

FINAL TRANSCRIPT

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OSTK - Q1 2008 Overstock Com Inc Earnings Conference Call

Event Date/Time: Apr. 22. 2008 / 11:00AM ET

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Stifel Nicolaus - Analyst

Dom LaCava

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Oppenheimer - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2008 Overstock.com Inc. earnings conference call. I will be your coordinator for today. At this time, all participants are in a listen only mode. We will facilitate a question and answer session towards the end of this conference. (OPERATOR INSTRUCTIONS) I would now like to turn the presentation over to your host for today's call, Mr. David Chidester, Senior Vice President of Finance.

David Chidester - *Overstock Com Inc - SVP-Fin.*

Thank you. Good morning, and welcome to Overstock.com's first quarter 2008 conference call. Joining me on the call today is Dr. Patrick Byrne, Chairman and CEO; and Jonathan Johnson, Senior Vice President of Corporate Affairs and Legal. Before I turn to the financial results please keep in mind that the following discussion and the responses to your questions reflect management's views as of today, April 22, 2008, only. As you listen to today's call I encourage you to have our press release from April 18, 2008, in front of you since our financial results, detailed commentary, and the CEOs 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 27A of the Securities Act of 1933 and Section 21E of the Securities and 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 concerning 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 Forms 10-K, 10-Q, 8-K, and S-1.

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I will now review the financial results first for the quarter ending March 31, 2008. Please refer to our earnings press release for the full financial statements and further details regarding our results. All comparisons will be against our results from Q1 of 2007 unless otherwise stated.

Total revenue for the quarter was \$201 million up 27%. 27% revenue growth was a combination of direct revenue growth of 13% and fulfillment partner growth of 33%. Note that our revenue deferral at the end of the quarter for orders shipped but not delivered was \$12.8 million compared to a deferral of \$13.7 million at the end of Q4 of 2007. Therefore, the reversal of the Q4 deferral into Q1 was approximately \$900,000 more than the revenue deferred at the end of Q1, resulting in an increase to our Q1 revenue of \$900,000 which accounted for approximately one-half of 1% of our 27% growth.

Total gross margins were 17.3%, up 130 basis points. Gross profits grew 37% to \$35 million. Note that although the net effect of the revenue deferral just discussed at the end of Q1 was incremental to revenue by \$900,000 as gross margins were higher this quarter than in Q4, the net effect of the deferral was \$100,000 reduction of gross profits. Sales and marketing expenses were up 33% to \$15 million. Technology and G&A combined were down 6% to \$24 million. Total operating expenses were down 9% to \$39 million, partly due to \$6 million of restructuring in Q1 of last year. Excluding restructuring total operating expenses increased 6%. Our operating loss for the quarter was \$4.3 million compared to \$17.7 million and our net loss was \$3.9 million or \$0.17 per share compared to a net loss of \$21.4 million or \$0.91 per share. Note that we repurchased 1.1 million shares or approximately 5% of the outstanding during the quarter for \$12 million, reducing our shares outstanding to approximately \$22.7 million.

We generated positive EBITDA for the third consecutive quarter. EBITDA for the quarter was \$3.5 million and EBITDA over the last 12 months was \$6.5 million. Given the seasonal nature of our business, cash flow was negative in the first quarter as we pay down partners and suppliers during the holiday -- following the holiday season. Cash flow from operation were negative \$41 million this quarter versus negative \$58 million last year, a \$17 million improvement while on a trailing 12-month basis cash flows from operation were positive \$27 million versus negative \$12 million, a \$39 million improvement. We ended the quarter with \$90 million in cash and marketable securities. Again, after using \$12 million of cash for share repurchases. With that I will turn the call over to Patrick.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Thank you, David. Nice job. Before we go through the slide deck, I'd like to talk about something else I see that there are a number of questions coming in on one issue. So I'd like to start off by saying the SEC sent us, in November of last year, the corporate finance department of the SEC sent us a comment letter. This is a standard event. All public companies get it on sort of a rolling -- I'm going to tell this story at my level, David, and then you dive in and clear up any details I got wrong. Okay.

David Chidester - *Overstock Com Inc - SVP-Fin.*

Sure.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

So we got a comment letter, and they wanted to review half a dozen or more than half a dozen different aspect of how we do our accounting. I think there were eight questions in all. Dave did yeomans work. By the way this is not a disclosable event. It's a normal process. The SEC ends up disclosing it when it's all over, is our understanding. They sort of disclose the event and what came out of it and such. And that should probably -- that's going to happen relatively soon, I believe.

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David Chidester - *Overstock Com Inc - SVP-Fin.*

It should happen -- it could happen as soon as 45 days after their final letter to us to whenever the SEC gets around to it. So could be soon, could be a little longer.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

But they have given their final letter to us.

David Chidester - *Overstock Com Inc - SVP-Fin.*

Yes, they have.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

In it, they reviewed a whole bunch of things. For example, they reviewed our treatment of the way we handle partner revenue, recognizing gross versus net, and, unsurprisingly, they agreed with it, they agreed with our treatment, which to me it's kind of silly that there was ever any doubt. Amazon has 70% of its titles, last I knew, were actually drop-shipped by Ingram book, or Baker and Taylor. Nobody says, oh, well, you can't count that as revenue. Anyway, they reviewed a number of issues and signed off on a number of issues. They did change -- they asked for a couple of changes in disclosure.

One of the changes was they want us to break down our revenue in more detail than we have in the past. And so we're starting to do that. Secondly, they asked us to start -- and this is the distillate of a lot of back and forth. They asked to us recognize revenue -- to stop recognizing it on actual ship date and turn it to estimated delivery date. The net effect of that, and to me, I have my own opinion about that. It's -- when we started the Company and chose our accounting principles we looked around at how other people did it, and, of course, at the time, we said we were going to recognize on ship date because that's a date certain and there's no slop or estimate in it. And -- rather than estimating when people get it. At the time the technology wasn't really there to have a very accurate, or without a lot of work, a very accurate idea of exactly when people were receiving their packages, that has changed what.

What we see is over the last couple of years it looks like some other companies have shifted to estimated delivery date, and the SEC, with a lot of back and forth with David, they -- and Dave can give more color on it, but we made these arguments that it's better to go with a number that you know, and in any case, it did come out we're changing to estimated delivery date. At first, I think Dave estimated that was five days after we shipped. Now, to be belts and suspenders, we've agreed on eight days after we ship. The net effect of that is it took eight days of revenue off of the end of December and slopped it into January. It also takes eight days of revenue as we -- I'd say bookings. Bookings, as in when people have ordered the product. Well, Dave, you're going to have to clear that up to be more precise but it took eight days off the end of March and is going to slip it into April.

The difference between those two numbers is less than \$1 million and so it actually has -- it's less than \$1 million in revenue. It actually hurt us about \$100,000 in terms of earnings, because we took -- we got added from December, moved into Q1 revenue at a 16% gross margin and we lost revenue in March that was at a 17.3% gross margin, so it actually hurt our earnings \$100,000. It helped our revenues more than that but less than \$1 million. So people are wondering, gee, this 27% growth rate, they're surprised by it, they're wondering was it caused by something like this. No, this was an insignificant factor in -- it's responsible for less than 0.5 a percentage point that's changed and is responsible for less than 0.5 percentage point in our growth rate. David, what do you want to add to that?

