

IAB Internet Advertising Revenue Report

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

2007 Second-Quarter and First Six-Month Results
October 2007



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Background

About the IAB Internet Advertising Revenue Report

Conducted by 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 utilizes data and information reported directly to PricewaterhouseCoopers LLP, in addition to information available publicly, by companies representing thousands of Web sites, in addition to other online ad selling companies.

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

The report is conducted independently by PricewaterhouseCoopers LLP on behalf of the IAB. PwC does not audit the information and provides no opinion or other form of assurance with respect to the information. Only aggregate results are published and 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
PricewaterhouseCoopers LLP

Peter Petrusky
PricewaterhouseCoopers LLP

Executive Summary

IAB Internet Advertising Revenue Report 2007 Second-Quarter and First Six-Month Highlights

Internet advertising revenues (“revenues”) in the United States totaled nearly \$10 billion for the first six months of 2007, with Q1 accounting for approximately \$4.9 billion and Q2 totaling approximately \$5.1 billion. Internet advertising revenues for the first six months of 2007 increased 26.4 percent from the same period in 2006.

Key trends underlying 2007 year-to-date results:

- **Revenues Continue to Post Record Results**—Internet advertising revenue in the U.S. totaled just under \$5.1 billion in the second quarter of 2007, an increase of 4.0 percent from the 2007 first-quarter total of \$4.9 billion, and 25.4 percent from the 2006 second-quarter total of \$4.06 billion. Year-to-date Internet advertising revenues through June 2007 totaled nearly \$10 billion, up 26.4 percent from the \$7.9 billion reported for the same six-month period in 2006.

“The torrid growth of interactive advertising revenue persists and these results are really no surprise but very welcome news. More and more marketers have embraced the reality that interactive is the fulcrum on which their brand strategies need to be based and we expect robust growth to continue.”

—Randall Rothenberg, President and CEO, IAB

- **Consumer Advertisers Lead Spending**—Consumer-related continues to lead all sectors as the largest category of Internet Advertising Spend accounting for 54 percent of 2007 second-quarter revenues, up from 49 percent for the same period in 2006. Financial Services, the second-largest category, accounted for 15 percent, followed by Computing advertisers at 11 percent. Within the Consumer category the biggest sub-categories are Retail (46 percent of 2007 second-quarter consumer revenue category), Automotive (21 percent), Leisure (13 percent) and Entertainment (9 percent).

“The first six months of 2007 has continued the trend over the past several years of strong sequential growth. The growth, which was led by strong increases within the consumer advertising sector, continues to point to the mainstream acceptance of the medium and advertisers’ continuing reliance upon it.”

—David Silverman, Partner, PricewaterhouseCoopers LLP

- **Search Continues to Lead while Display and Lead Generation Gain**—Search revenue accounted for 40 percent of 2007 second-quarter revenues, consistent with the same period in 2006. Display advertising, the second largest format, accounted for 22 percent, followed by Classifieds (17 percent) and Lead Generation (8 percent) of 2007 second-quarter revenues.

“The Internet is well established as a key media distribution channel for driving advertising. The recent results demonstrate that advertisers recognize the continued growth in the online audience and the growing opportunity to target and monetize the audience.”

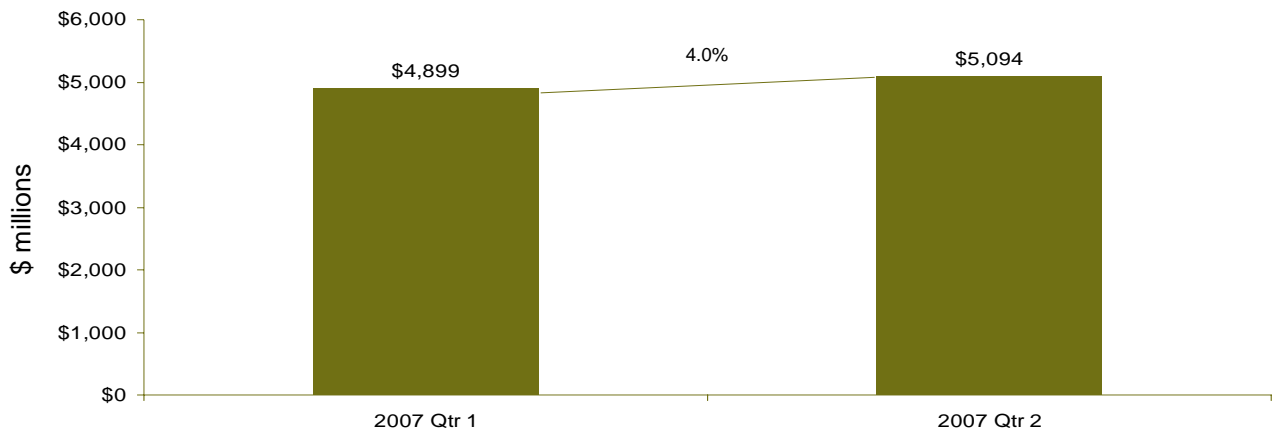
—Peter Petrusky, Director, PricewaterhouseCoopers LLP

Detailed Findings

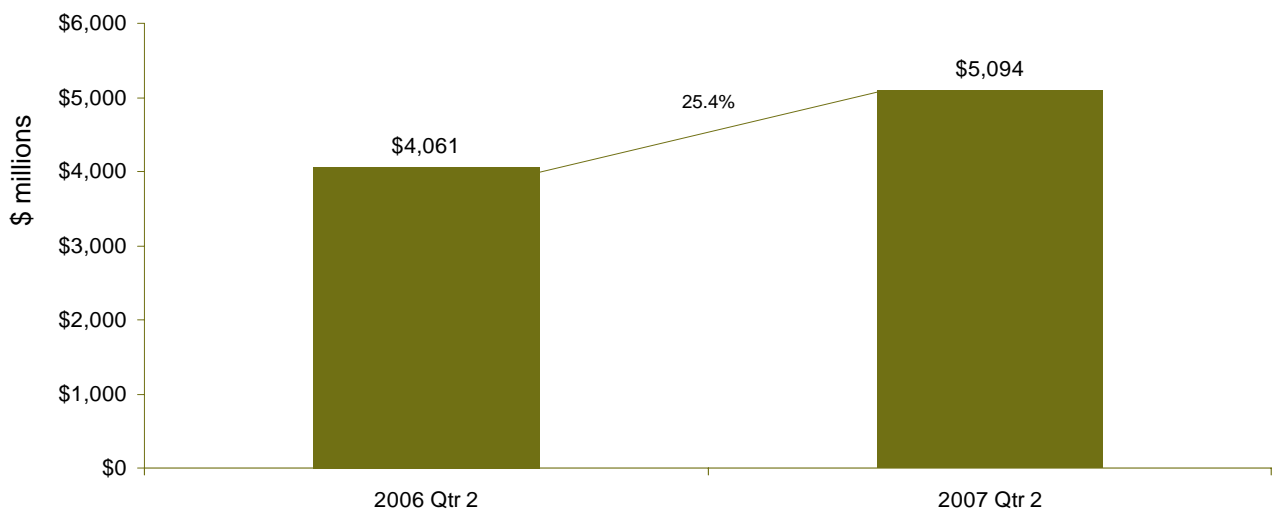
Revenues Totaled Nearly \$5.1 Billion in the Second Quarter of 2007

