to when returns started to flow through, but maybe if you could speak to that spread, that would be appreciated.

And the fourth question is, any metrics that you have as far as return rates and customer satisfaction, direct versus partner fulfillment would be helpful.

And then finally, if you've seen any shifts in the six areas of how your customers access the site. Thank you.

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Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Okay. Shift in six areas. Stand by. Okay. The share break down, we don't release that. And we actually don't look at it -- I mean we look it in one sense hourly. We know what every buyer is doing hourly, but we -- we know that there is a lot of seasonality among the departments and, in any case, we don't release or -- a percentage break down by department. Dave, do you have anything that you do?

Dave Chidester - *Overstock Com Inc - VP-Finance*

No.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Okay. Sourcing competition, this is always kind of a funny question for us. This is a very inefficient market, so there's not much of a sense of who -- we never really get a sense of who we're up against for deals. The deals tend to be very quickly negotiated. We're not in the business of giving free options and that's one of the first things we teach here. That, you know, we don't give bids and then have this suppliers able to shop them around. We do everything we can to prevent that, we give very short fuses on our bids. So it's -- I've always -- I do think that we are displacing a layer within jobbing, and we've become this uberjobber. But I don't really have a -- I've never had a really great sense of who our competition is for these deals. As far as -- let me tie those two together with one other point, though.

As far as going back to the categories, I do think, you know, I can just say in general, I think you'll see apparel get bigger and bigger and bigger for us. It's really taking off. And that's the one area where we do have a sense of exactly who we're competing with. And we're competing with the guys that you would expect, you know, the major closeout liquidator, Marshall, TJ Maxx types. We do understand when we're working on deals that we're competing against them sometimes. But more often than not, these deals come about -- I mean the dynamics have changed so much for us in the last few years that they -- people are just calling us constantly. And there's not really a sense of it being an efficient market where you've got, you know, three or four, or infinite number of bidders bidding on a product.

It is people calling us and making, you know, -- I talk all the time to suppliers saying why are you dealing with us instead of with Macy's? And they just tell these horror stories of getting -- of trying to get deals done with -- I probably shouldn't mention particular guys like that, but with old line companies like that, where as with us, they can fax us a sample and we can get on the phone and in 10 minutes we got a deal. And it's a completely different prospect than working with one of the big department stores. So I hear that a lot. And I've spent a lot of time now with vendors who come through and, you know, we've become a substantial part of a lot of their business. And so one of -- and so I asked them, what is it we're doing that makes you do business with us like this? And a lot of it has to do with, I think, that-- well, they almost all of them mention that fact, the way we do business, and I feel like -- I don't mean to be patting -- I'm not patting myself on the back, but our colleagues here understand this, have gotten very good at it, and we really do keep to this ethic in the company, that-- that I think benefits us.

As far as revenue to gross bookings, I think that's just going to be, in general, basically a 7 or 8% spread. But there's got to be quarterly variations, and you're going to see it snap closer in this quarter, right, David?

Dave Chidester - *Overstock Com Inc - VP-Finance*

Yes.

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Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

So you'll probably see it snap to, I don't know, a 3, 4, 5% differential in the fourth quarter. So it is going to slinky back and forth. But my guess is for the full year, what's the difference?

Dave Chidester - *Overstock Com Inc - VP-Finance*

The closest it's ever really going to get is about 5 to 6%. As we have gotten bigger, you know, we reserve more for returns. Apparel is a higher return category so we do have higher -- a overall higher return percentage than last year. Economically, it doesn't make a difference. It's just a higher return rate. Also, the Club O program, all those discounts flow into the discounts line, so you see some increase in discounts. You know, once again, the focus really is the growth on -- in our GAAP revenue now, there's not a lot of difference between the two, and so I wouldn't focus so much on the spread between gross bookings and GAAP revenue as I would just the overall growth percentage.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Next question was metrics regarding customer satisfaction, direct versus partner.

Scott Devitt - *Legg Mason - Analyst*

As well as return rates.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Oh, returns. Okay.

