Mandalay Digital Group, Inc.
Investor Update Conference Call
December 18, 2013

Operator: Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Mandalay Digital Group, Inc. Update Conference Call. During today's presentation, all participants will be in a listen-only mode. Following the presentation, the conference will be opened for questions. If you have a question, please press the star, followed by the one, on your touchtone phone. If you need Operator assistance at any time, please press the star, followed by the zero. If you are using a speakerphone today, you will need to lift the handset before making your selection.

I would now like to turn the conference over to John Mattio with Investor Relations with Mandalay Digital Group. Please go ahead.

John Mattio: Thanks, Operator, and welcome, everyone, to Mandalay Digital's Investor Update call. Online today is Mr. Peter Adderton, Mandalay's CEO; Bill Stone, CEO of Digital Turbine; and the Company's newly-appointed CFO, Jeff Klausner. For those who are unable to listen to the entire call, we'll have an audio replay that will be available for one week and a webcast replay effective for one year.

As a reminder, statements made on this call may contain forward-looking statements which are subject to risks and uncertainties and that Management may make additional statements in response to your questions. Therefore, the Company claims the protection from the Safe Harbor for forward-looking statements that is contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements related to the business of Mandalay Digital can be identified by common used forward-looking terminology, and those statements involve unknown risks and uncertainties, including all business-related risks that are more detailed in the Company's filings on Form 10-K, 10-Q, and 8-K with the SEC.

Now, I'd like to turn the call over to Peter Adderton, CEO of Mandalay Digital. Peter, the floor is yours.

Peter Adderton: Thanks, John. Good afternoon and thank you all for joining our call. You know, as promised back on our earnings call a few weeks ago, we’re back in front of you today to discuss and explain some of the underlying operating metrics of our business. In addition to our Digital Turbine business, we believe that the two material acquisitions of MIA and Logia are now integrated and getting real traction. We anticipate continuing growth in our meaningful business results and believe it's an appropriate time to convey the expectations on a go-forward basis and back them up with some more specific detail. We would like to break down for the investors some of the metrics (inaudible) to help explain our business. We appreciate the importance of clarity and transparency and would like for the investors to better comprehend our metrics and product offerings. Bill Stone, our COO, and Jeff Klausner, our new-appointed CFO, will shortly provide you with more details (inaudible).

But before I push the floor across to Jeff and Bill, I'd like to take a minute to reiterate the strength of our underlying business as evidenced by the six new international carrier partnerships we announced on the second earnings call—second quarter earnings call. Bill Stone will provide more specifics on these (inaudible) new carriers, but for now it's important to highlight and bring to your attention the global trend in the market which we are confident will feed the demand for Mandalay Digital's products and services for many, many years ahead.

This important highlight comes from a recent International Data Corporation, or IDC, report. From a pure (inaudible) perspective, our emerging market strategy is validated and supported by IDC (inaudible), which states that the emerging markets, including Asia Pacific, Latin America, and the Middle East and Africa, are anticipated to post market-leading growth rates from 2013 to 2017. IDC believes that the Asia Pacific region will also increase some markets' share growth from 2013 to 2017, whereas their expectation in developed markets will see (inaudible) market (inaudible). IDC also states that the worldwide smartphone market is poised to grow from a pure volume perspective and that Asia Pacific will account for 52% of total handsets shipped for 2013, growing to almost 60% in 2014. North America will account for only 11% in 2014. We believe that along with the global markets, including the USA, that we are well positioned to capitalize on this exploding growth in smartphones across our line of products which, as you know, includes Ignite, our preloaded software; IQ, our application search and content business; our existing DT payment platform; and our content management services; all of which have been designed, as you know, to enable the carriers and the OEMs to play in the content marketplace.

Now, I'd like to introduce you to Jeff Klausner, our Chief Financial Officer. Jeff's only been on the job for a few weeks, but you'll be hearing, obviously, a lot more from Jeff in the future. So I'll hand it over to you, Jeff.

