Tremor Video, Inc.
Second Quarter 2013 Earnings Conference Call
August 8, 2013

Operator: Good day, everyone, and welcome to the Tremor Video Second Quarter 2013 Earnings Conference Call. Today's call is being recorded.

At this time, I'd like to turn the conference over to Denise Garcia, Investor Relations. Please go ahead, ma'am.

Denise Garcia: Good afternoon and welcome to Tremor Video's Second Quarter 2013 Earnings Call. Joining me today to discuss our results are Bill Day, President and CEO and Todd Sloan, CFO.

Before we begin, I'd like to take this opportunity to remind you that during the course of this call management will make forward-looking statements which are subject to various risks and uncertainties. Actual results and the timing of certain events may differ materially from the results or timing predicted or implied by such forward-looking statements and reported results should not be considered as an indication of future performance. Further information regarding the factors that could affect the Company's financial results is included in filings it makes with the Securities and Exchange Commission from time to time, including the section entitled "Risk Factors" and the Company's prospectus filed with the SEC on June 27th, 2013.

Also I'd like to remind you that during the course of this conference call we will discuss non-GAAP measures in talking about the Company's performance. Reconciliation to the most directly comparable GAAP financial measures are provided in the tables in the press release. This conference call is also being broadcast on the internet and is available through the Investor Relations section of the Tremor Video website.

And now I'll turn the call over to Bill Day, Tremor Video's President and CEO.

Bill Day: Thanks, Denise, and thank you, everyone, for joining us. Welcome to our first public earnings call to review second quarter 2013 results. As you may know, Todd and I have run public companies before, so it feels great to be back reporting strong results to investors. Today, I'll discuss our second quarter results and provide an update on our business and growth strategies. Then I'll turn the call over to Todd who'll discuss our financial results in more detail, after that we'll open the call to your questions.

We had a very strong quarter. We closed the second quarter with a record $35.5 million in revenue, up 41% from the same quarter last year. Adjusted EBITDA was also a record $2 million compared to an adjusted EBITDA loss of $2.5 million in the second quarter 2012. Our focus on brand performance for online video is increasingly resonating with buyers and that had positive financial impact in Q2. As we are a newly public company, I'll spend some extra time on our first few calls explaining how our financial results tie to our business strategy.

While we focus on revenue growth, we are fundamentally keyed in to the quality of revenue and the client relationship development that best positions us for the long term. It pervades all that we do everyday. We define quality from the perspective of marketers who launch, build and protect their brands with advertising. The gold standard for quality brand advertising has been the TV commercial but the TV marketers' job is much harder today than it was 20 years ago. Tremor Video delivers quality by incorporating that power of great TV advertising with the best capabilities of digital. By doing so, we increase consumer engagement and measure performance in ways that strongly complement TV. It's a win-win for brand marketers. Quality of revenue leverages our technology to deliver superior brand performance, places high value on our 200 plus exclusive premium content partners, values our transparent business relationship with clients and recognizes our customer service centric selling efforts. These distinguishing factors are becoming synonymous with Tremor Video.

In the evolving video landscape, not every online or mobile media buyer currently seeks quality, and much of the buying and selling in video is currently not transparent. We don't chase every ad dollar - that's not our mission. We believe strongly that as the industry grows many current buyers will want to upgrade the quality of their buy, the placement, measurable brand performance, transparency, or all three, and we will be the go-to partner to work with them to get there as we are with many buyers who are already fully onboard. This is a very different way for an online media company to act carefully selecting its spots. This has worked well for TV for years and we are building for the long term. We believe this strategy allows us to develop the deepest direct relationships with key buyers of being focused on their needs. We believe that this strategy is its friendliest to TV buyers whose budgets increasingly run an online video. And finally, we believe that our strategy will best differentiate us competitively.

Our focus on in-stream video and the elimination of in-banner video advertising is a great example of how we execute on the quality strategy. In 2011, we made the decision to focus entirely on in-stream video - the format brand advertisers want. And our in-stream revenue grew 45% year-over-year in the second quarter. So it's clear that marketers are buying into our plan. Today, I'm pleased to report that nearly all, 99% plus, of our media revenue in Q2 was in-stream. In fact, we just wrapped up our last in-banner campaign in early July. That's it. We did this because in-stream video works much better than in-banner video and display ads with respect to demonstrable brand impact that our clients care about. I'll say this a few times in the conversation today. If you want to learn more, we've set up a Resource Center on our IR website you can visit for more details on that.

