Jonathan Johnson: Good afternoon, and welcome to Overstock.com Inc.'s annual shareholder meeting. My name is Jonathan Johnson, and I'm the president and corporate secretary of Overstock.com, and at the request of the board of directors, I'll be serving as chairman of today's meeting.

I'll note that this is our tenth shareholder meeting since we've been a public company, and I have chaired each of them. I thought I would share a couple of statistics, the difference between now and then.

In 2002 we reported annual revenues of less than $92 million, and we had less than 200 employees. In 2011, we reported revenues of more than $1 billion and had 1,300 employees. So there's been significant growth on the revenue and employee side, and it's been a great ten years. It's been a busy ten years. We've had some ups and downs, but we're grateful to each of the shareholders that have come.

On behalf of the board of directors and management of Overstock.com, I'd like to welcome you to our annual meeting. We appreciate everyone who's come to the event. It's now 1:00 on Thursday, May 3rd, 2012, and in accordance with the notice of the meeting, I call to order the annual meeting of the stockholders and declare the polls open for matters to be voted on by the company stockholders at today's meeting.

As each shareholder entered the meeting room this afternoon, we provided him or her with an agenda for the meeting. We intend to conduct the meeting in accordance with the agenda, and as noted on the agenda, we'll provide a period after the formal meeting for questions, answers, and discussions of the business, so please reserve your questions until we've – after – after we've adjourned the formal meeting. Representatives of Overstock.com and of our independent accountants, KPMG LLP, will be available to answer your questions.

To preserve the order of the meeting, we ask that people turn off or silence their cell phones and other electronic devices.

Before proceeding to the business of the meeting, I would like to introduce our board of directors and the corporate officers that are in attendance today, and I ask them to stand as I call their names. We have six people on our board of directors. Patrick Byrne is Overstock.com's founder, chairman of the board, and chief executive officer. Patrick is one of the two directors to be presented by the board of directors to stand for reelection at today's meeting. It has been my pleasure to be shoulder to shoulder with Patrick, and I count him as a good partner and a great friend in running this business.

Allison Abraham. Allison chairs our audit committee and is a member of the compensation and the nominating and corporate governance committees. Allison was practically present at the creation. She's been a director since 2002, since before the company's went public, and she does a wonderful job as a director, and particularly as chair of our audit committee.

Clay Corbus. Clay chairs the compensation committee and is also a member of the audit committee and the nominating and corporate governance committee. Clay's been a director since 2007, but we've known him for a long time. Clay used to be the CEO of WR Hambrecht, the company that took us public through the Dutch auction, so Clay has been familiar with the business for a long time, and he is also being presented by the board of directors today to stand for reelection to the board.

Sam – Samuel Mitchell. Sam is a member of the audit committee, the compensation committee, and the nominating and corporate governance committee, so we keep Sam busy. He's been a director since 2010. He is the representative of Fairfax Financial Holding and Hamblin Watsa, which are large shareholders in the company. Sam has been attending our board meetings as an advisor for some years. It's great to have him officially on the board, and he provides great value to us, so thank you, Sam.

Stormy Simon. Stormy is our senior vice president of customer and partner care. She oversees our customer care, which is an award-winning portion of our business, and in the last 12 months, she's begun to oversee our partner care business, which really faces our other set of customers, those vendors that supply us product and drop ship for us. Stormy has been an employee since 2001, was one of the first people that I met when I joined the company, and she's been a director since 2011. It's a pleasure to serve with Stormy on our executive team.

And then, Joe Tabacco. Joe chairs our nominating and corporate governance committee and is a member of the audit committee and the compensation committees as well. Joe's been a director since 2007. Joe brings the unique insight of a plaintiff's class action attorney to our board. He may be – we may be the only company and he may be the only director that has a plaintiff's class action attorney, and it's useful to have him on our board as we navigate shoals of corporate governance. So thank you, Joe.

We are very pleased to present Patrick and Clay for reelection to the board at this meeting.

Let me introduce the officers quickly, and I'll ask them to stand as well. Patrick Byrne, founder and CEO and chairman. Steve Chesnut, senior vice president of finance and risk management. Sam Peterson, senior vice president of technology. Stormy Simon, senior vice president of customer and partner care. Steve Tryon, senior vice president of human capital management. Dave Nielsen, senior vice president of merchandising and supply chain. And Tim Dilworth, senior vice president of marketing.

I should just make a note that Tim is in his second month with the company. He's climbing the learning curve fast and adding real value to the company running our marketing department.

Also here from our management team are the following vice presidents: Debi Brown, who's vice president of supply chain; Mark Griffin, who's vice president of legal and our general counsel; Padmakiran Guttikonda, who's vice president of software development; Rob Hughes, who's vice president of finance and our controller; Carter Lee, vice president of information technology; Carroll – not here; Brian Popelka, vice president of customer and partner care. I'd also note that Carroll Morale, who's vice president of logistics, and Ralph Mondeaux, who's vice president of marketing, are busy at work and not present today.

We also have from our independent auditors Kevin Johanson and Eric Denning of KPMG LLP. If questions arise during the question and answer period that our auditors should appropriately address, they'll be glad to respond.

Mark Harden, the company's treasurer, is assisting us today in the tabulation of proxies and ballots, and is serving as the inspector of elections. Mr. Harden has taken the oath of inspector of election.

