

IAB Internet Advertising Revenue Report

An Industry Survey Conducted by PricewaterhouseCoopers
and Sponsored by the Interactive Advertising Bureau (IAB)

2005 Full-Year Results

April 2006

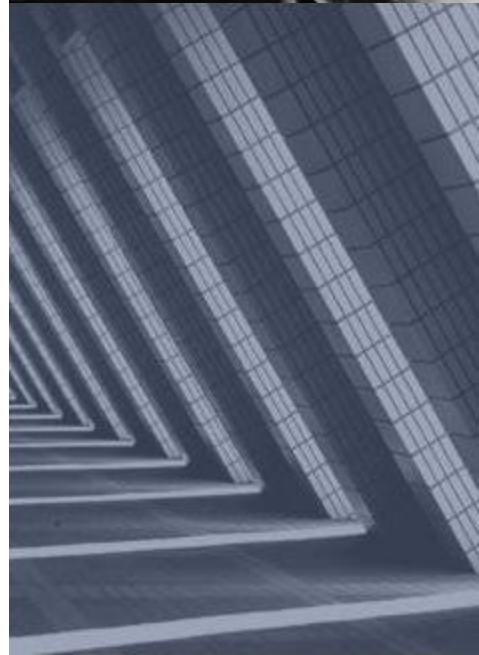
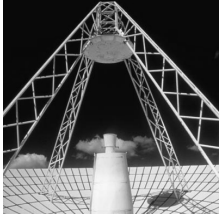
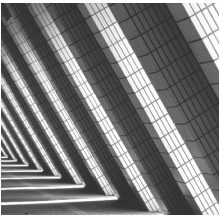


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Background

About the IAB Internet Advertising Revenue Report

Conducted by the New Media Group of PricewaterhouseCoopers LLP on an ongoing basis, with results released quarterly, the “Internet Advertising Revenue Report” was initiated by the Interactive Advertising Bureau (IAB) in 1996. This report aggregates data and information reported directly to PricewaterhouseCoopers LLP by companies representing thousands of Web sites, in addition to other on-line ad selling companies.

The results reported are the most accurate measurement of Internet/on-line advertising revenues since the data is compiled directly from information supplied by companies selling advertising on-line. All-inclusive, the report includes data reflecting on-line advertising revenues from Web sites, commercial on-line services, e-mail providers, as well as other companies selling on-line advertising.

The report is conducted independently by PricewaterhouseCoopers LLP on behalf of the IAB, and only aggregate results are published. Individual company information is held in strict confidence with PricewaterhouseCoopers LLP. Further details regarding scope and methodology are provided in the appendix to this report.

David Silverman
Partner, PricewaterhouseCoopers LLP

Pete Petrusky
Director, PricewaterhouseCoopers LLP



Executive Summary

IAB Internet Advertising Revenue Report 2005 Full-Year Highlights

Internet advertising revenues (“revenues”) in the United States totaled over \$12.5 billion for the full year 2005, with Q3 accounting for \$3.2 billion and Q4 totaling \$3.6 billion. Internet advertising revenues for the full year of 2005 increased 30 percent over 2004.

Key trends underlying 2005 results:

- **For the third consecutive year, revenues post record results** – Total revenues for the 2005 fourth quarter increased 15 percent from the 2005 third-quarter total of \$3.2 billion, and 34 percent from the 2004 fourth-quarter total of \$2.7 billion. Full year 2005 Internet advertising revenues totaled over \$12.5 billion, up just over 30 percent versus full year 2004.

“Interactive Advertising continues to experience tremendous growth as marketers experience its overall effectiveness in building brands and delivering online and offline sales. We are confident that this growth trend will continue as more marketers find Interactive to be an imperative and additional platforms including broadband video, gaming, and IPTV and others continue to emerge as real opportunities.”

– Greg Stuart, IAB President and CEO

- **Search and Display are the leading advertising formats** - Search revenue accounted for 41 percent of full year 2005 revenues, up slightly from the 40 percent of 2004 revenues. Display advertising also increased from 19 percent of 2004 revenues to 21 percent of 2005 revenues. Classifieds revenue totaled 17 percent of 2005 full year revenues, down slightly from the 18 percent reported for the full year 2004.

“The Internet continues to be a vibrant and ever-changing channel, providing advertisers with broad offerings that enable them to promote their brands using a highly cost effective platform. This year’s record figure of annual internet advertising revenue demonstrates the enduring enthusiasm for the medium as a whole.”

– David Silverman, Partner, PricewaterhouseCoopers LLP

- **Retail Advertisers Drive Consumer Ad Spending** - Consumer advertisers continue to represent the largest category of advertiser spending at 51 percent of full year 2005 revenues, up from 49 percent for full year 2004. Within the consumer category the significant sub-categories reported are retail (47 percent of the consumer category), automotive (20 percent), leisure (14 percent) and entertainment (10 percent).

“Continued strong growth in online advertising documents that an increasing number of advertisers and marketers see the Internet as an essential brand-building component in their media planning. The Internet delivers the right audience at the right time - a winning combination for all types of marketers. We expect to see continued growth in Internet advertising spend.”

– Pete Petrusky, Director, PricewaterhouseCoopers LLP

- **Internet Continues to Gain Market Share** – Internet advertising accounted for nearly 5 percent of total U.S. advertising revenues in 2005, up from less than 4 percent reported in 2004. Internet advertising exceeded advertising for business magazines by more than 50 percent in 2005, and nearly matches total consumer magazine advertising. Adjusted for inflation, Internet advertising revenue significantly outpaced both cable and broadcast television in comparable early growth periods.