We understand why others don't follow. It's really hard. In-stream is more technically challenging, inventory is harder to acquire as it isn't limitless like display, and that's why we focused on premium and often exclusive content relationships. We continue to believe that video ad companies that tout branding, yet do not declare, and frankly, prove that they are 100% in-stream focused are suspect. This sort of dedication of serving our clients is paying off. For example, entertainment marketers put a big premium on big, beautiful, front-and-center ad environments that we deliver for them. As a result, our in-stream revenue for that key vertical was up 124% in Q2 2013 versus Q2 2012.

Another great example of our quality strategy is the placement of the ad itself, where the ad runs and how viewable it is on the screen. Our focus on delivering the best plan performance for our clients includes the placement of their ads into premium environments. We are privileged to work with many of the highest quality content sites, over 500 of them. In total, over 200 on an exclusive basis as we ended the second quarter.

We continue to add exclusive partners to our roster. In Q2 we added Inked Magazine and Crunchyroll and renewed TechMediaNetwork. We also renewed our non-exclusive relationship with ABC News. Structuring, signing and renewing these exclusive and premium partnerships is not simple. It's one of our unique strengths. Any company can work with non-premium content and say, "Hey, it's the algorithm or third party data that matters, not the quality of the placement." We know this does not resonate with brand marketers. Again, think about what's friendliest to TV buyers, the TV budgets increasingly run an online video. Some clients are more accepting than others when it comes to non-premium content or a user-generated video. Others absolutely won't or can't be (inaudible) but understand clearly that no client prefers it as their first choice. We believe that our premium and exclusive content agreements combined with our technology set Tremor Video up far apart from the competition.

Final example of our focus on quality is our evangelism of performance-based buying for in-stream video. This simply means that our technology is so strong in predicting brand metrics, such as engagement or video completion, that we're able to build clients only when we deliver these results. When we do that, the end result is a deeper, more strategic relationship that we believe feeds future buy and scalability. I think it's analogous to how cost-per-click fueled the adoption and growth of online search. We pioneered this method of pricing for in-stream video and we believe that we're the only ones that offer performance-based pricing for mobile video. Guaranteeing brand results is a key aptitude of Tremor Video. Not only does this pricing structure align our interest with those of our advertising partners, the performance-based pricing also expands our gross margin by leveraging our powerful technology. During the second quarter, we grew performance-based pricing at 33% of total revenue from 20% of revenue in Q2 2012.

Fueling our ability to drive quality is our technology. VideoHub is recognized as a leading tool for providing our clients with insight into brand performance to complement the panel data that it traditionally receives from companies like Nielsen. Specifically, online video analytics can address advertisers' fundamental questions around their TV advertising. Not simply, was the ad delivered, but also did it work, and most importantly, why it worked in the language that brand marketers most care about. VideoHub is the anti-blackbox for streaming online video. We are completely transparent and honest about where ads run, like TV, but we also provide a level of transparency into ad performance that TV can't, making us the perfect complement to TV. Again, if you want to learn more, visit the Resource Center on our IR website for this and other examples of VideoHub in action.

We strongly believe that technology will be a key driver that helps scale future video spending and determines who wins and loses, much like it did on online search. But it's not about jargon, acronyms or technology for technology sake. We believe that investors should focus on the proven outcomes of how technology is applied, ideally with the proof being in the financial statements. Thirty four percent of all our revenue this year is performance-based buying so far. That's a strong proof point. Just this quarter we worked with Nintendo to build out the kind of interactive experiences that consumers would expect from a video game leader. The campaign ran across online and mobile devices. Consumers who engaged spent an incremental 40 seconds on top of the 30 second TV ad. Doubling the time spent with a TV ad is a strong proof point.