Jeff Klausner: Peter, thank you for the introduction, and good afternoon to those investors on the call. I'm excited about the prospects that lie ahead for me and Mandalay Digital, and as Peter and the IDC have pointed out, there's ample opportunity in both the emerging and developed markets, and our global salesforce is in active conversations with a number of the carrier prospects in these fast-growing markets. The emerging markets continue to see increase in smartphone sales as consumers desire more functionality from their handsets, and the developed markets should also experience volume increases. As we pursue new carrier agreements, we hope to capitalize on these market conditions. While I continue to get up to speed on the Mandalay Digital business and assist in the execution of our strategy, I look forward to speaking with the investor base in the future.

With that, I'll turn the call back to Peter.

Peter Adderton: Thanks, Jeff, and again, finally, I'd just like to take the opportunity to reaffirm our fiscal 2013 revenue guidance of 27.9 million with a breakeven adjusted EBITDA by the end of the fiscal year.

Now, I'd like to turn it over to Bill to address some of the operating metrics we talked about.

William Stone: Great. Hey thanks, Pete. As promised, we wanted to follow up with all of you from our earnings call last month on two items. First, we want to provide some carrier updates, and secondly to provide some greater clarity on how we look at translating those carrier announcements into revenue and growth through a variety of operating metrics.

First, on the carrier front, as Peter said, we announced seven new product and customer wins on our last call. Just as a reminder, those were, first, the expansion of IQ into—with Vodafone in Australia. Second was our content management win with CNT into Ecuador in Latin America. Third was our content management expansion with AXIS in Indonesia. Fourth was our announced Ignite deal with AIS in Thailand. Next was our Ignite deal with SingTel in Singapore that's now live and launched in the marketplace. Next and sixth was our eBooks launch with—across all the operators here in the United States. And then finally, we are now live with Cricket with Ignite here in the United States as well.

In addition to those wins, I'm pleased to announce that we will be launching our Ignite product with Vodafone in Australia. This will be our first Ignite launch with Vodafone, who has more than 300 million subscribers globally. We are expecting to launch the Ignite product in the next three to four months with Vodafone, and this is important because it demonstrates another data point in our ability to sell new products to our current customers as good execution on existing products provides them confidence to try (ph) our new products.

Additionally, we are launching our IQ product with Telstra in Australia next week. We're excited that the launch will be on one of Telstra's most successful devices, the Samsung Galaxy S4. Following the initial launch, we will be deploying IQ across their entire Android lineup.

We're also very close with a number of other announcements, including a Tier 1 operator in the United States for an Ignite launch, and are working hard to get those closed by the end of the year. We intentionally didn't give guidance for this quarter, as some of the variance of what shows up in January versus December could impact the quarterly numbers. But as Peter guided, we don't expect that to impact our annual results. The bottom line is we have a very rich pipeline with many operators extremely deep in the funnel process.

Secondly, on the metrics, we manage our top line operations like a funnel, with five distinct parts. What I'd like to do is summarize those five parts and then take you through each of them more individually and quantify them as it relates to our business. Then I'll conclude with some things to look at over the upcoming quarter to gauge our progress.

The first part is the macro opportunity, or total addressable market which Peter and Jeff briefly described in their comments. In other words, how many devices, customers, smartphones, and so on are there globally? The second metric is how many of those devices can we get our software on via signed contracts with operators, device manufacturers, or other distribution partners. The third metric is how many of those devices have our software installed and are ready to generate revenue. The fourth metric is how many of those devices on a monthly basis generate revenue for the Company. Then finally, how much revenue do each of those devices individually generate per month? So, we have five distinct ways to grow our business, and we, as a Management team, are focused on all five of those areas.

On prior calls and investor meetings, we have discussed the top two metrics of the funnel, you know, such as the six billion handsets worldwide, the approximately one billion on which our software could be installed, and so on. Today we want to focus on the last three metrics of the funnel and how this translates to revenues for Mandalay Digital.