- Online ad sellers reported aggregate revenues totaling nearly \$5.1 billion for the second quarter of 2007.
- Total 2007 second-quarter revenues were \$195 million or 4.0 percent higher than the first quarter of 2007, and over \$1 billion or 25.4 percent higher than the second quarter of 2006.

2007 Q1 vs. 2007 Q2



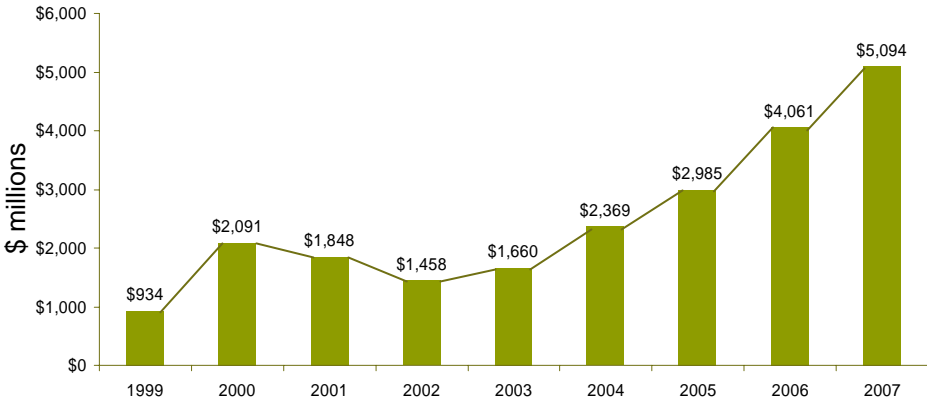
2006 Q2 vs. 2007 Q2



Historical Second-Quarter Revenue Trends

- Second-quarter revenues have increased significantly on a year-over-year percentage and dollar basis for the fifth consecutive year, after declining in 2001 and 2002.

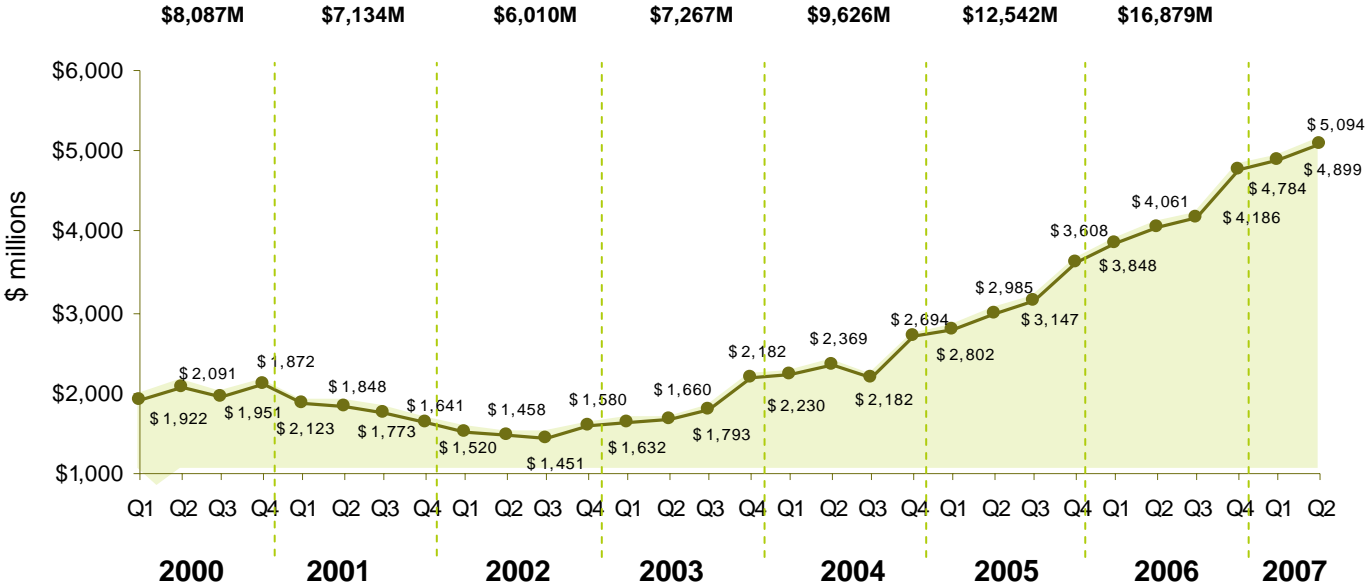
Second-Quarter \$ Revenue — 1999 through 2007



Quarterly Revenues Post Record Levels

- 2007 second-quarter revenues recorded the highest quarterly revenue total since reporting began in 1996, and marked the first time quarterly revenues exceeded \$5.0 billion.
- Since the third quarter of 2002, revenues have increased 18 of the past 19 consecutive quarters.

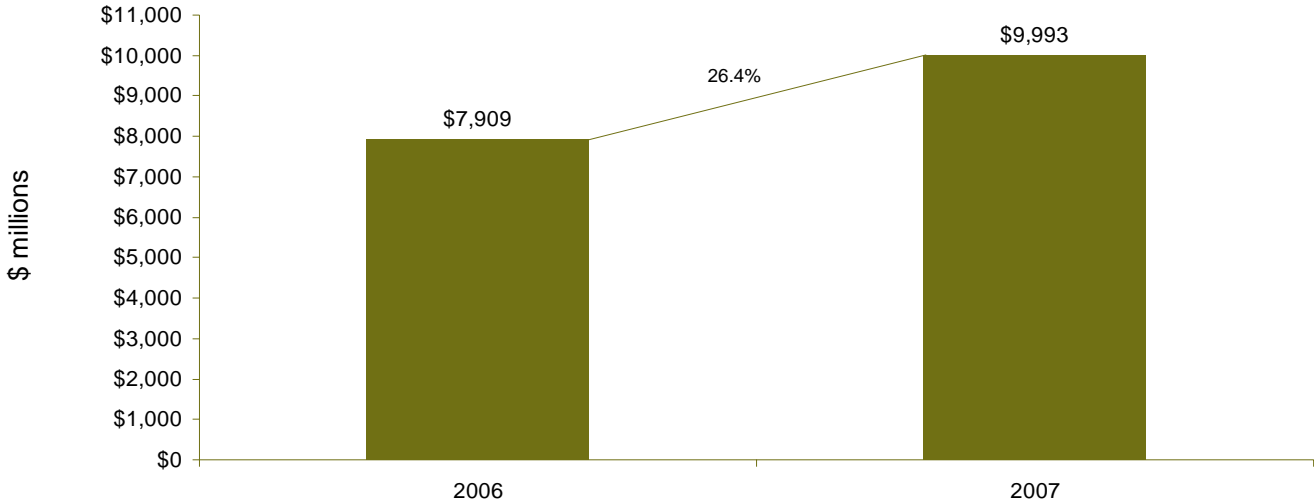
Quarterly \$ Revenue Growth Comparisons — 2000-2007 YTD



