

IAB Internet Advertising Revenue Report

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

2005 Second-Quarter and First Six-Month Results
September 2005

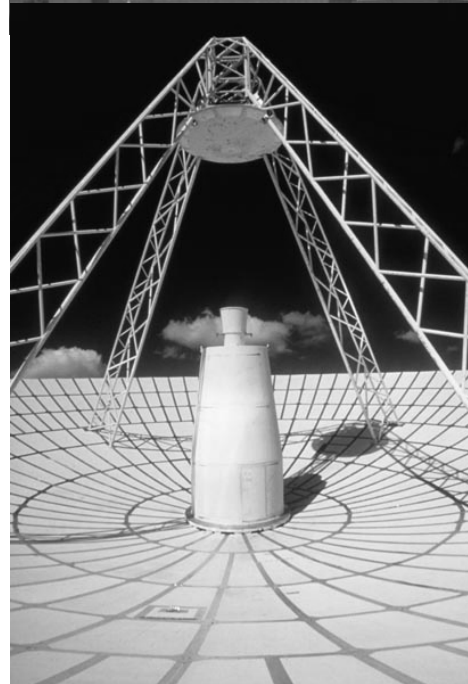
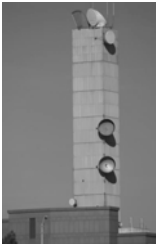
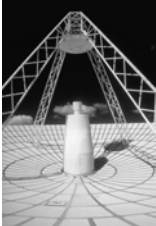


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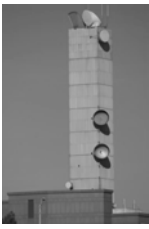
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Background

About the IAB Internet Advertising Revenue Report

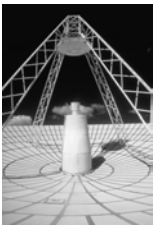
Conducted by the New Media Group of PricewaterhouseCoopers LLP on an ongoing basis, with results released quarterly, the “Internet Advertising Revenue Report” was initiated by the Interactive Advertising Bureau (IAB) in 1996. This report aggregates data and information reported directly to PricewaterhouseCoopers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

The results reported are the most accurate measurement of Internet/online advertising revenues since 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, 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 Second-Quarter and First Six-Month Highlights

Internet advertising revenues (“revenues”) in the United States totaled nearly \$5.8 billion for the first six months of 2005, with Q1 accounting for \$2.80 billion and Q2 totaling \$2.99 billion. Internet advertising revenues for the first six months of 2005 increased 25.8 percent from the same period in 2004.

Key trends underlying 2005 year-to-date results:

- **Revenues Continue to Climb** – Internet advertising revenue in the U.S. totaled \$2.99 billion in the second quarter of 2005, marking the ninth quarterly revenue increase out of the last 10 quarters. Total revenues for the 2005 second quarter increased 6.6 percent from the 2005 first-quarter total of \$2.80 billion, and 26 percent from the 2004 second-quarter total of \$2.37 billion. Year-to-date Internet advertising revenues through June 2005 totaled nearly \$5.8 billion, up nearly 26 percent versus the same six-month period in 2004.

“It is clear from this continued growth, that most agencies and marketers are now committed to Interactive as a critical medium in reaching their audiences, as well as engaging them in more immersive brand experiences. At the end of the day, it is about increased effectiveness from your marketing dollars and Interactive delivers this.”

– Greg Stuart, President and CEO, IAB

- **Consumer Advertisers Lead Spending** – Consumer-related advertisers accounted for the largest category of revenues at 51 percent of 2005 second-quarter revenues, up from 49 percent from the same period in 2004. Computing advertisers, the second-largest category, accounted for 15 percent, followed by Financial Services companies at 13 percent. Within the Consumer category the biggest sub-categories are Retail (48 percent of 2005 second-quarter consumer revenue category), Automotive (22 percent), Leisure (13 percent) and Entertainment (10 percent).

“The consistent growth in overall revenues shows marketers may be shifting more of their total advertising budgets to online. This is a natural development as research shows more consumers are spending a larger percentage of their media time online, while the flow of advertising dollars follows.”

– David Silverman, Partner, PricewaterhouseCoopers LLP

- **Search Continues to Lead, Followed by Display, Classifieds and Rich Media** – Search revenue accounted for 40 percent of 2005 second-quarter revenues, consistent with the same period in 2004. Display advertising and Rich Media also remained consistent with last year accounting for 20 percent and 8 percent of 2005 second-quarter revenues respectively. Classifieds revenue totaled 18 percent of 2005 second-quarter revenues, up slightly from the 17 percent reported for the same period in 2004.