The first new metric we're discussing is number three, or how many devices have our software installed. To date we have over 30 million people per month who access our software. We were just under 33 million for the month of November. Again, that's over 30 million unique people who access our software each month. This is an important metric, as it can measure our ramp of getting on more devices. Historically, the bulk of this traffic has come from our content management business and from our DT pay business. Going forward, we anticipate increases from the installs of Ignite in IQ. To date they both are a very small percentage of the 30-plus million, but we expect that to grow over the upcoming quarters. Specifically, Ignite now has a few hundred thousand installs, and based upon our current signed contracts and run rate, we expect that to be many millions of devices by this time next year. We are also not including any of our DT pay business in Italy, as that business is just beginning to ramp and the ubiquity of DT pay in that market would distort the overall figures.

The next new metric was number four, or how many of those devices generate revenue each month. Currently the majority of our revenues are derived from the content management business. Today we have between two to 2.5 unique devices that generate monthly revenue for us. Excluded from these numbers are customers who download, you know, free applications. As Digital Turbine Ignite installs increase, we do expect this number to grow as we monetize each of the Ignite installs with revenue.

The final metric, or number five, is how much does each customer generate in revenue. The average revenue per user over our past quarter is $3.02 a month in gross revenue. While margins and ARPUs vary by product and customer, we believe tracking the gross amount each customer spends provides a very good measurement period. The average for the industry is closer to a dollar per month, so we are very pleased with these figures, as it highlights our focus on being able to monetize subscription and downloads.

We're constantly monitoring these metrics as a Management team and discussing how best to adjust our focus for the future. In addition to these metrics described today, as a Management team we also get much more granular by geography, by customer, by product, ratios of paying in installs, and so on. For example, we do expect metric number five, or the revenue per device, to decline a bit as we ramp our DT Ignite business, and in our content management business we introduce both new market and new business models that are advertising-supported, premium, in-application billing, and so on. However, we expect this to be more than offset by both the increase in monthly unique users and monthly revenue-generating users that will be the primary operating catalyst to drive our future revenues.

We expect to see increases in all of our products on both of these metrics. Thus, these two metrics, or number three and number four on our list, are a key strategic area we want to draw investor attention to quarter-over-quarter. Thus, we are very focused on getting our software implemented on more devices, or what we call the ramp, and getting the software monetized by more customers.

We're happy to get into further details with you on additional information. However, for today's call we've chosen not to overwhelm you with countless metrics, statistics, and the nuances that come with those. Our strategy is to begin to introduce these metrics to help you better understand the Company and focus on the top two or three operating metrics that we think provide the best picture of understanding our business in its entirety.

As Peter said, we continue to reiterate our guidance for the fiscal year between 27 to $29 million in revenue. We have not provided guidance for the current quarter, as the timing of deals and launch introductions could impact January versus December results, but we continue to focus on the long-term strategy and sequential growth of the Company. Annually we do expect to experience some foreign exchange risk, especially in Australia, and plan to report our quarterly numbers both with and without this foreign exchange risk. This will allow investors to understand the operational results of the business separate from worldwide currency fluctuations.

Additionally, our guidance could be impacted by acquisitions or divestitures, and as we've previously mentioned, we are examining all options for a Twistbox subsidiary, and those numbers are currently included in our prior guidance.

With that, I'll turn it back to Peter for some closing comments and then we'll look forward to your questions.

Peter Adderton: Okay, thank you, Bill, and again, thank you, everybody, for your time. What I'd like to do now is send it across to the question and answer session, so if the Operator wants to take that now, we can do that now.

Operator: Thank you, sir. Ladies and gentlemen, if you wish to ask a question, please press the star, followed by the one on your touchtone phone. If you would like to withdraw your question, please press the star, followed by the two. If you are using a speakerphone today, you will need to lift the handset before making your selection. Once again, if you would like to ask a question, please press star, one at this time.

Our first question comes from the line of Jon Hickman with Ladenburg. Please go ahead.

Jon Hickman: Hey, thanks for taking my call, guys. Bill, you talked really fast, so can I go over a couple of things?

William Stone: Sure.

Jon Hickman: The Vodafone, what geography is that? The Vodafone Ignite deal?

William Stone: Yes, this Vodafone will be—it'll be starting in the Australian market.

Jon Hickman: Okay, and do you have, like—can you tell us how many potential users that is?

William Stone: Yes, unfortunately, Vodafone's not going to let us—allow their—to release their specific customer numbers, you know, smartphones by market. What I will say is they have many, many millions of customers and are doing what I would characterize as hundreds of thousands of devices for Android each quarter.

