

FINAL TRANSCRIPT

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OSTK - Q2 2008 Overstock Com Inc Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the second quarter 2008 Overstock.com Inc. earnings conference call. My name is Gendi and I will be your conference coordinator for today. At this time all participants are in a listen only-mode. We will be facilitating a question-and-answer session towards the end of today's conference. (OPERATOR INSTRUCTIONS). As a reminder, this conference call is being recorded for replay purposes. I will now turn the call over to Mr. David Chidester, Senior Vice President of Finance. Please proceed.

David Chidester - *Overstock.com - SVP, Finance*

Thank you. Good morning and welcome to Overstock.com's second quarter 2008 conference call. Joining me on the call today is Dr. Patrick Byrne, Chairman and CEO; and Jonathan Johnson, Senior Vice President, Corporate Affairs and Legal. Before I turn to the financial results, please keep in mind that the following discussion and responses to your questions reflect management's views as of today July 18, 2008 only.

As you listen to today's call, I encourage you to have our press release that was issued this morning in front of you since our financial results, detailed commentary and the CEO'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 Act within the meaning of Section 27A of the Securities Act of 1933 and section 21E 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.

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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.

I'll now review the financial results for the quarter ending June 30, 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 Q2 2007 unless otherwise stated.

Total revenue for the quarter was \$189 million up 27%. Fulfillment partner revenue which accounted for 79% of total revenues, grew 41% while direct revenues were down 8%. Note that our revenue deferral at the end of the quarter for order shipped (inaudible) not delivered was \$12 million compared to \$12.8 million at the end of Q1 and this resulted in an increase to our Q2 revenues of approximately \$800,000 or 0.05% of our growth.

Total gross margins were 18.1% up 40 basis points. Gross profit dollars grew 30% to \$34 million. Note that the net effect of the revenue deferral on gross profit was an increase of approximately \$100,000. Sales and marketing expenses were up 79% to \$14 million. Combined technology and G&A expenses increased 2% to \$26 million. Total operating expenses were up 2%.

Excluding the \$6 million of restructuring last year, operating expenses were up 20%. The operating loss for the quarter was \$6.3 million compared to \$13.5 million and out net loss was \$6.5 million or \$0.28 per share compared to a net loss of \$13.8 million or \$0.58 per share. Weighted average outstanding for the quarter were \$22.7 million.

We generated \$1.1 million in EBITDA and \$9.6 million over the last 12 months. Total non-cash expenses were \$7.4 million including \$1.5 million of stock based compensation. Cash flow from operations was positive \$500,000 this quarter versus \$15 million last year while on a trailing twelve-month basis cash flow from operations was positive \$13 million versus \$9 million last year.

Capital expenditures during the quarter were \$5 million bringing them to \$6.5 million year-to-date and we expect capital expenditures to come in at the high end of our 10 to \$15 million estimate for the year. We ended the quarter with \$87 million in cash and marketable securities and over \$58 million in working capital. And with that, I'll turn the call over to Patrick.

Dr. Patrick Byrne - Overstock.com - Chairman, CEO

Nicely read and described, David. I'm here with Jonathan Johnson who will be commenting on some legal affairs in the slide deck. You will control your own progress through the slide deck. I'm going to start now at tab three, David having read that too.

And highlights are again the 27% growth, the record high personal best, 18.1% gross margins. Fourth consecutive quarter of positive EBITDA and fifth consecutive quarter of positive trailing 12 months operating cash flow which means that once again we feel sort of we are through the hurricane and we are sort of putting that chapter behind us. Slide four, you see it's revenue growth, again 27%.

Why don't we mention here -- David, you mentioned to me yesterday that people are expecting -- we don't try to be real formal and give strict guidance. But people are expecting more like 17% through the rest of the year. I don't think that is a bad assumption. I can tell you that the toughest comp months for us last year were July, August and November.

So those are going to be the months that are hardest to grow against. On the other hand I think we will do pretty well in September and I think December. So anyway, the toughest comp months -- the months where we did unseasonably well last

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year were July, August and November. So I think that I would probably pick a number that's a little bit higher than 17% but that is what Dave tells me the analysts are at and that seems to make sense, right ballpark anyway.

Gross profit growth was (inaudible) slide five, I'm sorry. Gross profit growth, 30%, that's fine. Contribution growth took a dive for this quarter. We basically started a new program within marketing and rather than take a year and do it slowly and so we've basically said we can spend 4 or \$5 million this quarter, figure it out and just come up the learning curve more quickly. We're glad we did.

It did cost us a net number of -- it cost us but it let us figure something out. In the past we sort of have credited new marketing chimneys and then dabbled with them slowly for a long time just spending a little bit of money to figure them out and we just accelerated the process this time. So that did hurt our contributions significantly this quarter. But we have already I would say dialed that in and we know exactly where we will be spending money in that. We've refined the spending in that chimney at the end of the second quarter.

Slide seven, gross margins and contribution over 10%, 10.5%. We like that. I would like to see it get back to -- at this point 10% is a nice minimum and I think 12% would be a good place to look.

Okay, slide eight. Contribution dollars basically steady with the previous quarter, 19.8, 19.9. Revenues outpacing fixed expenses as are the gross profits. We actually think that we can get the fixed expenses in the negative growth territory, back in the negative growth territory at least for the next quarter or two. Dave, would you agree with that? Or am I being --?

David Chidester - *Overstock.com - SVP, Finance*

Yes, I think we will see [Tech] and G&A flat to down from Q2 levels in the third and fourth quarters.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Slide number 10, EBITDA. This excludes stock based compensation. Do you want to mention that, Dave? Do you want to --?

David Chidester - *Overstock.com - SVP, Finance*

You know there's different ways people calculate EBITDA. I think we just want to make sure it's clear that our calculation of EBITDA does include stock based compensation.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Is that the convention?

David Chidester - *Overstock.com - SVP, Finance*

It's completely the convention in our industry and I think because it is a new -- it only came about a couple of years ago. Everybody pretty much excludes it when they talk about EBITDA and talk about cash earnings.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Okay well EBITDA, fourth consecutive quarter of positive EBITDA. Again I'm not a huge fan of this number but it is meaningful in some circumstances and it does describe something for us.