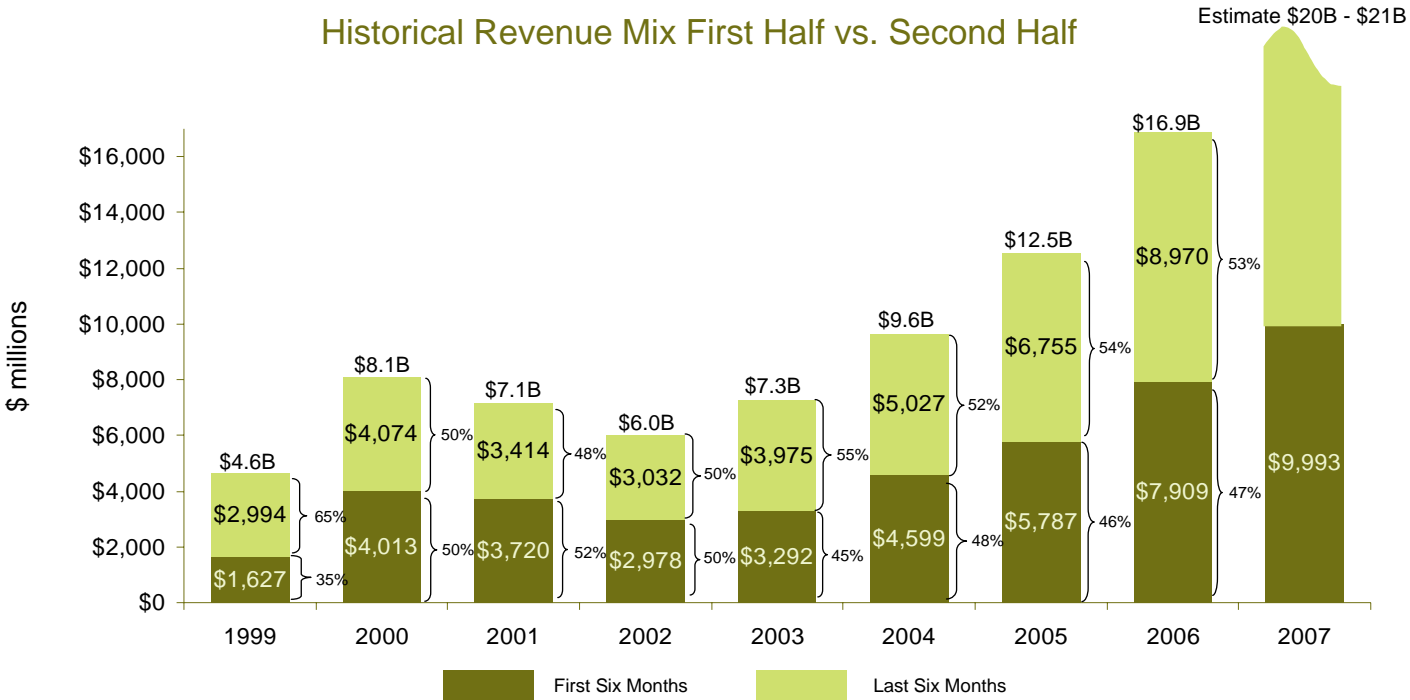
2007 First Six-Month Revenues Totaled Nearly \$10 Billion

- First six-month revenues for 2007 totaled just under \$10 billion, \$2.1 billion or 26.4 percent higher than the same period in 2006.
- Applying historical seasonal data, the 2007 first six-month revenues of \$10 billion are on an annual run-rate to potentially exceed \$20 billion.

