FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Jonathan Johnson
Overstock.com, Inc. - President

Steve Chesnut
Overstock.com, Inc. - SVP of Finance

Patrick Byrne
Overstock.com, Inc. - Chairman and CEO

Sam Peterson
Overstock.com, Inc. - SVP of Technology

CONFERENCE CALL PARTICIPANTS

Nat Schindler
BofA Merrill Lynch - Analyst

Timothy Staley
First Western Advisors - Analyst

PRESENTATION

Operator

Good afternoon. My name is Chanelle, and I will be your conference operator today. At this time, I would like to welcome everyone to the fourth-quarter 2010 Overstock.com earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions).

Mr. Jonathan Johnson, you may begin your conference.

Jonathan Johnson - *Overstock.com, Inc. - President*

Thank you, Chanel. Good afternoon and welcome to our fourth-quarter and fiscal-year 2010 conference call. Joining me today are Dr. Patrick Byrne, Overstock's Chairman and CEO, and Steve Chesnut, Overstock's Senior Vice President of Finance and Risk Management.

Because we can't predict the future and because we want to stay out of trouble, let me first read the legal forward-looking statement language. The following discussions and our responses to your questions reflect management's views as of today, February 28, 2011, and will include forward-looking statements. Actual results may differ materially.

Additional information about factors that could potentially impact our financial results is included in the press release and Form 10-K that were both issued this morning.

During the call, we will discuss certain non-GAAP financial measures. The slides accompanying this website and our filings with the SEC, each posted on our Investor Relations website, contain additional disclosures regarding these non-GAAP measures, including reconciliations of these measures to the most comparable GAAP measures.

With that formality out of the way, let me turn the call over to Steve to review some of the financial results.

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

Great. Thank you, Jonathan. Let me give you a brief review of our financial results for the full year 2010. Unless otherwise stated, all the comparisons during our call today will be against our results from 2009.

The first big point is 2010 revenue surpassed $1 billion for the first time in the Company history, growing 24% for the year. 2010 gross profit increased 15% to $190 million, while gross margin declined by 140 basis points to 17.4%.

While revenue growth benefited from the overall lower prices, gross margin is lower than last year, largely due to pricing initiatives.

Contribution margin declined by 70 basis points as more efficient marketing spend helped to offset lower gross margin.

2010 net income increased 79% to $13.9 million compared to $7.7 million in 2009. That's a $6.1 million improvement.

During 2010, we retired over $25 million of our long-term debt, and we subsequently retired just over $10 million in February. Currently, we have $24.5 million of senior notes outstanding.

You can see on the balance sheet that the senior notes have been reclassified as a current liability as they mature on December 1, 2011. As a result of this reclassification, our working capital fell to $14.7 million from $51.2 million.

Operating cash flow in 2010 was $16.3 million. In 2009, operating cash flow was $46.1 million, resulting in a decrease of $29.8 million. This is largely due to ending the year with $9 million of additional inventory, most of which we sold in February and January of 2011, and also a timing difference of when we paid our partners and suppliers and other payables between 2009 and 2010.

I would encourage you to take and review our Form 10-K that we filed today for a more detailed and thorough analysis of our results.

And so, with that, Dr. Byrne, let me turn the time over to you.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Okay. Thank you very much. Welcome. I will be starting on page -- well, 3, we've walked through all the main points. Page 4, annual revenue, up, again, 24%. We finally broke through that ceiling. Page -- so we're at $1 billion, almost $1.1 billion on a GAAP basis.

Gross profit did drop for the year -- page 5 -- did drop for the year. We are still fine-tuning where we think this should be.

I again caution people, when you compare us with other folks in the industry, to remember that we count logistics costs in our gross margin. And some people do, and some people don't. So our numbers aren't directly comparable unless you either make that adjustment.

And what are our logistics costs that are baked into this? Steve, do you remember the --

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Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

About 6-ish percent.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Okay. Page 6, annual contribution, 11.8%. I've said that I think that this should be running 12% to 13%. It ran at 12.1%. We got back to it for the fourth quarter. If you remember, we had a bad drop in the third quarter. So it ended the year just beneath 12%, and we still think that 12% to 13% on contribution is probably the right place to be running this.