Dave Chidester - *Overstock Com Inc - VP-Finance*

There's no real distinct difference in return rates between the two. We haven't seen any difference since we started taking returns. If anything, it has gotten better now that we can control. We know how -- how partners are distributing our products, and you know, have more control of the process.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Well, and as far as customer satisfaction, we were partially motivated to start taking all the returns last year, in part by a sense that our partners were not -- you know, our partners had a wonderful deal. They could drop ship something, their name wasn't on it and we had a sense that some partners were using to get rid of junk. So we'd hear some horrible stories from customers. Well, by taking, and I can tell you as soon as we started taking the returns here, we saw that. We saw the condition stuff had been sent out. We saw, you know, it come back with marketing literature from competitors. So our partner would drop ship something with marketing literature for themselves or some other competitor, or they'd would ship it out in a plastic garbage bag or ship something out with a missing cord. Just sort of using -- thinking they could use us to get rid of that last 5 or 10% that had some problems. We've really -- the greatest advantage of -- So I would say that that if you'd asked me a year and a half ago, I would have said I bet there's a significant customer service -- customer satisfaction differential based on whether something gets core or partner.

I think that's largely gone away now. And I think we really ought to start being able to manage that very well last July and we police is very tightly now. We've implemented this new V-Commerce system which gives us a lot more robust tools to manage, to manage partners and police partner. So I would think that the differential now, I'm sure it's a lot smaller than it was, but I

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don't have any good measures as to how, you know, how it is in an absolute sense versus our direct business. And then the last question was shifts, what was it?

Scott Devitt - *Legg Mason - Analyst*

The six areas that you historically have discussed, the direct versus new untracked, tracked, you don't really talk about that much anymore. I was just wondering if you've seen any shifts in that area.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

We are in the last couple of months seeing a big influx, this is what I meant to be alluding to 20 minutes ago. We're seeing a big influx in new untracked and repeat untracked, and so that seems to me, you know, one way to interpret that is we've reached some kind of a tipping point in the public consciousness and more people are talking about us. So you see a bunch of new untracked people coming-- a higher share than we've ever seen before, are new untracked people and return untracked people. Now, they tend, to especially the new untracked people, their conversion is very low. And so that, you know, theoretically if we had 10 million people come tomorrow, who had never come before, we would have 1% conversion for the day. So anyway, we are seeing a shift towards traffic that isn't paid for, but traffic that's coming in presumably by either word of mouth, or perhaps from watching TV and seeing our ads.

Scott Devitt - *Legg Mason - Analyst*

Great.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

I think we have time for -- nothing says we got to get off, it's 9:40 East Coast. Do we have anyone else here that -- we got Rob Wilson, Rebecca, and Tom. Okay. Let me hit -- I'll call on each of the three of you but we'll just try to keep it to one quick question, if we may. So let's go with Rob, I guess, it's Rob Wilson.

Rob Wilson - *Tiburon Research Group - Analyst*

It's real quick. The 9.4 million you spent in sales and marketing, can you give us a breakout between online and TV?

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Can't break it out precisely, but I can tell you it's roughly -- it's staying roughly two-thirds online, I think. If I say 70%, I'm right within 10% either side.

Rob Wilson - *Tiburon Research Group - Analyst*

All right. Thank you. I'll call you later, thanks.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Okay. Rebecca?

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Operator

Just one second, please. We'll go next to Tom Underwood Legg Mason.

Tom Underwood - *Legg Mason - Analyst*

Yeah, just one follow-up, Patrick, from Scott's questions. Within those six different categories for the customers, how has conversion been trending over the past few quarters as you make site improvements? So not looking at it in aggregate, but trying to kind of isolate each source of the customer, are you seeing improvements in conversion as the site improves?