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Slide 11, trailing twelve-month EBITDA is now at 9.6. I think that has -- that is the valley of death and we seem to be climbing up the far side. Slide 12, I'm pausing because I realize some people may (inaudible) systems. Cash flow from operations, we're now trailing 12.7 and Dave, do you want to talk about that and the balance sheet effect and so on and so forth?

David Chidester - *Overstock.com - SVP, Finance*

Yes, we spent 2006 and 2007 really squeezing a lot of dollars out of the balance sheet as we reduced inventory. And so we sort of hit that point at the end. By the second quarter of last year we had sort of squeezed everything out of the balance sheet and so you did see a big jump in our cash flow by the second quarter of last year.

And it wasn't because we were losing money but we were -- we took \$60 million out of inventory over that time. So over the last year, our balance sheet is almost identical from a year ago. And so now what you will see in the cash flow from operations much more of it you will see is actual cash earnings that are driving the operating cash flows and not just squeezing dollars out of the balance sheet.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Okay, slide 13. Inventory turns now running on a GAAP basis at 38. We will take that. Slide 14, (inaudible) annualized, 854%. We have a be here as to whether we can get down into quadruple digits. If we do, I'm a vacation if we get (inaudible) into quadruple digits. But not of course -- I think we are -- that is a huge goal for which to reach. Dave, do you have any comments on that?

David Chidester - *Overstock.com - SVP, Finance*

No.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Slide 15, promoters score. I'm extremely proud of this, in particular again the people who (inaudible) a problem still end up with positive 29% whereas the average American company is according to Fred (inaudible) who invented this, is 8% overall. We are at 29% for the customers that have an issue and call customer service. We're 70 for overall. So this has really dialed in beautifully. Slide 16, so these are the highlights.

I will make a few other points. So as far as growth I mentioned that if the analysts are out there at 17%, Dave do you want to comment on that number?

David Chidester - *Overstock.com - SVP, Finance*

Yes, I mean it is our all-time high gross margin number.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

No, I'm just talking about the growth from Q3 and Q4.

David Chidester - *Overstock.com - SVP, Finance*

I think you said it. I think you've already talked about. I think you're right.

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Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

I'm hoping to do a tad better but well -- I think Dave's more fond of that too. So our expenses are dialed in. We are through the maelstrom. We're just trying to heighten the rigging. I have said -- actually I will repeat something I said in a couple few interviews in the last month -- that Dave told me sometime ago that the market -- the analyst average having us at sort of a minus \$12 million GAAP loss this year and I can see where they get their numbers.

If we hit all of our marks and if everything goes very nicely I think we could make a few. We could maybe make as much as 10. So to me that range of minus 12 plus 10 is a reasonable range for the year to expect and as the year develops I will try -- in that range of reasonable expectation narrows, I'll probably have something to say after the third quarter.

I'm also going to mention -- I know I've mentioned some of these guys before but just -- I want to give mad props to a couple of our vendors that I've been working with in marketing -- (inaudible), Mercado and (inaudible). We're doing big projects with them and they are all three a delight to work with and bring so much value to the table. With that, I'm going to turn it over to Jonathan who probably wants to give you a legal update.

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

Thanks Patrick. A few things to report that happened this last quarter. I think most importantly is the letter we received from the SEC which says that they've finished what they're working on were not recommending any enforcement against us. It's nice to have the SEC having looked at what we have done and decided not to do anything; nothing more than we expected but nice to have it done.

On our two suits out in California which people seem fairly interested in, you should know we are in the discovery phase and we have begun to receive documents from our friends at Rocker and Gradient. I can't comment a lot on what they're saying but I will say there is some teeth pulling to get them to provide what they are obligated to provide. But we will get there.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Nice about me?

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

They say lots about you, Patrick. In the Prime Broker case, we have begun to receive trading records from each of the Prime Broker defendants as to their -- all of their trades in Overstock.com. It is not in the form as promised or as required by the judge, but we will get there and we are encouraged by what we see.

Last thing I just want to mention is we have been advocating for some changes in regulation [show], the SEC rule that governs shortselling for quite some time. And we're pleased by some of the things are happening. One, the SEC has reopened the comment period on its proposal to eliminate what is known as the option marketmaker exception which is a loophole that allows for abusive [naked] shortselling.

We are hopeful that the SEC will eliminate that exception sometime this year. So that's good news. Also we have been advocating for a long time that the SEC have a [pre-borrow] requirement before anyone short sells. Interestingly, this week the SEC proposed just such a pre-borrow requirements for 19 selected equities. Just a second.

One thing I wanted to to say is I heard a quote the other day that the equity markets have become animal farms. All equities are created equal. It's just that some equities are more equal than others.

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Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

My comment on the gist of what happened earlier this week was it's 'Oh! We realized naked shorting is wrong and it's bad. It's destroying companies. It's fraud. It's illegal. We really got to do something about it for these two quasi-governmental corporations and the banks who have been enabling it for everybody else.'

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

Anyway, we're pleased by that development at the SEC. We certainly hope that they extend that protection to all equities in the market.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Hey, do we not pay our taxes, Jonathan? I thought we were taxpayers. I thought there was a rule of law applied to (inaudible) something in civics class.

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

We're pleased with what is going on. So anyway, I should say that as an aside, things are going well on the legal front. They're just ancillary to what's happening at the business. I think the business has turned around and steady as she goes. So back to you, Patrick.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Okay, I'll stop being a smart Alec. Oh, we have a few questions that have been mailed in. We have -- I don't know if you want your name associated with (inaudible) so I will just -- actually, Dave, do you have any of Sam's questions? Did he post any or send them?

David Chidester - *Overstock.com - SVP, Finance*

I don't.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

What a shame. Okay, well question number one that's been mailed in -- why the uptick in capital expenditures this quarter? What's the capital expectations for the full year? Do you want to say something first, Dave, and then I will put some color on that?

David Chidester - *Overstock.com - SVP, Finance*

Sure, I think the expenditures are both IT infrastructure upgrades. A lot of it is just old equipment that we are refreshing. And then also we're doing a lot of our own internal development and have a lot of development projects. We've built out our development staff. And so in the past, I think it was just mostly buying big boxes and now I think a lot of what we're doing is projects that are going to hopefully either cut costs or increase contribution dollars. So they are true investments I think into our business.