Our growing platform licensing business where professionals whose full time job it is to assess technology choose to put their business in our hands. That's an incredibly strong proof point. In Q2, we added both Viacom and Centro to the list of enterprise clients that are licensing our VHA platform for their video analytics. In addition, I'm happy to say that paid VHA impressions grew almost three times versus Q2 2012. Also, during the quarter, we were credited by the Media Ratings Council, the MRC, for five metrics that helped clients measure the accuracy and effectiveness of digital video advertising. We're the first company to receive MRC accreditation specifically for digital video average viewability. A VHA license now offers clients the ability to track and rank average viewability across all of their placements. Furthermore, our proprietary effective quality, or EQ score, allows them to compare all video placements and optimize their spend around in-stream brand performance. One last time, if you want to learn more, there's more information on our IR website.

In addition, we launched a suite of creative tools to address the growing demand by advertisers for an easy way to build one interactive campaign, run it anywhere, not just on the Tremor Video network and return back comparative analytics. No one else offers such a robust end-to-end analytics solution in the marketplace. These enhancements to our platform further strengthen our value proposition to licensing clients.

Turning to innovation and ad buying, we've gone on record stating that we believe that as video evolves programmatic buying will join performance-based buying as the two large disrupters of how traditional video, television, is purchased. As we have shown, in-stream performance-based buying is (inaudible). Comparatively, it's the early days for programmatic video buying, but we believe that programmatic will grow as spending scales. However, for programmatic to work in premium online video, it must be informed by brand performance built around the transparency and brand metrics; not around clicks and simple impressions that power programmatic for online display. Let's remember that at its root level programmatic or premium is only as smart as the brand performance insight that informs it. For example, questions like: "What should I bid for a likely engager with my brand message?" We firmly believe that clients want to understand what works before they can ramp up in-stream programmatic video buying. And that's what VideoHub does today.

Our leadership and brand performance, analytics and growing enterprise license business positions us strongly to be a leading player in programmatic video buying for brand performance. This is what premium programmatic means to us. As this quarter demonstrates, we continue to grow by developing innovative solutions that improve the transparency and enhance the effectiveness of online video advertising, attracting new advertisers and premium publisher partners to our platform. We are very excited about our core business and believe we have a long runway for future growth. For the remainder of the call, I'd like to focus my comments specifically on mobile, a key component of our growth strategy.

Based on the adoption of mobile devices, we believe that the terms 'video' and 'mobile' will be interchangeable faster than many people think. Note that U.S. ownership of smartphones just crossed 50% in the last month and continues to grow rapidly. And tablets in many ways are ideal video viewing devices. It's no surprise then that eMarketers expects mobile video to be a $2 billion market in the U.S. in 2016. Our mobile results in Q2 underscore that fast growth in mobile video. Mobile was 13% of revenue in the second quarter of 2013, up from 4% for the second quarter of last year. And we're investing in building strong content partnerships in mobile to mirror those that we offer in online video. In Q2, WWE, Comcast SportsNet, Bonnier (ph) and

CBS Television Distribution, all extended their existing exclusive online partnerships with us to include mobile video. We know that buyers want a complete video ad solution, buying, optimizing analytics across all screens, and therefore we see mobile as core to our business.

We offer an all-screen approach today and continue to invest to perfect that as video content moves across devices. For example, we believe that we're the only ones that offer performance-based buying options in mobile. Mobile buyers can choose to buy on an engagement basis, or CPE, where they pay us only when the viewer taps or swipes on the ad. We believe that this is the perfect way to buy mobile and guarantee the ad made an impact. Adoption of CPE for mobile video is ramping faster than it has for online video for us. It's one of the factors driving our strong mobile monetization performance. Our mobile CPMs continue to be at parity with online CPMs. This allows us to confidently act as mobile video strategists for our clients so that together we play offense rather than being defensive like many other companies struggling with mobile monetization.

And when I say all-screens, that term increasingly includes connected TVs. We recently announced our partnership with VidZone, a streaming music service which launched on the PlayStation in the U.S. in July. We're confident that Tremor Video will extend its leadership by continuing to leverage mobile video and connected TV.