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David Chidester - *Overstock Com Inc - SVP-Fin.*

I would just add, I think the process with the SEC was a good process. The accounting is probably more accurate or more appropriate. Once again we go from using an actual number to an estimate, but, again, all it's doing is shifting revenue forward a few days. Again, it's not completely simple. It's based on what type of carrier we're using, has different delivery dates, but you basically summed it up correctly. All the issues that they had have been resolved, and I think we're fine, and we'll move forward from here.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Is it fair to say that all these other issues that the knuckleheads keep on raising as issues, the SEC examiners looked at, and sprinkled holy water on?

David Chidester - *Overstock Com Inc - SVP-Fin.*

Yes, I mean, they took a deep dive, they do that every three years or so, and again, they're of good to work with. It's not adversarial at all. We got all the issues resolved. It's nice to know that and then we can move forward.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Yes, and I can confirm that the SEC guys were super professional. I don't think this was a result of anything other than their normally scheduled. Well, I'm not going to opine on their motives, but they were very professional and cool to deal with. Anything else on that? Jonathan, do you want to add anything?

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

I just think it's important, particularly given our litigation that the SEC has now approved our accounting of how we treat partner revenues. That was an important piece for us.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Yes. Not that -- to me, it was never really a very legitimate question, but here we go. Okay.

Let's go to page three. Highlights. Page 3 of 33 on your slide deck. Exceeded industry growth rates 27%. Depending on who you listen to, the industry is growing around 17%. Some people say even less. Positive EBITDA third quarter, consecutive quarter, \$3.5 million. I know EBITDA isn't the same as GAAP gross net income. I like GAAP net income better as a measure. We have not reached GAAP net income. But EBITDA is important, especially because in our case it's a pretty close approximation to cash flow over a 12-month period. Positive operating, and that's only because we don't really have to spend much any more on CapEx for now.

Positive trailing 12-month operating cash flow, positive \$27 million. We bought in 1.1 million shares for an average price of \$10.81. 5% of our outstanding. Wish it were more, but there it is.

Page four. Revenue growth, you see rather brisk acceleration there. No further comment.

Slide five, gross profit growth. We told you, a long time ago, that this was going to turn around, first by the nectar or the contribution number, then by gross profit, then by revenue. There's gross profit growth, is at 37%, and then slide six, the contribution number kind of gets meaningless because at one point it was growing 1300% but that's because we had a quarter

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where it was a very small number. And that's growing at 41%. And that's the number we really are managing to. That's where we want to see high rates of growth or hyper growth return. I consider anything over 50% growth there, hyper growth and I'm good with it.

Okay, slide seven. This is a recap of the last few years. Our decent into the inferno. This was our revenue growth contracting pretty briskly after running around 80 to 100% for years. Slide eight, of course, we cut our expense growth -- once we saw that we were in a revenue -- what was going on with revenue growth we tried to tame our expense growth. In fact, we had just really built up on the operating expenses when the revenue growth collapsed.

And it -- we, as you can see, we weren't able to get our operating expense growth to cross to get under the revenue growth at first. Then the next slide, 2006, you see that was basically our year in the inferno where eventually revenue was shrinking and we still had this growth in operating expenses.

Then slide 10, we finally exited the inferno, and the lines crossed, and revenue growth is now outpacing operating expense growth. I will note that that's excluding restructuring. You do all these lines again with restructuring, we just have great big noise in it. This is kind of the underlying business. But if you did this again with restructuring, I think the differences would just be exaggerated between these two lines and then the crossing would look even more significant. Dave, anything you want to add at this point to these lines?

David Chidester - *Overstock Com Inc - SVP-Fin.*

No, it's just nice to see those lines cross. We're in a situation now where we can really start to leverage the business. We don't anticipate tech and G&A really increasing over the next couple of years. As depreciation, we are going to start seeing depreciation dropping off in the next couple of years, and at the same time, we're investing back into the business, and so we can do that without actually increasing our overall expenses. So any growth at this point is really going to start to leverage.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

And we are investing. It doesn't show up maybe to the outside, because we do have so much depreciation rolling off, but we are slowly turning into -- we have -- and, under the leadership here of Stan Peterson on the tech side, we are really turning into -- we used to always be proud that we were not a tech company. We said we were a lemonade stand with a computer in it. We now have some pretty good technology and we have a very strong technology team who are able to get projects done that, order of magnitude faster than anything we've ever had before. We've just cranking through projects, some of which have been waiting for years. So we actually have a good development and tech team now. But again, it doesn't show up in the numbers because a lot of it is just replacing the depreciation as it rolls off.

Next slide, gross margin and contribution, slide 11. Sales and marketing expense was running versus gross margin, and the differences -- well, the red line is, of course, the contribution. I'm sorry, the top line is the gross margin, and then the red line is the contribution after marketing expense. That, of course, turned negative by the end of '06.

Next slide, slide 12, that is bounced back to a robust, basically it's 9.8, just short of 10% and that was, I'll remind you in a quarter where we did a couple of Super Bowl commercials.

Slide 13, contribution dollars.

Again, when a negative slide 14, we've bounced out of it. We actually generated almost as much contribution in the first quarter that just ended as we did in the last Christmas. So again, we're all about generating the contribution dollars. Next slide.

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David Chidester - *Overstock Com Inc - SVP-Fin.*

What's nice to see, Patrick, is that growth in contribution dollars comes on essentially the same revenue, and, it really just doubled our efficiency in gross margin and marketing.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Okay. Slide 15. Operating expense. This is the --the blue line of the sum of our sales and marketing G&A and tech. Go to slide -- as you can see this was getting -- this is out of -- well, this is where it got very high because we were -- we already had been making some investments that -- and had made some large -- we had made some decisions that were basically not something we could change on a dime, and when the growth came to a sudden halt, we were caught offside.

So, next slide, slide 16, we've got it back under control. Its running at 19.5 now. And of that, Dave, do you want to -- how much of that is depreciation?

David Chidester - *Overstock Com Inc - SVP-Fin.*

Well, we're -- we're potentially going to have about 20 -- 22 million to \$23 million this year. That's dropping 8 million or \$9 million from where it was last year, and then again we anticipate another drop of 8 million or \$9 million next year, and that's not spending nothing. That's spending 10 million to \$15 million on CapEx each of those years. We do anticipate we are going to start spending on CapEx more than the \$3 million we spent last year.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I'm not.

David Chidester - *Overstock Com Inc - SVP-Fin.*

Well, even spending something, which we do anticipate probably at least \$10 million this year, don't know about next year yet. But even assuming that, depreciation is going to drop in the 8 million or \$9 million range this year and next year.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

So but in this past quarter what was it, \$7 million?