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Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

I will put two pieces of commentary on that. One is that yes, we started the year I think thinking roughly \$10 million and we actually thought there was a couple million dollars of cushion. But we have taken -- we have always been -- we've always -- our development we wanted to expense as much as possible and not capitalize. And what has happened is this year, Dave, didn't -- I think our -- I think that we have gone to a system where we're capitalizing some of our development and that was more -- do you want to comment on that specific point, Dave?

David Chidester - *Overstock.com - SVP, Finance*

Well I think it's just the bigger and bigger our own development staff gets the more and more we track what they are doing and properly capitalize projects that are -- software that we're building internally. We've just really -- our staff is probably going to be double what it was at the beginning of the year by the end of the year. So we are (multiple speakers) a lot more of it.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

It is already five times what it was a year and a half ago, the actual development staff. And capital expenditures -- so that's one reason capital expenditures are going up. The projects that are really long-term ones are actually getting capitalized which I am personally against but it's GAAP. I would rather expense it all right now.

The other thing is we did have some vendors come in who gave us some very good deals on some hardware and software that we had not anticipated purchasing this year. But they gave us attractive enough deals that we decided to go ahead and do it and there is -- so I think that -- what is the capital expenditure expectation for the full year? It starts looking more like 15 to me now. Do you agree, Dave?

David Chidester - *Overstock.com - SVP, Finance*

Yes, I think it will be at least 15.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

In particular, there were a couple of things that we thought we were going to be buying next year and somebody came and people came and made very aggressive offers for us to buy this year. So we did so.

David Chidester - *Overstock.com - SVP, Finance*

Yes, there is at least 3 to \$4 million that we won't have to spend next year.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

So we thought it was in the interest of the Company to -- we got a good deal on it and so we reached --

Okay, when do you envision the Company generating a positive operating margin for the fiscal quarter and/or year? Can you generate a positive operating margin in Q4 this year? I think yes. Dave, do you think yes?

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David Chidester - *Overstock.com - SVP, Finance*

Yes, definitely. We believe that this fourth quarter will definitely generate positive operating margin.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

And (multiple speakers) go ahead.

David Chidester - *Overstock.com - SVP, Finance*

And then hopefully, depending on how well we do in the fourth quarter that we have said this before but if we really can drive a good operating margin in the fourth quarter and continue to grow, we don't think it's unreasonable to think that we could start doing that next year.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

And, as I said, my wave form is a curve from say -- if minus 12 is the world -- is the analyst estimate, minus 12 million for the year, I think if you drew a curve between say there and plus 10 and you'd -- I think that is sort of 80% likely it would come in at somewhere under that curve.

David Chidester - *Overstock.com - SVP, Finance*

Yeah, I mean the thing to keep in mind is that our [tech and] G&A is really going to stay flat next year. And so -- if we can -- we've been running at 7.5% market the first half of the year. We think we can get more effective than that, much more effective. And if we do that, continue to grow and our operating expenses aren't growing with us, we do see that leverage potential next year.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Yeah, I was talking about just for this year (inaudible) feel it's about 80% likely that the final number for the year (inaudible) income is minus 12 to plus 10 or something. I am not sure how it distributes within that curve but next year you see [tech] and G&A stay flat with this year or even going down a bit?

David Chidester - *Overstock.com - SVP, Finance*

Potentially going down, if anything.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

We have so much depreciation dropping down out of the system. I tend to think -- on a GAAP basis, is \$100 million the right number?

David Chidester - *Overstock.com - SVP, Finance*

I think \$100 million is a number to just keep in mind for this year and next and potentially even 2010 just depending what opportunities come along and how much we reinvest into technology in 2009.

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Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

And then next quarter -- next e-mail. Excellent execution this quarter. Where does the existing share repurchase authorization stand? What are your thoughts about doing additional share repurchase at these price levels?

Well we were authorized to spend 20. We spent 12 in the first quarter and my bad that we didn't spend more. So we still have \$8 million left on the authorization. We didn't use any in the second quarter. I would like to hear -- this is -- I hope you don't mind. This is from [Glenn Sirulech] at [Olsen Capital]. I'd love it if you want to call in, Glenn, if you are on the phone and give me your thoughts on that and call in. I would love to hear from anybody on the phone what their thoughts are.

I have -- and so what are your thoughts on share repurchases at these price levels? I see that we may -- I see that there has been a change, a rather significant change in the price so far today. Jonathan, what can I say? Why don't you answer?

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

Well, we have more money under the authorization to spend. We will do analysis here and where it looks like a good price where we think market's undervalued that's -- we'll consult with the Board and make decisions. But we're not committing to buy any. We're not committing not to buy any.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

I like it, I do think of course we're entering a period of -- where we should be risk averse financially in terms of just secular conditions. I think that this crack that we're in is that we have -- I've been gloom and doom for a few years. You may have heard I've been a little bit down on this whole financial industry.

And I think that we're entering a crack that's going to make the 1929 crash look like a tea party. That's what I have been saying for three years. So, although I actually think that we are at attractive levels now, I am probably being more cautious than I would be in past times. I have no idea what the future holds.

For the last few years, Jonathan and I, and Dave we had a pretty good idea of what the future held. And now that it's here and everybody sees it and actually it's kind of funny. For once this week reporters are calling and saying kind of wow, you guys called this and what's going to happen next? For the first time I have no idea. I have no idea what is beyond the event horizon. We knew that this was going to happen but I have no idea what's going to happen next.

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

You know as secular market goes down, we think it's nice to husband some cash so that when companies go out of business we're in a place that we can buy their inventory. That's what we do.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

That's a rather ghoulish thought, a rather ghoulish way to put it. But we do think it is time for us and everybody to be defensive, to drive defensively in this economy. On the other hand two things happened. Two things may happen, one of which I'm sure and one of which I'm not. The thing that will happen as it becomes very good time to be a liquidator, not just from the worst-case scenario for people -- but bankruptcies. But also just because in a supply line anytime there is uncertainty, anytime there is beta, there's uncertainty. Anytime there's uncertainty you get excess inventory.