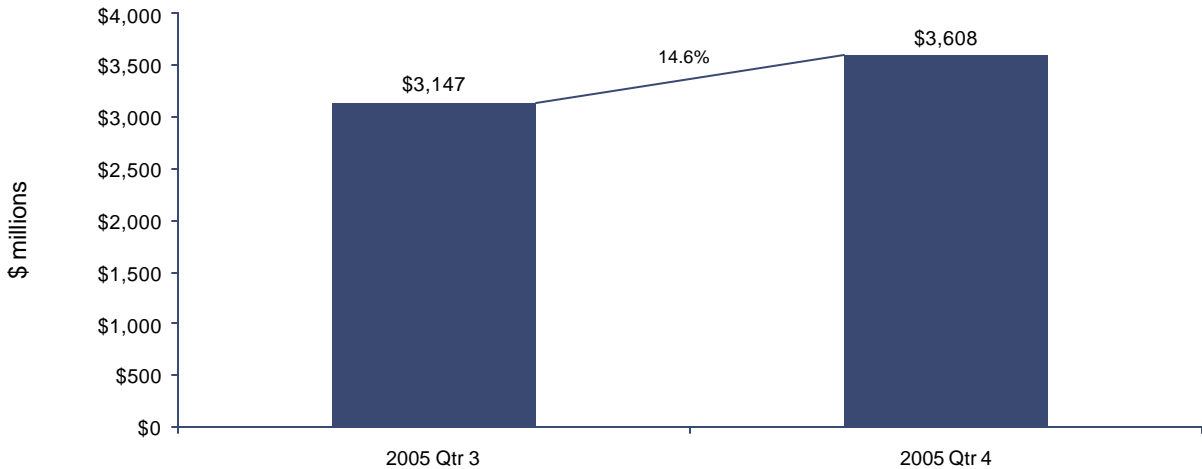


Detailed Findings

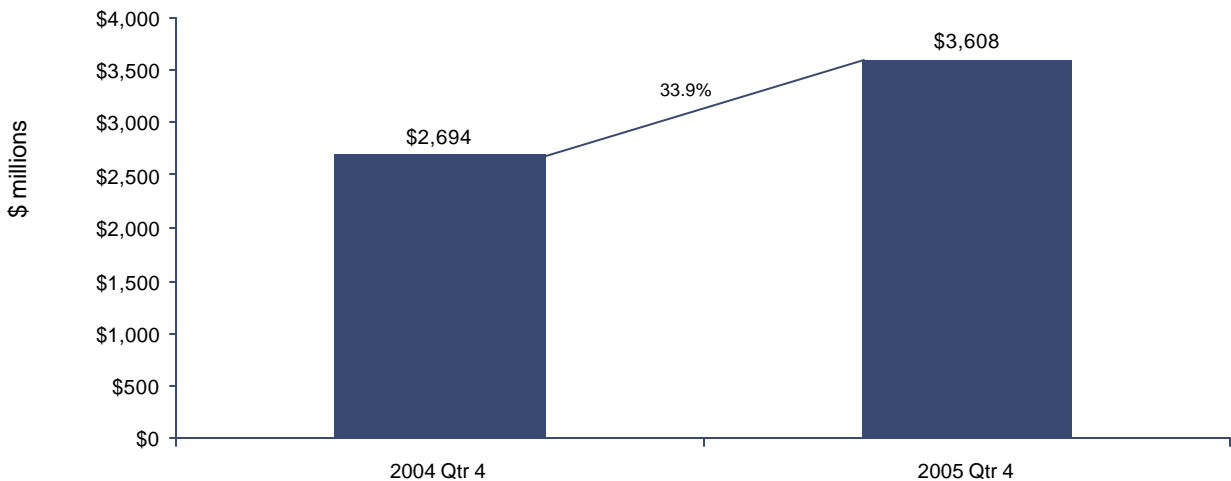
Revenues Totaled \$3.6 Billion in the Fourth Quarter of 2005

- On-line ad sellers reported aggregate revenues totaling \$3.6 billion for the fourth quarter of 2005.
- Total 2005 fourth-quarter revenues were \$913 million or 33.9 percent higher than the fourth quarter of 2004, and \$461 million or 14.6 percent higher than the third quarter of 2005.

2005 Q3 vs. 2005 Q4



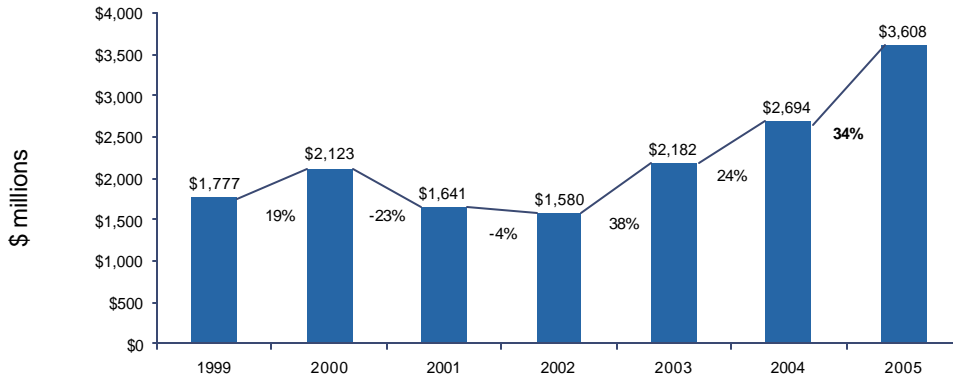
2004 Q4 vs. 2005 Q4



Historical Fourth-Quarter Revenue Trends

- Fourth-quarter revenues increased significantly on a year-over-year percentage and dollar basis since 1996 through the second quarter of 2000, declined during 2001 and 2002, and rebounded the past three years.

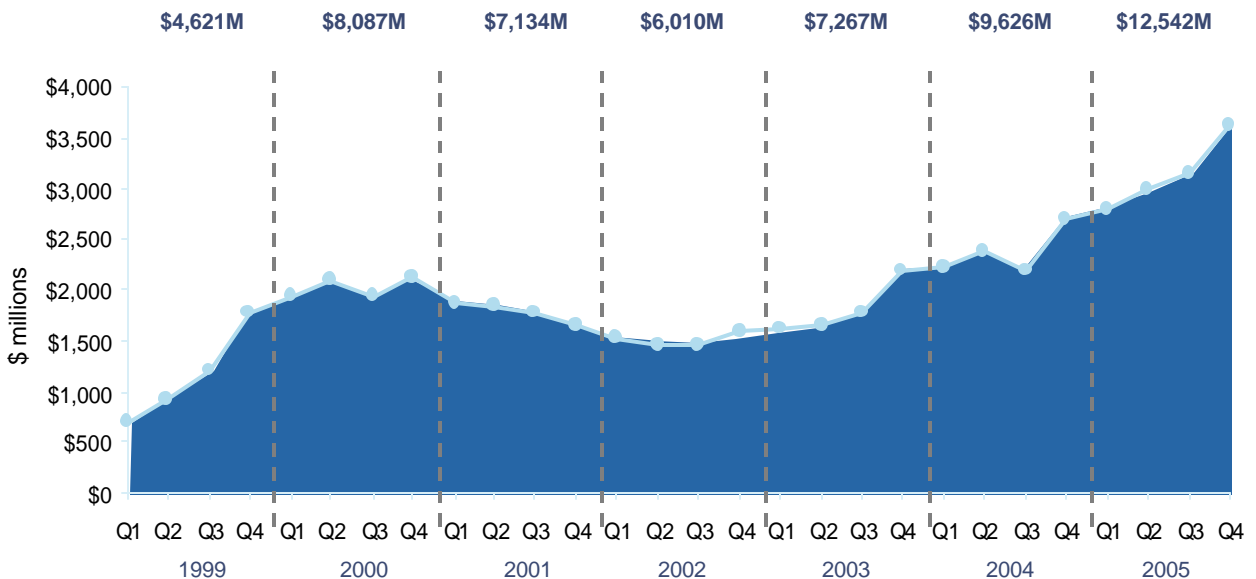
Fourth-Quarter \$ Revenue – 1999 through 2005