Jon Hickman: Each quarter. You mean activations?

William Stone: Yes, correct.

Jon Hickman: Okay. Then the Telstra, that's also Australia?

William Stone: Correct.

Jon Hickman: And is there, like—is that also many millions?

William Stone: Yes, it is. So, Telstra is the leading provider. They've got, I believe, 15-plus million subscribers in the Australian market, and we'll be launching across their entire Android device (cross talking).

Jon Hickman: So the Vodafone is live now, Telstra in the next few months, and then can you reiterate what you said, you are working hard to close the deal in the U.S. with Ignite?

William Stone: Yes, that's correct. So we have a number of deals that are really deep in the funnel process and…

Jon Hickman: Okay.

William Stone: I'll just make a—I'll make, kind of, two comments here about that. Number one, I've spent the last 15 or 20 years either working for operators or working into operators, and so really, it's just a matter for us of working through processes, you know, right now. So, we're deep in the funnel process with a number of operators, including a Tier 1 here in the United States. We're working to try to get things closed out here by the end of the year, and if not, you know, then things will close out in January. But we don't have anything specifically to announce on that today.

But what I will say, you know, especially as it relates to the U.S. and some of the comments Peter made, you know, as we do look at this through a global lens and the six billion devices, not necessarily just the 300 million or 5% that are here in the United States, but with that being said, we are extremely close to a Tier 1 Ignite launch here in the United States.

Peter Adderton: John, just to clarify, the Vodafone is the three to four months and Telstra is next week for IQ. Vodafone is for the Ignite product.

Jon Hickman: Yes, that's right. So, which one is near-term?

Peter Adderton: The Telstra IQ.

William Stone: Yes, Telstra will be launching next week, Jon.

Jon Hickman: Next week, okay, thank you. Then one more number. You said—this was on number four of your metrics—how many unique millions of...

William Stone: Yes, so basically...

Jon Hickman: Are generating revenues?

William Stone: Sure. Yes, so as we look at the funnel, you know, and kind of break it out, the six billion devices globally, you know, the signed contracts to get us to a billion, now we're active getting our software consumed on 30-plus million, and then we're getting to 2 to 2.5 million generating revenue for us…

Jon Hickman: Okay. Yes, that—I just wanted to make sure I have that number right.

William Stone: Yes.

Jon Hickman: Okay. Can you give us anything—how are things going with the Cricket now that they've got it—now you're live there? Okay, what's (cross talking)?

William Stone: Yes, so right now we're good is that we're just actually going to start pushing some new applications, actually hopefully by the end of this week with Cricket, using the Ignite platform. The Cricket deal, you know, is really important for us for two reasons, Jon. Number one is just showing and getting some traction here in the U.S. market. As you guys are aware and we talked about before, Cricket's in the process of being acquired by AT&T so, you know, good traction for us here in the U.S. market.

But secondly, and more strategically, is this is also our first deal where we're doing these cost per installs, and we're pre-loading applications that we're monetizing from third parties. So, you know, whether those are things like Candy Crush from King Games, is an example, we're able to monetize those by pushing them through the Ignite platform. That's something we see as a revenue driver for us going into next year, and so this is our really first high-profile commercial launch doing those CPI deals, and so that's a pretty strategic thing for us going forward in terms of ramping and scaling future revenue growth.

Jon Hickman: Okay. That's it for me. I'll turn it back to someone else.

Operator: Thank you. And our next question comes from the line of Peter Holman with Arthur Wood. Please go ahead.

Peter Holman: Hi. Thanks very much for hosting the call. It's good to get periodic and quite frequent periodic data when you're at this stage of your growth.

One statement you made which is sort of exciting, but I'm curious about what you base it on, was that in Vodafone, I guess—no, in—you have in Ignite, I guess, something like—sorry. Ignite has a few hundred thousand installs, but you expect multimillion installs by this time next year. I'm just curious. That sort of telephone book sized growth, I mean, it's 10, 20, 30, 40, 50X where you are. Do you have the human infrastructure and the (inaudible) infrastructure to accomplish that? And if you do, what, from your experience in growing your subscriber base thus far, gives you confidence about the incredible magnitude of that growth?