In summary, our Q2 results show that there's much to be excited about at Tremor Video. We continue to be a leader in the online video market with a focus on brand performance technology and solutions, premium content partnerships and transparency via VideoHub. Our focus on quality of revenue is leading to a stronger competitive differentiation in the market and growing recognition of our leadership. I'm a big believer that investors should follow the path of greatest logic. Ask yourself, will TV buyers spend big money in non-premium inventory without supporting brand metrics and invest heavily in the opaque blackbox that is typically associated with digital ads? The answer is an emphatic no.

With that, I'll turn the call over to Todd who will take you through this quarter's financial results in more detail. Todd.

Todd Sloan: Thanks, Bill, and thanks, everyone, for listening in as we share our Q2 highlights and financial results.

Our Q2 results included record quarterly revenue of 35.5 million, an increase of 41% compared to 25.2 million in Q2 last year. We emphasized a few things during our road show that are reflected in our Q2 results. We have shifted our efforts almost entirely to in-stream advertising which increased 46% year-over-year, now representing 99% of total media revenue.

Our performance-based pricing models continue to gain favor in the market and make up 34% of our Q2 revenue, an increase of 138% over Q2 last year. There was strong growth in our mobile offerings, as mobile revenue increased 317% year-over-year, now representing 13% of our total revenue. And there was further adoption of our VideoHub license offerings, as revenue from licensing for the quarter was up 109% from Q2 last year. With the continued adoption of our technology suite, our performance-based pricing models operating in premium content environments and powered by our optimizing technology, we have seen gross margins expand from 40.6% in Q2 last year to 46.5% in Q2 this year.

We also had a record quarterly adjusted EBITDA of 2 million in Q2 or a 5.6% operating margin compared to an adjusted EBITDA loss of 2.5 million in Q2 last year. Net loss was 300,000 as compared to a net loss of 4.8 million in the second quarter of 2012.

For the second quarter of this year, GAAP basic and diluted net loss per share was $0.04 compared to a loss of $0.65 in Q2 last year. Non-GAAP basic and diluted adjusted EBITDA per share was $0.26 and $0.05, respectively. GAAP basic and net loss per share is based on 7.8 million weighted average shares of common stock outstanding as of Q2 of this year. Non-GAAP basic and diluted adjusted EBITDA per share is based on 7.8 million and 44.6 million weighted average shares of common stock outstanding as of Q2 this year, respectively.

There are certain operating metrics that underpin some of our financial results, and to highlight a few. Our media revenue is influenced by impression volume and we did see impression volume increase by 21% in Q2 this year versus last year. We also saw effective CPMs increase by 15% in Q2 this year versus last year. And we saw impression volume in our licensing business grow 349% as we have continued to see further adoption in the marketplace.

Now I would like to discuss some of our operating expense metrics. As our business matures, the model is beginning to show operating leverage and operating expense as a percent of revenue is declining. As I mentioned earlier, gross margins increased from 40.6% in Q2 last year to 46.5% in Q2 this year. This was driven by the adoption of our full technology suite. The inverse of that is our cost of revenue is 53.5% of total revenue compared to 59.4% for the prior-year period. Both of these improvements were driven primarily by increased adoption of performance-based pricing models. Historically, performance-based pricing models have offered higher gross margins than traditional CPM campaigns.

Total operating expense including stock-based compensation was 16.7 million for the quarter or 47% of revenue as compared to 14.9 million or 59% of revenue in the same period last year. Notably, sales and marketing cost decreased as a percentage of revenue from 35% of revenue in Q2 last year to 28% of revenue this year or 9.9 million.

G&A expense decreased 9.8% over the same quarter in the prior year from 2.7 million to 2.5 million. But we do expect these costs to increase in the second half of the year primarily due to costs associated with our transition to being a public company.

Because our IPO actually closed on July 2nd, which was following the end of the second quarter, all of our preferred stock converted to common stock at the closing of the IPO as well as the issuance of 7.5 million shares in the IPO, we thought it would be helpful to include in our earnings release a pro forma net loss per share and a pro forma balance sheet at June 30th, 2013 as if the preferred stock had converted at the beginning of the quarter and we had received the net proceeds from the IPO as of June 30th. This will give you a more meaningful measure of comparison for subsequent quarters.