Page 7 -- we see scale in the business emerging, our contribution versus technology and G&A, and that is -- so our technology and G&A has dropped to 10.5%. And that's interesting, given that it's still growing.

And for the first time in some years, I would say we have some -- well, I wouldn't say fat, but some buffer here. It's not excess -- it's excess to what we actually need to run the business right now. But we are back in the mode of making investments in technology that won't have payoffs for maybe two years or more. But there was a point a few years ago where we had to cut and get very tight and couldn't really be building as much as I would have liked for the long term.

We are back building for the long term and doing very neat things, I think, in technology. So within this 10.5%, there is a slice of that that is really -- we are building for things that are over the horizon. You know, we could have seen this drop more than from just 11.5% to 10.5%. It could have dropped significantly below 10.5%.

But we are, as you read in the papers, we are hiring. We've had it on our front page of the website. We are hiring tech guys, who tend -- Sam is sitting right next to me, so I -- Sam Peterson -- so I won't comment on how expensive the tech guys are. But they are expensive. And we built a tech center out in Provo, which -- how many people have we hired into that already?

Sam Peterson - *Overstock.com, Inc. - SVP of Technology*

We've hired a handful right now, Patrick. But we are looking for 100 or more.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

(multiple speakers) And in fact, it won't be the only one of these that we build. So we've dramatically increased our tech resources over the last four or five years and still seen this leverage emerge.

Slide 8. I might just gaze at this for a while. Anyway, 14 -- almost $14 million GAAP net income.

Slide 9, annual cash flows -- again, Steve Chesnut just walked you through those. Some of it is balance sheet changes, some timing differential, and a big chunk is, in the free cash flow side, is that we bought so much of our bond back.

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

Yes, and we also accelerated some capital spending in 2010 versus 2009.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

So a lot of this really is stuff that flip-flops around depending on a payment cycle, or -- we did end with a little bit more inventory than we -- than in the previous year and so forth. But we are handling that nicely in the first quarter.

Slide 10, we will go to the quarterly results. Growth has come down to 8%. And we did have a strong Q1 last year. But we are not -- so I have said that I think that we -- in the past that we should grow industry or even 10 points above industry. That certainly is not a quarter-by-quarter projection. I'm not saying anything about any particular quarter. I'm speaking on an annual basis. Last year was 24%, which is about exactly what we think the industry grew, plus 10%.

I would say going -- we don't want to see ourselves growing slower than the industry. How much faster we can grow than the industry remains to be seen. I would say that it's -- but, again, any talk of that is on an annual basis. On a quarter-by-quarter basis, there's always this question, what was your comp in this quarter or last year, and was it a strong comp or a weak comp? So none of what I have said about that should be interpreted to refer to quarter-by-quarter growth projections.

And even on the year basis, I think that at this point, we are more excited seeing our bottom line grow at these kind of a rates, this 79% last year, than -- I'll put it this way, I'd rather see the bottom line grow 79% than the top line grow 79%, especially as we've crossed firmly into the black. That's important.

I'd also -- well, gross profit dollars, 8% growth. Gross margin -- the contribution dollars, which I've said again and again, is what we should look at. It was 16% growth for Q4, I think 17% for the year. Contribution margin, again, 12.1%. It's in the band of 12% to 13%, and I do think that 13% is probably a little bit high for us. 12.1% might be just about in the middle of the fairway for us. And we wouldn't see it tick up much above that before we would trade -- if it started getting much above that, we would start trading it back for growth. And again, net income for Q4, $15 million.

Q4 events -- I just want to point out that we were ranked number one in employee satisfaction among all retailers and number nine in the Top 50 Places to Work in the United States. That's out of -- I believe this Glassdoor survey had 38,000 companies that they ranked. So to have come through what we came through in the last few years and have emerged with this sort of employee satisfaction I feel immensely proud of, and we try very hard to reciprocate with our employees.

We view this as a cooperative effort between us and our colleagues on what we are building here. And we do a lot to try to satisfy their needs, both in pay and in the way the workforce is organized and the way benefits are constructed and so forth. And it's really, one of my -- one of the accomplishments of the Company which I take a special satisfaction, that people feel this way about working here.

You may have heard that this Wasatch Front, they are starting to call it Silicon Slopes. It's -- Utah is really attracting a world-class workforce, either growing it domestically or attracting it from other states. We are having wonderful resources join us from around the country.