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Exactly the right question. That's exactly how you have to look at it on a segment basis and then, say, be agnostic about the changes in the plan. We are seeing on a segment basis nice market improvement. You know, significant improvement that easily pays for all the -- all of the analytic work we've done, and Endeca search engine stuff and all that kind of stuff that we've done. I mean it paid for it in a week, or something, by improved conversion. So you're seeing each of those segments improve but as the shift-- as the blend shifts to more new people, you see the overall conversion actually just sort of holding its own; staying at about 2.5 or 2.6.

Tom Underwood - *Legg Mason - Analyst*

Could you just give us any idea of the magnitude of the conversion improvement? Is it 5% or is it 50%?

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

No it's more like in the 10 to 20% range. So a 10% improvement means if something is 5% it goes to 5.5%. So it's in the 10 to 20% range.

Tom Underwood - *Legg Mason - Analyst*

Great. Thanks.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

By segment. Avalon. Avalon is getting whispered. Thank you, Tom Underwood by the way and we have Avalon, Frank from Avalon?

Operator

Frank Gristina, Avondale Partners, please go ahead.

Frank Gristina - *Avondale Partners - Analyst*

Thanks a lot, guys. Just to follow-up on the advertising. Was the baseball ad, were the ads worth it? Did you guys see a noticeable increase after the series or is that something you expect to see come Christmas? So how do you measure your success? It's a

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lot easier to measure success on the Internet, but how do you measure your success on the TV side? And then do you expect to see TV rates come down after the election?

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

How we measure, we do have a -- we do -- a couple of different questions there. We do have a question on -- of course we can't measure the effectiveness of TV quite as -- well, nearly as precisely as we can an online link somewhere. We do have a system we use that's a yardstick without much rubber in it. And so we -- it is a system we use, I've kind of explained it before, I really don't -- it's part of the colonel's secret recipe, so I don't want to give it.

Frank Gristina - *Avondale Partners - Analyst*

Okay.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

But we do have a way of measuring how untracked traffic is doing. And from -- we can sort of read the tea leaves and it actually gives us a very-- we think a good statistical approach to measuring the effectiveness of TV. As far as the rates, the rates have gotten higher because of the election, but the truth is, most of the election advertising is focused on 14 battle ground states. It has not been general national advertising. They do some national advertising. But the great -- so it's has driven up the rates in certain states, but overall, nationally, it hasn't driven it up as much as you think. By as much as you would think. But it has -- it definitely has driven it up.

Frank Gristina - *Avondale Partners - Analyst*

Thanks a lot.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Jim Cramer, I understand, is on the phone.

Jim Cramer -- *Analyst*

Right. Patrick, first, congratulations on a good quarter.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Thank you, Jim.

Jim Cramer -- *Analyst*

I just want to clarify some things and, again, you know, things are said in heat of battle, I don't run a fund. I have no -- I run a -- I have a private account, and all -- I post everything that I own and I can't short. And I do have no money with Mr. Rucker.

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Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Mr. Rocker, I know you don't have a --

Jim Cramer - *Analyst*

It is true that he does have a position in thestreet.com which is a company that I have a position in, too, but I just want to clarify things. I don't want anyone to have the impression that I have money with him, he has money with me. We don't. And then just so you know, I asked e-mail permission to be able to read the posting on TV. I will not just read someone's posting without permission and of course I welcome you on our show anytime you want to come on.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

And Jim, you're welcome back here any time. You're perfected the art of being an attack journalist. I think the next -- I think I'm going to try being an attack guest, if you want to give me a chance.

Jim Cramer - *Analyst*

I'd love too. I think you're -- this is a great quarter and you've done a great job, and I don't want anyone to think that there's -- I mean I don't run a fund. I was a hedge fund manager for many years, Patrick, and there is a hedge fund out there called Cramer Berkowitz.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

I was referring to actually Rocker's shows up as the second largest institutional owner in TheStreet--

Jim Cramer - *Analyst*

What people wanted was if people want to take a position in TheStreet.com, I can't stop them or start them but they certainly don't have any influence.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

So when you wrote a blistering attack, more power to you, but you wrote a blistering attack on us the day after I was on your show, you don't have any economic -- you don't have any money with rocker.

