FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Overstock.com third-quarter 2008 earnings conference call. My name is Oneika and I will be your operator for today. At this time all participants are in a listen-only mode. We will have a question-and-answer session towards the end of this conference. (Operator Instructions). As a reminder, this conference call is being recorded for replay purposes. At this time I would now like to turn the call over to Mr. Jonathan Johnson, President. Please proceed, sir.

Jonathan Johnson - *Overstock.com - President*

Oneika, thank you very much. Well, good morning all and welcome to Overstock.com's third-quarter 2008 conference call. Joining me on today's call are Dr. Patrick Byrne, Overstock's Chairman and CEO; David Chidester, Overstock's Senior Vice President of Finance; and Jason Lindsey, Valued Employee at Overstock.

Let me get some legal niceties out of the way first. Please keep in mind that the following discussion and the responses to your questions reflect management's views as of today, October 24, 2008 only and will include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results are included in today's press release and our filings with the SEC, including our 2007 annual report on Form 10-K.

As you listen to today's call I encourage you to have today's press release in front of you since our financial results, a detailed commentary and letters from both Patrick and Dave to shareholders are included and will correspond with some of the discussion today.

During this call we will discuss certain non-GAAP financial measures. Our press release, the slides accompanying this webcast and our filings with the SEC, each of which is posted on our investor relations website, contain additional disclosures regarding these non-GAAP measures, including reconciliations of each of these measures to the most directly comparable GAAP measures.

Finally, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2007 adjusted as described in our press release. As described in today's press release, certain of the prior period amounts have been revised from those previously reported and remain subject to further adjustment until we file our actual restatements. Let me now turn the time over to David to talk about the restatement and third-quarter financial results.

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

Thanks, Jonathan. So as Jonathan said, I'm going to start by addressing [our owners] directly about the restatement. And as I explained in my letter, we did find some accounting errors and we are going to have to restate. I put a summary table in my letter that covers the -- shows that the restatement covers the past five fiscal years and the first two quarters of 2008. And what the effect is going to be on a cumulative basis is a reduction of revenue of $12.9 million over that 5.5 year period and a reduction of net income of $10.3 million.

And just for some frame of reference, you can see that adjustment to revenue represents less than one half of 1% of our revenue over that time period. And all but $1.7 million of the adjustment to net income relates to periods previous two 2008.

So what's interesting is really the majority of the errors go back the last three years and coincide almost directly with the financial system upgrade we did in 2005. When we added this system it added some new complexity because we went from a system that just sent simple daily batch files down to our financial system to one where we recorded every single individual transaction, whether a sale or a refund.

And when we implemented the system we were aware that some of the reason codes, some of the reasons that we give customers refunds were not going to flow automatically into the system and it would require a manual adjustment. Unfortunately that didn't pick up all of the reasons. And so we began to under record customer refunds at that point.

Now these refunds built over time into our receivables balance and we were employing a test to validate our AR balance using reasonableness and unfortunately that didn't work. We weren't able to detect the error by just validating receivables based on reasonableness. And once we realized that even the reasonableness test didn't work, recently we dug into everything around AR and found this customer refunds error.

So again, as our principal accounting officer I take full responsibility for this. However, I can assure you that this will not happen again. We've taken this opportunity to increase everything around our closing process from testing to review and particularly related to our receivables balance, and I'm confident that these reporting errors are behind us and we can move forward.

So with that I'm going to move forward and review our Q3 results. Please refer to our earnings press release for the full financial statements and further details regarding these results. All of my comparisons will be to the previous year's third-quarter revised numbers unless otherwise stated.

Total revenue for the third quarter was $187 million, up 17%. Gross margins were 17.2%, that's up 10 basis points. And gross profit grew 17%. Sales and marketing expenses were up 35% to $12 million, contribution dollars expanded 9% to $20 million and our contribution margin was 10.8%.

Our combined tech and G&A expenses increased 1% to $24 million and our operating expenses were up 10% due to our additional marketing spend. The operating loss for the quarter was $4.3 million compared to $5.8 million and we also did spend $6.6 million during the quarter to retire $9.5 million of our convertible senior notes during the quarters. So that equates to purchases at $686 per thousand dollar bond, 31% discount and that resulted in a $2.8 million gain or $0.13 per share.