This is the time that people start calling and saying I've got excess inventory. Those calls have started. They didn't really materially affect this quarter but I know that by June we were starting to get a lot of calls and we are getting a lot of calls a lot of -- you'll

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be hearing about new partners in the future and a lot of manufacturers and such. So we're back in a period of getting a lot of calls.

The other thing that can happen is on the demand side. Of course it cuts both ways. You go into a recession and I think this is going to be an inflationary recession starting sometime (inaudible) and a bad one. That of course looks like people will cut back on their spending and tighten their belt. On the other hand, value shopping is typically not a middle-class phenomenon. It is a lowering (inaudible) people and affluent people value shop but middle-class people pay full retail.

Then you get into a downturn and middle-class people seek to retain the standard of living that they have achieved and that is when they shift toward value shopping. So I think it's going to -- it is sluggish. I'm hearing that people around the retail industry are (inaudible) take a big downturn in June and in late June and such and that other (inaudible) are reporting that. We didn't actually see that in late June.

But on the other hand -- so the consumer spending is going to decline. People are going to tighten their belts. On the other hand, it is a -- some of them start just thinking about how to pinch a penny better in which case we are great solution. Also on the so supply side things differently get better for us.

David Chidester - *Overstock.com - SVP, Finance*

With the credit market tightening, Patrick, we have seen with a lot of stores closing, a lot of -- not just companies going bankrupt -- retailers but -- closing a lot of their stores which is definitely -- we've seen inventory in the chain that's back up to the manufacturers in bedding, and furniture, jewelry. We have seen some good deals come our way.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

It isn't like the stores call us up as they close but it's that the manufacturers who have stuff in the pipeline who expected to be selling that stuff.

David Chidester - *Overstock.com - SVP, Finance*

They cancel orders.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Okay, well it's 1030. Why don't we take questions? And, Sam, you are in my book -- if you're on the phone, you're welcome to come on the line and be adult and ask a few

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Shawn Milne, Oppenheimer.

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Shawn Milne - *Oppenheimer & Co. - Analyst*

Good morning, Patrick. A couple of questions for you. Can you describe a little bit more what marketing programs you're working on in the June quarter and why you decided to step up by about \$4 million higher and what gives you confidence that you will be able to dial that back going forward?

Secondly, it -- we've done some work on the fuel surcharge issue which is as you know generally on a lagged basis. How are you expecting to work through that? I see your direct gross margins went down. Does that have anything to do with it? But your partner gross margins were very strong.

And then lastly, I'm having a hard time reconciling your comment about GAAP net income. A positive 10 -- I'm not sure how you -- I know you generally have some optimistic bounds but that seems to be a little bit overly optimistic. How would you -- that would imply very strong fourth quarter. If you can give any more color on that? Thank you.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

(inaudible) well we're confident we can dial -- we're developing new areas in marketing, things we've never done and since anyone who's on the Internet can see it, I will mention for example we're doing banners. We left banners seven or eight years ago thinking that they -- and barely done better advertising since then thinking that it was overpriced and didn't give you a return for what you spent.

Well, the technology has gotten much better and it's possible to target better and do smarter things and we have gotten that program to positive level anyway. We knew that starting off it was going to lose money as we sort of figured out it. That's taken for five months but we have at least gotten it to a nice positive contribution.

There was another program I don't want to mention actually which we've developed a new chimney. I don't want to mention exactly what it was but we decided it's going to ultimately take 5 or \$6 million of spending across this area to sort out where the opportunities were and then -- and we could do that over two or three years. And we actually did it over the first two quarters. And we have found some areas within it that work and we have cut everything back until it's now \$40,000 a week but it's a nice \$40,000 a week spend.

So it was worth that much to figure out and it's actually, it's a nice new channel for us. So I'm confident we can cut that back as we already -- and we've already trimmed that out. Fuel, Dave do you want to talk about the impact of fuel on the direct business?

David Chidester - *Overstock.com - SVP, Finance*

Yes, I don't think the fuel surcharges while it has some impact is not anything significant. The changes you're seeing in direct margins aren't a direct reflection of fuel surcharges. The direct margins, (inaudible) affects more some mix shift.

You're seeing some mix of higher margin stuff moving away from direct and into partner. And also just some of the stores in our direct business didn't do as well this year as they did last year. But it's not a direct effect of fuel surcharges.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

It's true these fuel surcharges would hurt us on the partner business just as much as the direct because it ends up having to be the partners pass it on to us. We have gotten -- we have developed thanks to our colleague James Joyce who's actually a director but he's out here helping a lot has -- we have focused on using our aggregated demand to hold the line against price increases and in fact user aggregated demand has squeezed cost out of the system. I think that there is still a lot of basis points to squeeze out of our supply chain with James and his colleagues here. So anything else you want to say, Dave or Jonathan, on that?

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Okay then as far as the \$10 million is here we've grown two quarters in a row 27%. If we grow 17% and we -- probably the lower end of that range of minus 12 and a plus 10 GAAP net income is reasonable. If we can actually keep growing in the range of 20 to 25% even, I think a number that is more like basically breakeven for the year is reasonable. And if we somehow accelerate to 30 or 40% for the rest of the year then we would I think make about -- we would make about \$10 million.

So you now know as much as I do about how we're going to grow (inaudible) really do. There's all these different elements passing back and forth in the dark and the consumer economy, the economy is on the one hand giving us a lot more opportunity and on the other hand consumers are tightening the belt. On the other hand, we are a discount shop.

If you put all that in baggie and shake it up -- and I don't know if you get really 17% or you get 35%. That's why I think there's that kind of a range. I think it's just probably more prudent to think of a growth rate through the rest of the year of 17 to 20%.

Shawn Milne - *Oppenheimer & Co. - Analyst*

Just one quick follow-up. All things being equal, all else being equal, if you're going to dial back marketing why would growth reaccelerate again?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Well 200 basis points of the marketing is -- 200 basis points in the marketing this quarter was just sort of this new exploration that's already been dialed out and we're really substituting -- we're getting much more for our marketing dollar these days.