“Recent results show marketers recognize the Internet as an effective response and branding vehicle, as evidenced by the continued revenue strength in Search and Rich Media. Search increased 27% while Rich Media increased 26%.”

– Pete Petrusky, Director, PricewaterhouseCoopers LLP

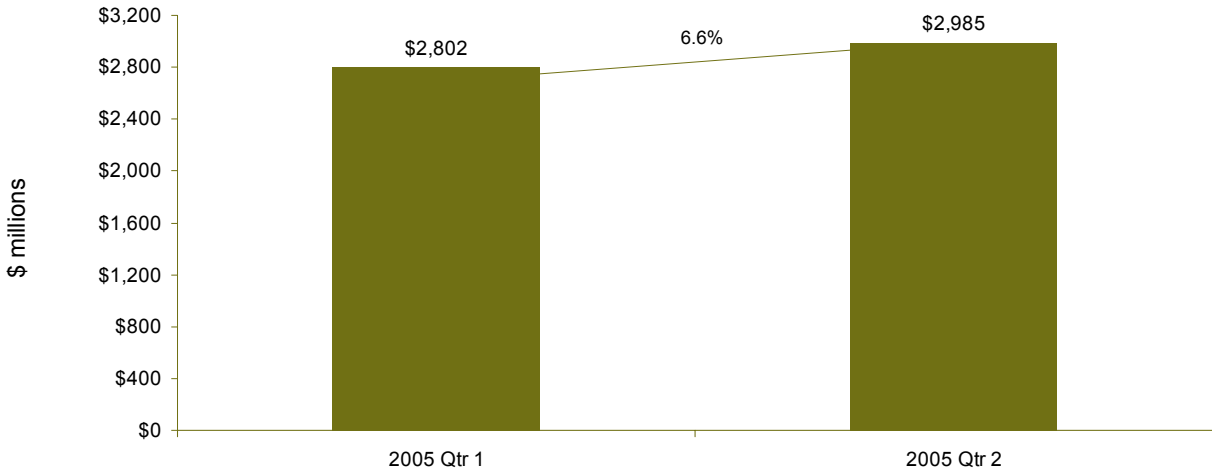


Detailed Findings

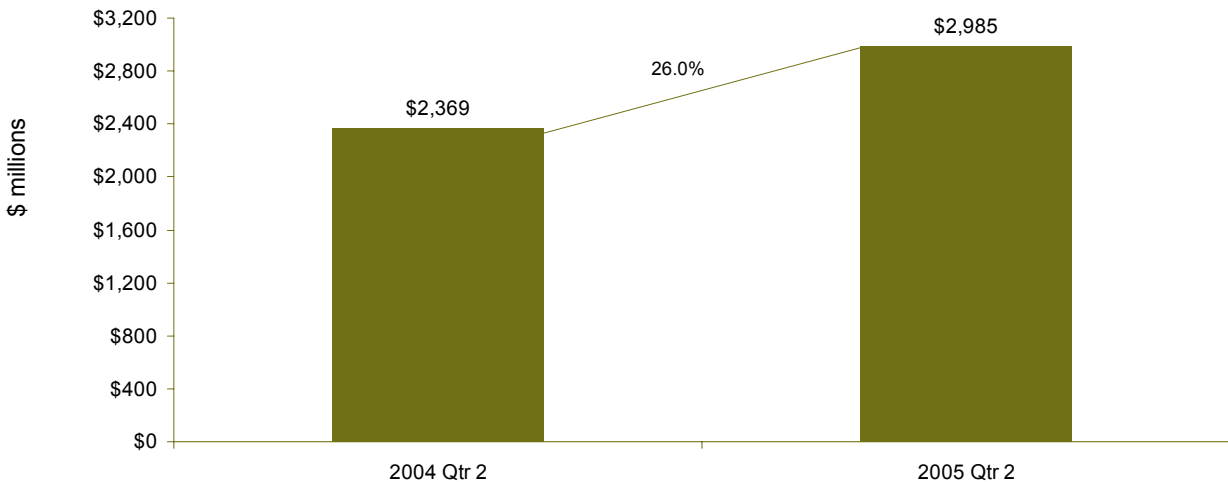
Revenues Totaled Nearly \$3.0 Billion in the Second Quarter of 2005

- Online ad sellers reported aggregate revenues totaling just under \$3.0 billion (\$2.99 billion) for the second quarter of 2005.
- Total 2005 second-quarter revenues were \$184 million or 6.6 percent higher than the first quarter of 2005, and \$617 million or 26 percent higher than the second quarter of 2004.