So of the initial $120 million convertible note issuance, we now only hold slightly over half of that, about $67 million and our net loss was $1.6 million or $0.07 per share as a result. We did generate $2.2 million in EBITDA and that puts us at $4.7 million of EBITDA over the trailing 12 months and total non-cash expenses were $6.4 million.

CapEx, year to date we've spent $15 million and I expect we'll spend another $2 million to $3 million in Q4. So that puts our cash balance, following the debt repurchases and CapEx spend we're down to $70 million and just over $33 million in working capital. Cash flow from operations were a negative $275,000 this over, but positive $14.9 million trailing 12 months. And with that I'll turn the call over to Patrick.

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

Thank you, David. Good morning. Other than that, Mrs. Lincoln, how did you like the play? Well, other than that things are actually coming together respectively. Please forward your own slide deck, Safe Harbor statement page 2 is taken care of. Page 3 highlights, we did have 16.7% revenue growth, 17.2 gross margins, third consecutive quarter of positive EBITDA and our trailing 12-month cash flow is now $15 million positive for the sixth quarter in a row.

Please turn to page 4. Revenue growth did compress 16.7%. I'll have more to talk about that later. In general what's been happening in the last couple quarters is we were running about 10% above where we saw the industry as being. We did hear that the industry was contracting, that the growth rate was contracting into single digits over the course of the quarter, that online shopping was in general.

Anyway, we seem to have been maintaining so far the industry plus about 10% this year and if there are any questions we can go into that in general. We have a pretty solid -- we have an idea of what's going on in the industry in general now of course. And it's just like the same thing everybody else is saying -- you got to September 15th, September 20th, and there was suddenly a pretty sharp change in consumer behavior around there.

Page 5, gross profit growth -- gross profits of $32 million growing 17%. Page 6, our marketing -- our contribution 10.8%. I think I've said in the past we think 11% to 12% is right. We're almost there. This took us -- of course, the restatement took us by surprise as a surprise in the last week. We've been managing to this number, so we managed to a yardstick that turned out to have a bit of rubber in it at the end of the quarter. But we do think that we can -- this has another 100 basis points, 50 to 100 basis points or so, we think can go pretty quickly.

Warning though, in the fourth quarter that margins to come down just because you sell so many more books, so many more of electronics, but in general we think this moving up another 100 basis points or so is a reasonable expectation.

Contribution dollars, page 7. This is of course gross profit minus marketing costs, 20.2 the first time, I think it's the first quarter it's broken 20 except, I mean going back a few years before our implementation I think we had to, but --. So we're reasonably positive on the contribution dollar growth. Again, as I said at the beginning of the year, we're managing the Company -- we manage a great deal of the Company around this number.

EBITDA page 8, third positive quarter. I'll answer -- at this point I know those who follow this story know that there's a certain Sam Antar the Crook, as I like to call him and he likes to identify himself, I think he has to as a fellow. Sam Antar the Crook has sent us pages and pages of public questions. I'm going to boil it down to he says that in the past I've said that EBITDA is garbage and anyone who uses it is crooks and now we use EBITDA.

Well, that's true. In the past I've also said that it's -- the reason I don't like EBITDA as a measure is, A, intellectually because you don't end up counting the spend that you spend on capital equipment as either when you spend it or when you depreciate it. Well that's not right. And secondly, what I really object to is valuing businesses off EBITDA, that's what Wall Street does and I just object to that because eventually you've got to think of the expense of that item either as you spend it or as you depreciate it.

There are two times, as I've said a dozen times I'm sure or more, that EBITDA is interesting. One is when you're in a low cash situation, it gets very interesting. Also just when you're in a situation of not having to do much CapEx and our CapEx dropped significantly below our actual GAAP depreciation.