There is another 200 -- we have a project -- last year we spent 250 basis points in an area of marketing that when we finish this project I think it should drop to about half of that. It's a completely different area. So I still think of their being hundreds of basis points to drop out of the marketing just to support -- 100, 200 maybe even 300 -- maybe even 250 to drop out just to support sort of the marketing intensity that we now have. And we haven't -- I hope to have finished that project by June. We haven't finished yet. And it's probably going to be August or September at best.

So -- but what we're doing is we're getting technology. The reason we're doing -- we were spending 9 to 13% on marketing a few -- a couple years ago and still shrinking. Well now we're spending 7% and we're growing 27% and I think there's sort of an automatic 100 basis points or more that we can drop out now without any effect on the business, maybe even a fair bit more than that and at the same time we're bringing new technology online and testing it and just getting smarter with technology so that doesn't really cost anything.

And if that stuff works and adds 10 or 15% growth, that's how I get to a number like 30 or whatever. That's 10% growth from the site design changes and the personalization. We're doing a lot of personalization and site design changes and if we can get 10 or 15% out of that, then we will end up growing at 35%. If not, the other number is something like 17 to 20 looks reasonable. Jonathan wants to say something.

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

John, you asked I think a good question on the GAAP net income [bound] and how we can say it will fall somewhere between minus 12 and plus 10. I think plus 10 is as bullish as minus 12 is bearish. Patrick said 80% chance it falls in that range. That's a big range. I'm pretty confident we're going to be covered by that range.

Operator

Nat Schindler, Merrill Lynch.

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Nat Schindler - *Merrill Lynch - Analyst*

Two quick questions. One, we have seen some indication [and] you can look at the comp score which is of whatever questionable worth or not but decrease in unique user growth in June from earlier in the quarter and then there's maybe some concern on the marketplace that consumer began to feel the pinch mostly kind of in June, late June maybe July. Have you seen anything to date on that? Is that something we should be concerned about going in -- about the consumer spending going in over the next few months?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Well for us it is a -- comScore is pretty good. I would also recommended Hitwise. Hitwise is extremely accurate at least we have noticed for our company. It is -- we have seen for July a drop in growth rate because -- like I said that's because we had a very strong July last year and August and we also had a very, very strong November. So it's a little hard for me to disaggregate how much of that is -- but in terms of absolute numbers, no. Actually Dave, aren't we -- in terms of absolute numbers we haven't seen a pullback have we?

David Chidester - *Overstock.com - SVP, Finance*

No. (inaudible)

Nat Schindler - *Merrill Lynch - Analyst*

(multiple speakers) numbers you mean in users or revenue?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Revenue.

Nat Schindler - *Merrill Lynch - Analyst*

Revenue, okay good. Always want to check. The other question I have and then I've asked you this before and I guess this quarter even more highlights it -- what is the advantage of staying in the direct business?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Well, it's a good question. And we have substituted information for capital throughout the supply chain. You have to be in the direct business to be -- to import and some of the stuff we do is importing. We have to be in the direct business in the sense that we handle all of the returns now and we process them and we put those up on the site. So we need that direct business. What is our direct business showing up on a GAAP basis, David, as a percentage of sales?

David Chidester - *Overstock.com - SVP, Finance*

It's about 21%.

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Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

It may actually -- we're not tied completely to the direct business. But if anything what we think is happening is we're learning a lot with our partners and maybe there's a way we can work with our partners that harnesses our physical assets such as they are and lets them do what they do very well which is buy.

So, we're not ready to pull the plug on the direct business and if anything there is some reason to think it's going to come charging back especially now. This is the time. This is probably the best buying opportunities we have seen since we went public.

Nat Schindler - *Merrill Lynch - Analyst*

Are you going to be doing something with your customers to leverage your physical assets? Is that similar to fulfillment by Amazon?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

With our partners? Yes, it could be something like that.

Nat Schindler - *Merrill Lynch - Analyst*

Also, what percentage then if -- of your direct business is reselling returns?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

It's got to be about a quarter of it. Is it, Dave?

David Chidester - *Overstock.com - SVP, Finance*

I don't think it's quite that high.

Nat Schindler - *Merrill Lynch - Analyst*

Okay, so -- but you would always need to have a few percentage of your total revenue would have to be in direct just to resell the returns that you get back on the system?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Correct.

David Chidester - *Overstock.com - SVP, Finance*

But I think we've also become much more focused on getting product based on our customers' demand and not just on what products are out there. And so I think having the ability to go to buy direct or buy through partners just enables us to get the products that we want to get for our customers and it allows us to keep certain categories, keep product in those categories at all times rather than potentially having it drop off and come back on.

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So we kind of look at the whole business together and say how do we make sure we have the products that our customers want. And I think this gives us more ability and eventually over time it will tell whether we need the direct business or not. But if -- the economics will decide that.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Also to be honest, it keeps -- we have a great relationship with other partners and we've spent a lot of time to talk to some of our partners and what they say who have worked with us and worked with other opportunities. We really do some special things.

I think it also keeps the relationship honest for us to have at least the potential to be going out and buying ourselves. It just keeps the relationship a lot more on an even keel. But we're not really -- we don't have any ego about the direct business. We actually thought at the beginning of this year that we were -- that this might be the year of the (inaudible) because we had learned so much that we could go out and buy.

The way we want to buy is not to cut our partners out but there's ways of involving that and -- but it didn't -- the core hasn't come charging back. It's really because we haven't -- I think we haven't completely dialed in a couple of things that we will need to dial in before we see it come charging back. But we have a very full team working on just that issue. And if it works, we might be able to get -- we think can -- if that all plays out as we hope, it may come back and in a very big way. So, anyway, that's my answer. Anything else?

Nat Schindler - *Merrill Lynch - Analyst*

No, I think (inaudible). Thanks.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Scott Devitt (inaudible) -- I was just handed a list. Scott Devitt and then Dom LaCava. So, Scott Devitt? Actually I'll say Scott, Dom, Andrew Watts, and then Mike (inaudible). So Scott Devitt, please.

Scott Devitt - *Stifel Nicolaus - Analyst*

So I guess if you exited the direct business, your inventory turns would go up even more but that's not my question. The question is just around the revenue growth rate which was 27% in the first half and you're suggesting 17% in the back half and I want to get my hands around just how much of that is the comps? It seems like you're explaining the vast majority of it away in the comparables to last year. Is there anything else in terms of your thought process or could you maybe handicap how much is comps, how much is conservatism around the economy?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

I think it's probably about 50-50. It looks -- I think that the chances are probably 5 to 10% -- well 10% to say that we would do worse than 17% over the second half. But there's a chance -- I just have to be conservative about the economy. I think we're really entering the big black hole; so 50-50.