Jim Cramer - *Analyst*

No, no. I just thought, you know, I thought that -- look, you delivered a great quarter. I had felt that when you reported the last quarter, I had said it on TV, too. I said geez, I don't know, I mean this is like -- it's just too nutty. It was just too nutty, there was like a crazy release versus what I'm used to and maybe you're just outside the box and this quarter is clearly outside the box quarter, upside surprise. So my hats off to you. But I don't want the impression to be that I'm a --I'm too old and too rich to be as corrupt as you make me out to be.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Well, I'm glad you came on and answered that because that's my --

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Jim Cramer - - Analyst

And I welcome you on the show. I don't -- you know, I mean I used to be a very scrappy guy and got into a lot of fights but I like them to be when they're over principle, not over--I have no position with Rocker.

Dr. Patrick Byrne - Overstock Com Inc - Chairman and President

I didn't accuse you of that. I said I wanted to ask you that. My plan was to go on your show and ask you on the show. And I'm glad you cleared it up.

Jim Cramer - - Analyst

I do admit, welcome the theater of it, I welcome the excitement of it, I think that you're building a company, there are guys who are going to detract, I personally would not take on the detractors because it actually helps you in the end. If they're short in the wrong, your stock goes up more. But I just don't want it to be as personal as it was because there's no money on the line for me on this.

Dr. Patrick Byrne - Overstock Com Inc - Chairman and President

Well, it-- it was a legitimate question for me to ask.

Jim Cramer - - Analyst

Absolutely, absolutely legitimate and that's why I did not, you know, pick up my phone and call my lawyer and say, I don't want to do that. You're a businessman. I'm a businessman. And I congratulate on what is obviously a triumph.

Dr. Patrick Byrne - Overstock Com Inc - Chairman and President

Did you pass on, last time you had me on the show you did read what you described as an e-mail from David Rocker.

Jim Cramer - - Analyst

I may have misspoke. I mean I had no communication with Rocker other than to ask him for permission to read his posting that was on TheStreet.com.

Dr. Patrick Byrne - Overstock Com Inc - Chairman and President

Do you know if he -- I remember I -- I told you to tell him to double up on his short, do you know if he happened to do that?

Jim Cramer - - Analyst

No I don't have that kind of communication.

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Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

He's probably right this time. He should probably double up again.

Jim Cramer - *Analyst*

Well, you know, whatever he wants to do is fine but I don't want you to give the impression that I am owned by him, he is owned by me. I've met him once in the supermarket. I'm kind of an independent operator as you are.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Journalists can ask questions, I can ask questions.

Jim Cramer - *Analyst*

Oh, absolutely and I applaud your questioning and your critical approach to the way the press covers your company.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Thank you very much, Jim.

Jim Cramer - *Analyst*

Thank you.

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

Operator, I think that's -- oh, we have one more person. Jake, John? Oh, Jason. Oh from First Albany. Jason? Jason from First Albany. Welcome.

Jason - *First Albany - Analyst*

Thank you. Can you hear me?

Dr. Patrick Byrne - *Overstock Com Inc - Chairman and President*

I can hear you. By the way, I understand there's no reg that says we can't talk even though it is past 9:30, but I think we should probably -- what time is it now? 10 of 10, East Coast, we'll make this the last question.

Jason - *First Albany - Analyst*

Great. Well, thanks for taking my call. I don't know how I will follow-up on that last question. But quickly wanted to touch on the auctions business. Most of my other questions were answered. Wondering how you think about it Patrick on a category by category basis. Obviously have you some categories which seem pretty conducive relative to what you're selling, i.e. apparel, you sort of touched on that before. But some of them don't seem to be maybe getting quite the attraction that an eBay would i.e. collectibles. So wondering if you could talk about strategically how you think about driving that business on a category by

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category basis. And then a quick follow-up, wondering if you have any sort of empirical data about eBay power sellers? You mentioned in your letter that there were a number of power sellers, I guess, inquiring about an auction platform on your network. Wondering if you could sort of give us any color on how many power sellers have you selling within the auction network. Thanks.