We are like the proverbial boa constrictor digesting a baby hippo and we ate the baby hippo about three year goes ago actually right now and it's moved its way through the boa constrictor. What were the other ones? Just the claim that EBITDA is not compliant with SEC definition, nonsense. Our EBITDA reconciles to GAAP, the SEC says you have to reconcile EBITDA to GAAP.

We follow, I believe, the general industry practice and -- the A in EBITDA, amortization of stock-based compensation, our EBITDA excludes it. Moreover we reconcile everything to GAAP, Antar the Crook has pointed out as a couple of people have received comment letters they were people who had not reconciled to GAAP. In any case -- we've gone through this over and over with our lawyers. They're saying you're doing this right. Jonathan, do you want to add anything?

Jonathan Johnson - *Overstock.com - President*

No. Our EBITDA reconciles to GAAP. End of story.

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

And then the third one was inventory levels in '06, blah, blah, blah -- I'm not even sure. We said our inventory levels had dropped and yet we increased reserves. And yes, that's true. Jason, do you want to add anything to that? Not really.

Jason Lindsey - *Overstock.com - Co-Founder*

No, I mean I think what he says is you got rid of your bad inventory but yet your inventory went up, and I think both of those are true. You can get rid of your bad inventory and your total inventory can go up, one.

The second thing was I think that gets brought up over and over is you said you sold all your bad inventory in the fourth quarter but yet your inventory reserves went up. And we've also said many, many times and I think we even gave some specific examples about the testing of elasticity that we did.

We did get rid of all of our bad inventory. The reason our inventory reserves went up that quarter was we got rid of all of it except for the spring patio type furniture that we did a bunch of tests on to decide whether it would move quickly and it wasn't very sensitive in the fourth quarter. It didn't matter how much you lowered the price at Christmas, they weren't going to buy outside patio furniture and so we decided to keep that.

But of course we knew it was bad and wasn't selling at the right margin, so we did take a big reserve against it and then we sold it in the next spring and summer. And so that's the explanation of how we say we got rid of all of our bad inventory, but yet our inventory reserves went up because we talked about this summer patio furniture and things that we did keep.

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

Okay. So that's the answer to interminable questions. Page 8 is our EBITDA, our third positive quarter EBITDA in a row. That is an interesting fact now, it's an interesting fact. I'm sorry, this is trailing 12 months, trailing 12 months. So for the third quarter in a row our trailing 12-month EBITDA is positive. It's an interesting fact to us because at one point we did worry about it from cash, of course we'll always worry about it. And we also entered this three-year period where our depreciation is very, very different than our actual cash outlays.

Okay, 9, cash flows from operations trailing 12-month, $15 million. GAAP annualized inventory turns page 10; this reflects the fact that we are now building inventory for Christmas. So it's always going to -- these ratios are always going to drop at the end of Q3. We feel we've gotten pretty scientific and have a bunch of good analysts, Ph.D.'s and such in this area doing our planning now. And we really think our inventory improvements are dramatic.

Page 11. GMROI, again it's gone way up in the last year and yet it's dropped this quarter because we are doubling our inventory briefly. Page 12, net promoter score I think is just about an all-time high. What's also encouraging is even people who contact us and have a problem end up walking away with high satisfaction and that's the red line at the bottom of page 12, that's the -- they have an NPS score of 30, or it's running over 30 now, versus the average American company allegedly has an overall NPS of 8.

And then page 13 are the highlights. We did violate our commitment of having a bulletproof balance sheet and I know we're all disturbed about that and unhappy. But we've stitched the business together nicely. I think we're ready for a good Q4 -- or whatever comes our way. The secular environment out there is awful. We're getting more calls from -- we're getting calls from people that a year ago didn't want to deal with us.

The stories I'm hearing about what's going on in the retail world are shocking, but we have an extremely flexible supply chain and I think we're positioned to get through it and maybe even advance a little bit from it. So with that I'll stop. Do you have anything you want to add, Dave or Jonathan or Jason? Let's stop and turn to questions, Oneika.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Nat Schneider, Merrill Lynch.