First Six-Month Revenues — 2006 vs. 2007



Historical Revenue Mix First Half vs. Second Half



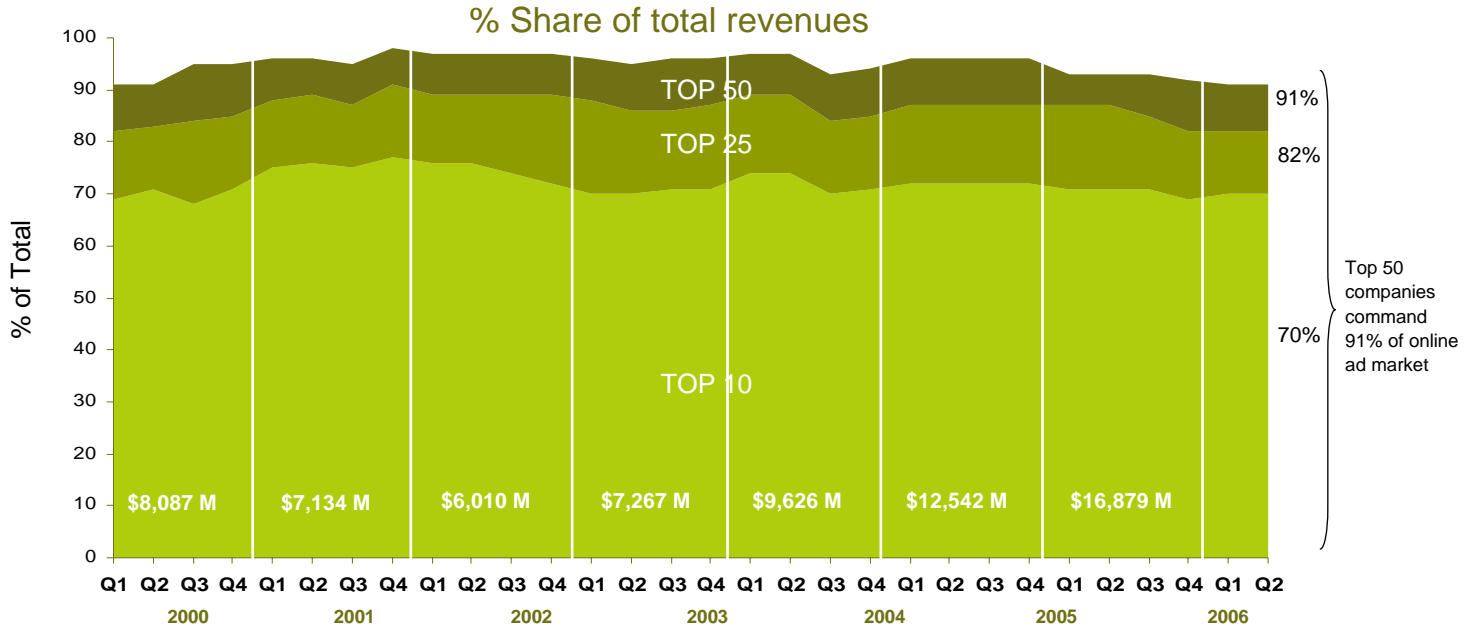
Historical Revenue Performance

- Annual and Quarterly Revenue Growth Comparisons

	\$ Rev Millions	% GROWTH			\$ Rev Millions	% GROWTH	
		Qtr/Qtr	Year/Year			Qtr/Qtr	Year/Year
1Q97	\$130	18%	333%	1Q02	\$1,520	-7%	-19%
2Q97	\$214	66%	313%	2Q02	\$1,458	-4%	-21%
3Q97	\$227	6%	200%	3Q02	\$1,451	-1%	-18%
4Q97	\$336	48%	205%	4Q02	\$1,580	9%	-4%
Total 1997	\$907		239%	Total 2002	\$6,010		-16%
1Q98	\$351	5%	171%	1Q03	\$1,632	3%	7%
2Q98	\$423	20%	97%	2Q03	\$1,660	2%	14%
3Q98	\$491	16%	116%	3Q03	\$1,793	8%	24%
4Q98	\$656	34%	95%	4Q03	\$2,182	22%	38%
Total 1998	\$1,920		112%	Total 2003	\$7,267		21%
1Q99	\$693	6%	97%	1Q04	\$2,230	2%	37%
2Q99	\$934	35%	121%	2Q04	\$2,369	6%	43%
3Q99	\$1,217	30%	148%	3Q04	\$2,333	-2%	30%
4Q99	\$1,777	46%	171%	4Q04	\$2,694	15%	24%
Total 1999	\$4,621		141%	Total 2004	\$9,626		33%
1Q00	\$1,922	8%	177%	1Q05	\$2,802	4%	25%
2Q00	\$2,091	9%	123%	2Q05	\$2,985	7%	26%
3Q00	\$1,951	-7%	60%	3Q05	\$3,147	5%	35%
4Q00	\$2,123	9%	19%	4Q05	\$3,608	15%	34%
Total 2000	\$8,087		75%	Total 2005	\$12,542		30%
1Q01	\$1,872	-12%	-3%	1Q06	\$3,848	7%	37%
2Q01	\$1,848	-1%	-12%	2Q06	\$4,061	6%	36%
3Q01	\$1,773	-4%	-10%	3Q06	\$4,186	3%	33%
4Q01	\$1,641	-7%	-23%	4Q06	\$4,784	14%	33%
Total 2001	\$7,134		-12%	Total 2006	\$16,879		35%
				1Q07	\$4,899	2%	27%
				2Q07	\$5,094	4%	25%
				3Q07			
				4Q07			
				Total 2007			

Industry Revenue Concentration Remains High

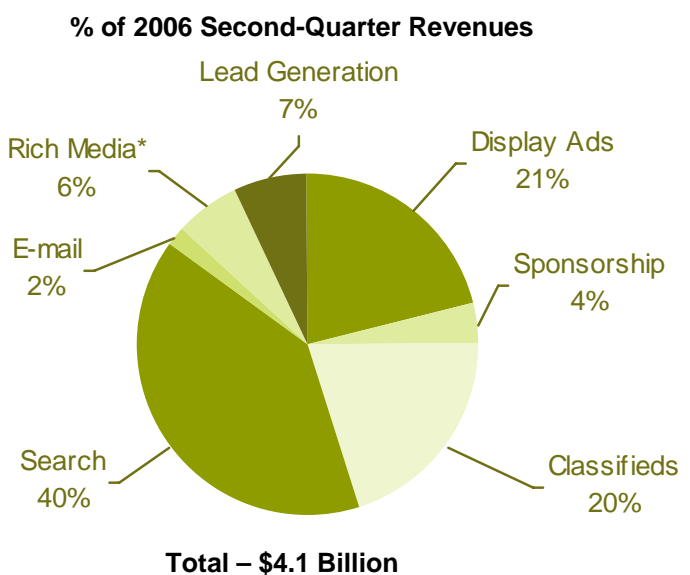
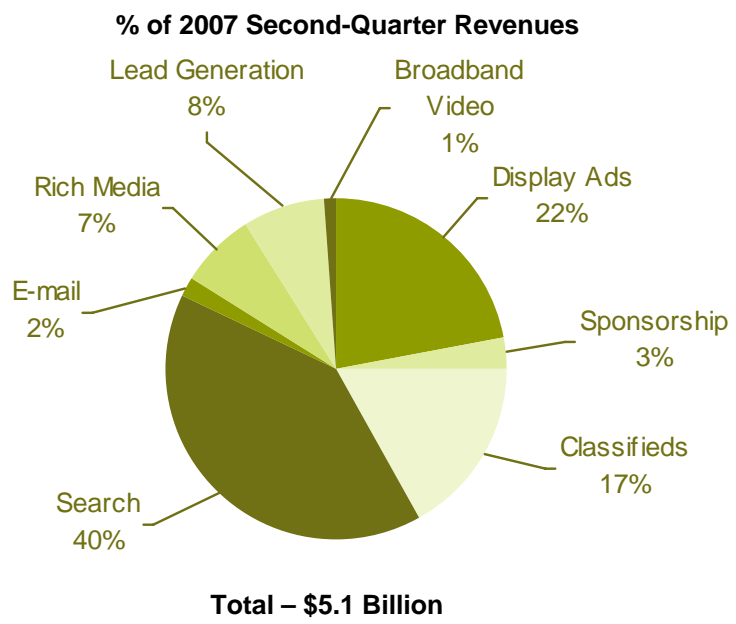
- Online advertising continues to remain concentrated with the ten leading ad-selling companies, which accounted for 70 percent of total revenues in the second quarter of 2007, down slightly from 71 percent reported for the second quarter of 2006.
- Companies ranked 11th to 25th accounted for 12 percent of revenues for the second quarter of 2007, while companies ranked 26th to 50th accounted for 9 percent in the second quarter of 2007.