We have built a software development center in Provo. It's live. We are working aggressively on filling it out. And we intend to be -- I think it's likely you'll see us developing other development centers in Utah or conceivably one or two back East in the years. But we are doing these really on the cheap, consistent with the way we do everything, as inexpensively as possible.

Page 12, quarterly revenue growth, we've just walked through.

Gross profit growth, again, this is all just page 13 numbers we've already touched upon.

Gross margin and contribution, page 14 -- again, I think that the contribution is about where it should be. I might even say 12% to 12.5% should be the channel we'd like to keep it. Again, not a promise. If it gets over 12.5%, I think you'd see us start trading it in for more growth. And you shouldn't really see it -- we'd be disappointed to see it drop much below 12%. And we did have that one hickey this year at 10.5%, and that's -- but we got ourselves out of that.

Slide 15, contribution dollars -- again, they grew at 16% this -- in Q4.

Slide 16, cash flow from operations -- Steve, do you want to go into any more detail on what happened on this or --

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

So it's really, it's -- we finished a little heavier on the inventory. And then as we approached the end of the year, it's the timing of when we pay our partners and suppliers. Last year, in 2009, that fell over into January. This year, that payment fell towards the end of December.

So it's just that we got lots of volume coming when that timing of when those payments hit. Last year, it hit in January. This year, it hit in December. So by the time you get through January of every year, all that noise washes out.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

All that flushes out. And, Sam, what are you pointing to?

Sam Peterson - *Overstock.com, Inc. - SVP of Technology*

I'm just saying, if you look in previous quarters, Q4 of 2008, you can see that's another one where the timing of when we pay partners can really dip that cash flow.

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

So this is one I'm not -- even though it's a big decline, it's all a timing question, because in January, it literally every year just washes it out.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Thank you. Slide 17, running at 29.8 turns on a GAAP basis, 6.2 on the direct business only, the core only. I'd really like to see this get to 8 to 10. But anyway, it's -- on a GAAP basis, we are at 30, and that's a nice place to be.

Page 18, our GMROI, 627%.

Page 19, our Net Promoter Score, which is out of the book by Fred Reichheld, The Ultimate Question, we use to manage a lot around here. At 53% for Q4, an all-time -- I think that's an all-time high. The previous year -- and it's especially difficult, by the way, to hold this up in -- yes, the previous year was 47% in Q4, this year 53%.

It's especially hard to hold this up in Q4, for various reasons. And again, just super-satisfied. I don't know if people -- we haven't put out the announcement yet, but it is public. Last week, we won The Stevie Award down in Florida, that has -- they've announced it -- Stevie Award for the best customer service department in the country and the best sales department in the country.

That's -- so, again, this falls under Stormy Simon and Brian Popelka. They've built this incredible team. They've taken this up -- if you went back to two thousand and -- if you went back another couple years and saw the improvement they've made. And again, I'll point out, this is 53% -- isn't for people -- just every customer. This is for customers who have had some sort of issue that has made them call.

So their NPS is actually lower than the average customer, and yet, their NPS at 53% is higher than the overall NPS for the average American company, which is reported by Fred Reichheld to be 8%. So this is just fantastic work from our customer service department.

Page 20, unique customers has not -- we've had 23.6 million unique customers to date for the fourth quarter, which is a little bit above the previous year. New customers, flat with the previous year. That's slide 21.

Slide 22, our B2C customer orders have gone up; so has our average order size; it grew 8%, and the orders only went up 3%.

Slide 23, the average order size is up a bit. And it actually, I will tell you -- and I won't say much about Q1, but one thing I will mention is it is up significantly in Q1. Is that still accurate?

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

It's still accurate, so far through Q1.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

So far through Q1.

Slide 24, gross profit per transaction, $17.51.

And slide 25 is one I like. Our marketing efficiency has gotten -- on a GAAP basis is now under 5%. I'm not sure as it ever -- maybe in Q1, it dropped under 5%. But our marketing efficiency has gotten good, and we think that it can continue to improve another measurable amount.

Go ahead.

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

Yes, 4.9% I think is -- for the last several years is an all-time number. So when I think about the quarter, that's a key driver of why we delivered the profitability we did, is because we managed that and understood how to spend that marketing dollar oh-so well.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Yes, we are really not chasing the topline growth. We like the contribution line growth and we like managing our G&A and seeing this great growth in the bottom line.