Nat Schneider - *Merrill Lynch - Analyst*

Hi, Patrick. A couple things. A lot of people are talking about the macro environment and how things fell apart with the global financial crisis in September. Wanted to know if you could give us some characterization of how the revenue trended through the quarter and potentially a little bit into what you've seen in the first few weeks of October. Obviously you're not going to get much on 4Q out of just the beginning of October given the holiday spending usually happens later, but hearing what you're seeing in the trends would be helpful.

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

Sure, great question. First of all if you -- I would have said -- if you went back to my first-quarter statement, this is sort of buried in there, I would have thought that this year was going to develop 20%, 20%, 25% and 30% growth in the fourth quarter as we got off to a bit stronger start than we expected. Our July last year was very strong. August was strong and September was weak. So we expected this quarter to be maybe tighter growth rates in July, then expanding in August and then really hitting our stride in September.

And that is how the quarter developed up through about September 15th, it was all about 10 points lower or 5 points lower than we thought it was going to develop. In other words, I would have thought that July was going to be 20%, 25%, 30% for

September and in fact it was compressed, it was in the teens. But up through say September 15th it was following just that plan and we were spinning up.

So it was a tighter growth rate in July, a little bit more aggressive in August and then it was starting to spin up better in September. Got to about September 15th to 19th and things really came down. Now what I've said in the past, we tend to have this very emotionally responsive customer base. And whenever there's a big macro event in the world that gets everybody glued to their television our people are there and we fluctuate more widely than you would expect in a -- than I would've expected in a company of this size.

So I guess I can say already we're about breakeven for this quarter in terms of growth. We're running at -- within a percent of zero which is of course a disappointment to us except for two things. Last year, first of all, October was a reasonably strong month and November got very strong, December was soft. And so just be shopping patterns changed for some reason last year with us. So part of it is the fact that we're up against a strong comp in October is maybe part of it. But in general what we're hearing is almost unbelievable.

We're hearing that the industry has -- we're hearing growth rates of minus 15 to minus 30. There are all kinds of ways we can sort of keep a rough eye on -- and I'm not talking about Amazon, Amazon is doing well -- but across the industry what we're -- at least ways we can measure traffic; some ways we can get a rough idea of conversion; and then there's also just sort of a grapevine that no matter what you do work seems to spread around and we hear of people being minus 15 to minus 30.

We seem to be maintaining being a -- our growth rate that's say 10 points above what I'm hearing out there from the industry. But we are hearing shocking things from other people in the retail industry and manufacturers reaching out to us, etc., telling us shocking stories about their normal channels. So in that environment I'm not happy with zero, but I think that we'll get our chance to make our move, especially if the rest of people are having it or more are having it as hard as we're hearing.

Nat Schneider - *Merrill Lynch - Analyst*

Does your partner channel open up a little bit if people -- I'm guessing that some of those people in the negative 15 to negative 30 are the small e-commerce players that we wouldn't be able to see very easily on those numbers. For example, we wouldn't see public filings for them. But are you hearing from your partner, if this is coming through maybe some of the guys in your partner group -- would that make it easier to get more inventory from them and for you to grow that line better?

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

It is easier to get more from them. We are trying to give them more information so they can make better decisions and allocate more to their business with Overstock. But this isn't coming so much from partners as it is with other vendors in the field, technology vendors and such, and there are sites like Hitwise where we can look at -- get some idea of how people are doing.

On the other hand, what's interesting is our traffic is actually nudging up. What happens when we go into these weird geopolitical funks is often our traffic actually goes up but then it just doesn't convert as much. It's as if people are shopping for recreation but they are not buying. So this isn't coming from partners so much as it is from other technologists and other ways we have of seeing what is going on in the field.

Nat Schneider - *Merrill Lynch - Analyst*

Also, last year you guys and quite a few others discussed how 4Q was surprisingly promotional and had gotten increasingly competitive on the promotion side versus previous 4Qs. Have you seen anything to date on this fourth quarter? I don't know if holiday is starting this early yet, but it gets earlier every year. Are people pushing up promotions, and do you expect that this quarter as well?