Mark Griffin, our general counsel, is serving as the secretary of today's meeting. Mr. Griffin will now provide a caution about forward-looking statements that may be made during today's meeting, and then report on the mailing of the notice of this meeting and the presence of a quorum.

Mark Griffin: Thank you, Jonathan. As we share information today to help you better understand our business, it's important that we note that we may make statements in the course of this meeting that state our intentions, hopes, beliefs, expectations, or predictions of the future. These constitute forward-looking statements for the purposes of the safe harbor provisions of the Private Securities Litigation Reform Act.

Overstock.com's actual results could differ materially from those projected in the forward-looking statements that may be made. We disclaim any intention or obligation to revise any forward-looking statements. Additional information concerning 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 we file with the SEC, including but not limited to our most recent reports on forms 10K, 10Q, and 8K. And in particular, please refer to the risks – the risk factors described in our 10K for the year ended December 31st, 2011, which we filed on March 2nd, 2012.

I should also point out that we are required to conduct the meeting today in accordance with Regulation FD, and as a result, we do not intend to disclose any material non-public information.

We are holding this meeting pursuant to the printed notice mailed on March 23rd, 2012, to each stockholder of record as of March 8th, 2012. A copy of an affidavit of mailing will be included with the minutes of this meeting. A list of registered stockholders entitled to vote at this meeting has been available at Overstock.com's headquarters for the past ten days and is available at this meeting for examination by any stockholder desiring to do so. We will file all documents concerning the call and notice of the meeting with the records of the meeting.

The count of shares present immediately prior to the commencement of the meeting indicated that 20,429,189 shares of the company's voting shares were present in person or by proxy. This equates to 87.23 percent of the total outstanding voting shares of the company as of the record date.

Jonathan Johnson: Thank you, Mark. I hereby declare a quorum present at the meeting. The board of directors thanks all stockholders who returned their proxies. Most of those who returned their proxies authorized the person's named in the proxy to vote on all propositions coming before the meeting. Those of you who requested ballots so that you could vote individually at the meeting today received them when you entered the meeting. Ballots are also available at the table where registration took place. However, we encourage stockholders to allow their proxies to stand.

The first matter for stockholder action is the election of two directors to serve until 2015, the 2015 annual meeting. I now recognize Joe Tabacco, chairman of the nominating and corporate governance committee.

Joe Tabacco: Good afternoon. The nominating and corporate governance committee has nominated Dr. Patrick M. Byrne and Barclay F. Corbus for election as directors of Overstock.com, to serve the terms expiring on the date of the 2015 annual meeting of Overstock.com or until their successors are duly elected and qualified, and I am pleased to present those nominations.

Jonathan Johnson: Thank you, Joe. You've heard the motion. Is there a second?

Sam Mitchell: I second the motion.

Jonathan Johnson: Thank you, Sam. With no other advanced nominations having been submitted by stockholders of the company in compliance with the company's bylaws, I declare the nominations closed. I suggest that those stockholders voting in person now mark their ballots and retain them. We will collect and count those ballots after we've completed all – voting on all the matters on the agenda.

The second matter being submitted to the stockholders for action is ratification of the appointment by the audit committee of the board of directors of KPMG LLP as independent accountants of the company. I would like to call upon Allison Abraham, the chairwoman of the audit committee, for the recommendation of the audit committee and the board of directors in this regard.

Allison Abraham: Thank you, Jonathan. The audit committee has the responsibility for selecting the auditors of the company. The committee consists of directors who are independent from corporate management. It has had direct access to both outside auditors and employees of the company who assist with the audit functions. The audit committee has selected KPMG LLP as the company's independent registered public accounting firm for 2012. I move the ratification of the appointment of KPMG to audit the financial statements for the fiscal year ending December 31st, 2012, and audit the effectiveness of the company's internal audit control over financial reporting for December 31st, 2012.

Jonathan Johnson: Thank you, Allison. You've heard the motion. Is there a second?

Debi Brown: I second the motion.

Jonathan Johnson: Thank you, Debi. I suggest that those stockholders voting in person mark their ballot on that item.

The third matter being submitted to stockholders for approval is the amendment and restatement of our 2005 equity incentive plan. I'd like to call upon Clay Corbus, chairman of the compensation committee, for the recommendation of the board of directors in this regard.

Clay Corbus: Thank you, Jonathan. We are asking our stockholders to approve an amendment and restatement of our 2005 equity incentive plan. The amendment will increase the number of shares available under the plan by 2,500,000, and will make other modifications set forth in the amended and restated plan. I move the approval of the amended and restated 2005 equity incentive plan as set forth in the amended and restated plan as disclosed in the 2012 proxy statement.

Jonathan Johnson: Thank you, Clay. You've heard the motion. Is there a second?

P. Guttikonda: I second.

Jonathan Johnson: Thank you, GP. I suggest those stockholders voting in person now mark their ballots. That is the final matter for action by the stockholders. If there are any stockholders who are voting by ballot today, if they'd raise their hands, we'll collect them so that we can tabulate the final votes. Okay. Seeing none, the secretary of the meeting will now report the preliminary results of the voting.

Mark Griffin: Thank you. We've counted the ballots and proxies and confirmed that a plurality of the voting shares of the company represented at this meeting has been voted for the election of the directors named in the proxy statement, Patrick M. Byrne and Barclay F. Corbus for terms expiring on the date of the annual meeting in 2015, or continuing until their respective successors are duly elected and qualified.