On a pro forma basis, basic and diluted earnings per share or EPS would be $0.32. This pro forma EPS amount includes a one-time non-recurring, non-cash preferred stock dividend expense of 15.9 million which was incurred in connection with the conversion of certain series of preferred stock. The pro forma basic and diluted EPS calculation for the second quarter of 2013 is based on 49.4 million weighted average common shares outstanding.

As of Q2 this year, we had approximately 263 employees, increasing 11% from 236 a year ago, and from 252 at year-end 2012. This is consistent with our hiring plans as we continue to invest in our product, technology and licensing teams.

We ended the second quarter with 32.7 million in cash, cash equivalents and short-term investments compared to 32.8 million in the end of the prior quarter. On a pro forma basis, including cash from our IPO that closed on July 2nd, the balance of cash, cash equivalents and short-term investments for Q2 2013 would be 102.5 million, as reflected in our pro forma balance sheet included in today's press release.

I would like to finish our call with our thoughts regarding financial expectations for the third quarter and full year 2013.

For the third quarter we expect revenue within the range of 35.5 to 36.5 million, with non-GAAP adjusted EBITDA in the range of 100 to 600,000. Basic share count is estimated to be 49.6 million for the third quarter and takes into account the 7.5 million shares sold at our IPO as well as the conversion of our preferred stock into common shares. For the full year 2013, we expect revenue within the range of 133.7 to 135.7 million. We expect non-GAAP adjusted EBITDA for the year to be in the range of 100 to 1 million. Basic share count is estimated to be 49.7 million for the full year.

In summary, we're off to a strong start as a public company and we've just begun to ramp our growth opportunities while remaining a leader in online video. We're excited about our future and we look forward to a long and productive relationship with our analysts and investors.

Thank you for joining us today. We will now open the line to your questions. Operator?

Operator: Thank you, sir. If you would like to ask a question at this time, please signal by pressing star, one on your telephone keypad. If you are using a speakerphone today, please make sure your mute function has been turned off or pick up your handset to ensure that our equipment can hear your signal. Again, that is star, one for any questions.

And we'll take our first question from Stephen Ju from Credit Suisse.

Stephen Ju: Congratulations, guys, on a well-executed quarter. So, Bill, you undoubtedly saw that one of your competitors got acquired yesterday and one of the things that they highlighted is the availability of programmatic buying for online video in that platform. You'd touched on VideoHub as a necessary toolset for budget deployment but will you give us some more details on what you have as a competitive offering? Secondarily, what do you think happens to the overall ad dollars being deployed in online video with increased programmatic buying opportunity that presumably this helps to close the gap on the unsold inventory? Thanks.

Bill Day: Yes, great. So thanks, Stephen. I think it's worth stepping back and if we're going to (inaudible) programmatic a little bit more and just talking about what programmatic means. I mean programmatic in our mind means really automating all of these things, planning, targeting, measuring, optimizing, buying, everything, and frankly we think in some ways buying is the easiest part. We think analytics and optimization are harder. We're the leader in these areas and all those areas are fully automated, by the way, with us, so we're largely programmatic right now. That's what VideoHub does across again, targeting, measuring, optimize. The only part we don't do on a fully automated basis right now is buying yet, and so I think we've been clear in saying that, you know, it's in our product path and it's something that we see is in our aptitude and clearly it's—and I want to be clear, I'd said it in the script and I'll say it again, clearly we buy into the fact that programmatic is part of where the industry is going. You know, I think that's part of what Tim talked about yesterday with the AdaptTV news.

So we fully believe that programmatic and premium will work together. It's is not an immediate thing, so it's not like we're behind, frankly. We believe the (inaudible) about a video that's being done programmatically right now is not premium and probably not in-stream. So Hulu isn't programmatic, our exclusives aren't programmatic right now. We're two of the biggest streaming players for premium video. So most programmatic right now is non-premium and probably in-banner. So we're taking and working our brand analytics lead and connecting it more to buying directly going from, if you think about, informing the buyers, which we do right now with VHA, the people who license our VHA product, the power in buying. And the key thing again is that the game is changing. The currency isn't clicks, it isn't impressions. The currency changes we believe when you're talking about premium and brand spend to things like engagement and brand lift and completion rates and things that matter to brand marketers. That's our focus from a programmatic standpoint.