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

Yes, I do. Nordstrom which would normally be up there with something for Columbus Day is out there with 50% off Nordstrom e-mails. So we think the department stores are really going to be slashing prices, and they are already promoting card and e-mails. So it is going to be a very promotional environment for people.

To some extent, this was a sudden downturn starting in late September, and it was so sudden their supply chains were filled with inventory, which means they in some cases can't cancel orders, which means they get to Columbus Day weekend; they see sales are not good and then they go out and start slashing their pricing. And some retailers who are more lean and less apparel, and I wasn't talking about just Nordstrom there, but I'm just talking in general. That stuff is especially true for Nordstrom. They could not keep their supply chain from getting filled.

In some cases, though, it is just turning into canceled orders back in Asia. So we are getting all kinds of calls from people with goods back in Asia. Anyway, it is going to be an extremely aggressive discounting Christmas. I think the mainline guys are going to get into heavy discounting.

Nat Schneider - *Merrill Lynch - Analyst*

Okay. So it will go far beyond just e-commerce; you think it is -- all retail will, so very heavy discounting?

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

Yes.

Nat Schneider - *Merrill Lynch - Analyst*

Just final question, I have asked you this before. Your direct business is continuing to decline on a year-over-year basis, and in fact it is accelerating declines even though the comps are getting, well, slightly easier -- oh no, they are not getting easier. So it is accelerating decline on similar comps on a year-over-year basis while your partner business is still doing much better than e-commerce and growing great and has a better inherent -- lacks any inventory cost or (inaudible).

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

So you're saying we make more money on less capital?

Nat Schneider - *Merrill Lynch - Analyst*

Yes, so why keep the direct business at all?

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

There's always going to be some small direct business because of the way we handle returns. And Dave, that all shows up when we take a return and then sell it, that shows up this quarter?

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

Yes.

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

So there's always going to be that. The only answer is because we -- it's opportunistic, the day is going to come when we can make good money at it and we can go back to doing good buys. We've shrunk our capital commitment out of it dramatically from 120 down to -- what are we showing now?

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

17 at the end of the quarter.

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

17 and we'll get it to 24 or so and then flush through. If there was ever a time to own a direct business, if there was ever a time it's the quarter we're in now and I think the next two or three that are coming. We're getting these offers from people who are desperate and want to dump inventory, but you've got to be standing there with a check and ready to buy it.

Nat Schneider - *Merrill Lynch - Analyst*

That actually makes perfect sense right there. Though there is the fixed cost of having as much warehouse space as you do, which seems -- but it makes perfect sense that you'd want to be able to buy it when it comes and right now I'm sure there's excess inventories somewhere.

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

If you had asked a year ago, we thought that it was really going to rebound this year, we thought this was going to be the year of core. Because we're getting very scientific about our planning and understanding our demand and forecasting and all those kinds of things, so we really thought we had the information that we could -- that we would have the information and we could go ahead and start making much more precise targeted capital commitments.

We're still developing that, it's not at the place where we were ready to make -- to return to making big bets on inventory, although it is getting easier with the kinds of people that are calling us and just offering us ridiculous pricing off of wholesale. So we delay -- this year I would have thought it surged back, it didn't, but I wouldn't be surprised if next year it surges back because this is the time.

Nat Schneider - *Merrill Lynch - Analyst*

Okay, makes sense. Thank you.

Operator

Dom LaCava, Canaccord Adams.

Dom LaCava - *Canaccord Adams - Analyst*

Good morning. So you mentioned that so far this quarter traffic is up, revenue appears to be flat. Can you give a little more color on that? Are there more people coming to your site and more people buying -- just trading down and spending less or how can we look at that?

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

I missed the part of your question where you said something was up but revenue was flat?

Dom LaCava - *Canaccord Adams - Analyst*

Traffic was up. I think you had mentioned traffic was up this quarter so far?

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

Yes, and the quarter so far but revenue flat. And what was your question?

Dom LaCava - *Canaccord Adams - Analyst*

Whether the behavior you're seeing is more people coming to your site and maybe spending less, but just more people buying in general?