A majority of the voting shares of the company represented at this meeting has been voted in favor of the ratification of the appointment of KPMG LLP to audit the financial statements for the fiscal year ending December 31st, 2012, and to audit the effectiveness of our internal controls over financial reporting as of December 31st, 2012.

And a majority of the voting shares of the company represented at this meeting has approved the amendment and restatement of our 2005 equity incentive plan as described in the 2012 proxy statement.

Jonathan Johnson: I hereby declare that the stockholders of Overstock.com Inc. have duly elected the nominees for directors named in the proxy statement, Patrick M. Byrne and Barclay F. Corbus, and have duly ratified the appointment of KPMG LLP to audit the financial statements for the fiscal year ending December 31st, 2012, and to audit the effectiveness of our internal controls over financial reporting as of December 31st, 2012. I also declare that the stockholders of Overstock.com Inc. have approved the amended and restated 2005 equity incentive plan.

We will provide the final results of the votes in a Form 8K, which we will file with the SEC within four business days.

There being no other official business, this concludes our meeting. I again thank the shareholders who attended the meeting and those who submitted their proxies and were not able to attend. The meeting is now adjourned.

We've now come to the part of the agenda where we will – that provides for general questions and answers and discussion. Before I turn the microphone to Patrick to field and farm out questions, let me outline the procedures for questions during this discussion period. Anyone wishing to address the meeting should stand. After recognition by either Dr. Byrne or me, please state your name and indicate whether you're a stockholder or a proxy for a stockholder, and then proceed with your question. We'd like to limit questions, the initial question to two minutes.

We will broadcast a recording [transcript] of this meeting via the website, so for the benefit of stockholders and others who are not attending today, we ask that you refrain from asking your question until you have a microphone in hand. Please be seated after you've asked the question. Multiple questions, of course, are permitted, so don't feel like if you didn't get to ask it the first time that it won't get answered.

So with that, Patrick, I'll let you take question and answer.

Patrick Byrne: Okay. I get a speaking part now?

Jonathan Johnson: You do.

Patrick Byrne: I was beginning to –

Jonathan Johnson: Now that you're reelected to the board.

Patrick Byrne: I was beginning to wonder. Are there any questions? I can just – I'll speak quickly, won't say anything different, really more than I've said in the earnings calls. Two thousand eleven was a bad year. We really did – we were making I thought great progress for the two previous years. I made a couple of very bad calls the last year. I did knock the – take the wind out of our sails. I think my colleagues have adjusted very nicely in terms of expense control.

One thing I think we've demonstrated over the years is when, you know, we – we manage expenses, and when we have to do tough things, we do tough things. It sometimes is hard. We get – and the hardest part hasn't been expense control. It's been predicting growth in gross – I think of it as contribution dollars. That – it's not even the top line that has my – has my greatest attention. It's the contribution dollars.

And it's – there's been a lot of beta in that number. There have been times, I think it was just two years ago, that was – we had a quarter where it was growing, and – well, the top line was growing about 44 percent. And every – sometimes that happens, and then we start building – I would say in our early days, my greatest mistake or regret was that we didn't build infrastructure to support sales, and we eventually just grew and grew and grew on a tiny infrastructure, and then for the last five years we've really been in the mode of building the infrastructure, and the sales – the sales growth doesn't materialize.

We've grown 30 percent over the last 4 years, and that's about half of what the industry has done. That's totally substandard.

Apologize for it. We should be growing at least as fast as the industry. However, the first priority is not getting upside down financially, and I think we've managed that by – we do have – we've stabilized our growth, or at least we're in basically a no growth mode at the moment, and the same with the contribution dollars, and we've rationalized our expense structure to reflect that. Our expense structure's really about $35 million a quarter of cash expenses, and you can look at our contribution was – or no, I'm sorry, GAAP expenses, and contribution was $38 million last quarter.

So it's only the second time we've had a GAAP profitable first quarter. I think that bodes well for this year. I actually think we're quite well positioned for this year. My next – our next priority is getting the top line returning. But we only want to do that – we only want to do that while keeping financially disciplined and not getting in a position where we could be upside down, because that just changes the whole strategic dynamic for us.

So we actually feel we're in a – you can look at what we typically do say in contribution dollars in fourth quarter versus first quarter, and if – and calculate, well, if we made $3 million this first quarter, what – it's pretty easy to come up with a fairly rosy projection for the year. But even – even without being rosy about it, I think we're going to have a good year on the bottom line, even without assuming any great return to growth.

On the other hand, we've – I'm confident that you're going to see us growing back at industry growth rates pretty quickly, but we're not – we're not betting the company on that. We've rationalized everything, so even in a – in the growth environment we're in now, we still survive and we still make bottom line profits.

So that introduction. Happy to take any questions from our esteemed owners. Sir?

Jonathan Johnson: Can we get a microphone?

Ernie Williams: Is it working?

Patrick Byrne: I can hear you. Let's – okay.

Ernie Williams: I'm Ernie Williams, and I'm a shareholder.

Patrick Byrne: Nice to see you.

Ernie Williams: So my first question is you – you had talked a couple of months ago about new marketing initiatives. Is it time to elaborate on that, or would you rather not?