So I think finally I think we have a sizable advantage doing this. As I said, we know brand analytics best and that's really the data on what to buy and how to sell, that's what we've been doing for now years. The deep relations by our media business right now and growing licensing relations via the VHA product that we have and to the extent that we don't have embedded trading desk relations at this time we think they can be quickly influenced by what we can bring to the table. And so that's our focus on executing (inaudible). We don't have any product announced at this moment but you can sort of tell from what I'm saying where we're going.

(Inaudible) what does it mean in terms of online video? I think it's all good. I mean one of the issues with online video, and again I'll shout out to Tim because I agree 100% talking about going from bulk buying to a more fine (ph) buying driven by programmatic, digital video in some ways is too hard to buy right now compared to television, and so for digital video to scale as fast as everyone wants there have to be programmatic tools that allow people to spend money and in video the way they can spend money in television. And so programmatic's not 100% of the solution there but programmatic is a key part of the solution to doing that.

Stephen Ju: Thank you.

Operator: And we'll take our next question from Brian Pitz with Jefferies.

Brian Pitz: Great. Thanks, guys. Congrats on a good quarter. You've mentioned some of your recent renewals, can you talk about any material upcoming content partnership renewals? How would you compare your exclusive content relationships with others in the industry? And then separately, a question on CPE pricing. Do you think margins will go up or down over time?

And do you see other competitors in the marketplace with engagement pricing as their model? Thanks.

Bill Day: Thanks. I think I can handle some of that and Todd can jump in to sort of complete my statement, let's do it that way. From a content standpoint, partners standpoint, the way we manage these relationships is they're staggered. They don't have some sort of sunrise or major sunset so they play out over a period of time. We mentioned I think during the IPO road show that one of our bigger partners Viacom had renewed at the end of 2012 for a three-year period. So that's done already. And so there's nothing that's like out of the normal that's coming in the next period of time with respect to content partnership renewals. And then I'll leave Todd a chance in a minute to talk about margins and sort of looking forward in terms of CPE margins.

With respect to competitors, frankly, no. We've said in the past again that the biggest other player in performance-based buying is YouTube through their TrueView product, right, and it's actually I think a good situation that we have other people out there selling it. But to be really clear, TrueView is opt-out and our performance-based CPE and other products are opt-in and when you think about that or you talk to any marketer and ask the value of opt-in versus opt-out they'll tell you it's an order of magnitude difference, and so we feel like even against the TrueView product that exists in the market we're well positioned to continue to sell. We don't stand still. We continue to innovate and invest all the time in making sure that the products that we bring out are moving forward and getting better and better. A great example of that is mobile, right. So the CPE for mobile, our ability to take that sort of tap (inaudible) or a swipe and translate it into a pricing model, we don't see anyone else doing that right now and think we have a unique position doing that.

Todd, you may want to comment about the margin—on the margin question.

Todd Sloan: Yes. So, Brian, obviously you've seen our margins continue to expand and as we've talked about, you know, this is the entire suite of our technology that underpins this. We've gotten great adoption in the marketplace with this. So, you know, we definitely expect to continue to see the reasonable margin opportunity maintain itself. It's—you know, the product is valuable to the marketplace because when you think about it, you know, what's a more effective or a better return on investment than when advertisers only have to pay when consumers actually engage. So, you know, price points are holding strong, the product is continuing to get adoption and margin opportunity is pretty stable as far as what the future holds for us.

Brian Pitz: Great, thanks for the color.

Operator: We'll take our next question from Jason Helfstein with Oppenheimer & Company.

Jason Helfstein: Thanks, a few questions. So first two big picture ones. So can you just talk a little bit about—you know, you talked about transparency, I think you're highlighting kind of VideoHub and what advertisers can see through your products. But just are there other kind of solutions out there in the market where advertisers can see the transparency between the different platforms that you want to cite? And then secondarily, do you guys see any potential impact either positive or negative from Facebook getting into video ads, just general comment about that? And then just kind of just two housekeeping things. One, did political—just talk about the impact of political advertising, you know, on last year and does that create any comparison issues with the back half of this year? And then, Todd, can you just give us operating cash flow, cap ex and change in working capital? Thanks.