2005 Q1 vs. 2005 Q2



2004 Q2 vs. 2005 Q2



Historical Second-Quarter Revenue Trends

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

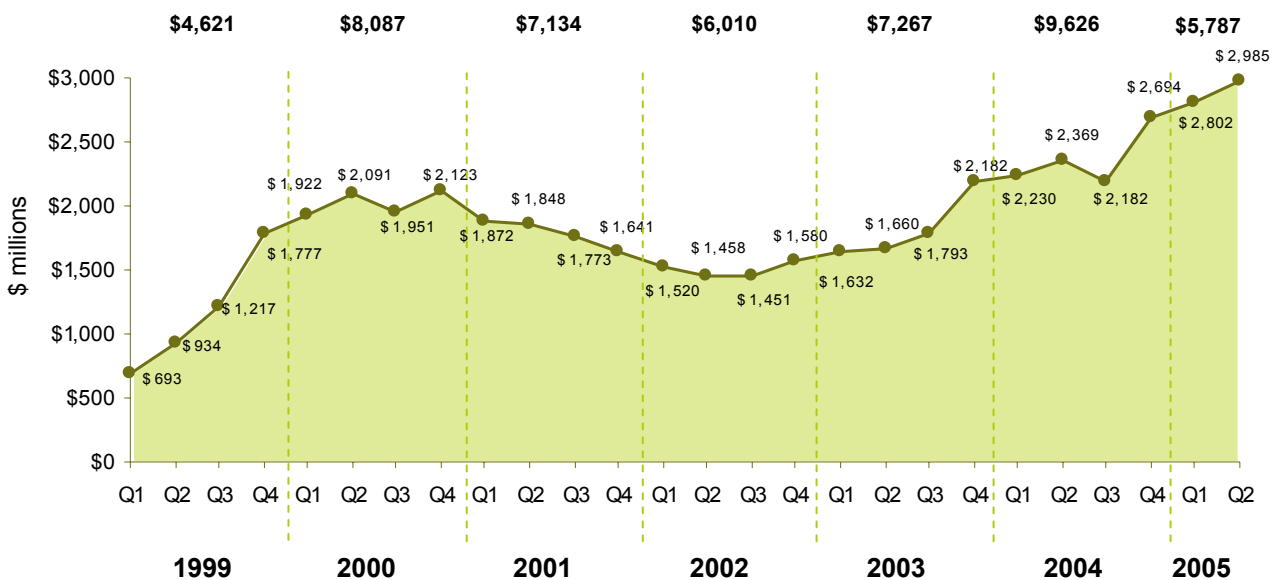
Second-Quarter \$ Revenue – 1999 through 2005



Quarterly Revenues Post Record Levels

- Quarterly industry revenues historically exhibited a seasonal growth pattern where the strongest growth typically occurs during the second and fourth quarters, illustrated by the past two years.
- 2005 second-quarter revenues recorded the highest quarterly revenue total since reporting began in 1996.

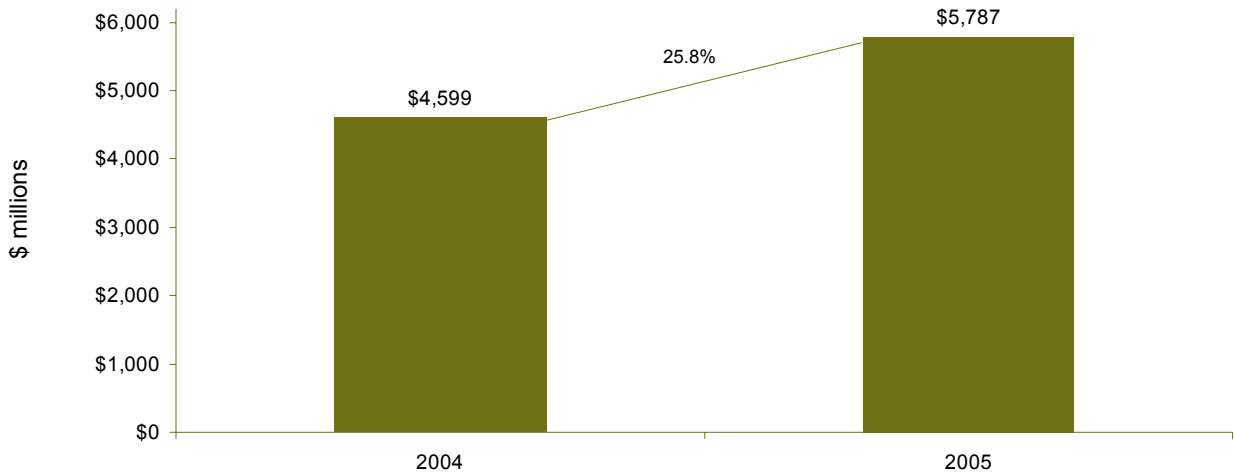
Quarterly \$ Revenue Growth Comparisons – 1999-2005 YTD