Quarterly Revenues Post Record Levels

- Quarterly industry revenues posted consistent growth from 1996 to the second quarter of 2000 and peaked in the fourth quarter of 2000.
- Industry revenues subsequently began a period of decline from the fourth quarter of 2000 through the second quarter of 2002. Since the third quarter 2002 revenues have increased 12 of the past 13 consecutive quarters.

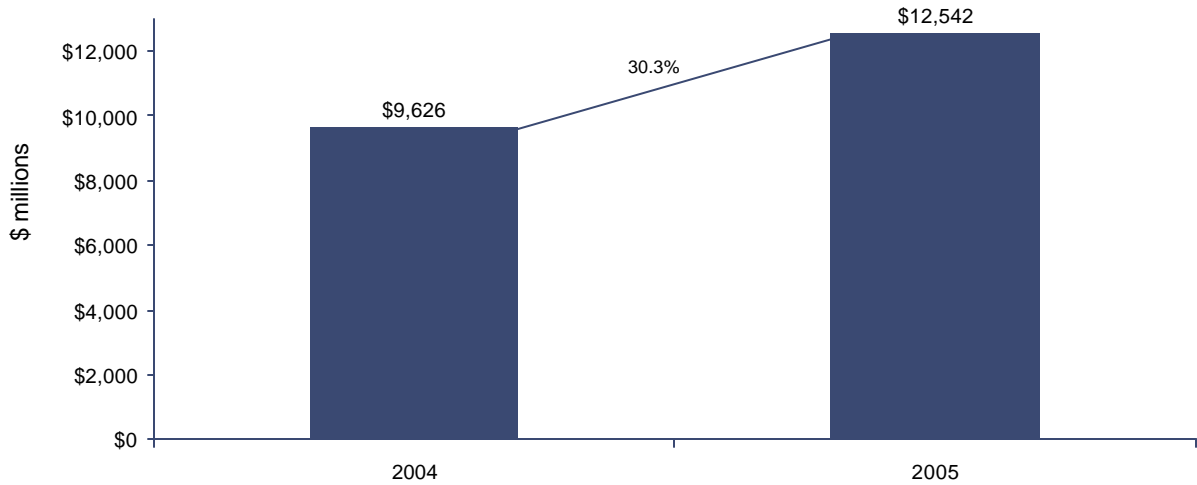
Quarterly \$ Revenue Growth Comparisons – 1999 through 2005



2005 Annual Revenues Totaled \$12.5 Billion

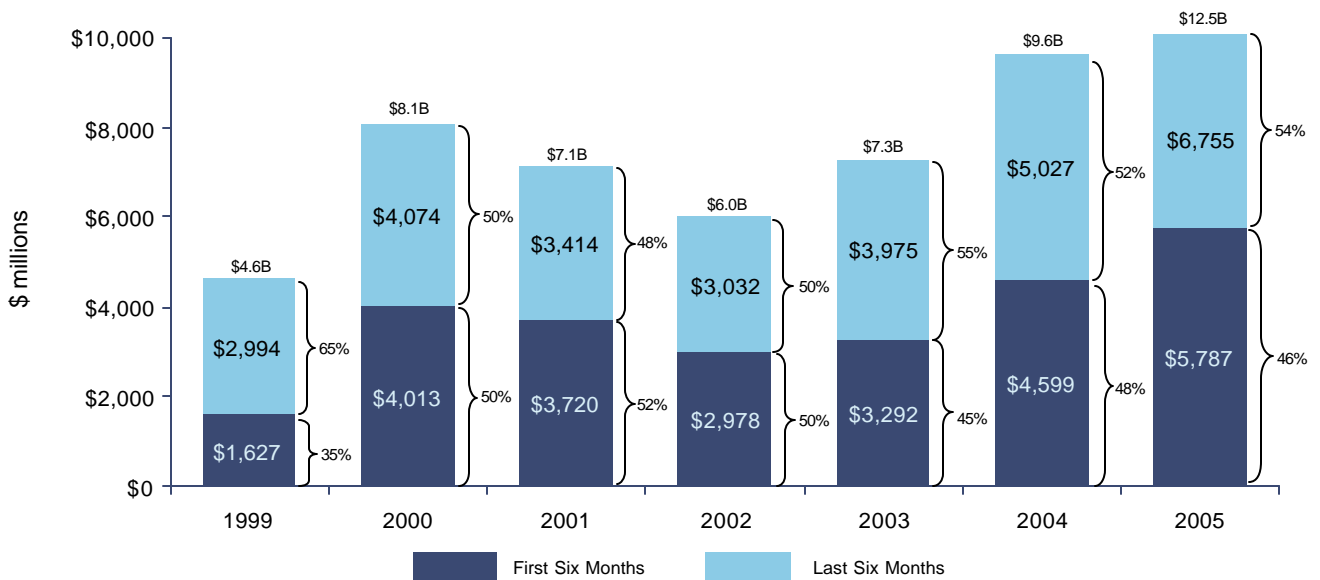
- Full-year revenues for 2005 totaled a record \$12.5 billion, \$2.9 billion or 30.3 percent higher than the previous record revenues reported for 2004 full-year.

Full-Year Revenues 2004 vs. 2005



- Since 2003 revenues for the second half of the year have accounted for more than 50 percent of the total year revenues.