William Stone: Sure, so I'll take that one, Pete. So (inaudible) to the question, I'll answer it from the demand side and then the supply side.

So in terms of the demand side of Ignite, you know, we have signed contracts. We have pretty good visibility into the ramp of how people are deploying it, how many Android devices are being launched into the marketplace, so we will be—our software is being put on those new Android devices. So, you know…

Peter Holman: And they're being put on those devices under contracts that already exist.

William Stone: Correct.

Peter Holman: Okay.

William Stone: So as, you know, to Jon's question earlier on Vodafone subscribers, and you can extrapolate that out to our other announced contracts and look at the subscriber numbers and quarterly smartphone shipments and the percentage of those that are Android. You can do the forensics to sort of determine kind of the guesstimate of how many Android devices are being shipped by a particular operator. So since those are signed contracts, we have visibility into that, and so that's why we're making the comment on the demand side.

In terms of the supply side, in terms of how—you know, our readiness to execute, you know, I'll make two comments on that. First is the product's got a tremendous amount of operating leverage and highly scalable. So, whether we put the software on one device, a hundred devices, or a million devices, or a hundred million devices, there really isn't a tremendous amount of incremental work. A lot of the work has been done over the past few years to develop the product and build the product to be scalable. So—and the software's a service business model, which is what Ignite is. That operating leverage to us is quite exciting in terms of the impact it can have on our business.

In terms of people infrastructure, you know, a lot of the people infrastructure really isn't as much focused around the software, because we built the product and we have software teams doing that (cross talking).

Peter Holman: (Cross talking) sales. It's (cross talking).

William Stone: It's more on the customer side to say what application—it's more on the front end with the customer versus on the back end with the technology. But nevertheless, you know, we are ramping and scaling the business and, you know, as we just had a capital raise in August, part of the proceeds for that were to scale products like this that have a lot of traction and demand in the marketplace.

Peter Holman: Can I ask one follow-up? If I went from the (inaudible) number three in the five questions you sort of posed at the beginning, if I then go to number five, which is how much revenue does each device generate on a monthly basis, okay, so I can understand—or let's assume I can understand how you go from—based on contracts you go from Ignite at 700,000 users to multi millions. What about the ramp in terms of penetration in terms of usage? By revenue generation, of those multi-millions that you grow under contract—because you're not going to obviously know if someone buys a phone with your stuff installed, it isn't a hundred percent penetration in the first year. Would it be 2%? Would it be 5%? Would it be 20%? And do you have any sort of experiential data that gives you a sense of what it’s might going to be?

William Stone: Yes, sure. So, you know, one of the things we'll do as we go for (inaudible) is we'll get a little bit more detailed on the metrics and some of the nuances as we get into them by product and by geography and things like that, and we didn't want to kind of overcomplicate things and provide—and lose the major points on today's call.

But what I'll say is a general thing. We're focused on monetizing subscribers. And so what we've done to date is we've really monetized them in our content management business through our application stores and we sell content. And that's a little bit different than Google Play, where Google Play is more of a flea market. They don't care if you download a hundred free apps, and they're not really monetizing a lot of things in the store. We look at ourselves maybe perhaps more like an Amazon, and I was just seeing an article recently comparing Amazon stores to Google's and the focus on curation, your user experience, understanding what the user is doing, and then monetizing through those means in terms of customer insight versus just a flea market and come and get as many free apps as you want. I think that's one of the reasons why you see our revenue at $3 so high, as we are focused on monetizing downloads and subscriptions. However, we do recognize that as we go forward in time, you know, that there is—the market is moving more towards in-application billing and ad-supported and those types of things. That $3 number will come down, but we expect the traffic numbers to offset that. It's just to drive more and more people (cross talking).

Peter Adderton: Yes, I think the question, and maybe I didn't understand it correctly, was in relation to Ignite on those devices, those millions of devices. As you know, our model is a software services model where we get paid a per device fee, whether someone downloads that content or not. So I just want to make sure that I clarify that we make a fee every time that our software is put on the—the Ignite software is put on a device, whether someone purchases content or not. So…

Peter Holman: And that's solely with Ignite, where you (cross talking).