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

Well, no. There's a shift in what people are spending and average order size for different types of customers is shifting. Every time I've talked about this in the past the knuckleheads take something out of context and try to make it something it's not. But there have been four or five events in the last nine years where there's just a dramatic shift in the way consumers behave, 9/11 was one of them.

When 9/11 happened our sales fell 50% or 60% for two weeks and then they came surging back. When Hurricane Katrina happened there was that sort of five-day period where everybody was watching the television, wondering whether this thing was going to hit shore. In that period just our sales got crushed. It happened when the Space Shuttle Columbia blew up and such.

So you can be sure when -- and we can actually map the conversion to these big events like Congress saying they're going to do a bailout, the next day conversion is up. Then the bailout fails, conversion spikes down. And yet traffic follows this other pattern. It's as if people take their mind off this drama that's unfolding on their televisions, go to the website, go to websites and they look around, but then they remember that their wallet is thinner than it was a month before and they're just not clicking the buy button.

And so that's the dynamic and why -- so the traffic has gone up slightly, 9% or 10% or so. The conversion was down and there's something going on with -- or the conversion is down a little tiny bit and then average order size for the big customers has changed too. People are not making the big purchases as much and there's a real shift, for example, in high end jewelry. I mean, the gold -- because of what goal did this year the sales in high-end gold jewelry dropped dramatically and people shifted down into $100 jewelry and we've seen clothing people shifting to $30 items and such. So there's just a big shift going on in when people convert what it is they buy. And a slight decrease in the actual conversion itself.

Dom LaCava - *Canaccord Adams - Analyst*

Okay, that leads me to my next question which was from a category perspective, are you seeing certain categories stronger than others, anything surprising about where people are spending when they do spend?

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

Well, I just told you about jewelry. We are certainly getting the big offers in apparel, handbags, accessories and such.

Dom LaCava - *Canaccord Adams - Analyst*

How about the consumer electronics, bigger items, those types of categories?

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

Absolutely, absolutely. In fact we've just kind of discovered they're choking on it in that supply chain. We're getting better electronic offers than we've ever gotten. Now we don't buy many electronics direct anymore, but we're getting big offers to buy direct now.

Dom LaCava - *Canaccord Adams - Analyst*

Okay. And then on the advertising side, any plans for a new campaign or is the current one going to continue as is and how can we think about the spending versus a year ago? I know there were some issues, but versus a year ago? And then just a little color around that as far as marketing spend and advertising campaigns, etc.?

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

When you say the current one, which one are you referring to?

Dom LaCava - *Canaccord Adams - Analyst*

The most recent advertising campaign -- I don't know what the most recent one -- maybe I'm a little behind.

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

We just started one on October 1st featuring Joey and Rory, these two country music channel people. And we're going to run with that. We're actually -- we have a great Christmas spot coming out. But -- and advertising is sometimes the hardest to get right as a percentage of sales because you have to lay it down. We can adjust our Google ad spend up and down every 15 minutes. Adjusting what we're running on television is hard because it gets laid out often months in advance.

But we do have a new spot that started a few weeks ago, we have a Christmas spot that drives off of it and actually I like it more than any we've done in years. But I think as a percentage of sales, looking -- I think that there's still another 100 basis points or so to keep shaving out of this 6.4%. And I think that you'll see us be more -- there will be less variability in the number, less variability in the 6.4 than there's been in the past. And I do think that you see us shave maybe up to another 100 basis points out of that in the next few quarters.

Dom LaCava - *Canaccord Adams - Analyst*

Okay. And then that's related to my next question which is the cost of advertising on cable. I know based on the elections there's been chatter ahead of the elections that the pricing was going to go up. Then there have been some data points suggesting that it hasn't become all that expensive. Can you give some color on what you're seeing out there on that?

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

I haven't noticed, I expected it to go up and I haven't noticed that effect. Four years ago there was that affect, but I'm not noticing it now.

Dom LaCava - *Canaccord Adams - Analyst*

Okay. And then I guess my final question is around marketing spend. It increased 35% versus revenue going up 17%. Obviously it's a challenging environment right so you cannot pull back too much on marketing. But is that something that we can see as far as the GAAP narrowing maybe heading into '09, or is it just too difficult to tell right now with the uncertainty?