Search, Display and Classifieds Lead Ad Formats – 2007 Second Quarter Results

- Search revenues accounted for 40 percent of 2007 Q2 revenues, consistent with the 40 percent reported for the same period in 2006. Search advertising revenues totaled just over \$2 billion in the second quarter of 2007, up 25 percent from the second quarter of 2006, when Search revenues totaled approximately \$1.6 billion.
- Display-related advertising accounted for nearly \$1.7 billion or 33 percent of total revenues during the second quarter of 2007, compared to the \$1.3 billion (31 percent of total) reported in the second quarter of 2006. Display-related advertising includes Display ads (22% of 2007 Q2 revenues or \$1.1 billion), Rich Media (7% or \$357 million), Broadband Video (1% or \$51 million), and Sponsorship (3% or \$153 million).
- Classifieds revenues totaled \$866 million or 17 percent of 2007 second-quarter revenues, down from the 20 percent or \$812 million reported in the second quarter of 2006.
- Lead Generation revenues accounted for 8 percent of the 2007 second-quarter revenues or \$408 million, up from the 7 percent (\$284 million) reported in the second quarter of 2006.

Internet Ad Revenues by Advertising Format – 2007 Second Quarter Results

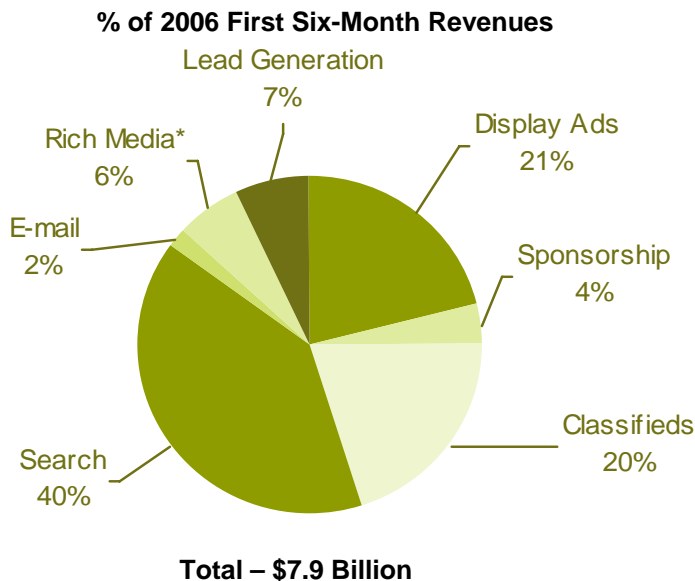
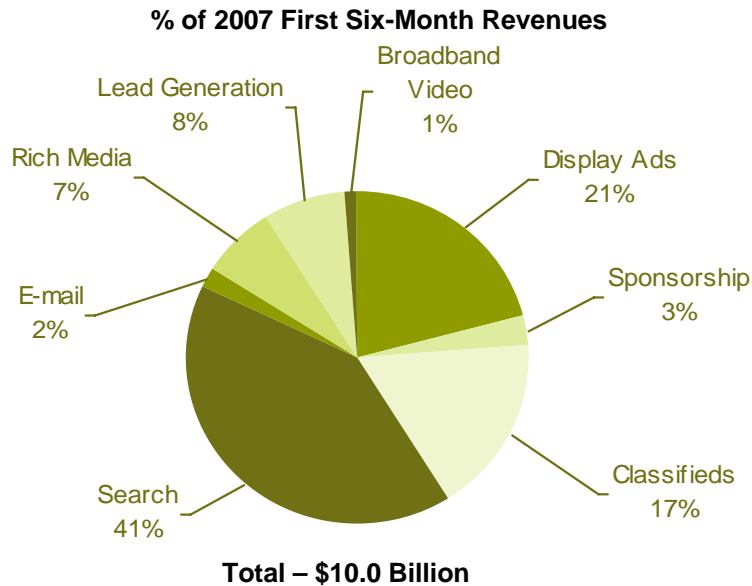


*Rich Media 2006 includes Broadband Video; definition on page 12 of report. Slotting fees accounted for less than 1% in 2006 and 2007.

Search, Display and Classifieds Lead Ad Formats – 2007 First Six-Month Results

- Search remains the largest revenue format, accounting for 41 percent of 2007 first six-month revenues, up slightly from the 40 percent reported in 2006. Search advertising revenues totaled \$4.1 billion for the first six months of 2007, up 29 percent from the \$3.2 billion for the same period in 2006.
- Display-related advertising revenues totaled \$3.2 billion or 32 percent for the first six months of 2007, compared to the \$2.4 billion (31 percent of total) reported for the same period in 2006. Display-related advertising includes Display ads (21% of 2007 first six-month revenues or \$2.1 billion), Rich Media (7% or \$699 million), Broadband Video (1% or \$100 million), and Sponsorship (3% or \$300 million).
- Classifieds revenues accounted for 17 percent of 2007 first six-month revenues or \$1.7 billion, compared to the 20 percent or \$1.6 billion reported for the same period in 2006.
- Lead Generation revenues accounted for 8 percent of 2007 first six-month revenues or \$799 million, up from the 7 percent or \$592 million reported for the same period of 2006.

Internet Ad Revenues by Advertising Format – 2007 First Six Months Results

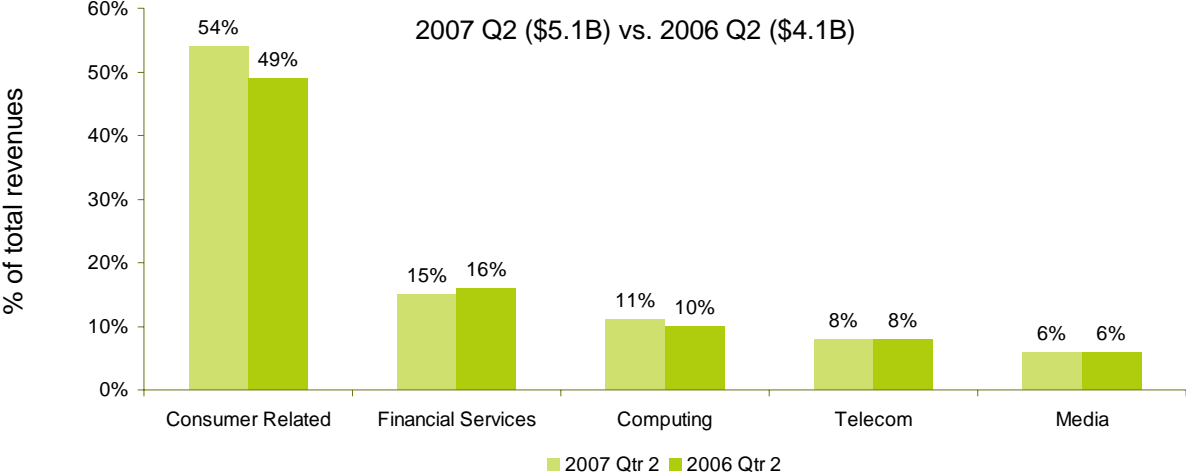


*Rich Media 2006 includes Broadband Video; definition on page 12 of report. Slotting fees accounted for less than 1% in 2006 and 2007.