If topline growth picks up, it will be more of a function of getting, really -- of not seeing this radically increase, of not seeing this marketing efficiency -- it isn't that we're going to go back to spending 7% or 8% at any point that I see. It's going to be, if topline growth comes back, it will be from some other, say, smarter factors than through just brute force.

And we think that if we keep a tight discipline on the marketing efficiency and continue to keep good discipline on G&A management, that you can just see very nice growth in the bottom line, especially in the operating income.

Slide 26, this is interesting to me, our corporate employees. So this sets aside all the -- this sets aside customer service and warehousing functions, which generally fluctuate more linearly with sales. This is -- these are corporate employees. And the bulk of this growth is in technology.

And that's what I mean when I say we are really back making the investments for the medium and the long term so that the bulk of this growth has come from building out our tech forces.

And I think you see it on our site. I think our site is lovely and has more and more features that -- for example, our Club O program, which is a 5% -- I think we were the first to introduce a loyalty program. And we reintroduced it this year, but structured it around a 5% cash-back deal, free shipping plus 5% cash back. If you get our credit card, you get 8% cash back.

And all that takes tech. But we've gotten -- tech has gone from being the bane of my existence to, under Sam Peterson, it is the delight of my existence -- how much they are able to -- how quickly they are able to turn around projects and get things done.

So, that's the end of the formal presentation. Jonathan, do you have some questions?

QUESTIONS AND ANSWERS

Jonathan Johnson - *Overstock.com, Inc. - President*

Yes, there's a couple questions that have been sent in, both from Glenn at Alsin Capital. Let me address -- say the first one.

He says, I applaud you for managing the business around contribution dollar growth rather than sales growth and not chasing low-quality sales during the holiday season. Does management have a sense of how the industry did for contribution dollar growth in 2010? And is your 17% year-over-year growth in contribution dollars above, below, in line with the industry? Steve, do you have --

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Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

Yes, we haven't pulled a bunch of data around this, but the sense is that the industry in total for the year grew somewhere around, what, 10%, 11%, 12% on the top line. And I would suspect that contribution probably grew somewhat in line with where revenues grew. So, us growing 17%, my sense is that we are above the industry.

Jonathan Johnson - *Overstock.com, Inc. - President*

All right. And the next question -- and Patrick, maybe you could field this one -- please update us on the international business. In the 10-K, it represents less than 1% of total sales. And I would have thought after two-plus years, non-US sales would be significantly higher than $9.4 million.

Where do you expect this business to be in three to five years in terms of sales, overall internal commitments, etc.?

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Well, I'm not going to throw out a number in terms of what I think the revenue should be in three to five years. But what I can say is, you will have noticed that we've introduced O.co as our shortcut in the US. It's actually become our brand internationally. And international visitors, that's what they -- and that's largely because it's going to be a lot easier to teach 5 billion non-native English speakers O.co than it is to teach them Overstock.com. And so O.co and everything you see us doing with that, a lot of that has to do with the international side.

Currently, our international business amounts to us taking our products that are in the US and shipping them to Peru or to Singapore or to France. Of course, the logistics costs are problematic by doing that. It's still a good enough deal for some people, but we have not invested in warehouses or anything in other countries.

I think you will see -- so we have seen so far in international, just be a system of getting our toe in the water -- getting our toe in the water, spreading our brand, doing some online advertising, doing very little offline advertising. We did some experimental offline advertising in a few places, a few countries. But it's really just getting our toe in the water until we get our logistics systems right, so we can handle and it can bring the efficiencies we think we bring to the market in the United States -- it can bring those same efficiencies to other countries.

So until we get that right, you won't see this really take off. But we do -- we have -- we are switching suppliers on our international logistics. Can I say what we are doing there? It goes live tomorrow, I think.

Jonathan Johnson - *Overstock.com, Inc. - President*

Yes.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

DHL. We have a very nice deal has emerged with DHL, and I believe that goes live tomorrow, or at least this week, that will help us significantly on our international freight costs.

And so I wouldn't expect this to be a big driver of the business anytime in the next few years. It's more we are just out there seeding some territory. And we've picked some territories -- we've picked some areas we think we can compete. And we are doing the -- we're making the necessary improvements in our supply chain that we will be able to bring the savings to those territories that we do to the US. But I wouldn't see in the next three years -- expect this to really move the needle on our top line.