Peter Adderton: That's solely with Ignite. The exciting part, as Bill mentioned, was, you know, we're on 30-plus million uniques a month. The strategy we have as a Company now is—and a very aggressive strategy—is working with our carrier partners of taking that 2.5 million and moving that north, and I think that comes through a lot of unique user marketing, as Bill talked about. And now we've got a really good handle on that. It really is allowing us to really start to work with the carrier partners to say we have the traffic, and as Bill said, this is (inaudible) downloads. We haven't even got into the lighting up the ad model and all the other things and the premium stuff that we're working on.

So if we've got the 32 million sitting there accessing us every month, we've got 2.5 million of them paying, now it's how do we get that gap and get the rest of those guys to start driving revenue for us and the carrier, and (cross talking).

Peter Holman: That was precisely my question. That's exactly (cross talking).

Peter Adderton: And that's a great position to be in, when you think about it, because if you've got the traffic, monetizing the traffic's a lot easier, as our friends at Facebook and Twitter found out, than actually having to get the traffic. So we've got the traffic. It's now our job to do a better job of monetizing that, and I think that we've got an incredible thing that's working—some incredible ideas that I've seen in my global travels in the last few weeks, and we're pretty excited about this potential of being able to grow that revenue.

Peter Holman: Are any of your carrier customers working on trying to do what you do internally so they don't have to pay a third party who is between them and the customer? Because that's the whole model you're working with is that Apple's getting between you and—or between Verizon and…

Peter Adderton: We can—I mean, these questions—obviously want to see if there's other people who have got some questions. We can answer (inaudible) offline if you want to (cross talking).

Peter Holman: Yes, I'm sorry. I…

Peter Adderton: If you want to do a call with Bill and I, we're more than happy to—I just want to make sure we get everybody and that we don't…

Peter Holman: No, no I understand. I apologize.

Operator: Thank you. Our next question comes from the line of Philip Gocher, private investor. Please go ahead.

Philip Gocher: Yes, hi. Looking out a bit, you've mentioned that you're pursuing a partner to address the mobile market in China, and I'm wondering what progress you might be able to discuss, like a timeframe, and how the Apple intro into China Mobile might play into your model going forward.

Peter Adderton: So just at a high level, I think we mentioned that in order for us to go into China, you kind of get one chance at it and we want to make sure that we do it right. We are in discussions with multiple (inaudible) in relation to potential partnerships in China. I will say that we do have our hands somewhat full, as Bill announced, these seven carriers in—you know, SingTel and AXIS that we're doing in Indonesia, some of the work that we're doing here domestically and also in Central and South America. So, we do have our hands full, and we've made a conscious effort as a Company to not go into a market unless we really believe we can get the traction that we need to get. So as much as we would like to be in China and we're working on that, that's really our strategy.

As a result to Apple going in there, any time that Apple or Google or any of these guys are pioneering a market like China and making a more open market, it bodes well for us. So, we'd love to sit back and watch the guys go in there and pioneer their stuff so we can move in, but we are very focused as a Company. As I said, you know, in Asia Pacific we're going to see a tremendous growth over the next year, I think as I mentioned, almost 60% of the new handsets coming out of that market. I've got to—I've made sure and Bill's made sure that our team is extremely focused and making sure that we're a part of that growth.

Philip Gocher: Thank you very much.

Operator: Thank you. As a reminder, ladies and gentlemen, if you wish to ask a question, please press star, one at this time, and if you are using a speakerphone, you will need to lift the handset before making your selection.

Our first question—our next question, pardon me, goes to Andrew D'Silva with Merriman Capital. Please go ahead.

Andrew D'Silva: Hey, guys, thanks for taking my call. So, on the last conference call, you stated that all domestic carriers were going to launch your new eBooks application. I just wanted a little clarity on this product. It seems a little—to deviate a little bit from your core focus of platform technology that any handset operators reach and it's more of a mobile app. I was wondering if there was a rationale behind the shift and if we could expect more products like that in the future?