David Chidester - *Overstock Com Inc - SVP-Fin.*

Our total -- yes, our depreciation was in the \$6 million range. Our total noncash charges including stock comp was closer to 8.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

So it's still, even just depreciation, about 3% of that 19.5. Next slide, 17, EBITDA, again, our descent into hell. I said at the time we're spending a lot of time trying to be profitable. We're willing to make some trade offs and so forth.

Next slide, slide 18, you see that we've done pretty much just what we've said. Jonathan? We've structured, as I said in the preceding quote, which I didn't read aloud, once we saw where we were once we got into that trouble we said we've got to restructure our expenses so that even at an \$800 million Company we're fine, we'll survive, and can make a little cash. I think

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we've comfortably done that. We've even done it in the first quarter. If you just project what would the whole year look like, even at this kind of a growth rate and this kind of expense structure, you can see we've done what we set out to do. We've restructured the business and we don't want to get off-sides again. We don't want to get in position where we have to grow to make the numbers work. Although growth is nice coming back.

Next slide, cash flow from operations, this is slide 19. On a trailing 12-month cash flow, of course, we were in deep trouble there, going back a couple of years.

And slide 20, we've come out of it, and now we're trailing \$27 million of cash flow from operations. Next slide, gap annualized inventory turns.

I will mention -- this is slide 21 of 33. I will mention that we had I think the -- I think I actually said in the previous conference call that the -- normalizing this around 25 sounds right to me, maybe 30. There's a flush effect as we flush through this tremendous amount of inventory. I've actually got it up to 35 or something. But then as that washes out, I think stabilizing about where it is now sounds right.

Slide 22. There's the big inventory liquidation, and we're very comfortable with the amount of inventory we have now, I actually think we can probably shrink it another chunk. Anyway, we can shank -- anyway, we're very comfortable with where we are now. There's a little bit more we can do. The flush effect that I described did drive it up to 12.1 or something. It's now stabilized. Well, it's now at 6.8 and I think that we can maybe -- that's a good number for us. And this is on a direct only basis. Dave, what do you want to say about this?

David Chidester - *Overstock Com Inc - SVP-Fin.*

I would just add that at 6.8 you can see the back in '05 and '06 we were running between -- around 3, so we're really turning inventory more than twice as fast as we used to. That's why I think we can start growing that business without growing our inventory. I think 6.8 is great. We can probably do better than that though. Again, it's nice to be able to grow that business without requiring more capital to do it.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

It's a huge improvement from down a course of just about two, three years ago. Okay, next slide, 23. GMROI, this is on a quarterly basis.

Our GMROI on a GAAP basis is 140 to 160, and, turn the next slide, on a trailing 12-month basis it's actually [695].

Slide 25. In 2005, National Retail Federation and American Express did this survey where they called 8,000 households and said who gives you great customer service, we were not listed -- we were not in people's answer, I think in the top 150 or top 200.

2006, next slide, page 26, they asked same question. We showed up number 4. This isn't just dot-coms this is all retailers, it was Amazon, Nordstrom, LL Bean, and Overstock.

And then slide 27, they did it again last year, and they announced it's LL Bean dropped, it was Amazon, and Overstock. So we're still number 4 but now we're above Nordstrom, which I always thought of as the gold standard of this. This is thanks to a lot of -- this is Stormy Simon oversaw this great turn around. She's had assistance from Steve Tryon, and now [Brian Tokoca] has moved in and as a management on a day to day basis reporting to Stormy. Steve has moved on to a -- Steve Tryon, I'm just going to take a moment to describe. Steve is an old friend of mine, he's an Army Colonel who after he left the Pentagon moved to a really hard charging organization, I'm kidding, but Overstock, and he's been with us four years, and has jumped in and fixed a number of different things and has now taken over human capital development, and I actually think that's one of the -- maybe the

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greatest long-term investment we could make in the Company. And he's really -- we're getting a lot of resources and he's really developing that. And so, anyway, you'll probably hear about Steve more over time.

Next slide, net promoter score. Oh, I should have -- it's now at an all-time high. It's at 73% overall. Again, this is -- if you want to know what this means go to the book deal sequestration, preferred retail. He has the all stars listed in the book we hold ourselves against. We're at 73% now. And even people who contact customer service rate us a 28, and that number is going up briskly. According to [Rytell] the average American company for all customers gets a score of 8%. So apples to apples where they score 8%, we score 73%. And it's just getting better. Our customer satisfaction is unbelievable and our customer service, even people who call customer service with an issue just have a fantastic customer experience.

Page 29. Cars. We launched cars. I hope you check out this site. This new tab is very cool. You can -- it has some features that other people don't. For example this scatter plot diagram with the best fit curve that you can click on any dot below that curve is presumably a good deal, so you can find the good deals very quickly using this tool. And we have over 3 million vehicles in stock.

Slide 30, cars we talked about, auctions is adding some tail winds in earnings. It's got its expense structure straightened out. I actually expected a little bit more to start happening out of auctions over the next six months. But it's got -- auctions are doing just fine. International, we still expect to launch, maybe in June or July we'll be launching to a number of countries. The community tab. We have a community tab live, some cool things have rolled down in the last couple of weeks. I think a few more things will be rolling this quarter. And we have a new tab coming live this quarter as well. Keep a look-out for it.

Slide 31, oh, legal update. Let me go to Jonathan Johnson.

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

Well, it's been a busy three months in legal. I want to talk about the two cases that I want to talk about the two cases that people ask questions about and they seem interested in. Our prime broker suit out in San Francisco we've begun discovery. In fact e're in the middle of discovery. And we're trading documents and data with the prime brokers. That case moves forward and we're pleased with how it is progressing. In our suit out in Marin County with the Rocker and Gradient defendants there's been progress there, too. The judge has lifted the discovery stay, and so we will begin trading documents this week with them, and that's important for us.

The judge also has allowed Gradient to bring a libel and defamation suit against the Company and Patrick. But the motion that Gradient filed, they were slow off the dime to do that and we did not oppose that motion. We think it is a bogus case, one that we will win, so we're not overly concerned about it but we've disclosed that information to the public. We're in a good place in our litigation. We've got a Board that is supportive of this. I'd characterize it as a war-time Board that is helpful and involved, and we're moving forward, and I think that's my summary, Patrick.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Good summary. I had forgotten the judge lifted the stay of discovery?

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

That's correct. In Gradient and Rocker.

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Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

How about discovery in the Prime Broker?

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

That's going forward. We're in our second round of discovery there. The judge is managing that and doing it in an iterative process, and we've been pleased with what we've gotten so far from the prime brokers asked for all of our -- all of their trading data in Overstock, and that's the next round of information that we expect to get from them.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

That's kind of the keys to the kingdom, that these guys have spent eight years fighting various companies to try to avoid turning over. Just want to point out that if you go to YouTube and Google the words SEC bear, you'll see the Chairman of the SEC telling the U.S. Senate that they're investigating whether Bear Stearns was brought down by naked short selling. Dick Fuld, Lehman, and Dave Schwartz from Bear Stearns got up to the Senate and said pretty much the same thing. They used the phrase illegal manipulative short selling, or something. So a lot of the folks who have been saying that this is all a figment of may imagination have seemed to have gotten laryngitis in the last few weeks.