2005 First Six-Month Revenues Totaled Nearly \$5.8 Billion

- First six-month revenues for 2005 totaled just under \$5.8 billion, \$1.2 billion or 25.8 percent higher than the same period in 2004.
- Applying historical seasonal data, the 2005 first six-month revenues of nearly \$5.8 billion are on an annual run-rate of between \$10 - \$12 billion.

First Six-Month Revenues



Historical Revenue Growth Comparisons



Historical Revenue Performance

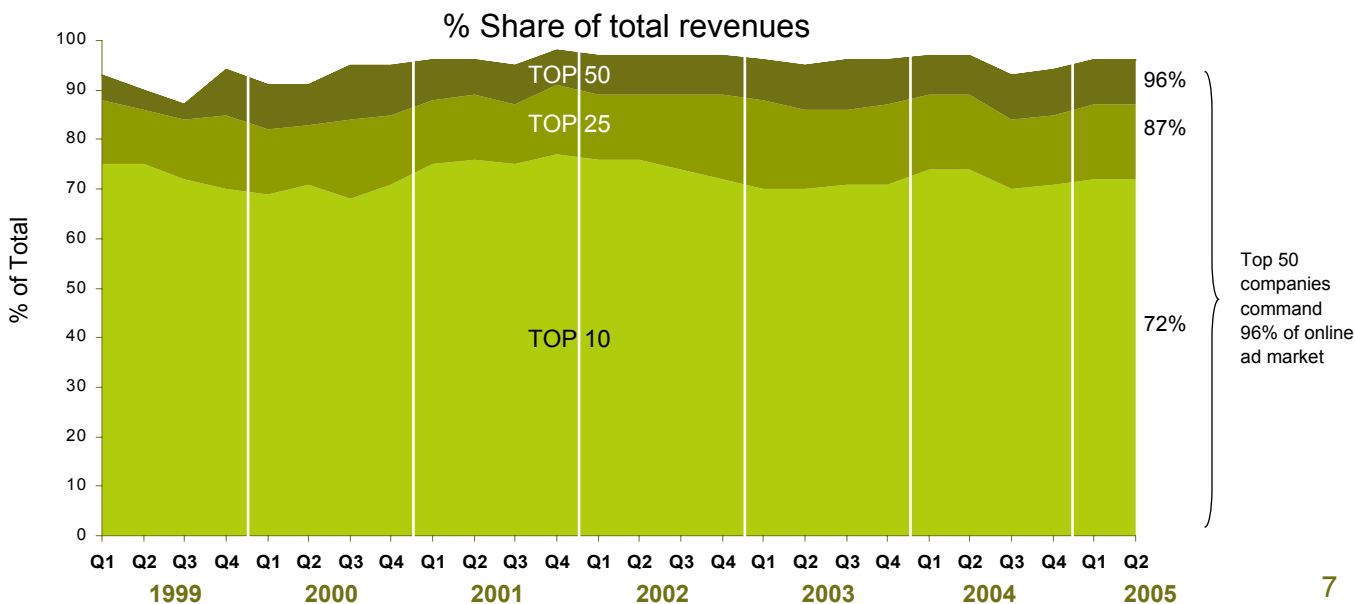
Annual and Quarterly Revenue Growth Comparisons

| | \$ 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 | | | |
| 4Q05 | | | |
| Total 2005 | | | |

Industry Revenue Concentration Remains High

- Online advertising continues to remain concentrated with the ten leading ad-selling companies, which accounted for 72 percent of total revenues in the second quarter of 2005, down from 74 percent reported for the second quarter of 2004.
- Companies ranked 11th to 25th accounted for 15 percent of revenues for the second quarter of 2005. Companies ranked 26th to 50th accounted for 9 percent in the second quarter of 2005.