Historical Revenue Mix – First Half vs. Second Half



Historical Revenue Statistics

Annual and Quarterly Revenue Growth Comparisons

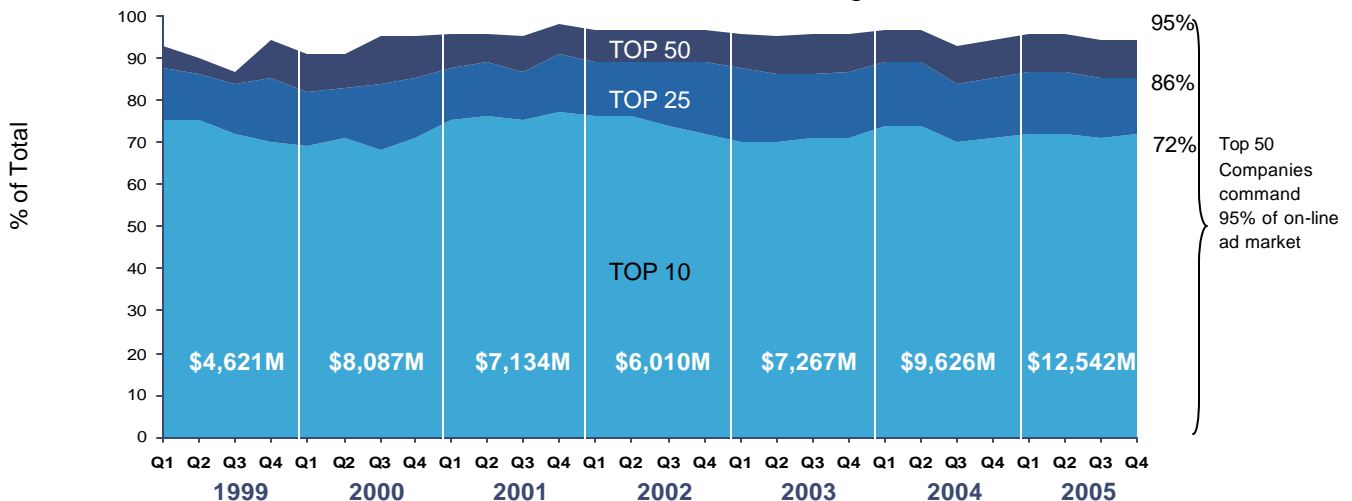
	\$ Rev Millions	% GROWTH	
		Qtr/Qtr	Year/Year
1Q96	\$30	NA	
2Q96	\$52	74%	
3Q96	\$76	46%	
4Q96	\$110	45%	
Total 1996	\$267		
1Q97	\$130	18%	333%
2Q97	\$214	66%	313%
3Q97	\$227	6%	200%
4Q97	\$336	48%	205%
Total 1997	\$907		239%
1Q98	\$351	5%	171%
2Q98	\$423	20%	97%
3Q98	\$491	16%	116%
4Q98	\$656	34%	95%
Total 1998	\$1,920		112%
1Q99	\$693	6%	97%
2Q99	\$934	35%	121%
3Q99	\$1,217	30%	148%
4Q99	\$1,777	46%	171%
Total 1999	\$4,621		141%
1Q00	\$1,922	8%	177%
2Q00	\$2,091	9%	123%
3Q00	\$1,951	-7%	60%
4Q00	\$2,123	9%	19%
Total 2000	\$8,087		75%

	\$ Rev Millions	% GROWTH	
		Qtr/Qtr	Year/Year
1Q01	\$1,872	-12%	-3%
2Q01	\$1,848	-1%	-12%
3Q01	\$1,773	-4%	-10%
4Q01	\$1,641	-7%	-23%
Total 2001	\$7,134		-12%
1Q02	\$1,520	-7%	-19%
2Q02	\$1,458	-4%	-21%
3Q02	\$1,451	-1%	-18%
4Q02	\$1,580	9%	-4%
Total 2002	\$6,010		-16%
1Q03	\$1,632	3%	7%
2Q03	\$1,660	2%	14%
3Q03	\$1,793	8%	24%
4Q03	\$2,182	22%	38%
Total 2003	\$7,267		21%
1Q04	\$2,230	2%	37%
2Q04	\$2,369	6%	43%
3Q04	\$2,333	-2%	30%
4Q04	\$2,694	15%	24%
Total 2004	\$9,626		33%
1Q05	\$2,802	4%	25%
2Q05	\$2,985	7%	26%
3Q05	\$3,147	5%	35%
4Q05	\$3,608	15%	34%
Total 2005	\$12,542		30%

Industry Revenue Concentration Remains High

- On-line advertising remains concentrated with the ten leading ad-selling companies, which accounted for 72 percent of total revenues in the fourth quarter of 2005, up from 71 percent reported for the fourth quarter of 2004.
- Companies ranked 11th to 25th accounted for 14 percent of revenues for the fourth quarter of 2005. Companies ranked 26th to 50th accounted for 10 percent in the fourth quarter of 2005.

% Share of total revenues 1999 through 2005

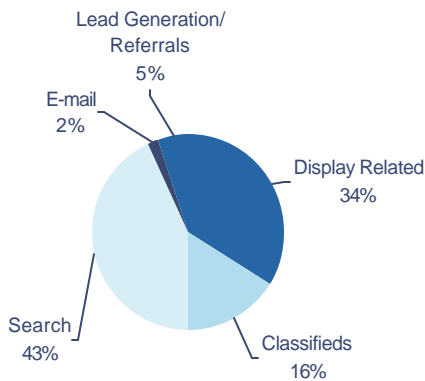


Search and Display Lead All Advertising Formats

- Search remains the largest revenue format, accounting for 43 percent of 2005 fourth-quarter revenues, up from the 40 percent reported for the same quarter in 2004. Search advertising revenues totaled nearly \$1.6 billion in the fourth quarter of 2005, up 44 percent from the fourth quarter of 2004, when search revenues totaled approximately \$1.1 billion. Search revenues totaled \$5.1 billion or 41% of 2005 total revenues, up from \$3.8 billion reported in 2004.
- Display Related advertising accounted for \$1.2 billion or 34 percent of the total revenues during the fourth quarter of 2005, compared to the \$1.0 billion (37 percent of total) reported in 2004 fourth quarter. Display Related advertising includes Display ads (21% of 2005 Q4 revenues), Rich Media (8%), Sponsorship (4%), Slotting Fees (1%). Display Related Advertising revenues totaled \$4.3 billion or 34 percent of total 2005 revenues, compared to \$3.8 billion (39 percent of total) reported for the same period in 2004.
- Classifieds revenue accounted for 16 percent of 2005 fourth-quarter revenues or \$577 million, down slightly from the 18 percent reported in the fourth quarter of 2004. Full year 2005 Classifieds revenue totaled \$2.1 billion or 17 percent of total revenues.