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

In fact, an interesting note, the government accountability office has been asked to do an investigation and prepare a report on why the SEC has not been prosecuting naked shorting violations. We're looking forward to seeing what the GAO finds and has to say.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

And that was Senator Carl Levin, right?

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

That's correct.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

There's also been demands from -- can you say the other -- didn't Tester also ask for a different kind of investigation and Barney Frank?

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

Senator Tester of Montana has asked for the SEC to look into whether there was manipulative trading involved in Bear Stearns shortcomings.

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Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Good. So there. Slide -- by the way, this, I got this wood cut. This is in Albrecht Durer Woodcut. I just love that. A friend of mine wrote a book, David Lubon wrote a book, put this on the cover. It's a woodcut of blind justice having your blindfold tied on, but it's being tied on by the fool. Kind of cool.

Slide 32, I want to thank our vendors, I probably don't do this enough. These -- we don't have the resources. We haven't ever done like what eBay and Amazon does, which is they develop a lot of their own technology, and it's great technology, and they are going to have huge teams developing it. We haven't approached the business that way. We've done -- we've basically integrated a lot of leading edge technology. You can see on the left column that's a stack of technology that is all tied together, and right now has been instrumental. I won't go through the ones on the left. That's a big stack. Costly but is working well for us. Right now, as a big part of our customer service success, I'll just hit a couple -- well, I'll mention them. I'd mention Omniture, SiteSpect, PayPal we did something with, UPS has been a great partner for us. I feel like I'm at the Oscars. I'm leaving people out, and they'll be mad, but these are the people who have been a big part of what got us here and have helped us turn things around.

Okay, next slide. 33. Okay, these are the highlights. Revenue growth has returned robustly, trailing 12-month cash flow is doing nicely. EBITDA we're positive, and our customer satisfaction is at an all-time high. So I feel good about things. Let's go to questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Your first question comes from the line of Mr. [Nat Challenger] with Merrill Lynch.

Nat Challenger - *Merrill Lynch - Analyst*

Hi, Patrick. Couple quick questions. One, marketing spend was obviously high in Q4 as you did the big brand build, and it -- looking at contribution margin it went down there, then went back up a lot this quarter. Do you see that as a blended level that it should have been in and that you kind of pre bought some marketing in 4Q that flowed into 1Q? Basically what's the lag on that brand marketing spend?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I do. Nat that's a great question. I mentioned I think after our Q4 that we had really goosed some branding that probably didn't have the payoff in Q4 we hoped but would do more for us in Q1, and I think that that did generate some benefit for us in Q1. I wouldn't call that a -- I wouldn't explain the 27% by any means by that way. I would say it gave us a nice launch into Q1. I hope that answers that. But it's a good observation.

Nat Challenger - *Merrill Lynch - Analyst*

Another thing on that is, going back to that marketing, a quick point is, could you break that down on kind of brand traditional marketing spend versus on-line spend that is more a direct response just spot percentages?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Well, we -- I can tell that you we spend -- we actually don't disclose that in general. We do -- we have disclosed that the brand is less than, the branding is significantly less actually than the on-line spending, and it's all shiftily around -- I'd say that we're

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reconsidering and reevaluating a lot of our on-line channels and we're discovering areas that we were probably overspending, and we have discovered areas that were really relatively untapped that are paying back well for us. So this is more of a reflection, it seems to me, of changes we're doing and how we spend the money on-line than in a big shift between one bucket and the other. Dave, do you want to add anything to that?

David Chidester - *Overstock Com Inc - SVP-Fin.*

Well, I just think going forward, last year we really cut back branding, and I think that's why when we spend a lot in the fourth quarter it did have a lag effect into the first quarter but I think going forward, I think we found better balance of spending -- where we need to spend on TV, where we need to spend on-line, now we're just making slight adjustments one way or the other based on which is more effective.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I think more than anything, to be honest, as much as anything, is our website. We've made a lot of changes in our website and implemented and rolled some good technology that is increasing the amount we get out of each visitor and revenue. I know that this quarter there was some concern people saying, oh, their traffic was down. In fact, they've said that several quarters. If you divide revenue by traffic you'll see, it's pretty decisive changes in how much revenue we're actually extracting from the traffic. So a lot of this is actually, in my mind, being driven by technology and site changes, as much as where we're spending our money. But then where we're spending our money it still is most -- the majority is in the on-line but it is shifting within on-line. We're reevaluating channels.

Nat Challenger - *Merrill Lynch - Analyst*

Patrick, that was actually going right into my next question. Was how much was the kind of the growth driven by better conversion rates, and I know that you implemented Omniture. You have analytics running on the site, so you probably -- as you say you're just much better at derivedly revenue from each customer. When did you fully implement Omniture and how much of this do you think is kind of stepping up the technology platform versus getting to where you should be on conversions or getting to where you are on conversions versus where you -- versus really long-term driven growth, which is in the end it's going to be customers. You can monetize the same -- people coming to your site only to a certain degree. You need to get people coming, right?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Well, I don't -- to a significant degree this is -- in answer to the first part of your question to a significant degree this is our site getting better, our technology getting better. We actually implemented Omniture a year and a half ago, they're only about 20 miles away from us, but what we've done is built a team what can use it and get actual insights out of it. And we're actually doing some pretty leading edge things tying together Omniture and other vendors in ways that to one has done before and they tell us it's pretty leading edge. And I do't see an end to that. I think we'll -- things that Omniture and the other vendors tell us we're doing, they say no one is even talking about doing this stuff, we're doing. And it's a -- we have a long laundry list and we're just at best 30 or 40% of the way into the laundry list. But Omniture helps, then -- and I shouldn't leave Teradata out. A big part of this is driven not just -- well, a big part is driven by Teradata because now we can do just really fine-grain analysis and understand -- we just peel that one layer of the onion after another, and we understand what's really making things happen and what isn't. So I'm not -- although a lot of this was driven by technology, I kind of sense maybe half or more than half. I don't see he that as something that's going to end quickly. We have a good year or so of working through this laundry list.

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Nat Challenger - *Merrill Lynch - Analyst*

Patrick, sorry for monopolizing the questions. One last quick one, and then -- and thank you for answering it. Did you see -- this is maybe more for a derivative call than anything else but did you see any real change in on-line advertising pricing during the quarter? People are making comments about the economy coming more into March than they did at the beginning, so has there been any general change that you have witnessed on the macro front?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Yes, I know that people are -- I hear two different things. People are cutting back, but I also hear that they're getting better. I know they're getting better -- I know the competitors are getting better at figuring out what the value of different real estate is in on-line advertising. So basically it's not a unique skill set any more, or even semi unique. It's a very widely disseminated skill set, how to analyze the value of different places in on-line marketing. So in that sense the market has gotten more efficient. In another sense I do hear that there is some cut-backs, and we're starting to see it from vendors of online advertising calling us and sort of willing to make us some good deals. We're actually seeing that on both ends. It's really been more of, I'd say, in April that with the bankruptcies going on in the retail world we're starting to hear from either retailers or the suppliers to retailers with a lot of excess inventory. Maybe to some extent that's happening with on-line advertising as well but I think that's getting offset by the fact -- or more than offset by the fact that people are just better at on-line advertising than they were a couple years ago.