Jonathan Johnson - *Overstock.com, Inc. - President*

Chanel, if there are other folks that want to ask questions, we are ready to answer them.

Operator

(Operator Instructions). Nat Schindler, Bank of America-Merrill Lynch.

Nat Schindler - *BofA Merrill Lynch - Analyst*

A couple questions. I'm wondering if you could help me try to reconcile what your normalized G&A expenses are at this point for the fourth quarter. I understand you had $4.5 million in legal settlement, so I could back that out. But there's also the issue that you had in the last quarter and probably -- and to a degree this quarter, the decrease in bonuses. And is this the normal level of where bonuses should be, or is this things were pulled back because you didn't get what you wanted, but next year you're going to have to pay that?

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Well, unlike -- hello, Nat, Patrick here -- unlike many companies, when we don't hit our targets, we don't pay big bonuses. And our executives -- well, Jonathan, how much (multiple speakers)?

Jonathan Johnson - *Overstock.com, Inc. - President*

Yes, let me just comment on this. We bonus -- in 2010, we had a bonus that was against our internal plan. And during the year, as we were meeting plan, we accrued toward that plan. And in the third quarter and in the fourth quarter, when we fell away from our internal plan, we wound up not accruing and taking some of that money back.

We will always have a bonus plan in place, and we will accrue toward it as we are performing. You know, I would say that under our plan, our executive team earned a small bonus. But when they saw what it was, came to Patrick and me and said, we think that bonus should go to the Company pool. And so rather than lead by greeding, I think our executives led by leading.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Right. And so they decided to forgo the bonus and put that money -- which is the kind of executive team we have here -- they decided to forgo the bonus, and the money went into the employee pool.

There is the -- both years had an expense related to settlement of legal matters that was a reduction in G&A. On the other hand, when you think of normalizing it, you think, well, that might not be there once the lawsuits are over. On the other hand, there's also costs associated with the lawsuit that we are picking up and that will also go away when the lawsuits are no longer over. So you've got to -- Jonathan might want to fill in some -- any details.

Jonathan Johnson - *Overstock.com, Inc. - President*

Yes, we are scheduled to go to trial in our suit against the Prime Brokers, and that's where the settlement came in December. But the remaining Prime Brokers were scheduled to go to trial on December 5 of 2011. So we will have expenses associated with that litigation and up and through trial, but we think it's the right thing to do.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

We think it's the right thing to do. I also think -- you know, we are down to the two -- I feel like -- three, I'm sorry. Well, you count Bank of America --

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Jonathan Johnson - *Overstock.com, Inc. - President*

Yes, I mean, there's three defendants left. There's Goldman Sachs, there's Merrill Lynch and Merrill's parent, Bank of America.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

if you've ever read Den of Thieves by Stewart and Giuliani, who goes after first the guys at the bottom of the food chain, and crunches them up and moves away from the krill up to the really bad players, that's pretty much been this strategy. We've gone through Gradient and Rocker and --

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Jonathan Johnson - *Overstock.com, Inc. - President*

Some prime brokers.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Some other -- six or seven other prime brokers. And now we've got the main event and it's December 5, coming up, and I think that's going to be quite an interesting trial.

So, you know, when you back out our -- the settlement of legal matters, you've also got to remember, there is expense in there that should also stop at the end of this year once that trial is over.

And bonuses, if we have a better year in 2011 than we did in 2010, yes, you will see the bonuses go up. I don't expect the executives to forgo their bonus every year, but again, I didn't mention this at all. They came to me and volunteered it. So --

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Nat Schindler - *BofA Merrill Lynch - Analyst*

Okay. Well, then, the other question, as you look at your technology spend, and it grew I think something like 15% -- no, sorry, 11% year over year -- and this year is the first in quite a few where your depreciation didn't overwhelm your CapEx. So you shouldn't be having a benefit of the decline in depreciation going forward and really didn't have it in this year. And then additionally, you had employee growth of 32%.

I'm just trying to reconcile a little bit of that versus -- and then I could assume a lot of those employees might be in G&A as well, and that didn't grow enough to account for that 32% growth.