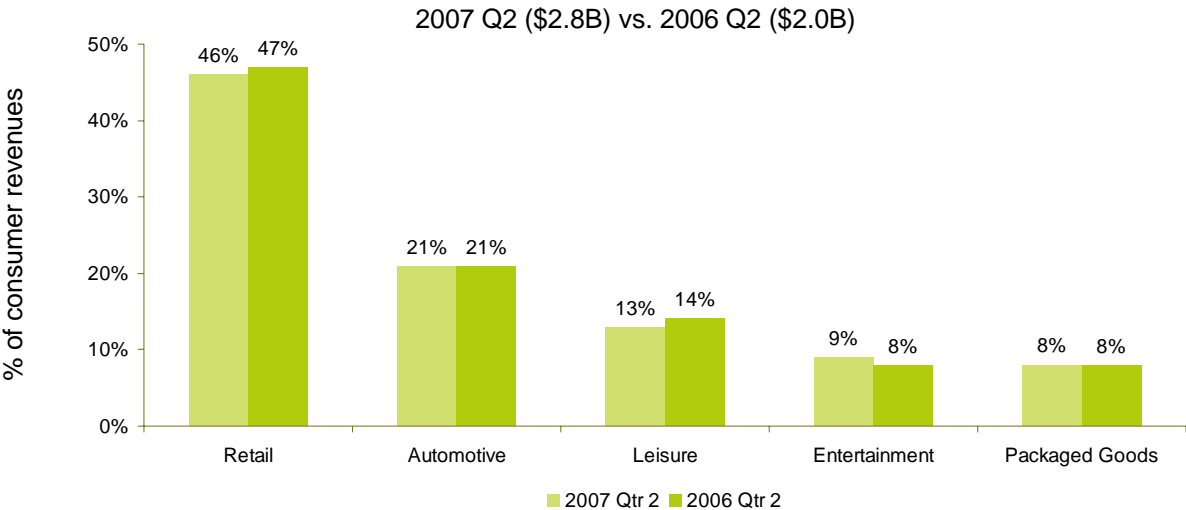
Retail Advertisers Continue to Drive Consumer Ad Spending – 2007 Second Quarter Results

- Consumer advertisers continue to represent the largest category of Internet ad spending, accounting for 54 percent of 2007 second-quarter revenues or \$2.8 billion, up from the 49 percent reported for the same period in 2006.
- Financial Services advertisers represented the second-largest category of spending at 15 percent of 2007 second-quarter revenues or \$764 million, slightly down from the 16 percent reported in the same period in 2006.
- Computing advertisers represented the third-largest category of spending at 11 percent of 2007 second-quarter revenues or \$560 million, up slightly from the 10 percent reported in the second quarter of 2006.
- Telecom companies accounted for 8 percent of 2007 second-quarter revenues or \$408 million, consistent with the 8 percent (\$325 million) reported in the same period in 2006, while Media accounted for 6 percent of 2007 second-quarter revenues or \$306 million, consistent with the 6 percent reported in the second quarter of 2006.
- The consumer related categories are led by Retail at 46 percent of the 2007 second quarter consumer ad revenues, followed by Automotive at 21 percent, Leisure (travel, hotel & hospitality) at 13 percent, Entertainment (music, film & TV entertainment) at 9 percent, and Packaged Goods at 8 percent.

Internet Ad Revenues by Major Industry Category*



Internet Ad Revenues by Major Consumer Category*

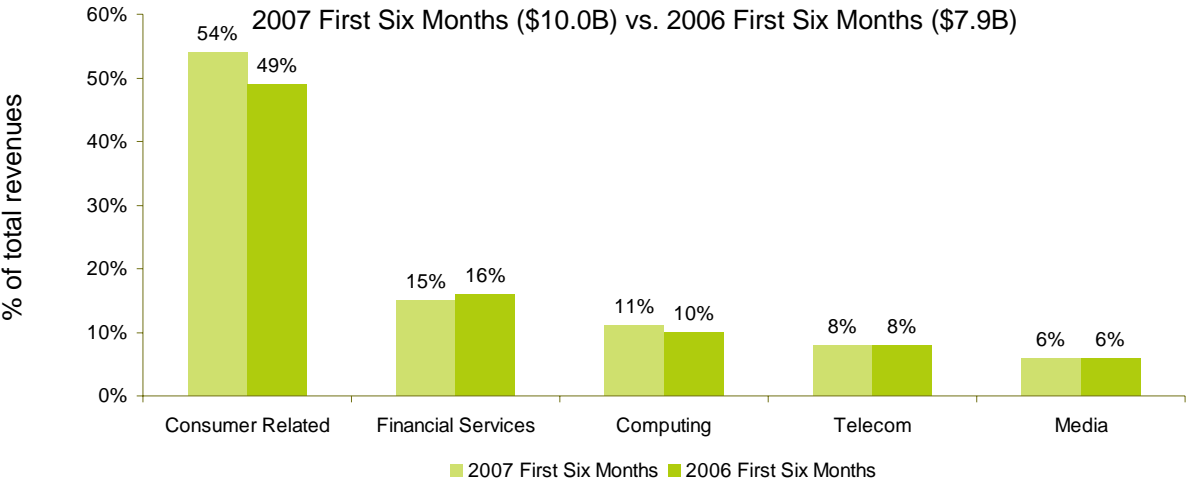


*Categories listed represent the top five ranked by revenue, and may not add up to 100 percent.