Nat Challenger - *Merrill Lynch - Analyst*

Great. Thank you very much for answering my questions.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Thank you, Nat.

Operator

Your next question comes from the line of Scott Devitt with Stifel Nicolaus.

Scott Devitt - *Stifel Nicolaus - Analyst*

My question just relates to the increase in the selection or the SKU count in the site over the past year, and how much of the growth you would attribute to that increased selection, maybe if you could articulate it in terms of changes in product mix year-over-year, and that's all I had. Thanks.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Well, we -- it certainly helps. The selection is certainly helping. I'm wondering if it isn't helping better in repeat rates than just in the most obvious way that pay-out more stuff. So it helps in conversion but I think it helps that the broader selection we get the more likely it is that people start saying after they've bought once or twice, I'm going to check with Overstock to see what they have. I think it helps, but maybe not just in -- the most obvious way it could help, I don't think it helps quite as directly as I had hoped. But I think it does help more in creating the sense of Overstock as the place that you want to always check first. Scott, does that answer your question?

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Scott Devitt - *Stifel Nicolaus - Analyst*

Yes, it does.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Do you have any others? Feel free.

Scott Devitt - *Stifel Nicolaus - Analyst*

Well, I guess somewhat related to that were there any movements in product mix in the quarter? Just relative to last year. I noticed books, music, and video in the 10-K last year on a full-year basis was down. The fulfillment partner revenue which actually has been the less volatile of the revenue streams that you have essentially doubled in the quarter. So the question earlier I think was interesting about the pre spending on marketing, but it seems like there's something more to it, and trying to get my hands around it, you kind of glossed over it in the presentation. You pointed to the revenue growth acceleration and no further comment, but do you have thoughts as to the specifics of what caused such a dramatic celebration?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I do. I'm not going to go into too much details on them, but I don't think this is a blip. My -- I think that you can sort of -- if I had to -- first I'll go to Dave Chidester. Do you want to address Scott's question first, Dave, about mix or anything.

David Chidester - *Overstock Com Inc - SVP-Fin.*

Well, I don't think there was any significant mix shift.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

DMMG did drop, didn't it?

David Chidester - *Overstock Com Inc - SVP-Fin.*

DMMG did drop. That would probably be the only thing I would point to that helped our margins was that BMV shifted from about 8% of our business to about 5% compared to last year's first quarter so it's shifting down which helps margins a little bit. But it's -- I don't think -- we are adding SKUs in sort of filling in areas where we didn't have SKUs, but they're not in any new categories that have become material enough to move the growth number, I don't think.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Yes, I can say, as far as growth goes, I don't believe this is a blip. I don't want to get anybody's hopes up. I'll tell what you I think, then Dave and Jonathan can do what they do. But I think you can expect sort of the growth to stay here or even have a modest bias upwards for quarters -- for Q2 and Q3, and I think it inflects again in Q4. If I had to call where I think growth runs, that's how I see it. I might put it this way. I may say there's a, in my mind, a 40% chance that our Q2 growth rate has a start for the two, and there's a 30% chance it starts with the 3, and of the remaining 30% I would split it between the other two ends. Then I just think it's -- I think we're sort of back in the groove and I see the flywheel spinning, but I will stop there and turn it over to Dave or Jonathan.

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Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

I would put it a little differently.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

More conservatively, by any chance?

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

Probably.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Put it more conservatively.

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

Yes, surprisingly. I don't think this is a blip. We are seeing trends that tell us it's not. I would say that, I do think we can sustain a growth number with a 2 on it. Then depending on other factors, as some of these things we're working on, these projects do pay off, we don't have some issue with the economy that changes things dramatically. I think we can sustain a growth number with a 2 on it for the year. How it plays out in the quarters, I'm not sure exactly.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Okay. And I should say up-front that was all setting aside any exogenous factors, dynamics, like if the economy implodes, well, consumer spend willing be down. On the other hand we get people offering us more products, and people who have acquired a taste for luxury start -- maybe they start shifting the way they handle reduced income is they shift their consumption to Overstock, I don't know. A bad economy can hurt us and help us, and -- but if you set aside those kinds of dynamics and just say fundamentally what's going on, I think if nothing changed in the economy I'd still stick by sort of -- growth rates staying about flying flat, and maybe a modest bias upwards, and then inflecting another notch in the fourth quarter. Jonathan, do you want to add anything?

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

No, nothing to add.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Okay. Scott, any other questions?

Scott Devitt - *Stifel Nicolaus - Analyst*

That was all I had. Thanks for your time.

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Operator

(OPERATOR INSTRUCTIONS) Your next question comes from the line of Dom LaCava with Canaccord Adams.

Dom LaCava - *Canaccord Adams - Analyst*

Good morning, everybody.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Good morning, Dom.

Dom LaCava - *Canaccord Adams - Analyst*

I may have missed it. Is there a slide deck with customer metrics up there as far as average order size, unique customers?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

There's no slide up there. Dave what do you have in the -- that you want to say? Dave Chidester?

David Chidester - *Overstock Com Inc - SVP-Fin.*

Not up yet but it will be up shortly.

Dom LaCava - *Canaccord Adams - Analyst*

Anything worth noting? Do you have new customer count, average order size? I can certainly look at it later.

David Chidester - *Overstock Com Inc - SVP-Fin.*

We did see some new customer growth. I know it was, I think somewhere in the 18 to 20% range, which is nice. We haven't seen growth in new customers for awhile. So that was definitely helpful. We did see increase in average order size.

Dom LaCava - *Canaccord Adams - Analyst*

Okay. And again, I think that goes back to some of the technology and the things that Patrick is talking about that are helping to drive that average order size up.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I was going to say that. The technology doesn't show up just in improvements in conversion. It's improvements in conversion and in the average order size, so it really comes to a revenue per visitor calculation.

Dom LaCava - *Canaccord Adams - Analyst*

Okay. But we should -- I should see that data coming out soon.

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David Chidester - *Overstock Com Inc - SVP-Fin.*

Yes, definitely. Definitely we did see an increase in average order size this quarter.

Dom LaCava - *Canaccord Adams - Analyst*

Okay. Great. I'll take a look at that, and I can certainly follow-up on those. And then on the sales and marketing spend, I know you touched on it a little bit, but when we look at it from the the perspective of percentage of sales, it looks like it was around 7.5% of sales versus 7.1 a year ago. I know that's kind of fluctuated up and down. Just trying to get a feel for whether you believe you're at a point now where this is going to start to normalize or we can sort of forecast it out a little bit more efficiently. Where does this go from here given the fact it's been kind of up and down?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I think it goes down 100 to 150 basis points. I think this quarter had a -- some Super Bowl advertising in it, which is, of course, not going to happen in other quarters, and there's one technology project that we're doing I think is good for 50 to 80 basis points itself in dropping -- to drop out of this and that's something we hope to have finished this summer. I think that normalized is probably 5 to 6 range on a GAAP basis. Dave, do you have a thought on that?