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

Yes, so maybe the simple way to think about it is, you take Q4 as a baseline, so obviously you've got to adjust out the legal settlement of $4.5 million. That's a good baseline for thinking. And then you have to acknowledge, we're going to continue to grow the tech area in the form of software developers. I think with that, that should get you somewhere in the ballpark.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Okay. Okay, just working on that. Okay. And I think that's all I've got -- well, one final question. On your marketing spend, it came in at 4.9%. I understand that you guys do this off of probably a non-GAAP basis of looking at your actual total sales and the like, and not versus your GAAP revenue, but in the past, you have said you thought 5% to 6% was kind of the marketing bogey you're going to look for.

And as you looked at this quarter, in the revenue, I can see when marketing efficiency goes up a lot because the denominator is a lot higher than people think, i.e., you get more sales. But at 8% growth, I don't think this was blowing out your plan. So when you looked at it midquarter, where you were, did you just decide you didn't need to do the spending, or is the spending not -- wasn't incrementally valuable at that point?

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Well, we decided not to chase it. We did see where sales were -- although, actually, it was quite surprising. It got, as I think I've said publicly, it really got very soft for us on around December 20 or so. We were doing -- but, no, we decided -- Jonathan, how would you characterize the decision process?

Jonathan Johnson - *Overstock.com, Inc. - President*

Well, I think it was to focus on the contribution. And so that meant pulling off some of the marketing and focusing on more profitable marketing channels than others. And so, when we spoke at the third-quarter conference call, we acknowledged that we had missed contribution and that that was going to be our focus in the fourth quarter.

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

Then into the third quarter, as we talked about that contribution, we talked about we were gunning the marketing side in order to get the traffic coming so that we could take advantage of that in the fourth quarter. And I think this deceleration slightly was in part to acknowledge that we were trying to pull the consumer in earlier to get them ready to buy into the fourth quarter.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

That was part of it. The plan was hitting harder a little bit earlier this year and then -- and less aggressively at the very end.

I would also say on the -- I've said 5% to 6%, and you're right. That is -- when I've said 5% to 6%, I had been talking about our internal number, which is different than GAAP. And we measure things what I think of as a more economic basis. And it's about a point to a point and -- 100 to 150 basis points -- 100 basis points higher than GAAP.

So to say that we can get to 5% or 6% on that basis really means that, yes, I think that we can get this down into the 4.5% range, perhaps, on a GAAP basis going forward. And again, that's not a quarter-to-quarter kind of number, but -- so when I say 5% to 6% internally, that would translate into, let's say, something under 5% on a GAAP basis, on an annual GAAP basis.

However, there is some sentiment that that -- even there is some sentiment inside the Company that that isn't what we should do, that now that we have sort of the model and it's spitting out cash and so forth, that we might want to lean a little bit heavier on the accelerator. But I think that we want to make gentle adjustments and continue learning as we go.

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

Yes, and again, this year, we did 5.6% on an annual basis. So I would expect coming to 2011, don't see a lot of big changes in that.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Yes, but I would think of it as going -- more likely to go down than up.

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

Yes, absolutely.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Okay. One final, quick thing. Obviously, the news out of The Wall Street Journal about Google's changes and really coming down on the SEO tactics, how significant is this hit, and how much of your revenue were you really getting from organic search results on Google or from -- you know?

Steve Chesnut - *Overstock.com, Inc. - SVP of Finance*

Yes, Nat, one of the things we've put in the 10-K was a disclosure around that. And we guesstimated that during the time of the penalty that we would see about a 5% hit to our -- or the top line would be the 5% hit to our revenues.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

However, it represents higher than a 5% to the contribution number, because it's inexpensive revenue. However -- and I don't -- you know, Google has the right to do whatever they want to do in terms of how they tighten or loosen the rules.

We thought we were doing something just -- it was an open technique, openly encouraged, that various people in the SEO community used to have folks in universities, faculty and students, to link to you. And we weren't making any attempts to hide it or anything. We do understand, and even more today, it does look that Google is going to tighten up on SEO practices in general.

There's black-hat techniques and white-hat techniques, and there's things that I would say were understood to be maybe in a bit of a no man's land. And the word is definitely coming through, and around the community, that they are going to become much more stark about defining -- there's going to be less gray.