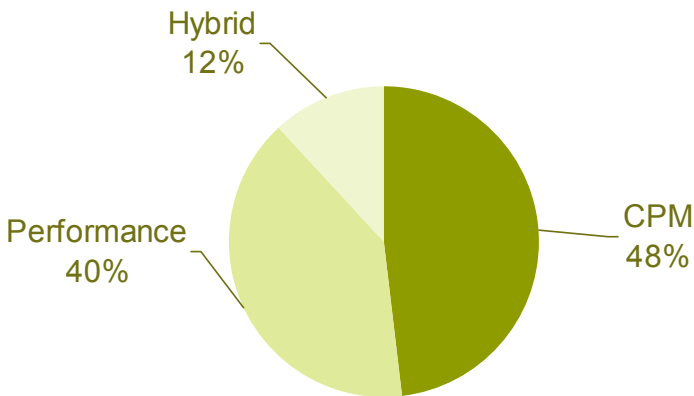


Impression-Based Pricing Rebounds

- Survey participants reported 48 percent of 2005 second-quarter revenues were priced on a CPM or impression basis, up from 44 percent reported for the second quarter of 2004.
- Approximately 40 percent of 2005 second-quarter revenues were priced on a performance basis (e.g., cost-per-click, sale, lead or straight revenue share), up slightly from 39 percent for the same period in 2004.
- Approximately 12 percent of 2005 second-quarter revenues were priced on a hybrid basis, down from the 17 percent reported for the same period in 2004.