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

No, I think you'll definitely see that all reverse this quarter -- you'll see that reverse this quarter where we overspent last Q4, so I'm not sure you can look at it quarter to quarter. Maybe we over controlled a bit, overreacted. But I think that you can expect to see it around that 6% number over the long term. 6% plus or minus half a percent either way is really the right place for us to be in and we should be able to maintain that over -- for the foreseeable future, for the next several quarters.

Sometimes Q4 is a little bit harder to manage right because there's such -- some of the spending you have to lay down well in advance. And then what actually happens at Christmas is a -- and the holiday season is a question mark until it happens. So sometimes it's harder to get it right in Q4.

Dom LaCava - *Canaccord Adams - Analyst*

Okay, great. Thank you.

Operator

(Operator Instructions). Scott Devitt, Stifel Nicolaus.

Scott Devitt - *Stifel Nicolaus - Analyst*

Welcome back to Jason. I just had two quick ones. The first one relates to the peak in the fulfillment center with the direct business this year. I was wondering what the excess capacity is going to be and whether you've made a final decision on moving the headquarters into the FC and subleasing the office building. And I apologize if I missed that, I just haven't noticed you update us on that?

And then secondly, your third-party business is doing extremely well. Your comps get a little more difficult as we head into 2009. And so I was wondering if you anticipate this aggregate 10 percentage point excess growth to continue in '09. And if so, what you think is driving that? Thank you.

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

Thank you, Scott. Our plans are still to move this building into the new warehouse and we've already sold it. We had three warehouses in Salt Lake, we took be third and emptied it into our new warehouse. I think we're getting that done this week with warehouse two. Warehouse one will still have -- and then between those two -- we're not leasing the whole of the new building. It stair steps up until we get 100% of the occupancy.

Our thinking was that that would pretty much match our needs within a month or so. We don't really get the whole thing until September 1st of next year and by September 1st of next year we'll be building for Q4 next year. But there may end up being here and there an excess in that capacity. Again, we've tried to plan the takedown of the space in the new building to match roughly our needs over the next 15 months.

We've been working on plans for the corporate center in that building. I'm giving half a mind to delaying that a year, I don't really know. I'm giving half a mind to delaying that a year, just saying here in the coming year.

I'm not sure if it answers your question or one of the ones previously, but our auction business is actually finally doing -- it's been holding its own for several quarters, but it's doing a little bit more nicely. And we do some auctioning of our own products out of our warehouse. And so there's a line being set up there too that auctions some of our returns -- I'm sorry, our returns that we don't want to sell again on our site get auctioned through our auction site and that's doing reasonably well and we're setting up -- I think it's 100,000 feet or so is being devoted to that in the new building as well. Okay, Scott?

Scott Devitt - *Stifel Nicolaus - Analyst*

Yes, the second part of my question --.

Jonathan Johnson - *Overstock.com - President*

Partner comps in '09 get a little tougher, what do we think?

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

I think that we can maintain -- what's going on is we sort of got back to the point of figuring a few things out before the market and before most of the market. Amazon has figured these things out beautifully. But we're sort of back -- I think we got a little stale to be honest on figuring out some areas of marketing and we have figured it out and it's meant that for the last few quarters we've been growing faster than the market.

And I think that we've arranged ourselves in a way I don't think that we'll grow stale anytime soon. And we have a lot of great innovations rolling and sort of from now through June have a lot of the next wave of these changes in our marketing systems rolling. And every other one we do gives us a nice little bump and makes things just a little bit more efficient.

Operator

At this time there are no further questions in queue. I would now like to turn the call back over to Mr. Patrick Byrne for closing remarks.

Jonathan Johnson - *Overstock.com - President*

Oneika, thank you. This is Jonathan. We thank all of those that have joined our call and participated. We hope that you come and shop online, do your holiday shopping at Overstock.com and we'll talk to you at the end of next quarter.

Operator

Thank you for your participation. Ladies and gentlemen, this concludes the presentation. You may now disconnect. Thank you and have a good day.