Bill Day: That's great, Jason. I'll attack the Facebook one first, I think it's kind of interesting. It's obviously really topical and people are studying because, you know, Facebook's a big player, so I think we, and you guys, everyone's got to take news from them really seriously. They can both shift the market in ways that are entirely good, in some ways they can frankly mesmerize the market in ways that are—where they can impact buying across a number of players. Our take is that for Facebook, as we study what they're doing, you know, watch what's going on, the new product in our mind is going to expand the online video (inaudible) faster. This isn't a zero-some game as the opportunity to bring in dollars from TV and print. I think it's a brilliant reach play in that that they can start to speak to demographics and size the audience that can really be attractive to the TV buyer but it's not a brand performance play but as a reach play. That's why we think you can move TV dollars into online video. The ads themselves are pretty display-centric, they're embedded in an environment where the viewers' not necessarily consuming video and that way it's a lot more like in-banner video and as we said we don't do in-banner video.

If I had to go out on a limb and say how I would see the immediate impact of them entering the market, it's probably impactful to other players in in-banner video. That's one of the reasons we got out of in-banner video. It's also not premium inventory and premium quality, so it's probably impactful more to guys who are of lower quality inventory. We do neither of those and as we said that's not our focus, so it's not something that's directly we think impactful. And as I said, to the extent that it brings TV dollars into the market, our feeling very strongly is that the TV dollars would come in based on reach and demographics and then we'll (inaudible) in a way feeds brand performance over time. It's not just about 'did it deliver' but 'did it work'. That's what we do so well. So, over time, and it's not necessarily immediately, but over time it could open up an opportunity and be a good thing for us, helping grow the overall size of the pie. I hope that was helpful with respect to the Facebook.

In terms of transparency in the market, there are other players. I think it's a general trend, so firstly I don't want to say that we're the only ones that stand for transparency. I'm delighted to say there are other companies out there who are working to do this. We do stand alone with respect to having an MRC accredited solution for video—streaming video viewability, so that's unique in the market right now, but there are other people that are in the validation space or the verification space. I think it's just a big, big trend and people lose track of this that, you know, digital has grown up based on direct response and the whole blackbox concept sold well to guys who were okay running wherever their ad can run as long as it hit their performance goal. And brand marketing is never operated that way and there's some things that innovation is great about but innovation isn't going to change brand marketers thinking differently on that subject. The transparency, and again, it's not just transparency on 'did my ad perform', but it's also where 'did I run'? I think it's going to be a super important theme in what's going on in digital over the next couple of years, and so we intend to be and we are I think a big player but happy to coexist with others in this space where we're trying to push the ball forward.

I think Todd's going to take the next two questions you asked about, politics and some of the financial questions.

Todd Sloan: Yes. So as it relates to political spend last year, there was a small amount, so it has, you know, from a comp perspective that wouldn't have—obviously not materialize this year. I don't want to talk about it. I don't think—it's not that material an amount but it's got a little amount that hit last year so we wouldn't have that in the year-over-year comparison.

On the other housekeeping item, so, you know, cap ex we're not, I think you've heard us talk about this, we're not a big cap ex spending company. You know, less than 2 million a year, in that range, and we're trending about that amount for the—you know, half of that amount for the first half of this year so about one point something million for the first half.

Operating cash flow, so we're actually at a positive operating cash flow going from Q1 to Q2 of a couple of hundred thousand. We are, as you can see, operating cash flow is mostly if you think about it it's pretty much EBITDA as it—and then affected by working capital change. So, you know, working capital is getting closer and closer to being a wash, so operating cash flow gets a little bit closer to being the EBITDA number. Just a little bit negative working capital, so.

Jason Helfstein: Okay, thank you.

Operator: And we'll take our next question from Michael Graham with Canaccord.