David Chidester - *Overstock Com Inc - SVP-Fin.*

Nothing to add.

Dom LaCava - *Canaccord Adams - Analyst*

So that was on a sales and marketing, because you were talking to tech spend. Were you referring to overall OpEx?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

No, I was referring to sales and marketing.

Dom LaCava - *Canaccord Adams - Analyst*

Okay, got it.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I think that we can drop -- over time you'll see 100, 150 braces points come out of that. That's also on a -- you really have to factor in -- accelerate, if we got to, say, 5.5%, you would not see us accelerating to -- you would not see us accelerating. Every point of acceleration costs a disproportionate amount on the sales and marketing line. So if we really do accelerate, if I turn out to be wrong and it doesn't drop to 5.5 or 6, then one thing that would keep it from the doing that is if we did keep accelerating.

Dom LaCava - *Canaccord Adams - Analyst*

Right. Okay. So you're saying that given the fact that revenue is going to be growing faster, that you will still be spending more but on a percentage of sales basis it will be dropping. Okay. So I guess then, looking at the 27% growth, I know part of it, you

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have to look at '07 revenue came down almost 4%. I guess if you look at Q1 growth versus '06, you could say for the two-year CAGR it was around 7%. I'm just trying to get a handle for, once we come out of putting 2007 in the rearview mirror where we'll grow normalized as far as going through 2008. You just answered some of it with your handicapping the first number of growth, but I guess I'm just trying to get a feel for how we can get comfortable knowing this is sustainable growth versus just favorable comps in -- for '07 -- versus '07, I'm sorry.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Is it a 14% CAGR if you combine a 4 and a 27?

Dom LaCava - *Canaccord Adams - Analyst*

I'm just looking at March quarter, 200 versus--.

David Chidester - *Overstock Com Inc - SVP-Fin.*

Actually it's dropped -- we were down 11%.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Okay. Well, I do think this is sustainable. I think this is -- like I say, I think this is something in the 20s feels sustainable to me. And I feel like we're being a little bit conservative with that. And I think there's a chance that these different revenue, as these different technology products hit that you -- projects are completed, I think -- some of them give us 2, 3% gain. Some of them give us a couple times that. We have a whole laundry list we're getting through. So I think you now know everything I know.

David Chidester - *Overstock Com Inc - SVP-Fin.*

I mean, we have a lot of things that are coming together. Our product selection is better, our search is better, our site is better, customer service is better. There's a lot of things this isn't, and that's why Patrick says this isn't just an effect of, oh, we had a bad first quarter last year. It is a better business in a lot of ways and things -- our technology has never been this good, data has never been this good. There's a lot of things that are coming together now so that's why we think it's sustainable. These aren't -- it's not -- we didn't have one good marketing campaign. We have a whole bunch of things that are working well.

Dom LaCava - *Canaccord Adams - Analyst*

Right. No, I understand. And 27% growth is 27% growth, which there's no getting around that. I'm just trying to view that against what you've said in the past as far as 2007 being kind of a difficult year and now how to normalize it going forward. I guess there are two things going on. I just want to make sure that they're going forward. So any net benefit a lot of it. So I guess going back to revenue, I suppose the direct side, last year it certainly wasn't a business that was seeing great growth. What's changed on the direct side?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Well, we certainly know -- I'd say that last year we learned what not to buy. Now we're learning what to buy. I am not saying learning. We are heavily data driven and have a team of really serious quants who are doing work, who work with the buyers and they frame the buyers' decisions, and they constrict the buyers' decisions in some ways and they also direct the buyers to opportunities where the numbers say there's a lot -- there is opportunity for us and we're not buying there.

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So I wouldn't actually be surprised to see -- I wouldn't be surprised to see direct come charging back. I'm not saying it is now. It isn't now. But there's some chance that direct comes back in a big way. Maybe sometime this year or maybe next year. And it isn't like we're making some ideological decision to be more direct, but if it comes out of this organic process, you could see that happen.

Dom LaCava - *Canaccord Adams - Analyst*

Okay. Just shifting to gross margins I know that having the two different levers to look it at for direct and fulfillment, gross margins were up year-over-year but we've seen them up at 17.7% recently. They look like they're bouncing -- Q1 looks like it's lower for direct and that's a seasonal thing. I'm just trying to figure out how to look at gross margins going forward for each individual business which would help on a blended end of it.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Dave? Do you want to comment?

David Chidester - *Overstock Com Inc - SVP-Fin.*

Yes, I'll comment. I think as far as the partner business is concerned, we have seen improved margins. Part of that is, like you say, we've been at 17 before. A lot of that is operationally, customer service, warehouse, those areas we've gotten much better in. It really kicked in last year in the second quarter. That's why you saw us jump over 17 in the second quarter last year. The first quarter we didn't do as well. You look at our overall fulfillment expenses went from 7.5% last year to 6 this year so a lot of the improvement that you're seeing is the fact that our operations are just much more efficient this year. And that's something I don't see changing or coming down at this point. I think it--.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Oh, yes, okay. Coming down. I think that there is a little room for improvement there.

David Chidester - *Overstock Com Inc - SVP-Fin.*

Yes. So that's going to help margins. So I do think most of what you're seeing is sustainable. Now if there are mix shifts like we talked about, that can affect the overall margin but I think the partners, the margins -- the improvement we've seen is something that hopefully is sustainable.

On the direct side we did see a little bit -- come down a little bit in the first quarter and I think that's more a reflection of we're becoming more disciplined in how we price inventory, and we don't allow inventory to get past its season. And so we did see some -- our inventory came down \$9 million, prepaid inventory this quarter, so we're definitely adding more discipline, requiring more disciplined pricing and it may have had a little bit of a drag on our direct margins. I think you will see those improve and get back closer to where they were last year where it was running in the 16% and hopefully better range. We still want to get that business up close other to where our partner margins are is the ultimate goal.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Ultimately it's a -- for us it's not the margin on our direct margin it's the margin times turn. We want to drive that number higher. And it's okay if that gets higher by the actual margin number coming down a little bit but our turns just getting significantly faster.

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Dom LaCava - *Canaccord Adams - Analyst*

Sure. So looking at Q2 of '07 and then going forward from there that's a good place to start as far as looking at a trend when modeling out? You're seeing Q2 of last year is when you start to see the benefits of your initiatives so looking at Q2 and beyond is a good place to start is what I'm hearing.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Q2 of last year.

Dom LaCava - *Canaccord Adams - Analyst*

Yes.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Yes. I think so. With actually Q4 being a bit of a -- you almost want to blend Q4 and Q1 together for some things, like marketing.

Dom LaCava - *Canaccord Adams - Analyst*

I think I understand.