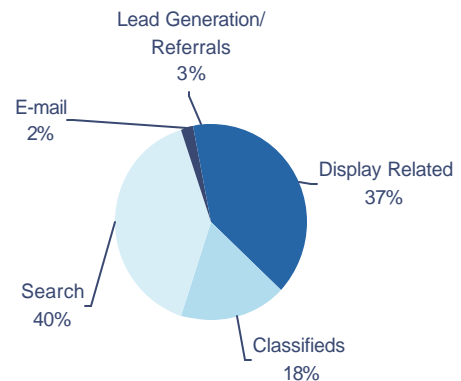
Internet Ad Revenues by Advertising Vehicle

% of 2005 Fourth-Quarter Revenues



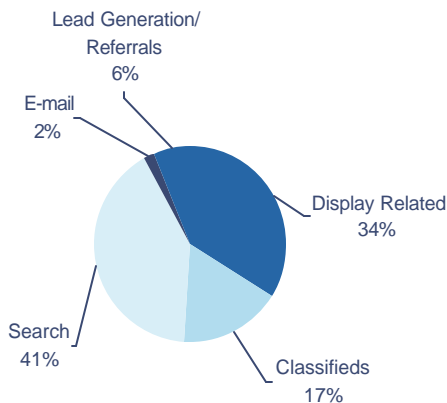
Total – \$3.6 Billion

% of 2004 Fourth-Quarter Revenues



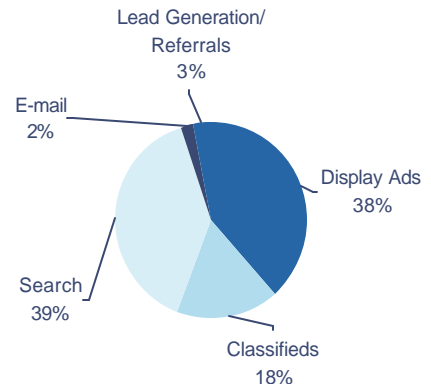
Total – \$2.7 Billion

% of 2005 Full-Year Revenues



Total – \$12.5 Billion

% of 2004 Full-Year Revenues



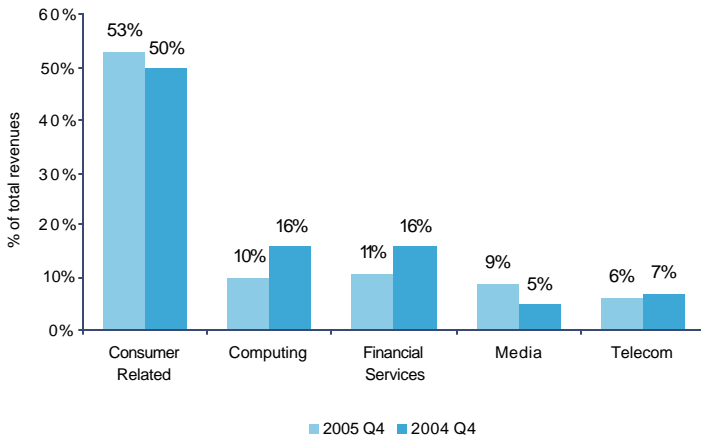
Total – \$9.6 Billion

Retail Advertisers Continue to Drive Consumer Ad Spending

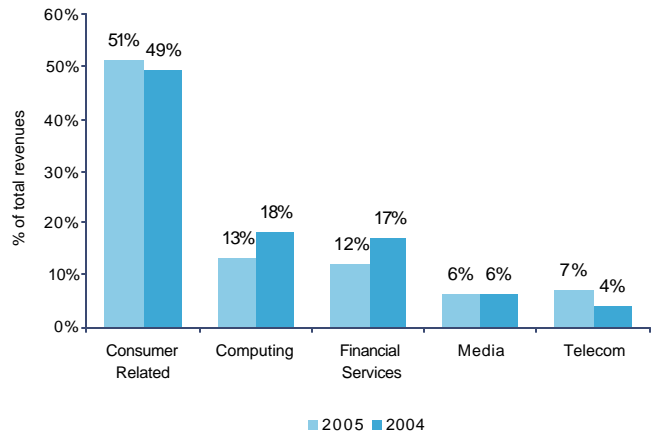
- Consumer advertisers continue to represent the largest category of Internet ad spending, accounting for 51 percent of 2005 full year revenues or \$6.4 billion, up slightly from the 49 percent reported for the same period in 2004.
- Financial Services advertisers represented the second-largest category of spending at 12 percent of 2005 full year revenues or \$1.5 billion, compared to the 17 percent reported in the same period in 2004.
- Computing advertisers represented the third-largest category of spending at 13 percent of 2005 full year revenues or \$1.6 billion, down from the 18 percent reported for full year 2004.
- Telecom companies accounted for 7 percent of full year 2005 revenues or \$0.8 billion, up from the 4 percent reported in the same period in 2004, while Media remained consistent at 6% or \$0.7 billion of 2005 revenues.
- The consumer related categories are Retail at 47 percent of 2005 full-year consumer ad revenues, followed by Automotive at 20 percent, Leisure (travel, hotel & hospitality) at 14 percent, Entertainment (music, film & TV entertainment) at 10 percent, and Packaged Goods at 5 percent.