Dr. Patrick Byrne - Overstock Com Inc - Chairman and President

Sure. Thank you, Jason. I'm sorry. Dave, do you want to handle -- the categories within auctions are -- we're agnostic at this point. We think it's going to crystallize itself. I wish I could -- I can draw a proof as to why I think this is going to work, but it basically comes out as -- if you think of pressure, and anyway, I can't do it without drawing on a board, which I can't do here. We think that there's going to be a large shift from eBay to us as long as we keep certain ratios within our auction site high. Because it means sellers are going to be able to get higher prices-- higher recovery and also save a third on fees.

We already have -- there's basically two places you go online for discount shopping, Overstock and eBay. Now we were-- up until a few months ago, we were actually able to track it and 70% of the people who came into our site in the month also went to eBay. So our customers are eBay shoppers. They know how to use auctions. We think we designed our auction system to be a little more friendly, a little nicer. You know eBay--eBay, and by the way, nothing I say-- I really don't want to slag eBay, they're a great company. But they do have some handcuffs. If they want to change the color in the y, they have a mass outcry in their community.

I put the position strategically this way, if you started the world's biggest flea market and you got all the flea market vendors in the world to come there, and now you go and build a Nordstrom's in the middle of the flea market; you've got a bunch of ticked off customers. They feel like they built your business and they may have a right to be ticked off, because you've gotten corporate. But if on the other hand you've got the world's greatest outlet mall and you say, hey, we're going to put in the north side parking lot a small flea market and you know, we've got 700,000 people a day now coming to our outlet mall and they're discount shoppers; maybe some of them are going to like having a flea market there as well. Nobody really has a right to be ticked off.

But as far as the categories we don't have a plan on per category. We do have a plan, now that it's sort of launched and live, we can -- I'll tell you, we call it the tete offensive here. After you older folks remember January 30, 1968, when the VCs and every little bar and hamlet in south Vietnam reached into their rice sacks, pulled out guns and started shooting and just came at the U.S. from every direction at once. Well we came up with a plan that was basically to come at eBay from eight directions at once and we launched it in the last, you know, three weeks ago when we launched the site. And we are seeing what I think is remarkable pickup. It's-- so far, my belief is, it's far faster growth than eBay saw in their first 15 days or 20 days. I know that's not, you know, how did you do since breakfast. But we have so far -- so the first half of the question, I can't answer.

We're kind of agnostic. I am seeing a lot of sports memorabilia up there. Maybe the Barry Bonds thing, which just lucked our way, is going to draw more sports memorabilia, I don't know. But it's going to be organic and not driven, you know, from above. I can tell you we have total auction users, 68,000, 69,000 have signed up, 89,000 network connections, 57,000 I'ms have been listed. Average order size is well above -- I got to say, it's well above -- I'm not sure how he wants me to release this. It's \$76 at this point. Active items, 17,800. We're getting 120,000 visitors a day. Look at how many traffic -- you know, eBay has 55 million unique visitors domestically. How many come in a day, divide that by how many auctions they have domestically, which is 12 million. Compare that ratio to, we've got 120,000 people a day, and basically 18,000 live auctions at this point.

Now, there are some scale issues that work against us but we can keep that ratio quite a bit higher than eBay's for quite some time until this catches fire. So those are -- those are some metrics, you know, it is -- it is growing 5% a day--5% a day, something doubles every 14 days. And I think that's the end of the call, Jason. Did you have any other quick follow-on?

Jason - First Albany - Analyst

That was great, thanks.

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Dr. Patrick Byrne - Overstock Com Inc - Chairman and President

Well, what an animated conference call. I look forward to this every three months, boy. Thank you for your support, those of you who are supporting us. And those of you who -- those of you who aren't, just remember that we play by different rules here and I'm going to start analyzing your analyses online-- on the conference calls. I wish everyone the best. Bye-bye.

Operator

Thank you and this does conclude today's conference call. We do appreciate your participation. You may now disconnect.

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