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## President's Report

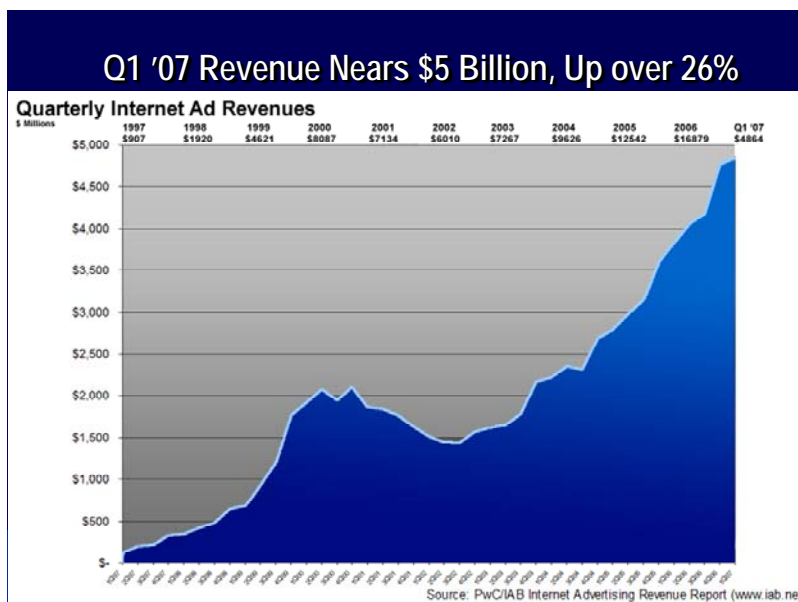
### **“SECOND QUARTER SUCCESSES”: REPORT TO THE INTERACTIVE ADVERTISING BUREAU'S BOARD OF DIRECTORS June 21, 2007**

**By Randall Rothenberg**

As the second quarter of 2007 draws to a close, I am pleased to report that our industry is growing, and so is the Interactive Advertising Bureau. We are executing well against our strategic plan, and have confidence that this year will be a year of transformation and accomplishment for our trade organization.

### **Finance**

Interactive advertising revenues in the United States reached nearly \$17 billion in 2006, representing year-on-year growth of 35 percent, according to the *IAB Internet Advertising Revenue Report* conducted by Pricewaterhouse Coopers. First Quarter growth in 2007 reached nearly \$5 billion, a 26 percent increase over the First Quarter of 2006. Interactive remains the fastest-growing advertising medium by far.



The growth of our industry is reflected in the health of the IAB. Revenues for the first four months of 2007 are running slightly ahead of plan, thanks to dues collections and events performance that have exceeded projections. Expenses are up, in accord with our plan, but remain under control, with Senior Director of Finance Mark Goldman conducting monthly reviews of all functional budgets.

We do anticipate one extraordinary expense this year: An office renovation to accommodate the staff increases projected in this year's strategic plan. We intend the renovation to accommodate equivalent staff increases in 2008. We project renovation costs at \$150,000 – far less than relocation alternatives in a tight New York real estate market.

With both revenues and expenses tracking according to plan, I and the rest of management remain confident in our ability to execute our Board-endorsed strategic plan, which we have labeled “The CMO Growth Project.” This plan aims to advance the growth of interactive advertising spend in total, and to enhance interactive media's share of total marketing spend, by focusing our organization's attention and resources on a set of 10 programs that drive three strategic platforms: Engagement, Accountability, and Operational Effectiveness.

## IAB's Three Strategic Platforms

- ◆ **ENGAGEMENT**
- Showcase to CMOs, agencies, and other marketing influencers interactive media's unique ability to develop and deliver compelling, relevant communications to the right audiences in the right context.
- ◆ **ACCOUNTABILITY**
- Enhance trust among customers by establishing guidelines and highlighting practices that make interactive advertising's audience the most targetable and measurable among media.
- ◆ **OPERATIONAL EFFECTIVENESS**
- Improve members' ability to serve their customers – and build the value of their businesses -- by reducing the structural friction within and between media companies and advertising buyers.