Patrick Byrne: I can – I certainly can say some things. First of all, we've gotten – we've really gotten at the point where internal site design and testing is paying lots of dividends for us. In addition, I think it's time that on branding, we've certainly gotten the Chinese water torture down, where we've got everyone to recognize our brand. I know that our commercials come on and people recognize them as Overstock commercials right away. It's maybe time to branch out in branding and reinforce some messaging that we've learned of late has not been getting through.

There are some things that we're very good on. For example, price. You look, you know, by our – we have other companies scoring us, and by their scores, we're the most competitive guy out there on price. I'm not sure that has been communicated enough to the marketplace, that it's – so that hasn't been reinforced in a way that's gotten through. People know about customer service and selection and quality and so on and so forth, but price – and then in addition, there's a lot of things in online marketing that I would say we've done – we've gotten different channels optimized well, but we're not really at the place where we've done the global optimization for getting the best payback for our dollar, and that's what we're moving towards.

I will add that Tim Dilworth recently, as Jonathan pointed out, just joined us from Coldwater Creek. Tim is a – is a quant by background, a guy who spent ten years in marketing at Coldwater Creek. And Tim, why don't you – after that introduction, what are you going to tell our owners about any new directions in marketing?

Tim Dilworth: Well, I agree with all of your statements, Patrick, and certainly we have our teams focused on all opportunities that come about, whether it be the recent advances in targeted display online advertising, going after new customers, or whether it be new email platforms that allow us to target customers more quickly with appropriate messaging based on their actions with us.

So I feel like we have a good team in place to take advantages – to take advantage of those opportunities as they arise, and certainly we will do all we can to make sure that happens.

Patrick Byrne: You may have noticed if you shop on our site and then you go to CNN.com or *New York Times* or *Washington Post*, and you came to our site and clicked on a toaster, have you ever noticed that when you then go to say CNN.com you get advertisements, Overstock saying, "Hey, look at this toaster at Overstock"? That kind of – we were actually the – I think the first large guys in that game. That's called retargeting.

But now that technology has gone to another level. That's only been around a handful of years, that retargeting, and now it's possible to do stuff that's even more robust, and that's what Tim's jumping on.

Ernie Williams: So you said a couple of months ago that Overstock's business was moving electrons around. Is that what you – is what you just said what you meant?

Patrick Byrne: Yes. We're down to about 15 percent or less now core, moving boxes around. So it's moving electrons and algorithms.

Ernie Williams: And is there anything proprietary about that type of business?

Patrick Byrne: Actually, we've gotten much more aggressive about our patent portfolio and patenting – we're doing all kinds of things. We actually – we're doing all kinds of things that nobody else is doing yet, and we've gotten much more aggressive about applying for patents on it. Now I'll defer to our general counsel and Jonathan if you want to pick that up, but I would say for our first five or six years, I was probably a bit remiss in worrying about the – I was thinking mostly of patents as a defensive game. But we are doing things that nobody else is doing, and in our algorithms and the way we're hooking different technologies together, and in our supplier relations.

Our partner relations, we're doing some things nobody else is doing yet, and in particular, I'll say, and then I'll shut up, because I know I'm making my colleagues nervous on this, but I feel that maybe the missing piece in our business model has been a way to keep continuous downward pressure on our sourcing costs, and a lot of it has been left to haggling and negotiations between our people and outside people. We have in the last six or seven months implemented something that creates a – there's basically an auction mechanism emerging in the core of our business model for our suppliers, where our suppliers are sort of invited to take part in a reverse auction. And that's been live for some months now.

But around that technology and really around things we're doing in marketing and so on, there's a lot of things we're doing that nobody else is taking these directions, and we are being very aggressive about applying for patents, which is relatively new for us. Mark, do you want to add anything?

Mark Griffin: I endorse what you said.

Patrick Byrne: That's all you're going to say?

Mark Griffin: That's all.

Patrick Byrne: Jonathan? We'll be able to get more out of Jonathan.

Jonathan Johnson: We filed a pretty good patent just this week. There had been a provisional patent that was made final just this week. So we're being aggressive on looking to see what we can get proprietary ownership for on things that we're developing, and either we copyright it or patent it, as appropriate. But we do see value in owning and keeping proprietary some of the ideas and software development that we've been doing.

Patrick Byrne: When I look back on the first five years, and we never – I don't know if we applied for more than one or two patents, and we had lots of innovations. But now we're being very aggressive about it.

Ernie Williams: So a couple of – a couple of months ago you got rid of some inventory with a local storefront. Is that right, or am I wrong? That's right? What was that about?

Patrick Byrne: Well, we've always had a ware – we've always had a local storefront. Usually it's been at one warehouse or another. It's quite well-known in town. People know that there's an Overstock warehouse store. Usually the sales have been, you know, three days a week or once a quarter or things like that. All we did was for a period we moved it out of our warehouse and rented some very inexpensive space next to a Tuesday Morning.

Oh, but we also did – so we always have – thank you. We have returns, and we have a lower return rate than any other catalogue company I've ever heard of. And when returns come back, we then sort it, and the stuff that's been returned that we can sell again as new, we – that's what we do. But if somebody returns a set of, you know, Gucci loafers, and they don't send the box back, we can't sell those again as new, so those go into – even though the shoes are perfectly fine, that goes into a different category, and that category of things we just have to liquidate, and we can't do through our website.