I believe you also said that Verizon was going to actively market the app, and I was hoping you could let us know what kind of marketing initiatives were taking place. Is the app pre-loaded, or does it have—do you download it from Google Play?

Peter Adderton: I'll take the strategy discussion in relation to the Verizon eBooks and then maybe Bill can take the update on Verizon.

The strategy that we've had as a Company has really been a three-pronged approach. The first one is distribution, making sure that we have, you know, distribution into carriers' handsets so we can launch our products. The third one is unique platforms to make sure that we have the ability to be able to deliver that content seamlessly and fast. The third one we've always said is unique content, and why unique content? We believe that unique content will pull those other two through. So, as an example, we can get in with one product into a carrier and then we have been very successful in being able to get other products through there. So, there's a kind of like pull-through that we have.

But there's no point having an incredible third—incredible marketplace, incredible content engine, if you don't have incredible content to back that up. So it really has been a strategic decision of ours from the day that we started the Company, back when I joined it in 2012, was to really make sure that unique content that we could use to be able to pull our platform through. Our billing, as an example, was really important for us. So, we continue to execute that. As you know, we are the second-largest music retailer in Australia. I mean, we provide the music. We own the licenses and we have the contracts. We have global contracts with a lot of large app developers as well, so it's one of those things where curating and managing that content to our customers is something that's really important.

I'll get Bill to kind of give you a bit more of an update on Verizon.

William Stone: Yes, sure. So, you know, as Peter said, we do have a lot of content we carry, and I think that's part of the reason why we have the high ARPUs. In the U.S. market, what we wanted to start doing is to establish a presence, to start establishing relationships with operators, and start to get some quick wins on the board and showing our ability to execute. Because as we demonstrated earlier with Telstra and Vodafone, you know, when you do a good job and you execute with an operator partner, that tends to lead to bigger and better things. So that's part of what we wanted to do here with eBooks.

Specifically with Verizon, what we're working with them on right now is they've got their own promotional folders within the Google Store that are unique to Verizon that have a promote app. So rather than being one of 800,000 apps that a customer has to discover, Verizon is helping drive customers, to drive activity, to that. So that's what we're working with Verizon on. We're also—that's not through a pre-load, though, that's through their store, any of their 30-plus million Android customers that would access it.

What we are doing, though, is we are pre-loading the DT eBooks app through Ignite with Cricket today, and one of the interesting things, although be it early, is we are seeing definite increases in results when you pre-load the app versus customers having to discover it in terms of the results it's generating. So, you know, a lot of these kind of learnings are helping us as we deploy this in other markets and kind of leveraging global best practices in terms of, you know, how best to feature market, merchandise, pre-load, et cetera applications.

Andrew D'Silva: Okay, that makes sense. Good. So, kind of backtracking, you were talking about Ignite. So originally, I was under the impression that it was set up as a part of IC (ph). It seems like the deal's structured a little differently with Cricket, kind of almost like a SaaS model now. Can you give us an example of a revenue generation with a download? Let's use your eBooks, for example. Somebody downloads that, Ignite pushes it out there. How do you monetize that, and what would a fee that comes to you look like?

William Stone: Yes, sure. So, there's really four revenue streams that go with Ignite, and we mix and match the revenue streams, depending upon the customer and the situation. First is a set-up fee that makes sure that we're covering our costs and we're getting the gain from the operator. Second is a per device fee that is usually a sliding scale that can go anywhere from $0.70 to $0.80 down to $0.10 to $0.15, depending upon volume commitments and time and things like that. The third is our maintenance and upgrade fees, and then the final one are these cost per installs, or pre-loading of applications that we're talking about right now.

So we'll mix and match those, and if an operator will give us more what we call slots—so they can let us put two applications on. You know, right now in the U.S. market (inaudible) slots are going from anywhere from $1 to $2. I just saw a—I just read an article earlier this week that said that Candy Crush, or King Games, is paying up to $7 right now for pre-installs. So if we can monetize that for $1 to $2 from the application developer, you know, that's a tremendous opportunity. So if you're getting one, two, three, four slots and you're getting a dollar per, you can do the math pretty quickly across a certain set of Android devices where the numbers get pretty attractive. So, us getting this business model perfected and scaling it could be a nice catalyst to our future growth. But with that being said, most of our deals around the globe are CPI and per device, so we'll get paid twice.