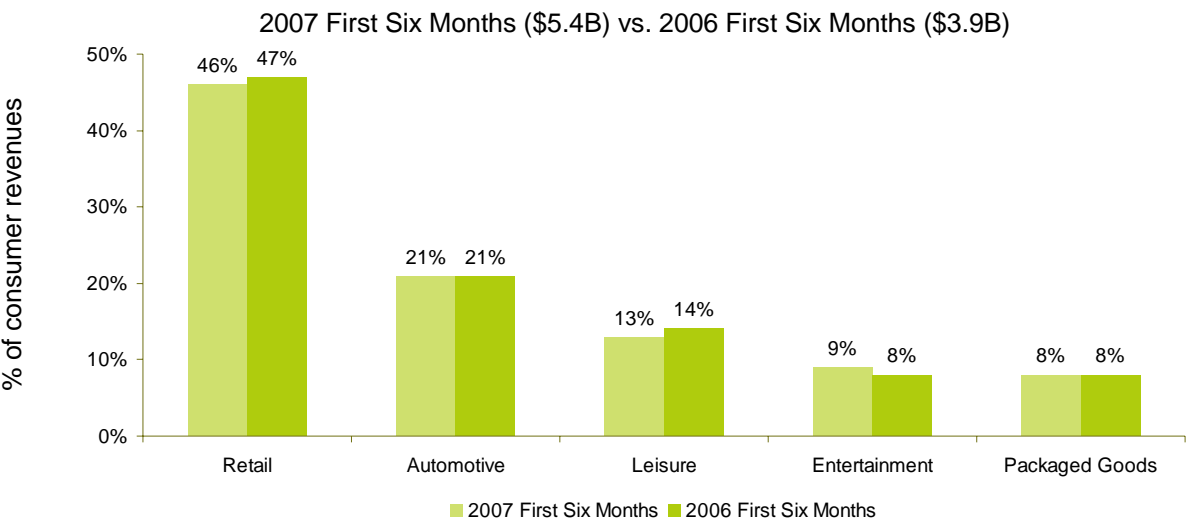
Retail Advertisers Continue to Drive Consumer Ad Spending – 2007 First Six-Month Results

- Consumer advertisers continue to represent the largest category of Internet ad spending, accounting for 54 percent of revenues for the first six months of 2007 or \$5.4 billion, up from the 49 percent (\$3.9 billion) reported in 2006.
- Financial Services advertisers represented the second-largest category of spending at 15 percent of 2007 first six-month revenues or \$1.5 billion, slightly down from the 16 percent or \$1.3 billion reported for the same period in 2006.
- Computing advertisers represented the third-largest category of spending at 11 percent of 2007 first six-month revenues or \$1.1 billion, up slightly from the 10 percent reported (\$791 million) for the first six months of 2006.
- Telecom companies accounted for 8 percent of 2007 first six-month revenues or \$799 million, consistent with the 8 percent (\$671 million) reported for the same period in 2006, while Media accounted for 6 percent of revenues for the first six months of 2007 or \$600 million, consistent with the 6 percent (\$475 million) reported in 2006.
- The consumer related categories are led by Retail at 46 percent of 2007 first six-month consumer ad revenues, followed by Automotive at 21 percent, Leisure (travel, hotel & hospitality) at 13 percent, Entertainment (music, film & TV entertainment) at 9 percent, and Packaged Goods at 8 percent.

Internet Ad Revenues by Major Industry Category*



Internet Ad Revenues by Major Consumer Category*



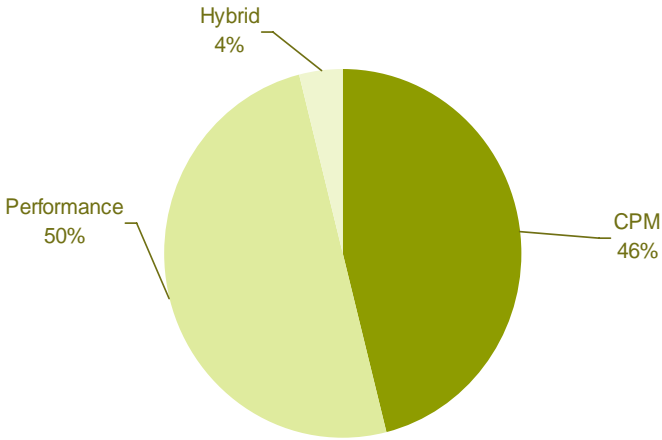
*Categories listed represent the top five ranked by revenue, and may not add up to 100 percent.

Performance-Based Pricing Rebounds

- Approximately 50 percent of 2007 second-quarter revenues were priced on a performance basis, up from 47 percent reported for the second quarter of 2006.
- Approximately 46 percent of 2007 second-quarter revenues were priced on a CPM or impression basis, down from 48 percent for the same period in 2006.
- Approximately 4 percent of 2007 second-quarter revenues were priced on a hybrid basis, down slightly from the 5 percent reported for the same period in 2006.