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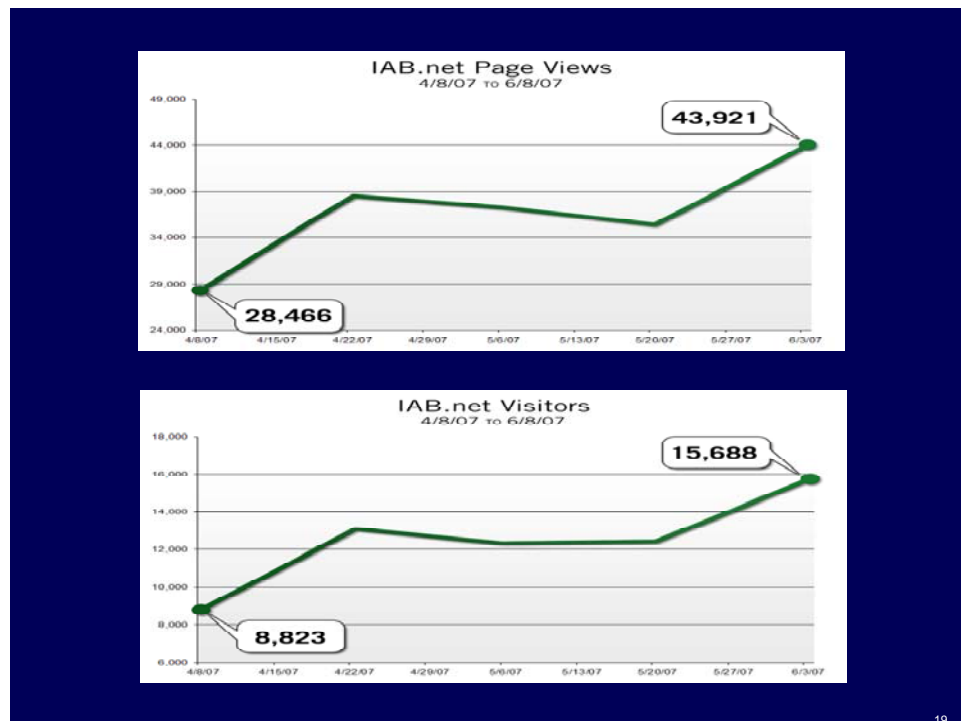
To achieve this focus, we reorganized the IAB into six functional units. I will briefly review the achievements of each of these units.

### **Marketing, Communications & Thought Leadership**

The Marketing, Communications & Thought Leadership team, under Senior Vice President David Doty, launched development work on the “CMO Road Show,” an industry-education program we will take directly to marketers and agencies. CMO Stakeholder interviews have been conducted with senior executives at Johnson & Johnson, Colgate, Pfizer, American

Express and other companies, and we have begun collecting case studies from members. We hope to have a preliminary launch this summer.

IAB's media mentions and Web site visits are up substantially. The primary driver is the attention focused on the association by our issuing of an open letter to the audience ratings services calling on them to submit to a third-party audit.



We also believe an interim redesign and simplification of IAB.net's home page has contributed to the increase in visits and page views. This redesign promotes IAB's dedication to industry thought leadership, and will aid access to research and services.

## Interim Redesign Promotes Thought Leadership






During the next quarter, we will work on a more complete redesign of the site front-end and back-end. After competitive bidding, we selected a superb vendor, Raven Creative, whose clients have included Hearst Magazines, the Bronx Zoo, and Booz Allen Hamilton.

During the past quarter, we launched one major study and completed financing for a second. With the American Association of Advertising Agencies, the Association of National Advertisers, and Booz Allen Hamilton, we began work on “The Media-Marketing Ecosystem 2010,” an unprecedented collaboration among our trade associations to benchmark leading practices across the entire value chain as marketing continues its evolution on interactive platforms. With participation by more than 50 marketers, agencies, and media companies, our aim is to develop a sense of “what we need to do tomorrow” to make marketing and media more engaging, effective, and valuable.