That's typically what we use the store for. And we also tried something a couple of months ago that got a big reception, where we just auctioned off pallets of that kind of stuff, and we called it OSD. And that's what – that's what you see us liquidating in the store. It's not excess inventory in the sense of when we – if we've overbought something, which we do less and less, and in fact, our metric on that is the lowest it's ever been now in terms of our inventory – weak economic inventory, we call it, has really gotten de minimus, thanks to all my colleagues, and Steve, and Dave Nielsen. Steve's kind of a tyrant on that, and Dave Nielsen is – has a – I mean, we've managed that down to I think it's less than $1 million for us now of inventory that we just wish we didn't have.

Anyway, but we don't really liquidate that through the store or through those other channels. We just liquidate that on site by dropping price. So all you see us move through the store is stuff that we really can't sell through our site. Do you want to add anything to that? What's the situation – and what's the situation with the store now?

Steve Chesnut: So Dave, why don't you talk about the store, and then we'll talk about inventory management.

Dave Nielsen: Sure. We – the store is open now Monday through Saturday, regular business hours, and we sell exactly what Patrick said. That's our business model. That store is becoming an increasing part of our liquidation, though, and getting one of our highest returns on those liquidation – liquidated products that we can't sell on the internet, so it's doing well.

Steve Chesnut: Yeah. And so our philosophy on good – merchandise that is sellable and still good, we want to push that through the website, no matter what the price is, because at some point it just becomes a great customer attraction and excitement for our consumers. So none of the good that are first rate sellable will go through the store. The store only handles the items that we – are not first rate, they're damaged, there's something wrong with the goods.

Patrick Byrne: And it's actually always been, I would say, if you knew – if you knew the number of what we actually got on that dollar, so let's say we buy something for $60.00 that we try to sell for $99.00, and we sell it, and then it comes back and it's damaged. And, you know, we recover what damages – well, with the customer, that's one thing, what they're charged. But at the end of the day, we end up with that table with a scratch in it or a broken leg.

And if you knew what we actually got for that thing we had paid $60.00 for, it's traditionally been, in my view, shockingly low, maybe on the order of $10.00 or $12.00. So it's a real loss. It has been in the past a real loss. We have improved that significantly. My colleagues have in the last couple of years improved that significantly. And so when you see places where sort of hundreds of basis points have – over the last four or five years have been added to our gross margin, it's things like that, figuring out how to get not $12.00 for that item, but $14.00 for it. But anyway, the – they've made real progress in developing the recovery – in increasing the recovery rate, and that's a really important number for us.

Ernie Williams: Are you – are you trying to lower the overall level of your inventory going forward, and let your partners own the inventory? Is that an object, or –

Patrick Byrne: It's – it's kind of odd. In some sense, we're if not agnostic, I wouldn't say that we have an overarching plan for that to happen. What we've had for some years is a plan to run things by certain metrics and look for return on capital, and where we can't get the return on capital, not invest the capital. And that over time has shifted us from 80 percent to 15 percent being core.

On the – it is – it's an open question. However, we're getting – at this point, we've reached the point where our core inventory or at least a lot of our core inventory is getting such a good return, there's not really an argument for us to close it off completely. We've really gotten to the point where we're planning better and we have so little weak inventory. It did happen again this year. It happened again with – well, it happened with winter coats this year, and we got stuck with a bunch of winter coats, and liquidating them hurt the first quarter. It was not a very cold winter in the country, and so we had overbought some on coats.

And things like that seem to – it's like someone I know says in the insurance business, calls it the "except for" business. Except for this and except for that, you can – well, but we are really restrictive on putting our own capital in core inventory now, and you can see that in our GMROI, you can see in the return on capital we're making in our inventory. So there isn't really a plan to get out of it, and – but there is a plan to – Dave only gets as much capital as he can invest profitably in ways that make certain – meet certain hurdles, and I don't really have a goal one way or the other after that. But Steve Chesnut I'm sure has something to add to that.

Steve Chesnut: Oh, absolutely. So I control the purse strings, so Dave has to come and talk with me. It's – we've got a great partnership. I think as you look at where we finished Q4 2011 versus Q4 2012, I think we pulled out about $10 million worth of inventory. So we were at $32 million at the end of 2010. We were at $22 million at the end of 2011.

But yet during all this time, we're holding in stock rates, so we watch that metric very, very carefully, so that we're investing where we should, but not overinvesting, so that we're carrying a bunch of excess inventory. And we came through winter this year, even though it was a warm winter, by the time we hit the end of Q1, we were out of winter goods, where I think the rest of retail was still trying to liquidate winter coats.

Patrick Byrne: And we're getting – a lot of the investments we've made in the last few years have been in things like Teradata inventory planning, and SAS inventory planning, and inventory projection modules and such. So, I mean, those are million dollars programs each, but they've – where did we end Q1 on inventory?

Steve Chesnut: I think we're down about $4 million from the prior year's quarter.

Patrick Byrne: So – and as we shrink inventory there, there's all kinds of other costs to flush out of the system. In fact, we just completed – where's Carroll?

Jonathan Johnson: Carroll's not here.

Patrick Byrne: Ah. Well, our – Carroll Morale, VP logistics, he runs the warehouse, he – we had a 650,000 square foot warehouse and a 350,000 square foot warehouse here in Salt Lake, and he's consolidated down – that 350,000 square foot one we've had for – since we started, almost, or since a year or two after we started, and we just completed in April, April 30th, the consolidation out of it. So now we're just down to the one warehouse, and that's a $2 million – I mean, it was costing us about $6.00 a foot for the smaller warehouse.