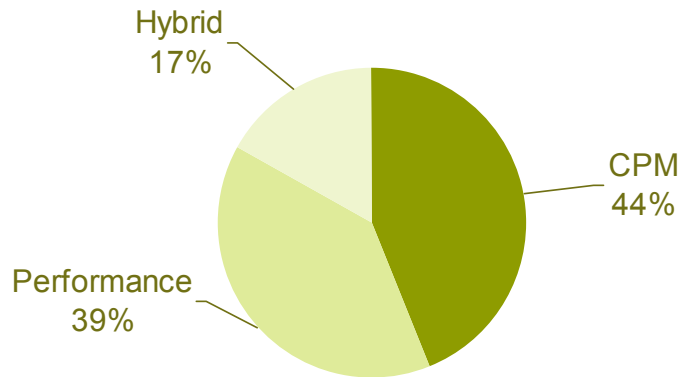
Internet Ad Revenues by Pricing Model

% of 2005 Second-Quarter Revenues



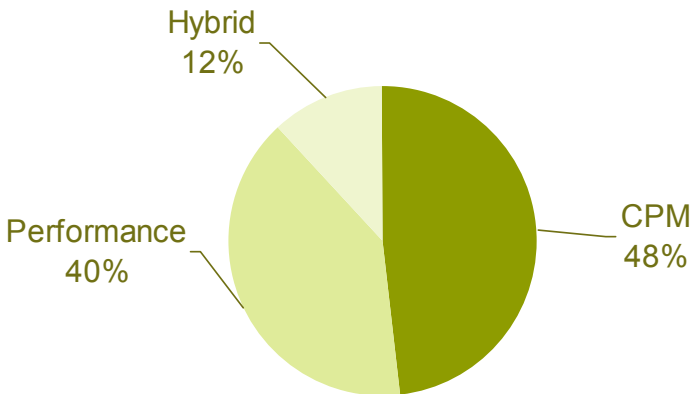
Total – \$3.0 Billion

% of 2004 Second-Quarter Revenues



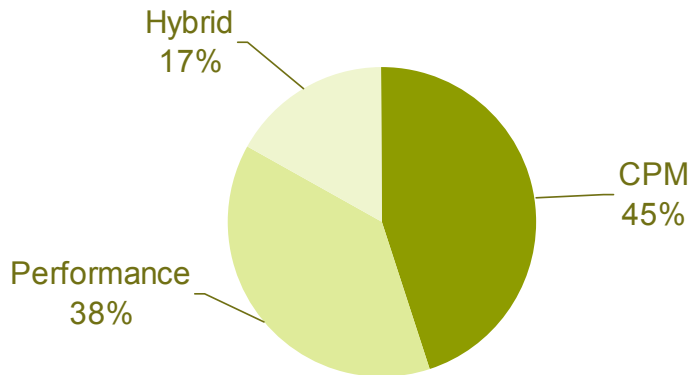
Total – \$2.4 Billion

% of 2005 First Six-Month Revenues



Total – \$5.8 Billion

% of 2004 First Six-Month Revenues



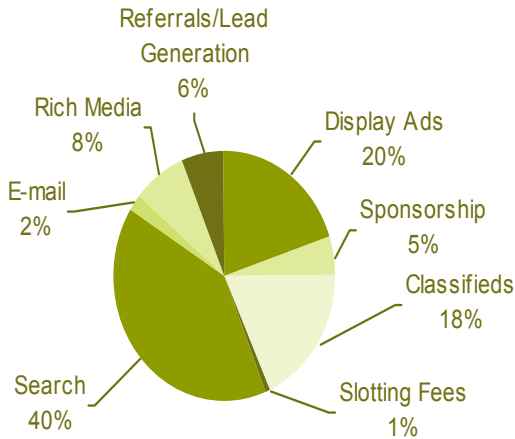
Total – \$4.6 Billion

Search, Display and Classifieds Lead Ad Formats

- Search remains the largest revenue format, accounting for 40 percent of 2005 Q2 revenues, consistent with the 40 percent reported for the same period in 2004. Search advertising revenues totaled \$1.2 billion in the second quarter of 2005, up 26 percent from the second quarter of 2004, when search revenues totaled \$948 million.
- Display advertising accounted for 20 percent of total revenues during the second quarter of 2005, consistent with the 20 percent reported in the second quarter of 2004. However, on a dollar basis, display advertising revenues totaled \$597 million in 2005 Q2, up nearly 26 percent from the \$474 million reported in the second quarter of 2004.
- Classifieds revenue accounted for 18 percent of 2005 second-quarter revenues, up slightly from the 17 percent reported in the second quarter of 2004. Rich media remained consistent with the 8 percent reported in the same quarter of 2004 Q2 revenues, but increased 27 percent on a dollar basis.

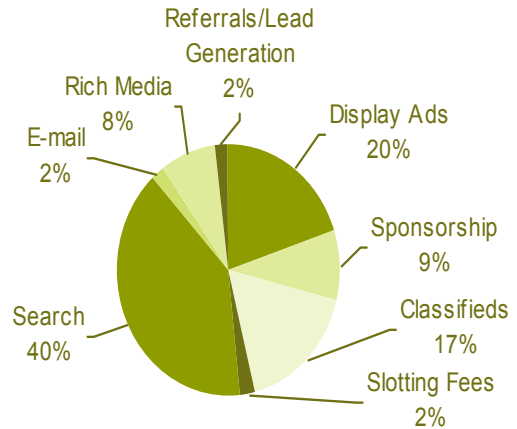
Internet Ad Revenues by Advertising Vehicle