Internet Ad Revenues by Major Industry Category*

2005 Q4 vs. 2004 Q4

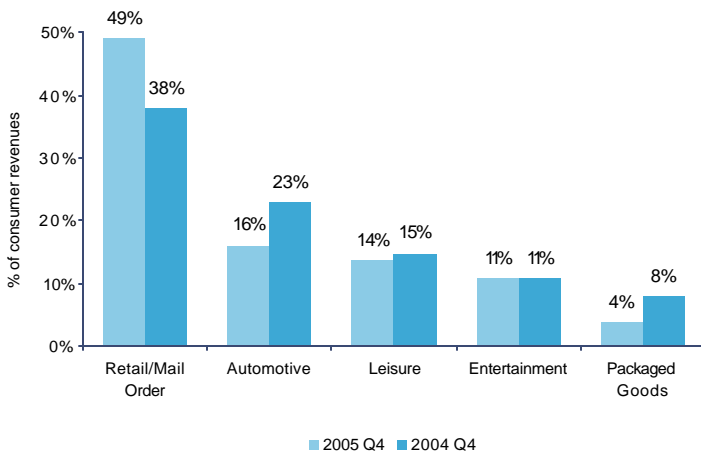


2005 Full Year vs. 2004 Full Year

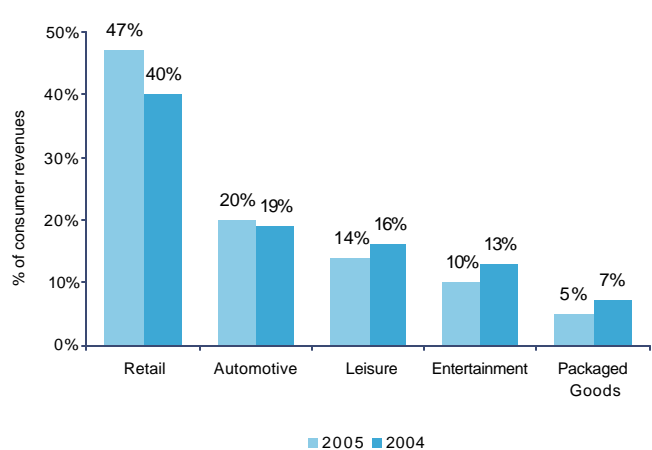


Internet Ad Revenues by Major Consumer Category*

2005 Q4 vs. 2004 Q4



2005 Full Year vs. 2004 Full Year



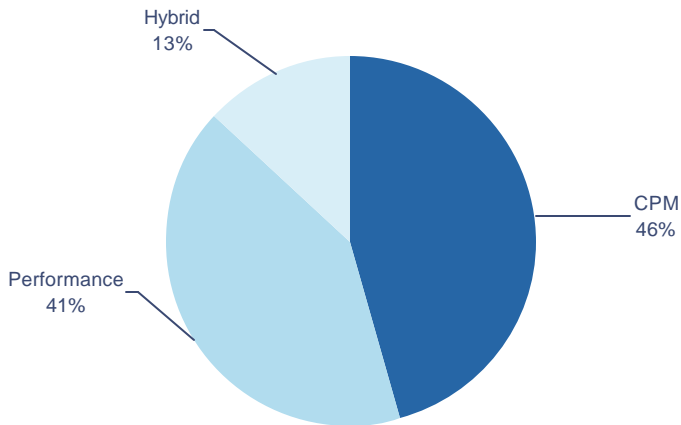
*Categories listed represent the top five ranked by revenue, and may not add up to 100 percent.

Impression-Based Pricing Rebounds

- Survey participants reported 46 percent of 2005 fourth-quarter revenues were priced on a CPM or impression basis (includes sponsorships), up from 38 percent reported for the fourth quarter of 2004.
- Approximately 41 percent of 2005 fourth-quarter revenues were priced on a performance basis (e.g., cost-per-click, sale, lead or straight revenue share), down from 46 percent for the same quarter in 2004.
- Approximately 13 percent of 2005 fourth-quarter revenues were priced on a hybrid basis, increasing from the 16 percent reported for the same quarter in 2004.