So other than that, I don't know how it's going to work out. It's not out of the question, it's not out of the question, that you would see our inventory just keep sliding, you know, down to being $5 million of extremely high turnover inventory, or you might see, if Dave – if Dave finds the opportunities, you might see it move back the other way.

Ernie Williams: So tell us what happened or what's going to happen to the O.co brand name? Not to bring up a sore subject.

Patrick Byrne: No, well it – I'm glad you bring it up. It is a sore subject. I mean, it – my bad. My bad. You know, I did not anticipate what we – what was going to happen in that we were all – I – well, I was focused on are we going to be able to get people to switch from typing Overstock to O.co, and we were measuring that. And we introduced O.co in January of last year as just a side shortcut, and we started seeing it get adoption. And it actually got adoption a good bit faster than we thought it would.

And I pulled the trigger on switching to O.co in the – as the – to leading with O.co in the middle of the year. It turned out that the mistake wasn't that we couldn't get people to adopt it. In fact, a lot of people adopted it and remembered it and such. But a big chunk of them just typed O.com, and they would not – we couldn't get out of their minds that it's O.co, not O.com. And for some incredibly – well, for some reason, I can explain if you want, it's impossible to get O.com.

Nobody can get a single letter domain. They're restricted. A single letter dotcom. We've been fighting that. Jonathan has been negotiating on that score for eight years, but it's something like negotiating with a office in the bowels of the United Nations. Imagine you were negotiating with some set of folks in the United Nations for something. It's unbelievable.

And what we realized around November was we were having an enormous leakage of people who were seeing O.co, remembering O.co, coming to the internet and typing O.com. Nothing came up, and then they went elsewhere. And it was extremely costly.

So we have switched back, Overstock. Internationally we're still O.co, and we're just going to keep things like they are until or unless the day comes when it's possible to get O.com, which may not actually be impossible. And in fact – but we've been telling ourselves that for nine years, but it looks like it may actually be close to happening. And – but until that happens, we'll just stay with Overstock because – and actually, somebody did us a real favor by letting us know in a – in a way we would not have been able to find out ourselves, somebody let us know sometime around Thanksgiving how much we were losing to O.com, which meant essentially a dead end, a cul de sac, and it was an enormous amount. And that's really what killed Q4. And when we switched back to Overstock and led with that, things have come back.

Jonathan, do you want to add anything to that?

Jonathan Johnson: Just one thing. We – for some of our non-traditional retail pieces of our website, like the insurance tab and the cars and the real estate tabs, those are branded O.co, because they don't have an overstock flavor at all.

Patrick Byrne: Right. And international is still O.co.

Jonathan Johnson: Ernie?

Ernie Williams: So if we get a national sales tax or whatever happens in this tax area, do you have the infrastructure in place now to be able to handle that? I'm not talking about what's going to happen to the industry.

Patrick Byrne: Well, let me actually switch to Sam, first of all. Do we have the infrastructure that can handle tax?

Sam Peterson: We've actually, with all the tax laws, and now that we have nexus in North Carolina, we do have the infrastructure in place to collect any state sales tax we do have to, so that infrastructure is there. I don't know – and I'll let Jonathan comment on what he thinks might happen on a federal level, but right now we can collect tax in any state we need to.

Patrick Byrne: You can? You could turn it on?

Sam Peterson: Yes. We hope not to, though.

Jonathan Johnson: So Ernie, we could. We hope not to. The current state is various of the different 50 states are trying to get us to collect sales tax, we think in an unconstitutional way, and so we don't collect there.

There is a big push by the big box retailers and their lobbyists in Washington to get a – what's called a market or Main Street Fairness Act or a Marketplace Equity Act, both of which I think are highly ironic names, given that it's Walmart and Target that have put Main Street out of business for years that are now wrapping themselves in the shawl of Main Street. Anyway, they are ironically named bills.

We don't think those bills will pass in an election year, because they will be seen as a new tax. Nonetheless, we do participate in the debate back in Washington, trying to get those bills revised so that if they are passed, they're not as onerous to remote resellers, like Overstock, as the big box retailers would like them to be, but rather just level a playing field, rather than create a tilted playing field.

Patrick Byrne: You know, Amazon, which has – I actually testified to Congress some months ago, and it was one of the most overwhelming experiences of my life, because Amazon's there saying that they're in favor of doing something national, where in truth, they have warehouses in 24 states in which they pay tax in 2 or 3, because they use the subsidiary structure, ownership structure, which is pushing the tax law much harder than my legal colleagues, whatever, allow me to push it. And yet they're back now saying that they support a national tax, but it's all under certain conditions.

Okay. Did that answer your question?