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Scott Devitt - *Stifel Nicolaus - Analyst*

Just two other ones if I could. Customer acquisition cost was up 37% year-over-year. So is it getting more difficult to acquire? Is that a component of as you dial back sales and marketing that you're assuming the revenue growth decelerates?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Well, different issues. The 37% is a function of partially we tried this whole new and relatively expensive area of marketing that we did sort of -- what might have been a one or two-year program, we compressed into six months. So that drove it up. But I think that that reverses itself just because we've cut back additional spending. (multiple speakers) cut that in July.

Scott Devitt - *Stifel Nicolaus - Analyst*

And finally, the SKUs on a -- I think it's a trailing basis or some metric you've increased pretty significantly the nonmedia SKUs on the site and third-party was up 41% in the quarter. So I know historically your third-party business is population mostly by direct manufacturers selling on the site but you also do offer services to eBay power sellers. Could you characterize incremental growth? Is it coming from your traditional partners? Are you seeing more power sellers testing the marketplace? That's all I had. Thanks a lot.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Thank you. We are seeing -- it's not all coming from manufacturers. There are we think of as distributors that -- and they could be eBay power sellers. They can just be people within the normal retail supply chain and a lot of the growth is coming from that level. Dave, do you want to add anything or Jonathan?

David Chidester - *Overstock.com - SVP, Finance*

No. I think that's correct.

Scott Devitt - *Stifel Nicolaus - Analyst*

So that level being the distributors, not eBay power sellers?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

No, distributors but in which we include eBay power sellers as opposed to manufacturers. But we also have -- you'll be hearing about some new partnerships opening up with manufacturers this -- I think this -- manufacturers and well-known distributors this quarter.

David Chidester - *Overstock.com - SVP, Finance*

And a lot of our existing partners continue to put more and more SKUs up.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Yes, I should not gloss over that. We're giving a lot of information to our partners to help them buy better and they're great buyers. And so they're -- lot of our partners are really expanding their SKUs and maybe their SKUs in an area, if they buy this

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type of apparel and they're not -- but there's another corner of apparel we've never been in before, maybe instead of going in and finding a new partner for that area, we're talking to partners in adjacent areas who say yes, I can handle some of that and they are expanding. We give them a lot of information and help to do that.

Lets go to Dom LaCava from Canaccord.

Dom LaCava - *Canaccord Adams - Analyst*

Okay, can you tell us what percentage -- you may have already answered this but just to come at it a different way, what percentage of your third party or your fulfillment partner revenue is from liquidators? Are you seeing third-party partners kind of put in nonliquidation product into the channel? I just want to get a sense as to how that is shaking up from a mix perspective?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Well I don't think we break it down like that. We try to not be -- we try to be somewhat discreet about our partnerships. Dave, what do you -- you talk to the world more than I. What do you say? Dave?

David Chidester - *Overstock.com - SVP, Finance*

Sorry, I had my mute on. We haven't talked about that historically and giving that breakout -- there's no specific strategy on that. It's category by category.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

There's also not a clean demarcation between the two. A partner can be a distributor in one quarter and they're liquidating in the next (multiple speakers)

David Chidester - *Overstock.com - SVP, Finance*

And it can be between products. They may have some products you'd call liquidation and some you wouldn't.

Dom LaCava - *Canaccord Adams - Analyst*

Just trying to get a sense as to is pricing coming up in general. If it's less liquidation and more nonliquidation pricing could be coming up from a blended perspective? Just trying to get a sense as to what's happening there.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

I don't think -- I can't answer you (multiple speakers)

Dom LaCava - *Canaccord Adams - Analyst*

Fair enough. And then on the New York State tax situation, can you give us any color on how business trended once the New York-based affiliates were phased out or just any color around that situation at all?

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Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Sure, New York represents about 10% of the country and so you can assume that our business is spread geographically like that. And affiliates -- affiliate business is let's say in the range of 10 to 15% of our total sales and you can put those numbers together and sort of understand where about our New York affiliate business is. And it was -- I think it actually was less than 1% is what it came to. I wanted to mention Jonathan wants to hop on and talk to you about -- I understand there has been developments this week. Why don't you do that and then come back to me. I will have something else to add.

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

One thing I want to comment is turning off a New York affiliate doesn't necessarily mean turning off a New York sale. If some guy has a blog and he runs it out of Long Island and we turn him off, that doesn't mean sales are necessarily New York or otherwise. I don't think we have seen a big effect in turning off those affiliates.

Just commenting on the New York tax loss situation, this week the New York State Senate introduced a bill and then the very next day devoted unanimously to approve that bill which would repeal the law that we have challenged in court. So it's gotten through one house of the New York legislature. We're waiting to see what happens in the assembly. So, we expect good things to happen there.

Dom LaCava - *Canaccord Adams - Analyst*

Do you think the governor will sign that if it -- oh well.

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

Who knows what the governor will do. But it's a bad law. It's an unconstitutional law. They would be well rather than to fight it out and lose in court to just get it repealed.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

The other thing I was going to say is we have although formally we have 3400 affiliates we had less than 200 -- 3400 affiliates in New York that we had ties with sadly. We only really -- less than 200 of them were delivering substantial sales.

People brag about having an affiliate network of 50,000 affiliates. But if they have 50,000 affiliates, there's -- it's a highly (inaudible) scenario is the mathematical term. There's going to be 1000. It's not 80-20. It's 90 -- [95.5] or something or even worse.

I think -- and since this -- this is nonmaterial so if I'm wrong on this, we should have to issue a release. I did a calculation before when we made this decision. The New York affiliates were responsible for on the order of 0.6% of our sales. So maybe a few tenths plus or minus. But that's about where they are. So ending that relationship in return for not having to charge sales tax on, say, about -- or near 10% of our sales was the right trade-off. Okay do you have anything else sir?

Dom LaCava - *Canaccord Adams - Analyst*

Just one question -- any updates on international efforts?