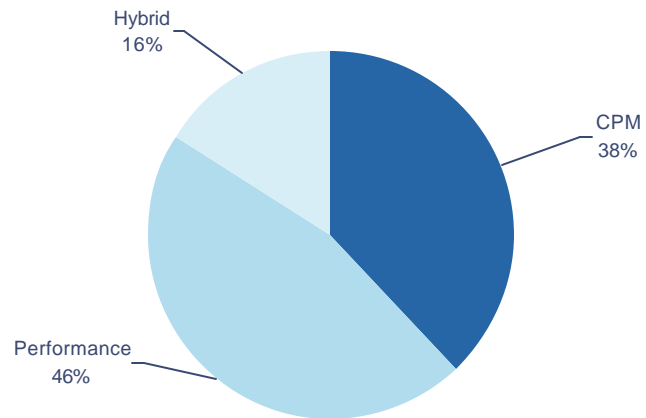
Internet Ad Revenues by Pricing Model

% of 2005 Fourth-Quarter Revenues



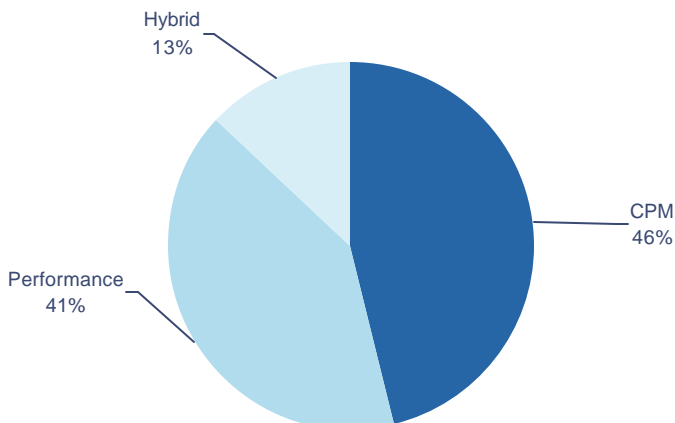
Total – \$3.6 Billion

% of 2004 Fourth-Quarter Revenues



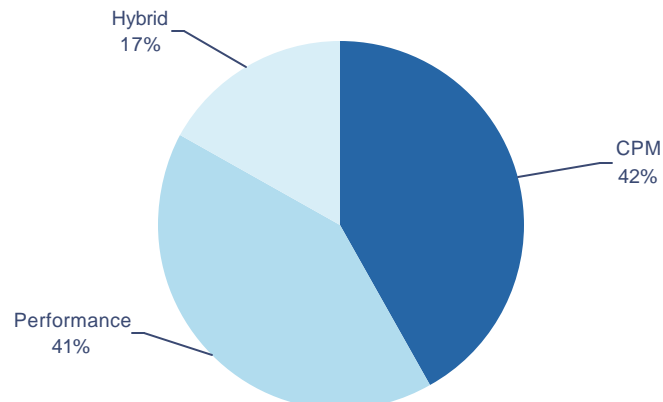
Total – \$2.7 Billion

% of 2005 Full-Year Revenues



Total – \$12.5 Billion

% of 2004 Full-Year Revenues

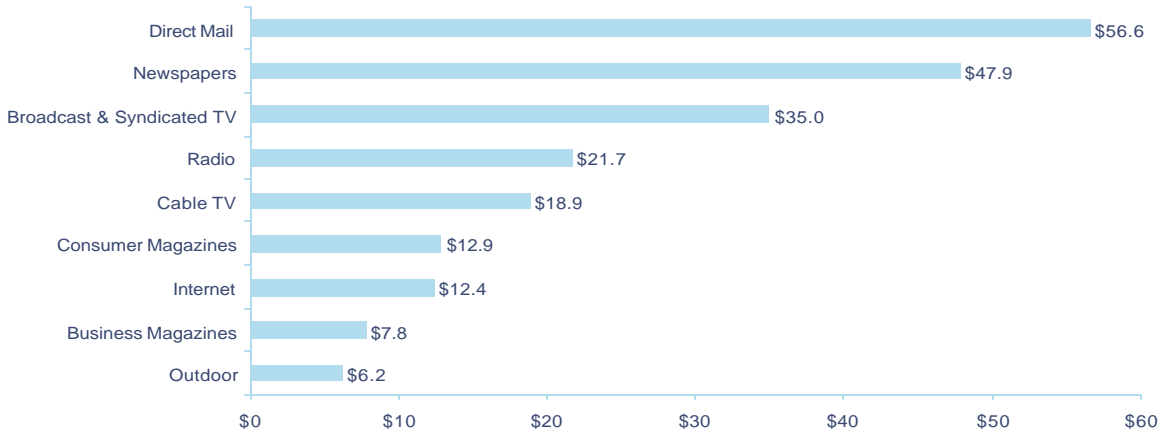


Total – \$9.6 Billion

U.S Advertising Marketshare

- Internet advertising revenues accounted for approximately 4.7 percent of total U.S. ad spending* in 2005, up from approximately 3.7 percent in 2004.

U.S. Advertising Market-Media Comparisons – 2005 (\$ Billions)



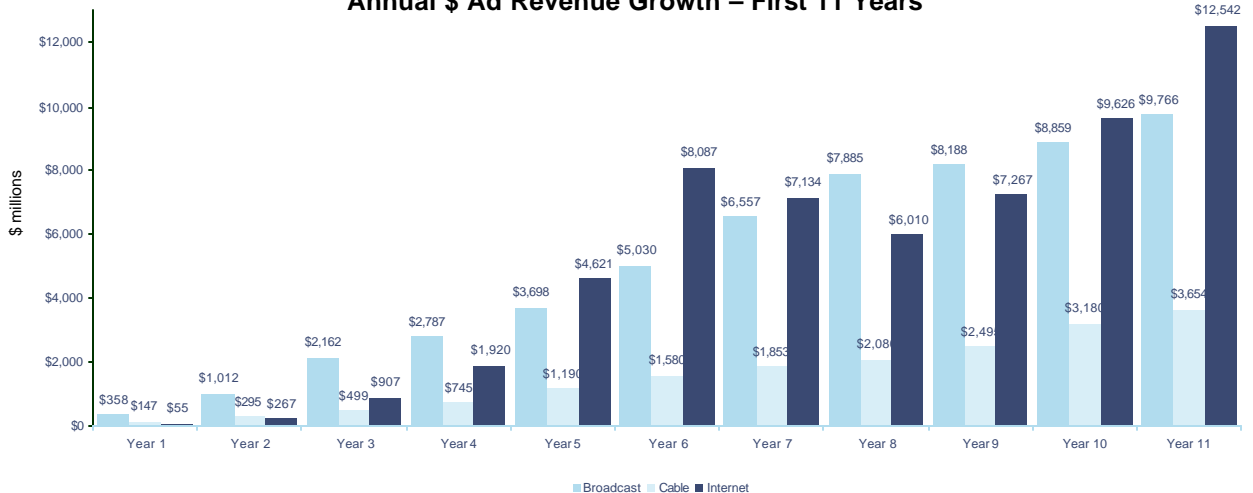
*The total U.S. advertising market is estimated at approximately \$267 billion, and includes other segments not charted here.

Sources: IAB Internet Ad Revenue Report; PricewaterhouseCoopersLLP; Universal McCann

Initial Year Growth Comparisons – Internet Advertising vs. Broadcast and Cable Television

- The first 11 years of Internet Advertising (1995-2005) were charted against broadcast television (1949-1958) and cable television (1980-1989), presented in current dollars.
- Internet advertising revenues surpassed cable television revenues in its third year of growth, and broadcast television revenues in its fifth year of growth. Internet advertising revenues measured below broadcast television in years eight and nine, and surpassed it again in years ten and eleven.

Annual \$ Ad Revenue Growth – First 11 Years



Sources: IAB Internet Ad Revenue Report; PricewaterhouseCoopersLLP; Universal McCann



Appendix

Definitions of Leading Industry Categories

The industry categories used in the IAB Internet Advertising Revenue Report were sourced from the Northern American Standard Industrial Classification (SIC) Manual.*

Consumer Related – includes industry categories classified as consumer-related, including automotive, mail order/catalog, travel/hotel/airlines, amusement & recreation, apparel, drug stores, home furnishings/textiles, retail stores, cosmetics, jewelry, restaurants/fast food, household products, tobacco, toys, pet food/supplies and appliances.

Computing Products – includes hardware (computers, computer storage devices, and computer peripheral equipment), prepackaged software (operating, utility and applications programs), local area network systems and network systems integration, computer processing and data preparation, and data processing services.

Financial Services – includes commercial banks, credit agencies, personal credit institutions, consumer finance companies, loan companies, business credit institutions, and credit card agencies. Also includes companies engaged in the underwriting, purchase, sale or brokerage of securities and other financial contracts.

Telecommunications – includes point-to-point communications services, including telephone voice and data communications, two-way mobile/cellular communications services, and other non-vocal message communications services (e.g., cablegram, electronic mail and facsimile).

Media – includes establishments primarily engaged in radio and television broadcasting (network and station) including commercial, religious, educational, and other radio or television stations. Includes multi-channel video providers on a subscription fee basis (e.g., cable television, wireless cable television, and direct broadcast satellite services). Also includes establishments primarily engaged in publishing newspapers, periodicals and books.

* Survey participants reported results based on the separate industry categories listed on page 14, which were used specifically for the IAB Internet Advertising Revenue Report. This is consistent with other relevant industry categorization sources that measure advertising spending by industry. For purposes of this report, PricewaterhouseCoopers classified a number of individual categories under “Consumer Related.”

Definitions of Advertising Formats

Display Advertising – advertiser pays an on-line company for space to display a static or hyper-linked banner or logo on one or more of the on-line company's pages.