Ernie Williams: You mentioned the insurance tab and the auto tab. Are those gaining any traction at all, or –

Patrick Byrne: Actually, it's – the auto tab is doing surprisingly well. It's sort of a roughly $1 million bottom line business, is what you might think of it this year. And the other things are break even. Travel and insurance are break even to profitable, but in the – you know, a handful of thousand dollars a week or a month or something. So we're not supporting businesses that are – and that's after some large allocation – some – no, some realistic allocations from our CFO, and we allocate expenses against it, and we have very tight staff running them. And they're marginally profitable, and the car business might make $1 million a year, and all – Steve, do you want to add anything? I probably –

Steve Chesnut: You know, it's a nice complementary – I mean, it's a good way to convert traffic and monetize traffic, because our consumers are always looking for travel, they're always looking for insurance. If you look at the insurance space, we focused in on the home and auto, and it's a nice platform, and our partner there is a – is Answer Financial, who is a great aggregator, so that a consumer can come there and get quotes from numerous sources. So it's a good value-add consistent with the brand that we have. So we – I mean, we like them. They're new. We're continuing to learn, but we think it's a good way to monetize the traffic that comes to the site.

Ernie Williams: Okay. So I've got one other question. Two thousand eleven was disappointing. Someone in your company or some team must have done some pretty good work. Who do you want to talk about?

Patrick Byrne: Well, I can say I was the – I made the big mistake, and this team did the really good work. I would – I mean, I feel like we have the strongest executive team that we've ever had. The expense control was good, and we responded as things – as we saw this big divot being created, we responded, they responded quickly.

I'd certainly – I mean, I – it's hard to know where to start, but I'd certainly say on sourcing we've gotten very professional and aggressive, and manage things tightly. Our marketing department has gotten the fundamentals down, and they responded. And our technology, our technology has gone, I think I said a few months ago, it's gone from being sort of this great source of frustration that we never could get enough done, and it's – that's just natural in any tech company, to me really feeling that it's become an advantage for us. We are turning out so much that we – far faster than we ever did before. We're organized better. Our systems are extraordinarily stable.

We had actually 100 percent up time. You know, people shoot for five nines. We had 100 percent up time for 2 quarters, which we had never done before. There's a lot of people I could point to. One is that fellow sitting to your right, JP Knab, who has been a utility infielder on – utility player on everything to do with data, and has jumped from position to position to position, helping sort out – use data to sort out – gosh, if you knew how hard it has been. I mean, we're up against some tough competitors, and it's a tough world, and we're looking for little one, two, three percent wins, and they're there. It's just we need people who can – who can take the data and twist the data and be original and think of the right questions to ask the data. And he's – but I can look all over, and there's people throughout the company.

But Jonathan, why don't I toss that one to you as well?

Jonathan Johnson: Well, where did we get big wins in 2011? Our customer care, again, performed marvelously, and did so on – with less people than in the past, so we were able to cut some expense and still continue to provide the service we did. I think as we've – we've made great strides in improving our partner care in how we deal with our drop ship fulfillment vendors. There's still work to be done there, but the strides have been enormous. How quick people, our partners can get product on site, how we interface with them, the data we give them.

Next week, we'll have about 500 of our partners here for a partner summit, and the training that they get and the learning that we provide will happen. So I think, you know, I think our buying has gotten tighter. I think our pricing is better. You know, across the board, we've made some improvements.

But we did – you know, we did put hurdles in our own way with some of our marketing mistakes, but I think because we put them there, we can remove them, and that's why I'm hopeful that 2012 will be much better than 2011.

Patrick Byrne: I'm going to add something to that. I took Stormy off marketing over – well, over a year ago, and – to do something else that we're doing that – that I don't know if anyone else is doing this, and it is taking the customer care organization and pointing it up the supply chain. So we now have this world class customer care organization handling our suppliers, and it's making a big difference with our suppliers and partner base, and there's a lot that's being unveiled next week that – and where we have our once a year partner summit.

And another person who makes a huge difference that you don't – it's hard to nail down where, is – is the fellow three to my right, Steve Tryon, Colonel Tryon, Army colonel came, and he's over our human capital. And boy, there are times when – you talk about unsung heroes. We invest a lot in developing human capital and training, and he and Paul have developed real training programs. Part of being an Overstock employee is there's a lot of training, and it lets us get by with fewer people.

And the times that – it's when we've hit tough times, the way we hold together and the way people are trained, and not just in their jobs, but in management and leadership, flows from these guys.

And there have been times that – that, you know, when we've gone into tough times, having had that – having built that human capital in the bank has been a great asset.

Jonathan Johnson: If I could just add to that, I mentioned at the beginning of the meeting that in 2002 we had less than 200 employees, and to be able to get the culture saturated into 200 employees is a relatively simple task. And if you want to have a company-wide meeting, you stand up in the middle of the room and you say, "Everybody put down your phones and stop looking at your computers."

Well, as we've grown to over 1,300 employees, getting that many people saturated in the culture of the business is a much more difficult job, and communicating out to the company has been a much more difficult job. But Steve Tryon has done a nice job of helping us do that culture saturation and prodding us to do better communication so that the water gets to the end of the row, 1,300 people down, rather than just the 200 it used to be.

Patrick Byrne: And there are times in the firefight when people are – when morale is down or people are under stress or there's bickering, and Steve is the guy you want to have with you in the firefight. He – he's – his character has infused this company in a way that has really helped us hold together in down times.

And, you know, we actually feel, and we think the first quarter reflects this, we feel pretty good where we are. We feel pretty good. We're happy that we're profitable. We think we can do much better. And we actually think this is going to turn into a nice year for us.

Okay. It's 2:00. Are there any other questions? Sir?