% of 2005 Second-Quarter Revenues



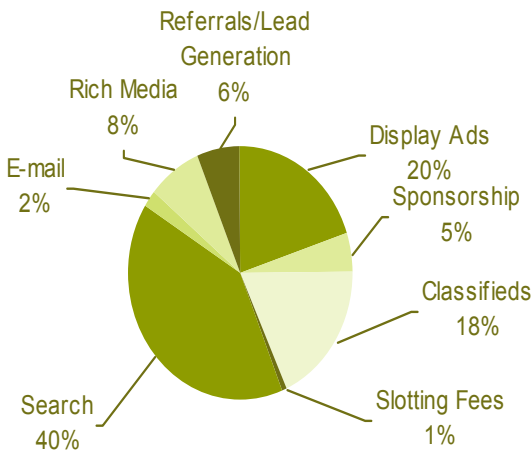
Total – \$3.0 Billion

% of 2004 Second-Quarter Revenues



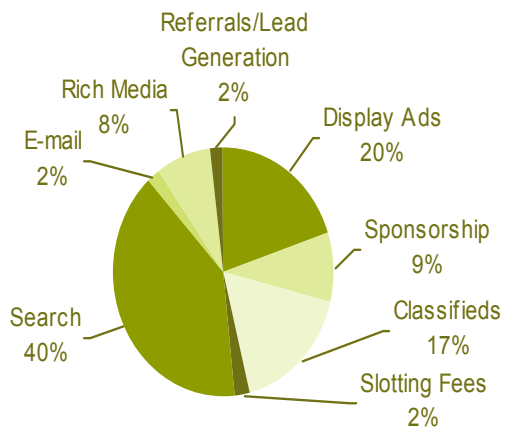
Total – \$2.4 Billion

% of 2005 First Six-Month Revenues



Total – \$5.8 Billion

% of 2004 First Six-Month Revenues

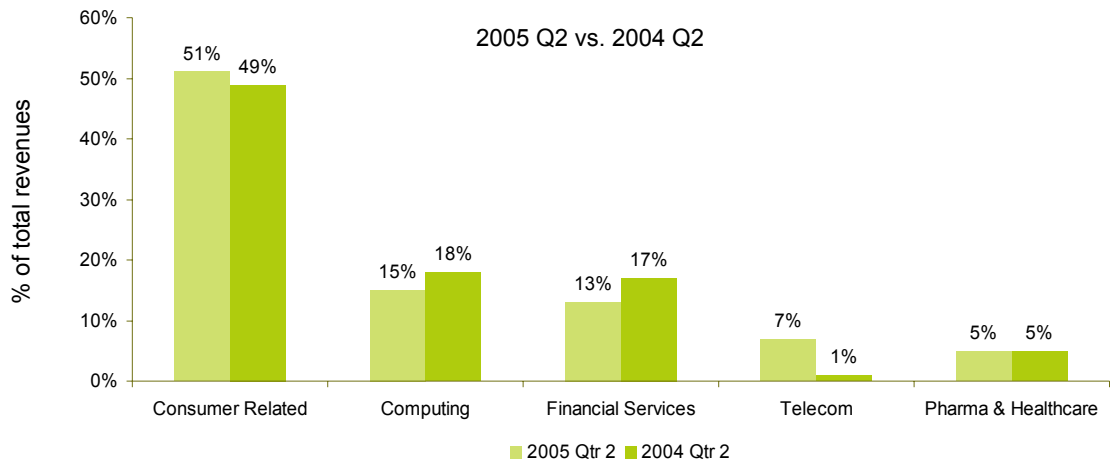


Total – \$4.6 Billion

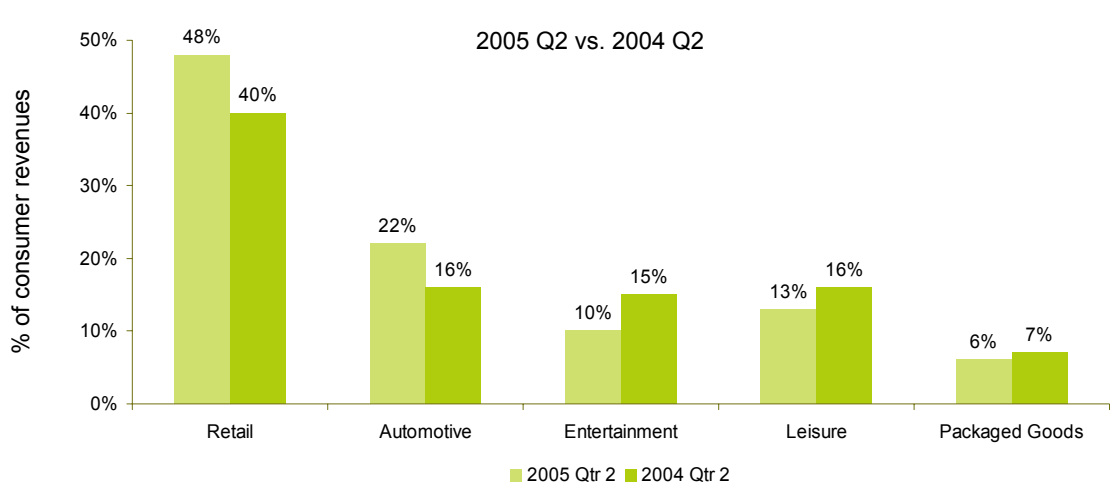
Consumer Advertiser Spend Surges in 2005