Sponsorship – advertiser sponsors targeted Web site or email areas (e.g., entire web site, site area, an event, parts or all of an email message). Sponsorships can and usually do contain some banner elements. To the extent possible, separate and report revenues for other formats contained within the sponsorship campaign.

E-mail – banner ads, links or advertiser sponsorships that appear in e-mail newsletters, e-mail marketing campaigns and other commercial e-mail communications. Includes all types of electronic mail (e.g., basic text or HTML-enabled).

Search – fees advertisers pay on-line companies to list and/or link their company site domain name to a specific search word or phrase (includes paid search revenues). Search categories include:

- *Paid listings* – text links appear at the top or side of search results for specific keywords. The more a marketer pays, the higher the position it gets. Marketers only pay when a user clicks on the text link.
- *Contextual search* – text links appear in an article based on the context of the content, instead of a user-submitted keyword. Payment only occurs when the link is clicked.
- *Paid inclusion* – guarantees that a marketer's URL is indexed by a search engine. The listing is determined by the engine's search algorithms.
- *Site optimization* – modifies a site to make it easier for search engines to automatically index the site and hopefully result in better placement in results.

Lead Generation/Referrals* – fees advertisers pay to online companies that refer qualified purchase inquiries (e.g., auto dealers which pay a fee in exchange for receiving a qualified purchase inquiry online) or provide consumer information (demographic, contact, behavioral) where the consumer opts into being contacted by a marketer (email, postal, telephone, fax). These processes are priced on a performance basis (e.g., cost-per-action, -lead or -inquiry), and can include user applications (e.g., for a credit card), surveys, contests (e.g., sweepstakes) or registrations.

Classifieds and auctions – fees advertisers pay on-line companies to list specific products or services (e.g., on-line job boards and employment listings, real estate listings, automotive listings, auction-based listings, yellow pages).

Rich media – advertisements that integrate some component of streaming video and/or audio and interactivity, in addition to flash or java script ads, and can allow users to view and interact with products or services (e.g., a multimedia product description, a "virtual test-drive"). "Interstitials" have been consolidated within the rich media category and represent full- or partial-page text and image server-push advertisements which appear in the transition between two pages of content. Forms of interstitials can include splash screens, pop-up windows and superstitials.

Slotting fees – fees charged to advertisers by on-line companies to secure premium positioning of an advertisement on their site, category exclusivity or similar preference positioning (similar to slotting allowances charged by retailers).

*Definition expanded in 2005 to better reflect lead generation activity.

Survey Scope

The Interactive Advertising Bureau (IAB) retained PricewaterhouseCoopers to establish a comprehensive standard for measuring the growth of Internet/on-line advertising revenues.

- The IAB Internet Advertising Revenue Report is an ongoing IAB mission to provide an accurate barometer of Internet advertising growth.
- To achieve differentiation from existing estimates and accomplish industry-wide acceptance, key aspects of the survey include:
 - Obtaining historical data directly from companies generating Internet/on-line advertising revenues;
 - Making the survey as inclusive as possible, encompassing all forms of Internet/on-line advertising, including Web sites, consumer on-line services and e-mail providers; and
 - Ensuring and maintaining a confidential process, only releasing aggregate data.

Methodology

- PricewaterhouseCoopers:
 - Compiles a database of industry participants selling Internet/on-line advertising revenues.
 - Conducts a quantitative mailing survey with leading industry players, including Web publishers, commercial on-line service providers, e-mail providers and other on-line media companies.
 - Requests and compiles several specific data items, including monthly gross commissionable advertising revenue by industry category and transaction.
 - Identifies non-participating companies and applies a conservative revenue estimate based on available public sources.
 - Analyzes the findings, identifies and reports key trends.
 - The 2001 and 2000 full-year revenue data were adjusted to reflect revenue restatements reported in public filings by several individual companies. Those reported restatements totaled \$77 million in 2001 and \$138 million in 2000. Historical industry revenue figures are now adjusted to \$7.134 billion in 2001 and \$8.087 billion in 2000.

Survey Industry Categories

Entertainment (Film, TV, Music)

Apparel

Household Products

Automotive

Consumer Packaged Goods

Computers & Peripherals

Retail

Educational Services

Pet Food/Supplies

Restaurants/ Fast food

Financial Services (Banks, Insurance, Securities, Real Estate)

Business Equipment/ Supplies

Pharmaceuticals

Media (Broadcast, Cable, Publishing)

Telecommunications

Health Care Services

Professional Sports

Toiletries & Cosmetics

Leisure (Travel, Hotels, Resorts)

Business Services

Manufacturing

Overall Report Guidance Provided by IAB Leadership

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Matt Moog
Q Interactive

Caroline Little
Washingtonpost.Newsweek
Interactive

Peter Naylor
iVillage

Martin Nisenholtz
NY Times Company

Javier Saralegui
Univision Online

Warren Schlichting
Comcast Spotlight

James Spanfeller
Forbes.com

Steve Wadsworth
Walt Disney Internet Group

Jeff Webber
USA Today

Dave Yovanno
ValueClick Media

About the Interactive Advertising Bureau

Founded in 1996, the Interactive Advertising Bureau (www.iab.net) represents over 250 leading interactive companies that actively engage in, and support the sale of interactive advertising. IAB members are responsible for selling over 86% of online advertising in the United States. On behalf of its members, the IAB evaluates and recommends standards and practices; fields interactive effectiveness research, and educates the advertising industry about interactive advertising.

PricewaterhouseCoopers New Media Group

PricewaterhouseCoopers LLP (www.pwc.com) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 139 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

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PricewaterhouseCoopers' New Media Group was the first practice of its kind at a Big Four firm. Currently located in New York, Los Angeles, Boston, Seattle and the Bay Area, our New Media Group includes accounting, tax and consulting professionals who have broad and deep experience in the three areas that converge to form new media: advanced telecommunications, enabling software and content development/distribution.

Our services to the new media industry include:

- Business assurance services
- Web audience measurement auditing and advisory
- Web advertising delivery auditing and advisory
- Privacy policy structuring, attestation and compliance advisory
- Mergers & Acquisition assistance
- Tax planning and compliance
- Capital sourcing and IPO assistance

PricewaterhouseCoopers LLP is a licensed CPA WebTrust auditor, a designated TRUSTe auditor, and the leading service provider in the area of Web Advertising Delivery Auditing.

For information about our New Media Group, contact one of the following PricewaterhouseCoopers LLP professionals:

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