David Chidester - *Overstock Com Inc - SVP-Fin.*

We found an area in the 17s where I think we will sustain. And again, like Patrick says it's a combination of growth and margin. We don't want to maximize margin, then hurt our growth so it's a margin. We do think margins have sold nicely in that 17% rapping. We think we can improve them but there's a balance there between our growth and our margin.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I think that there's a -- I think that just -- our fulfillment cost, there's a, I don't know, there might be 50 to 100 basis point improvement we can make that actually affects both partner and core. That's something I hope we could have done by sometime the third quarter. So there's that and just by buying smarter and being smarter about pricing and such we might be able to squeak a little bit more out.

Dom LaCava - *Canaccord Adams - Analyst*

Okay. Good. I just had another one or two questions.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Sure, go ahead.

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Dom LaCava - *Canaccord Adams - Analyst*

So you made some comments on the last call, just as far as liquidation model versus whether we're in a boom or bust, I guess with the point being that in a lackluster economy as long as you're not at the beginning or the end of it, the business might be a little unpredictable. Just trying to get a feel for how you're viewing that now versus where we are in a recession. My interpretation of those comments was that, you should see sort of an acceleration of business at the front end of the recession, then maybe at the tail end of it as we head into better times but then in the middle segment, business might be a little more challenging. Is that (inaudible)?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

No. That's not actually how I meant to say. I can see why that might have been a reasonable interpretation. What I through I was saying was, in a recession throughout the recession it's actually a good business for us, or any boom, it's a god business for us. It's when we're in a economy that has been sluggish, but not a recession that is actually bad for us because manufacturers get very conservative about what they spend and a what they build and make and consumers are not really spending lots. So that's actually the toughest time for us. But during, I would think the whole length of this recession is going to be a favorable time for us. So I can understand why you would have interpreted what I said.

Dom LaCava - *Canaccord Adams - Analyst*

I just wanted to make sure I understood that. Then I guess as for as GAAP profitability I know that that's certainly a long-term goal but, I mean is there any guidance or any sort of directional comments you can make on when to reasonably expect, sort of that break-even point in GAAP profitability?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Dave, what do you want to say?

Dom LaCava - *Canaccord Adams - Analyst*

Again, I think it's definitely something that 2009 we believe we can get there and we would hope that even in 2008, but again we're real early in the year to be making those predictions.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I'm certainly looking for driving for the year 2008.

Dom LaCava - *Canaccord Adams - Analyst*

Okay.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

But that's not a promise by any means, but that's certainly where my target is.

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Dom LaCava - *Canaccord Adams - Analyst*

Okay. I guess the last one is more of a housekeeping. How much is left on the buyback?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

There's \$8 million left on the buyback. But then -- well, Jonathan, do you want to add anything?

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

No, that's correct. There's \$8 million left. The Company will manage it the way we think is best.

Dom LaCava - *Canaccord Adams - Analyst*

Okay. Thank you very much.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Thank you, Dom.

Operator

Your final question--?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Go ahead. Please.

Operator

Your final question comes from the line of Shawn Milne with Oppenheimer.

Shawn Milne - *Oppenheimer - Analyst*

Just one quick housekeeping and one question for you. Just talk about higher monetization, can you just tell me if traffic was up or down in the quarter?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Gee, I know it's on a week to week basis but I don't know it on a -- on the whole quarter basis. I don't -- Dave?

Shawn Milne - *Oppenheimer - Analyst*

We can follow-up on that one.

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David Chidester - *Overstock Com Inc - SVP-Fin.*

it was up. Put that it way.

Shawn Milne - *Oppenheimer - Analyst*

So you had slightly better traffic, higher ALV and better conversion rate so good mix of all three?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Yes.

Shawn Milne - *Oppenheimer - Analyst*

Okay. And then just kind of following-up on the last question, I mean, it seems like you're -- putting forth a thesis that the trade-down by consumers is good for your platform which certainly could make sense. What part of your business would benefit the most from excess inventory and from retailers? Would that be your partner business or your buyers getting better access in your direct revenue?

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Good question. There's a -- let me go back a second, Dave, and I'm just going to correct you. If you're absolutely sure that our traffic was up for the quarter, so be it, but if you're not sure I'd like to stick a pin in that. Are you absolutely sure?

David Chidester - *Overstock Com Inc - SVP-Fin.*

The way we look at it internally, just -- yes.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Okay. I'm sorry, I look sort of week to week, but I'm not -- okay, as far as -- it's a good question, Shawn. As far as the consumer spending, let me explain there's one dynamic which is, in general value shoppers are either lower income people or more affluent people. The middle class are not value shoppers. Middle class pay full retail.

When -- it could be -- I have an observed effect, and I'll give you my hypothesis. I know that it's just business in general for us for eight years has been better when there's kind of a lot of volatility in the economy, when there's -- when -- when things have been either gotten bad suddenly or good suddenly and there was a boom, that's when things have been better. I've kind of put it down to when things get -- and this is just my hypothesis. Not sure of this. But when things get bad suddenly some of those middle class people who are used to paying full retail don't want to really change their consumption pattern in what they consume, and so they shift to becoming value shoppers. That's just my sort of pet explanation. I'm not sure if that's correct. But I'm pretty confident that in general things get better for us when either we've hit the wall or suddenly things -- we're booming.

Shawn Milne - *Oppenheimer - Analyst*

Just to interject on that, so if that thesis is true, how does it play out mechanically? Is it the fact that you're just seeing better buying opportunities from your buyer base, so that will fuel your direct revenue, or is it that you have more partners trying to join your platform, which, therefore, broadens your selection at lower prices, which becomes more of a virtuous circle?

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Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

In the past I would have said overwhelmingly the former. That is was, we got all these calls all of a sudden to unload ships. It was when that dock strike occurred in L.A. We suddenly got all these calls from people that their orders were being refused, and they dumped on us. In the past I would have said it will translate purely into improvements in the core business. At this point we have such a tight relationship, and by the way, I'll give you two more points on that.

One is that has started to happen now. It didn't happen in any degree that would have affected the first quarter, but it is -- but I think by late March we were starting to get calls. I know now we're getting a lot of calls from suppliers. But I wouldn't put any -- I wouldn't attribute any of the results of Q1 to that effect. In addition, we're better positioned now that -- even if there is this glut of inventory we don't have to take it ourselves. It may show up by our partners taking it for us. We have such a good relationship with our partners, and sort of have turned into this -- have this network with them that we're comfortable in some cases actually pitching those offers to our partners and letting them do the work and do the buys. So in the past it would have translated purely into a benefit for our core business, our direct business, but I think this time, I can't be so sure, it may translate into a benefit for our partner business.

Shawn Milne - *Oppenheimer - Analyst*

Okay. Thank you.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Thank you. Okay. I have questions here from -- that have been mailed in. I'm sorry, did you have another person?

Operator

No, I'm fine.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I have questions mailed in from Doug Griffin and John J. Allen III. John J. Allen, let's go to Doug Griffin. Why did Overstock release its earnings report on Friday without prior notification of the scheduled release date as has been the pattern of the previous quarters and what should investors expect in the quarter? I'll turn this over to Jonathan.