- Consumer advertisers represented the largest category of Internet ad spending, accounting for 51 percent of 2005 second-quarter revenues, up from 49 percent reported for the same period in 2004.
- Computing advertisers represented the second-largest category of spending at 15 percent of 2005 second-quarter revenues, down from the 18 percent reported in the second quarter of 2004.
- Financial Services advertisers represented the third-largest category of spending at 13 percent of 2005 second-quarter revenues, down from the 17 percent reported in the same period in 2004.
- Telecom companies accounted for 7 percent of 2005 second-quarter revenues, up sharply from the 1 percent reported in the same period in 2004, while Pharmaceutical and Healthcare accounted for 5 percent of 2005 second-quarter revenues, consistent with the second quarter of 2004.
- Retail led the Consumer-Related categories at 48 percent, up sharply from the 40 percent reported for the second quarter of 2004, followed by Automotive at 22 percent, Leisure (travel, hotel & hospitality) at 13 percent, Entertainment (music, film & TV entertainment) at 10 percent, and Packaged Goods at 6 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.



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.

Business Services – includes accounting, engineering, research, management consulting services and other companies rendering services to business establishments on a contract or fee basis, such as advertising, credit reporting, mailing, news syndicates, photocopying and data processing services.

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).

Pharmaceutical and Healthcare – includes industry categories classified as pharmaceutical and healthcare related. Pharmaceutical includes establishments primarily engaged in manufacturing, fabricating, or processing drugs in pharmaceutical preparations for human or veterinary use. Healthcare includes establishments primarily engaged in furnishing medical, surgical, and other health services to persons. Establishments of associations or groups, such as Health Maintenance Organizations (HMOs), primarily engaged in providing medical or other health services to members are included.

* Survey participants reported results based on the 42 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 online company for space to display a static or hyper-linked banner or logo on one or more of the online 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 online 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.

Referrals / Lead Generation* – 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 online 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 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 online 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/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

| | | |
|--|-----------------------------|--|
| Aerospace | Education | Office equipment/supplies |
| Amusement & recreational services | Eye care/optical | Pet food/supplies |
| Apparel | Filmed entertainment | Pharmaceuticals |
| Appliances | Financial services | Photographic equipment & supplies |
| Associations | Food | Professional sports, sporting & athletic goods |
| Audio & video equipment | Government | Publishing |
| Automotive | Health care services | Real estate |
| Beer/wine/liquor | Home furnishings/textiles | Restaurants/fast food |
| Beverages | Household products/supplies | Retail stores/mail order/catalog |
| Business services | Insurance | Telecommunications |
| Commercial printing | Jewelry | Tobacco |
| Computing products (hardware/software) | Manufacturing | Toys/games |
| Cosmetics/toiletries | Media | Travel/hotels/airlines |
| Drug stores | Music | |
| | New media | |

Overall Report Guidance Provided by IAB Leadership

Executive Committee

Chairman

Steve Wadsworth

The Walt Disney Internet Group

President & CEO

Greg Stuart

Interactive Advertising Bureau

Treasurer

Karen Messineo

New York Times Digital

Secretary

David Moore

24/7 Real Media, Inc

Member at Large

Wenda Harris Millard

Yahoo! Inc.

Vice Chairman

James Spanfeller

Forbes.com

IAB Chairman Emeritus

Shelby Bonnie

CNET Networks

IAB Founding Chairman

Rich LeFurgy

Archer Advisers

Member at Large

Joanne Bradford

MSN

Board of Directors

Tim Armstrong

Google

Michael Barrett

AOL Media Networks

Shelby Bonnie

CNET Networks

Joanne Bradford

Microsoft – MSN

Sarah Chubb

CondéNet

Gary Dillabough

eBay

Scott Ferber

Advertising.com

Joe Fiveash

Weather Channel Interactive

Mitch Golub

cars.com

David Hills

Looksmart, Ltd.

Randy Kilgore

The Wall Street Journal Online

Rich LeFurgy

Archer Advisers

Caroline Little

WPNI

Scot McLernon

CBS Digital Media

Wenda Harris Millard

Yahoo! Inc.

Matt Moog

CoolSavings

Dave Moore

24/7 Real Media, Inc.

Peter Naylor

iVillage, Inc.

Martin Nisenholtz

New York Times Digital

Javier Saralegui

Univision Online

James Spanfeller

Forbes.com

Greg Stuart

Interactive Advertising Bureau

Steve Wadsworth

Walt Disney Internet Group

Jeff Webber

USATODAY.com

About the Interactive Advertising Bureau

Founded in 1996, the Interactive Advertising Bureau (IAB) represents 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 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.

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.

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