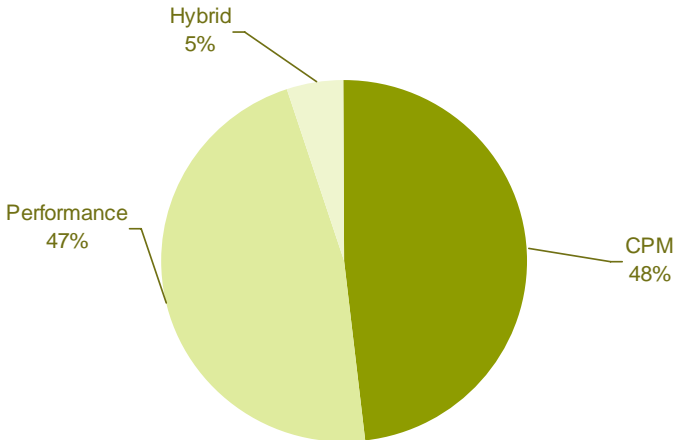
Internet Ad Revenues by Pricing Model

% of 2007 Second-Quarter Revenues



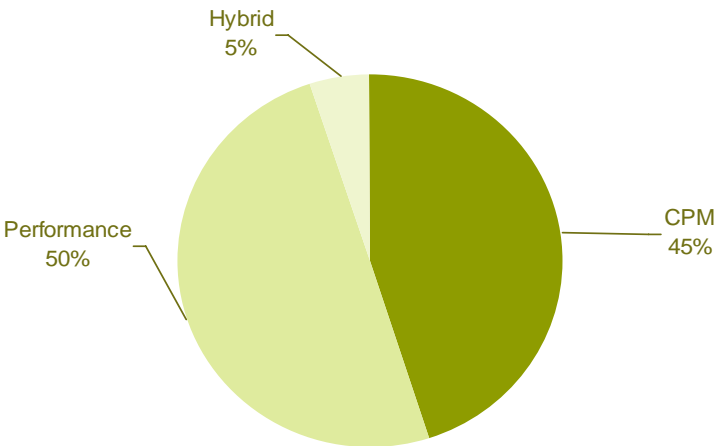
Total – \$5.1 Billion

% of 2006 Second-Quarter Revenues



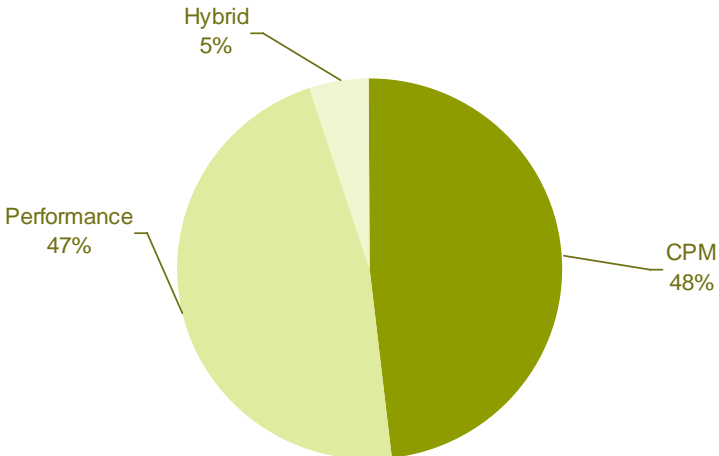
Total – \$4.1 Billion

% of 2007 First Six-Month Revenues



Total – \$10.0 Billion

% of 2006 First Six-Month Revenues



Total – \$7.9 Billion

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 37 industry categories listed on page 13, 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 Internet company for space to display a static or hyper-linked banner or logo on one or more of the Internet company's pages.

Sponsorship—represents custom content and/or experiences created for an advertiser which may or may not include ad units (i.e., display advertising, brand logos, advertorial and pre-roll video). Sponsorships fall into several categories:

- Spotlights are custom built pages incorporating an advertiser's brand and housing a collection of content usually around a theme;
- Advergaming can range from an advertiser buying all the ad units around a game or a "sponsored by" link to creating a custom branded game experience;
- Content & Section Sponsorship is when an advertiser exclusively sponsors a particular section of the site or email (usually existing content) reskinned with the advertiser's branding;
- Sweepstakes & Contests can range from branded sweepstakes on the site to a full-fledge branded contest with submissions and judging

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 Internet 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—fees advertisers pay to Internet advertising 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 Internet companies to list specific products or services (e.g., online job boards and employment listings, real estate listings, automotive listings, auction-based listings, yellow pages).

Rich media—advertisements that incorporate animation, sound, and/or interactivity in any format. It can be used either singularly or in combination with the following technologies: sound, Flash, and with programming languages such as Java, JavaScript, and DHTML. It is deployed via standard Web and wireless applications including e-mail, static (e.g. html) and dynamic (e.g. asp) Web pages, and may appear in ad formats such as banners, buttons, and interstitials. Interstitials are included in 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, page takeovers and pop-up windows.

Broadband Video Commercials—TV-like advertisements that may appear as in-page video commercials or before, during, and/or after a variety of content in a player environment including but not limited to, streaming video, animation, gaming, and music video content. This definition includes broadband video commercials that appear in live, archived, and downloadable streaming content.

Survey Scope

The Interactive Advertising Bureau (IAB) retained PricewaterhouseCoopers to establish a comprehensive standard for measuring the growth of Internet/online 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/online advertising revenues;
 - Making the survey as inclusive as possible, encompassing all forms of Internet/online advertising, including Web sites, consumer online 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/online advertising revenues.
 - Conducts a quantitative mailing survey with leading industry players, including Web publishers, commercial online service providers, e-mail providers and other online 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

Amusement & recreational services	Educational Services	Manufacturing
Apparel	Entertainment (Film, Music, Box Office, Video Games)	Media (Broadcast, Cable, Publishing)
Automotive	Financial services (Banks, Insurance, Securities)	Pharmaceuticals
Beer/wine/liquor	Food	Professional sports, sporting & athletic goods
Beverages	Health care services	Real estate
Computing products (hardware/software)	Home furnishings/textiles	Restaurants/fast food
Consumer Packaged Goods	Household products/supplies	Retail/chains/mail order/catalog
Cosmetics/toiletries	Internet/ISP/E-commerce	Telecommunications
Drug stores	Leisure (Travel/hotels/airlines)	Toys/games

Overall Report Guidance Provided by IAB Leadership

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Eric Chandler
Idearc Media Superpages.com

Sarah Chubb
CondéNet

Ned Desmond
Time Inc Interactive

Joe Fiveash
Weather Channel Interactive

Mitch Golub
Cars.com

Bruce Gordon
Walt Disney Internet Group

Mike Hard
Microsoft Digital Advertising Solutions

David Hills
Looksmart, Ltd.

Peter Horan
IAC Media and Advertising

Kathy Kayse
AOL Media Networks

Patrick Keane
CBS

Randy Kilgore
Tremor Media

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Caroline Little
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Peter Naylor
NBC Universal

Martin Nisenholtz
NY Times Company

David Payne
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Lance Podell
Seevast

Randall Rothenberg
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Javier Saralegui
Univision Online

Warren Schlichting
Comcast Spotlight

Tad Smith
Reed Business Information

Jim Spanfeller
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Jeff Webber
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Matt Wise
Q Interactive

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ValueClick, Inc

About the Interactive Advertising Bureau

Founded in 1996, the Interactive Advertising Bureau (IAB) represents over 250 leading interactive companies that are actively engaged 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 regarding the use of interactive advertising. For more information, please visit www.iab.net.

PricewaterhouseCoopers New Media Group

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 144 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

Unless otherwise indicated, "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, a Delaware limited liability partnership. PricewaterhouseCoopers LLP is a member firm of PricewaterhouseCoopers International Limited.

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 include:

- Business assurance services
- Web audience measurement and advertising delivery auditing and advisory
- IAB Measurement Certification Compliance auditing
- 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 professionals:

New York

David Silverman

Partner, Assurance Services
646.471.5421
david.silverman@us.pwc.com

Peter Petrusky

Director, Advisory Services
646.471.3309
peter.petrusky@us.pwc.com

Russ Sapienza

Partner, Advisory Services
646.471.1517
russell.j.sapienza@us.pwc.com

Boston

Vic Petri

Partner, Assurance Services
617.478.1698
victor.petri@us.pwc.com

San Jose

Mike Pearl

Partner, Assurance Services
408.817.3801
michael.pearl@us.pwc.com

Seattle

Suzanne Faulkner

Partner, Assurance Services
206.398.3550
suzanne.faulkner@us.pwc.com