Rick Lawson: Hi. Rick Lawson, shareholder. Your comments about contribution beta sort of has struck me, too. Lots of things you've done have really been working pretty well. Your operations are going well, customer service levels seem high, and yet there always seems to be something with revenue growth. Is it inherent in the business? Is it, you know, a matter of scale? Is it just, you know, the nature of the business, it's easy to find a way to shoot yourself in the foot so that it's going to keep happening? How should we think about the company's revenue opportunities over the next five years?

Patrick Byrne: I think it has gotten – some of that is, you know, we missed marketing changes, I missed marketing changes, I missed opportunities, but I also think in the last four or five years it's gotten harder to be a pure play. There is of course Amazon and eBay and some giants, but the – what's happened is the brick and mortars have gotten very good online, and they were not five years ago.

And so it has gotten harder to be a pure play, and that just means we have to – there's ways – you know, we have to be smarter, and there are opportunities we've been missing I would say on the quantitative side of marketing, or – I don't – if we've been missing them, or else in some case if there's just significant changes, like there's been a real shift to Google Base, so if you're not really good at Google Base, that creates a downdraft for you. There's lots of things like that, these shifts in consumer activity on the internet.

And I – I'm sorry. Shall I excuse any directors now who have to make a flight? Okay. I'm going to have to interrupt, just – we promised some folks they could get out at 2:00. Anybody who has to make a flight.

Patrick Byrne: Okay. So part of it is us missing opportunities. Part of it is the field itself has changed. I think the big change is the brick and mortars have gotten very good at online – at brick and click. But that presents an opportunity for us as well. I don't know if we want to – you – it's public – what's public that you can comment on on that score? Any relations between us and –

Steve Chesnut: Yeah. We can comment on – we'll comment on one. So we're looking at these marketplaces outside of traditional Overstock four walls –

Jonathan Johnson: Close to the mic.

Steve Chesnut: So we're looking outside of Overstock, and so we've struck an agreement with – the first one is Sears.com, where we've got roughly 185,000 SKUs live on Sears.com in their marketplace, and so we're actively selling our assortment on Sears.com, still leveraging for our partner community. The orders still flow back through Overstock. We do the – they do the pick, pack, and ship, and we do the customer service and the returns management, but we're leveraging the eyeballs that are flowing through on Sears.com to help expand our reach into the marketplace. We think that that's an intriguing business model that has some tentacles that will extend out from there.

Patrick Byrne: There's a couple more of those actually live, and there – or at least one more live, and there's others – there may be others coming down the pipeline as well.

Rick Lawson: Different topic. Can you give us an update on lawsuits? California didn't work the way you hoped it would. Are you still – what's going on there? What's going to happen next, generally?

Jonathan Johnson: So the California suit did not go the way we wanted it to. There are two different appeals going on. One relates to having it dismissed basically on jurisdictional grounds. We're appealing that. That'll be at least a 12 month process. If we are able to win on appeal, it will start back up and be close to trial, because we were only – we were less than two months from trial when the judge decided that.

The other piece of that lawsuit that's still in play is when we filed our motion against the summary judgment, we filed about 26 bankers' boxes worth of documents that really helped tell the story that we wanted to tell the jury. The defendants, both Goldman and Merrill, moved to have those boxes kept under seal; in other words, kept out of the public view.

The trial court judge denied that motion, and said that they should be unsealed, but then in the same stroke of his pen said, "I am staying my denial until Goldman and Merrill have a chance to appeal my ruling to the Court of Appeals." So there's a second appeal in front of the Court of Appeals to whether that motion to seal should have been granted or not granted. We're fighting that, along with four other media companies, maybe five. It's the *Rolling Stone*, Bloomberg, *New York Times*, *The Economist*, and maybe Reuters as well.

Rick Lawson: So are you – in terms of re-filing in other states, are you waiting until California plays out, or what's the –

Jonathan Johnson: Yes.

Rick Lawson: Okay.

Jonathan Johnson: So we talked about perhaps filing in either New York or New Jersey, where clearly the action to not settle trades occurred.

Rick Lawson: Right.

[Non-material matter redacted pursuant to the terms of a confidentiality agreement]

Rick Lawson: Okay. My final question has to do with capital structure. You've – your debt has come down a lot over the last several years. You're a free cash flow generator most of the time. Your stock price has also come down a lot over the last several years. Do you – are you considering – do you see any opportunities to re-jigger your capital structure with that set of circumstances?

Patrick Byrne: I think so, but what do you have in mind?

Patrick Byrne: What do you think would be –

Rick Lawson: I don't want to sell my stock.

Patrick Byrne: Well – yeah, I see some – I think that maybe we should take on more debt and buy in some equity with it. Always looking at that, subject to market conditions, etcetera, etcetera. I think that might be a good move. We just have to get the debt. But I think that would – now that we're back on the right side of GAAP net income, that shouldn't be too hard. I like the idea of buying in some stock and having – replacing – swapping some debt for equity or vice versa.

But we're just always really looking at the market, and figuring out what's prudent, and what do we think our income's going to be this year. So of course, we don't want to get upside down on cash and such. But I think I see things the same way you're describing it.

Jonathan Johnson: Rick, we do look at those things. We also look at, you know, how Delaware law applies and what restrictions there are based on surplus and those types of things. But it's a frequent – well, it's a topic of discussion always, so . . .

Patrick Byrne: Okay. There being no other questions, I thank you once again for attending, and I reiterate, it feels to us like we're going to have a pretty good year, and thank you for being – letting us work for smart owners.

Patrick Byrne: See you next year.