Andrew D'Silva: Got it. Can we use your eBooks example, though? Because that's your own product, would you be having to pay for a slot, or…?

William Stone: No, no, we're not paying a—we're getting that for—yes, we're taking one of our slots with our own application, so we're in effect paying ourselves.

Peter Adderton: That's a really good point that Bill makes there. We have the technology to be out—as you know, to push the apps out as we work with the carriers. That's valuable to Companies like ours, and it's valuable that if we can get unique content onto that screen and derive better revenue out of that so obviously the margins are better for us. So, we're encouraged.

The good thing about our business is it really is evolving and there are different areas and different ways for us to be able to make money across this traffic that we already have, and that's the part that Bill and his team are exploring and testing in unique ways to see how we can better service that.

Andrew D'Silva: Got it, good. So, I've just got a couple more quick questions. You threw out that 30 million unique monthly visitors number. I was wondering, first off, what percentage of them is actually paying? Is it around 10% generates revenue for you guys? And then second part of that question is, what's the total market opportunity? So, you've got 30 million unique monthly visitors with all those carriers you're working with. Is it like 300 million devices total market opportunity today (inaudible)? Do you have an idea what that could look like?

William Stone: Sure, yes. So, one of the things that I'd recommend is we could follow up offline and get into a lot more depth and detail here. What I'll say is that as a high level for us today, though, is we—based on the contracts that we have signed, we view the total addressable market well into the many, many hundreds of millions of devices for us. What we need to do it continue to grow the traffic of those, and each product's a little bit different. So with Ignite, we're touching 100% of those smartphones, so you'll see those 30-plus million increase as we ramp Ignite.

From our content management business and our pay business, the key will be driving traffic. So, how do we drive traffic in terms of, you know, having the right content, the right merchandising, the right marketing, the right apps, some of which may be free or ad-supported or other business models, and then obviously getting into additional markets with it, you know, working up with some of the announcements we made here earlier today. So, those are all the ways we'll increase traffic. Then once we get traffic, the next part is then okay, monetizing it through, you know, a lot of these different models and levers.

So, we look at our business across all of these, and right now, as we said, the key for us is how do we grow that 30 million into the bigger number to get it to—you know, add another zero on it, and then how do we increase the 2-plus million to be a higher percentage, both of which we expect to see and, again, where we want to draw investor attention to.

Andrew D'Silva: Good, and I've just got one quick question. Do you have any updates on IQ metrics? The last time we heard it was like $0.80. I know you've launched off Cellcom. Do you have any ARPU metrics you can share with that and customer penetration rates? Then also, Telstra's launching in a week. Do you know what their Android base looks like, as far as total Android users?

William Stone: Yes, sure. Yes, so on IQ, Telstra right now has—the market's always a little bit different, but they have anywhere between six to eight devices in the market at a given point in time and, you know, you can look at the stats. But they're roughly 50, 60% smartphone, and of that 50, 60% roughly 50, 60% of those are Android as well. So you can kind of do the math on the Telstra, and we'll be putting those across their lineup, so we think that's a great opportunity for us.

We don't have any specific metrics we're going to comment on today. We shared some earlier with the investors in terms of, you know, the incremental lift that IQ's gotten, but one of the things we are doing with Telstra is we've got some really good analytics to put in place, so we'll have some good information and benchmarks that we'll provide on upcoming calls.

Andrew D'Silva: All right. Thanks, guys. Good luck going forward.

Operator: Thank you, and I'd like to turn the call back over to Mr. Adderton for closing remarks. Please go ahead.

Peter Adderton: Again, I appreciate everyone taking the time out on a Wednesday afternoon, so we'll leave you guys alone. Again, any investors that want to talk to us, reach out to John Mattio there at MZ and he can contact us. We'll be happy to go into deeper dialogue with you. Thanks again, everybody.

Operator: Ladies and gentlemen, this does conclude our conference for today. Thank you for your participation, you may now disconnect.