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Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Sure, this is one of the reasons I said (inaudible) there's a wild card. I know it's probably (inaudible) from an analyst point of view to have somebody say well, we could -- 17% looks good but we might grow 35 or 40. We're going to have -- international will be turning on -- scheduled to turn on -- no reason I can't say the date. It's August 30 I think or in the last few days of August.

Now as these things go -- actually this is being run beautifully. (inaudible) Jake Bailey inside the company. He is -- and Jacob Harkins who you remember from marketing. And this has been developed right on track. It's such a difference.

We now have the resources to develop programs where we used to look at this laundry list of things we wanted to do and we looked at this very short list of resources and we just -- it was perpetual triage. We now have a really good team that -- we formed teams that we dedicate to different projects. There's been a good team on this. They're hitting all their marks and we hope they get live in the last few days of August and that's 34 countries.

Mentally, I have said well that may increase sales what -- 3 to 5%? But with the decline of the dollar and I was to actually just oversees. Everybody knows about us. I'm surprised at how much of a brand we have internationally given that we don't sell but people at least know about us and ask when we are going to start selling internationally. So does it actually do? Like I say we think in terms of 2, 3, 5% it may add to sales. But who knows. It may do something more significant.

Dom LaCava - *Canaccord Adams - Analyst*

Okay and then last question is I guess in light of eBay results can you talk a little bit about your cars business, how that's trending and auctions? And that's it for me.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Okay well both cars and auctions are doing well. They're profitable on an internal basis. That means with all their costs including marketing and all the people who work there, we don't charge them for the floor space. But I think they're two nice businesses and I think in the case of each of them there's something big we can do. It's a different thing in each case.

But in the case of cars -- in the case of auctions do something I want to do that I think will -- may help it turn into a significantly better business. And within the case of cars we -- renegotiating some of our advertising relationships and seeing that we can do much better there as well. So, we're optimistic but they're both fine little businesses now.

We launched homes this quarter and I think we have a really good home site. When you look at our home site and you use graph, you use that graph that lets you -- it gives a scatter plot of all the different homes just like we do on cars. You can find great deals quickly. I have been looking for a home and it's really some technology that differentiates us. So, I have hopes for both of those. Anyway, I'll stop there.

Dom LaCava - *Canaccord Adams - Analyst*

That's it for me. Thanks guys.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

(inaudible) those were developed under the tutelage of Jacob Hawkins. He has done a fine job nurturing these new jobs -- these new businesses to life and he reports to James Joyce who is a great mentor. Andrew Watts, Oaktree Capital.

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Andrew Watts - *Oaktree Capital Management, LLC - Analyst*

Good morning, just wanted to just talk about the stock repurchase and your use of capital there particularly in light of the fact that you do have obviously some public debt outstanding as well. What are your thoughts as far as equity repurchase versus debt repurchase (inaudible) debt probably trading at a significant discount to book value versus the stock trading at a significant premium to book value? What is your decision when you look at those two alternatives?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

You know it's funny you say that. I will mention that I just noticed this trade developing in the [convert] where it's basically trading at \$0.70 on the dollar with 3.5 years left and it's priced to yield -- what is it? 3.75? I mean its coupon is 3.75. So, if you do the math (inaudible) pay off completely you buy something for \$0.70 it pays off \$1 in three years, that's 3.5 years that's 10.4% plus the 3.75% coupon you get a 14% -- 14.15% return plus a lottery ticket. So, I see that trade.

I have not really -- I just started actually talking with Jonathan and Dave Chidester about it. I see that trade and I've been scratching my head wondering that even if we did go back and do repurchasing would it be smarter to repurchase something with sort of a guaranteed 14% plus return with a lottery ticket stapled to it. I haven't really done the analysis that we would have to do. But Dave, (multiple speakers) any thoughts on that or Andrew, please give me your thoughts.

Andrew Watts - *Oaktree Capital Management, LLC - Analyst*

Full disclosure -- we're holders of the converts. I'm one of those guys who I think equity repurchases to a large degree are one of those emperor with no clothes kind of situations where a lot of companies have purchased huge amounts of stock at a huge premium to book value which I see as really destroying shareholder value except for the guys who happen to sell at that particular point.

So I'm one of those guys who obviously I have an interest in looking at this security. But I think -- just think from a balance sheet management standpoint and a capital management standpoint that it makes so much more sense to buy debt trading at a discount to book than equity trading at a significant premium to book even for shareholders and building shareholder value from underneath rather than somehow distributing it but only doing it to the people who are selling the stock.

I've just seen too many companies that have kind of swallowed -- drank the kool-aid on the equity buyback and as a result really trashed their balance sheets by purchasing stocks at just ridiculous premiums to book. The mathematics to me are pretty simple. I think there are times when it does make sense if you have a high-growth, high cash flow business but there aren't a lot of businesses out there where that kind of a decision makes sense to me.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

What you're saying doesn't fall on deaf ears. It was a point three or four months we were trading at \$8 and something and I was looking at that and I think we had an enterprise value of 100 or 100 and -- it just -- we can do -- we have an idea of what our cash flow looks like going into the next couple of years and we can sort of assume even 20 or 25% growth in the topline and some marketing improvements and that just looked like a very low multiple of future cash flows to us.

Andrew Watts - *Oaktree Capital Management, LLC - Analyst*

Obviously so far you guys have been proven right on that.

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Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

It's better to be lucky than smart. But I'm not arguing with you. In fact in virtue of the convert buyback -- it's a lot easier to do the equity buyback. The convert trades by appointment only. It's like getting a reservation at French Laundry or something. The convert just never trades. So what -- do you even -- it's like even hard to -- where is it trading now?

Andrew Watts - *Oaktree Capital Management, LLC - Analyst*

I think you're about right. It's somewhere around 70 is probably about the right level for us.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

That's pretty attractive to me. That's pretty attractive to me and so there is a real question -- I've actually just recently been raising this issue around here that we should do an analysis of the virtues of buying. Where would we buy stock back and where would the convert be (multiple speakers)

Andrew Watts - *Oaktree Capital Management, LLC - Analyst*

Great minds think alike, I guess.