Michael Graham: Thanks. Hey, guys. Welcome back. I just want to ask two questions. First on the licensing business, can you talk about key milestones or things that you're looking for? As you manage that business, how will you be judging the success of its development over the next several quarters as it moves from a formative stage into something bigger? And then second one is, you know, you just had a strong quarter and your guidance of 19% growth for Q3 and 18.5% growth for Q4, seems a little on the conservative side given the big growth you just had. But can you just, you know, use that as a chance to talk about your philosophy about giving guidance and also how much does visibility you have sort of quarter to quarter? Thanks.

Bill Day: Yes, so I'll speak to this. So, thanks, Mike, I'll speak to the licensing part. I think, and I'll take it from the standpoint of you, you know, trying to understand the key levers for that part of the business. We did speak to the fact that we've got a great success (ph). Todd's talked about year-over-year growth. We spoke about two new clients licensing from us, Viacom and Centro. And I think that the key milestones really relate to client adoption, which we'll share with you as time goes on, you know, future wins from that standpoint, but more than client adoption it's really overall campaign adoption. So the number one metric that we look at from a licensing standpoint is really how embedded are we getting into the ecosystem, how many impressions are we servicing through our platform.

And so we reported a tremendous jump year-over-year in terms of the number of impressions serviced through our platform. That sometimes comes from new client addition, that sometimes comes from leveraging existing clients. Most of the clients we work with right now and have worked with for a while, there's a lot of opportunity to continue to grow our presence in their business, additional campaigns and brands to work with, and so we're focused on doing that. Beyond the sort of new product introduction we talked about, new creative capabilities, we talked about EQ and we'll have I think an ongoing stream of new products to strengthen that, we largely have a very, very strong product in-market and so it's about now just taking that product and selling it into new clients and driving adoption and as we do that quarterly we'll share with you those results so you can see that, see that part of the business grow.

Todd Sloan: Yes, so I'll take the guidance question, Mike. So, yes, we had a great quarter. We've had a great first half of the year. I think it's important to, and we have—we are bumping guidance just a slight bit there, but I think it's important to focus on year-over-year growth because quarters are bumpy, they're uneven because when you think about the different verticals we work with, whether it's entertainment, CPG, auto, they all have different marketing cycles and different product launches and so forth. So quarters can be lumpy from time to time but when you look at the full year guidance for the consolidated revenue, it's 28% year-over-year when you take the midpoint of the range. So that's our expectations for the full year. And then when you look at in-stream and you strip it out, then take the midpoint of the range it's actually 32% year-over-year growth. So, these are both numbers that are very much in line with the industry growth projection, so, you know, pretty comfortable with that. And I think you'll continue to see me guide in a similar fashion.

Michael Graham: Okay, cool. Thanks a lot and congrats on a great start.

Bill Day: Yes, I'm going to—you know, Mike, if you will bear with me one more minute, I'll add a little bit more perspective on what Todd said because I think it's important just to frame the conversation a little bit more to consider guidance and things like that. I mean right now our view is that you've got premium and non-premium video both growing, and to some extent the non-premium growth rate could be growing faster than premium at this time. And there are a number of factors that could be driving that, whether it's in-banner and sort of dollars that are being pulled from display dollars, the monetization of non-premium inventory, including user generated video that was hard to monetize before programmatic, so as I mentioned, programmatic's grown and it's predominantly grown in non-premium inventory so there's a sort of bump there going on. Lack of transparency, right, so people not realizing what they're buying, they're not—are really struggling in a way to understand sort of what to pay and how to value what they're buying versus other things. And so, and our view is that none of those (inaudible) drivers or what could be driving the growth of non-premium are really going to resonate with TV buyers.

So we focus on the quality side as you know on premium, premium performance, premium environment, so our view is that this going to be a flip, you know, and as video matures it connects more with the TV buying going on. The trend's going to reverse. The demand for a premium will actually increase dramatically as well as the supply, frankly, and transparency will be paramount and low quality prices will fall. So buyers will focus on brand metrics and, you know, they'll focus on demographics too but they'll focus on brand metrics. So our view is that we're positioned to grow strongly. But we're in a period (inaudible) digestion as buyers sort all this out, and so we're helping them navigate that and we'll benefit from the maturation of the space as that goes on.

Michael Graham: Okay. Thanks, Bill.

Operator: And thank you, everyone, for your questions. That does conclude today's conference. We thank you for your participation. Please have a great day.