So -- and I guess that's a good thing. As long as it's clear what -- we can live within whatever the rules are, as long as it's clear what the rules are and all retailers have to live within the same rules.

We've had a lot of efforts in the last few years to develop, where it's now -- what is it -- there's a new term that we've decided to switch to -- digital assets optimization as opposed to SEO.

SEO is starting to acquire the -- search engine optimization is obviously starting to acquire the sense of maybe being manipulative. And so we are actually -- I mean, that's just sort of inside baseball within the community, and the right term is digital assets optimization. And that's where we've -- we have focused a lot in the last three years.

You know, Google has an interest in having people figure out ways to tell Google what's on their page. So you can do all kinds of things that make it easier for Google to understand what you are about. And we do all of those things, and we thought that dealing with -- you know, offering faculty and students the chance to put up links and get a discount was okay. But Google has made clear that it's not, and we are cleaning everything out that they could possibly have a question about.

And like I say, we are comfortable with any set of rules they want to articulate, as long as they are clear what the rules are and they get enforced evenly across us and all our competitors.

Jonathan Johnson - *Overstock.com, Inc. - President*

Yes, I think clarity is always better for us. We've got a good site. It works well in Google. And so Google feeds on it and then spots come and look at us. So the more clear the rules are so that the competition is always equal among those that we are competing against, we think we will do well.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

It's a little bit like the evolution of common law in some ways, as opposed to -- Jonathan is a lawyer here, so I'm just --

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Jonathan Johnson - *Overstock.com, Inc. - President*

Yes, sure, sure. It's just -- and as Google clarifies what its guidelines mean, and people react to it, it makes the rules more clear. And we will continue to compete, and compete well there. We would like to get out of the penalty box quickly, though.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Yes.

Nat Schindler - *BofA Merrill Lynch - Analyst*

How long is the penalty box?

Jonathan Johnson - *Overstock.com, Inc. - President*

Well, it's unclear. It's probably two weeks to 30 days.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

But we shouldn't even say that. It has been -- I mean, Google is very close-mouthed, and no complaints, again, but with the whole industry, they are very -- there is a real church-and-state separation within Google between the natural search people and everybody that they do business with.

So we don't really have a good answer to that. And four years ago, they did this to BMW, and it was a week. But they've done it to other people since then, and it has been a month or longer. So I think that even a guess of two to four weeks is conjecture, but --

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Nat Schindler - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you.

Operator

Timothy Staley, First Western Advisors.

Timothy Staley - *First Western Advisors - Analyst*

Gentlemen, congratulations on a strong 2010.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Thank you, Tim.

Timothy Staley - *First Western Advisors - Analyst*

I wanted to kind of see if you would elaborate on the O.co brand that you had mentioned, Patrick, being an international driver, but yet you've started a media campaign domestically. Are you trying to increase that brand domestically as much as Overstock, or what are your intentions?

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Well, I think we are just going to let this evolve as far as the consumers want it to evolve. Yes, we are -- we have put it in our TV commercials. We are telling people we will give you free shipping if you come on O.co. But we are just going to let it evolve where it wants to evolve.

It may become 2% of our traffic, it may become 20%; I don't know. Well, in fact, we've only started it four or five weeks ago, so we haven't -- I'm surprised at how many people -- I'm surprised at how many people are mentioning it to me, though, across the country. I happen to have been traveling over the last month, and I was just surprised at how people have picked up on it and are mentioning O.co and such. It seems to be sticking in people's minds.

Jonathan?

Jonathan Johnson - *Overstock.com, Inc. - President*

I think that's all I'd say. We will see how it progresses, and we will use that.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

Okay. Chanel?

Jonathan Johnson - *Overstock.com, Inc. - President*

Chanel, any other questions?

Operator

There are no further questions at this time.

Jonathan Johnson - *Overstock.com, Inc. - President*

Great. Well, then, we thank those that joined. Thanks to all of our owners for having trust in us. And we're going to go back to work and use the capital well.

Patrick Byrne - *Overstock.com, Inc. - Chairman and CEO*

We've got nice things coming. I look forward to talking to people at the next -- well, at the shareholders' meeting.

Jonathan Johnson - *Overstock.com, Inc. - President*

Right. Thank you very much. Bye-bye.

Operator

This concludes today's earnings call. You may now disconnect.