David Chidester - *Overstock.com - SVP, Finance*

It's obviously a great investment and if we had a lot of excess cash I think it would be a no-brainer. I think it's -- the issue is more just having working capital at this point. And if we can get the business spinning up and generating more working capital definitely it's something -- it's clearly a great investment.

Andrew Watts - *Oaktree Capital Management, LLC - Analyst*

To me it's not so much that you should buy the bonds at these levels. If you're going to buy something it seems to make much more sense to buy the bonds versus (multiple speakers)

David Chidester - *Overstock.com - SVP, Finance*

I completely agree.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

But who do you think of the -- then the other argument, Andrew, is if we as a country are entering an economic dark ages, what do you think of the prudence of using our balance sheet or of using cash to buy in more debt? Who knows what the next couple of years look like.

Andrew Watts - *Oaktree Capital Management, LLC - Analyst*

I think it's -- you make that decision as far as where you want to allocate your investments. But from the -- all I am arguing is that from the -- if your choice is A, buy back stock; or B, buy back debt; it makes so much more sense to do it on the debt side is what I'm arguing. And particularly even more so if you're entering a dark period you certainly don't want to take away permanent capital when you're going to have to pay these bonds back in a little over three years.

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Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

That's actually -- that's a nice additional point. That's great thinking, Andrew, and thank you. I welcome it. I tell you what -- if anybody is out there who is interested in selling their converts at 70, please call collect and we can have a conversation. Did I just violate some federal regulation, Jonathan?

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

No, we haven't agreed to do anything (inaudible) we will certainly take calls collect.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Michael (inaudible) from --

Unidentified Participant

Ibis Management.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

I'm sorry. I thought that was an abbreviation. I see your name. Anyway, go ahead Michael.

Unidentified Participant

Yes, thanks. Regarding your international business, what are your goals in terms of revenue mix between fulfillment and direct?

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

It's -- good question. It's actually -- that's -- it's all -- what do I want to say? It's -- we're agnostic on that as well right now. It's kind of a lot of things. But we are indifferent. The way that this is structured with our partner which has been announced E4X which is a Pitney Bowes company or a Pitney Bowes related company, is -- it really -- all we know is that we're shipping orders to a warehouse in New Jersey and it doesn't matter to us that -- and then they're taking it from there.

So, the whole partner versus core thing doesn't make a difference on the international side. It's just going to operationally to us look like one big partner one in New Jersey. I mean one big customer in New Jersey.

David Chidester - *Overstock.com - SVP, Finance*

Yes, it's all about which types of products can we sell international and which can't we and that's what will drive it.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Big -- products where shipping is a larger percentage of the sales price are products that are going to not work as well internationally. And of course anything that's LTL -- less than load -- meaning it can't be shipped by UPS but it's shipped on a pallet in a truck -- sofas are not going to work too well internationally.

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Unidentified Participant

Great, my second question is I noticed -- I think you guys tried to do something with Facebook social network type of advertising before and I saw that Sears is trying to do something like that as well. I actually for my hobby I actually developed a lot of Facebook ads last year when the API's came out and I thought it was a really powerful viral medium.

I just thought if you had looked into that and if you haven't maybe it's something that might be really good as far as arbitraging the opportunities in the Internet space. (multiple speakers) I'm not pitching my apps, I saw that was an opportunity that seems like it's really viral and it grew really fast.

Dr. Patrick Byrne - Overstock.com - Chairman, CEO

Please do pitch your apps and please if you have some apps or even some more thought that you want to share with me, please just get in touch with me directly. You know my e-mail is Patrick@Overstock.com. We -- sorry -- social mediums I've said somewhere it's like Bam Bam and Barney Rubble or Flinestones. It's this very powerful (inaudible) that doesn't know its own strength and people don't really know what to do it. Facebook is unbelievably viral. It's just built this -- it just grows and grows.

There is -- the take on social media is people haven't figured out quite how to monetize it yet and it is true in the birth -- well I think of Investor Village which has this tremendous traffic but the word was that people -- it was hard get people to buy. They go and check their horoscopes and such. The same thing seems to be the case for now in social media. I don't think it's going to stay that way. I think it is going to -- people getting the kind of traffic they're getting will figure out at some point how to monetize it. I think those are extraordinary companies.

And we did work with them in the fall and we developed a program. I think it was called Lamplight or -- Dave, do you remember the name of that program?

David Chidester - Overstock.com - SVP, Finance

No, I don't.

Unidentified Participant

Beacon right? Is it Beacon?

Dr. Patrick Byrne - Overstock.com - Chairman, CEO

Beacon, sorry. Lamplight? And you put your -- when you bought something if you opted into this program it -- on our site and on Facebook it said that you were cool with us. It would tell your friends -- hey, Michael just bought a TV -- this TV at Overstock. Well there was a big privacy explosion and we thought it was okay even though -- because people had to -- people were warned and they had to check something and all that stuff.

Well anyway, it wasn't okay to Facebook users and there was a bit of a scuffle about it around Thanksgiving and so we went off until Facebook sort of figured out what the rules had to be to satisfy their people. We are open to doing more. And I'm with you that I think social media is extraordinary and it is going to -- I think it's going to get monetized at some point but I don't know. If you have any ideas on that and want to talk about it further, I would love you to call collect.

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Unidentified Participant

Will do; thanks.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Great. We're also doing some stuff in social media ourselves? Oh -- somebody was asking about that. Somebody out there was like oh well (inaudible) and this community tab we started. We started it. It's been pretty -- it's just been nascent. It's been beta and we've been working on a major revision and I think you could be seeing that go live before the month is over. So keep tabs on our community tab.

Unidentified Participant

Oh, great. Okay. Thank you.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Okay, it is now 10:13. Thank everybody for attending and we look forward to seeing you this summer if you come by and if not, talking to you in October. Dave, anything to add?

David Chidester - *Overstock.com - SVP, Finance*

No.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Jonathan?

Jonathan Johnson - *Overstock.com - SVP, Corporate Affairs and Legal*

No, good to talk to you.

Dr. Patrick Byrne - *Overstock.com - Chairman, CEO*

Good day, bye-bye.

Operator

Thank you for your participation in today's conference. This concludes our presentation and you may now disconnect. Have a great day.

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