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

Well, there are a lot of things that go into when we release our numbers. First, we need to make sure they have been reviewed by the auditors and that everything is set, and that's our number one factor. Then we look at people's schedules here internally to make sure people are available for the call. And we look at some external schedules. This quarter, Patrick had a speaking engagement out at the Warden Business School on Friday, and so we wanted to get our numbers out before that, so that Patrick could speak about the first quarter results with those numbers out. We were not available to do the call that day, given people's schedules, so we gave the market two days notice to digest the results, and held our call today. I wouldn't think you could expect that in the future, but if the stars align and that's how schedules work, we might do it again as well.

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Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Yes, and I'll -- I was at U-Penn, I'm not sure if it was Warden or U-Penn, but same thing, and doing a micro finance concert -- concert? Conference. And I release numbers when Jonathan says to. Although, if I had my druthers, I'd release them by like the 7th. But the chances are that if we did that, the chances are too high, that with our auditors they'd come back and want some kind of a change, then there would be a slight difference between the numbers we release and the press release and the 10-Q and people would wonder about that. So the one dynamic is some of us want to release them as early as possible but the other dynamic is we have to give our auditors enough time. Do you want to say anything about -- there was a mention in the press release of the Marin County letter.

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

Sure. We did mention in the press release that we had received a subpoena from the Marin County District Attorney and four other District Attorneys out in Northern California. We got it on the 15th. We included it in the press release so that people would know about it as soon as we knew about it. We've been in communication with the District Attorney in Marin, just initial communication. It looks to us like they're looking at some of our advertising and how we advertise price and advertise core versus partner.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Can I cut in here? They use the word advertise, so Jonathan is but I think that a better way to put it would be display on our website. It's not about how we advertise out in the world. It's how we display on our website. Go ahead, Jonathan.

Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

That's correct. Bottom line is, we follow established practices. We don't have any concern about this inquiry, but we'd like you to know what we know, so we've disclosed it, and we'll go forward and be cooperative in our response and we'll move forward.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

I'm going to just add some color on that. And I don't mean to -- these are some guys doing their jobs who want to understand our business. Perfectly fair. But is it, for example, a violation of truth in advertising laws for us to display at our website a product when it's, in fact, drop shipped by a partner? Well, if that's because we're displaying it as we're offering this for sale, well, if we're violating violating the law doing that, then, like I say, 70% of the Amazon titles, which are actually drop-shipped by Baker and Taylor and Ingram Micro -- or Ingram Book would violate the same law. Sears and Roebuck, which last I heard, had 1,000 drop shippers would be violating the law. If that's violating the law then the fact that we put a TV up that's actually drop shipped by a partner and we say that we're offering this for sale, then you can form your own judgments on that. And then the other ones are things about the -- just how do we display pricing and compare ads and so forth. As Jonathan said, we're just following industry practice. Sometime ago we just adopted Amazon. Everything is just industry practice how we do to compare at and would it says in the language and so forth.

So, okay. Anything else you want to say? Oh, any other questions? Yes, there was -- oh, I see Overstock entered an agreement for additional warehouse space. Yes. Well, is it a sign that plans are to attempt to grow direct revenue more in the future? The truth is, this warehouse space, which is a great big 680,000 square foot warehouse makes sense for us, whether we grow or not, because we can consolidate various spaces into it. We're going to be moving our Corporate office into it. Our plan is to -- we're actually building out some customer service space there this summer, and we'll be -- the Corporation -- the Corporate office will be moving over, probably Q2 next year, which also means that we have four contiguous 25,000 floors to lease, and our Corporate headquarters in Salt Lake City, and if anyone out there knows of a place of, a Company who wants up to 100,000 contiguous feet, call collect. Okay, anything else, Jonathan?

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Jonathan Johnson - *Overstock Com Inc - SVP, Corp. Affairs, Legal*

I have nothing else.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Dave? Did -- any other questions or anything we haven't addressed?

David Chidester - *Overstock Com Inc - SVP-Fin.*

One other question that's come in is, do we think that the Easter holiday shifting into Q1 had any effect on our growth. My answer is we didn't do any special promoting around Easter that I'm aware of, and so I don't think that really had much of an impact.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

No, I would not say there's any significant. This is a true 27%. People are -- it wasn't that 13 million flopped into this quarter and was not apples to apples or something like that. The difference from the accounting change is negligible. It wasn't about Easter. It wasn't different things. This is a real change.

David Chidester - *Overstock Com Inc - SVP-Fin.*

Yes, and again I would just clarify that the Q1 '07 revenue and Q1 '08 revenue are comparable, because, again, the only effect that Q1 of '07 had no deferral or reversal. Q1 '08 had a deferral and a reversal that netted to only a \$900,000 difference. So the two are completely comparable.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

To be a stickler, couldn't you say there was a \$900,000 benefit in Q1 from this accounting change?

David Chidester - *Overstock Com Inc - SVP-Fin.*

You can. That's exactly what happened.

Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

So it's less than 0.5% of revenue came from this. So it's apples to -- it's apples to MacIntosh apples.

David Chidester - *Overstock Com Inc - SVP-Fin.*

Again, we went back and analyzed all those previous quarters and made sure there was no material difference between the estimated deferral and the reversal, and that's why we didn't restate any of the prior periods.

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Patrick Byrne - *Overstock Com Inc - Chairman, CEO*

Which is one of the reasons that we were saying to the SEC, we're going from a -- going with a date certain that we know of, the day that everything ships, to a date that's an estimate, the date that all these millions of people around the country receive their stuff, and there's no material difference, even when you do all the math. So why go from something you're certain of to something that is an estimate when there's no material difference? And -- but -- I don't mean to -- I'm certainly not casting aspersions on the SEC about this group, -- actually, the SEC, I know I'm pretty tough on them, having said some things but I consider them more political statements than statements about Overstock. This group and the SEC were fine. Actually, the group who is investigating me are fine too, the Company. But this group was very reasonable. From that point, I didn't get their argument as to why you would go from -- you would go to an estimated date when there was actually no material difference. But again, it's more a literal interpretation of the pronouncements and better accounting but I don't think it's more accurate.

So, listen, my colleagues here are going to get up-tight, because I -- because they're the conservative guys, and they have the sheep skins that make them conservative. I think things are -- just look at the charts. This isn't a blip, this isn't an exception. Anything can happen in the future but I feel really good about where the business is now. I think that we're back, and we're back and we had a tough couple of years. I thank the shareholders who stuck with us. I thank the colleagues who saw this through. I thank Jason Lindsey who came in, pitched in for two years, which was his original up-front commitment to pitch in for two years, and help us. He made an enormous difference. And -- but, I see a lot of people seem to be scratching their heads out there and saying, well, how the heck did this happen? And is this just an aberration? No, what the aberration was, was the -- in my mind, the two years where we got into trouble. But at the outset we've got our shoelaces tied nicely, and we're back on the field. Okay, I look forward to talking to everybody in a few months. Bye-bye.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect, and have a good day.

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