## Launched "Marketing-Media Ecosystem 2010" Study With AAAA, ANA & Booz Allen

### Study Overview

Objectives	Participation	Outputs and Timing
<ul style="list-style-type: none"> <li>◆ Drive insights and identify cutting edge practices marketers require in the evolving media environment</li> <li>◆ Benchmark leading practices across marketers, media companies and agencies               <ul style="list-style-type: none"> <li>- New media leadership, culture and organization</li> <li>- Marketing, media and agency partnerships</li> <li>- Consumer connectivity</li> <li>- Channel, marketing and advertising mix</li> </ul> </li> <li>◆ Develop the diagnostic, stories, approach and "Things to Do Tomorrow" for each area</li> <li>◆ Drive relationships with current clients and potential new clients through sharing insights</li> </ul>	<ul style="list-style-type: none"> <li>◆ Participation from leading players across the value chain               <ul style="list-style-type: none"> <li>- Prominent consumer-facing marketing organizations including representatives across packaged goods, auto, financial services, and retail industries (e.g., P&amp;G, CapitalOne, Toyota)</li> <li>- Cross section of agency players including traditional creative, media services, digital, PR and specialty services (e.g., WPP, Digitas, Carat)</li> <li>- Leading media companies that represent varying size and scope; both traditional, digital and distribution (e.g., NBCU, Time Warner, CNET, Tacoda)</li> </ul> </li> <li>◆ Representation across specific marketers value chain</li> </ul>	<ul style="list-style-type: none"> <li>◆ Insights and leading practices will be shared at premier organization conferences               <ul style="list-style-type: none"> <li>- For Marketers: October 2007 </li> <li>- For Media: February 2008 </li> <li>- For Agencies: March 2008 </li> </ul> </li> <li>◆ Content will be published in industry publications (Fall 2007)</li> <li>◆ Industry-specific training agenda will be developed for member organizations (Winter 2007 &amp; Spring 2008)</li> </ul>

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IAB also has completed funding for a Digital Video research project. Pending a review and approval of objectives and budget by the Research Council, we hope to commence the study this quarter.

### Industry Services

The Industry Services team, under the leadership of Senior Vice President Sheryl Draizen, had a quarter of significant achievement. Following the advice of the Board, we launched an open letter to ComScore and Nielsen/Netratings, asking them to undergo audits of their processes and technologies by a third-party auditor, and to attend a Summit Meeting on Audience Measurement with the IAB and others. The letter had significant media exposure, and on May 16, less than a month after its issuance, the Summit took place. IAB was represented by executives from Conde Nast, Turner Broadcasting, Microsoft and Yahoo, as well as our staff. Also attending at our invitation were representatives from ANA, AAAA, OPA, MPA, and ARF. Both companies did agree to audits and accreditation by the Media Rating Council, and we agreed with the measurement companies to engage jointly in market education campaigns about audience measurement.

## comScore & NetRatings Audit Agreement

<ul style="list-style-type: none"> <li>◆ <b>April 12</b> <ul style="list-style-type: none"> <li>- IAB Board votes unanimously to send open letter to comScore and Nielsen//NetRatings calling for MRC audit and audience metrics Summit Meeting</li> </ul> </li> <li>◆ <b>April 20</b> <ul style="list-style-type: none"> <li>- IAB issues Open Letter</li> </ul> </li> <li>◆ <b>April 21-present</b> <ul style="list-style-type: none"> <li>- 600+ media hits result from strategy, including The Wall Street Journal, ClickZ, AdWeek, AdAge, CNN Money, Media Post, DM News, Market Watch, Los Angeles Times, BrandWeek</li> </ul> </li> <li>◆ <b>May 9</b> <ul style="list-style-type: none"> <li>- AAAA, ANA, ARF release joint statement supporting IAB</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ <b>May 16</b> <ul style="list-style-type: none"> <li>- IAB Summit, unprecedented gathering of industry representatives, takes place, including IAB, OPA, ANA, AAAA, ARF, MPA</li> <li>- Nielsen//NetRatings announces it will move forward with full MRC audit</li> <li>- comScore commits to finalizing its pre-audit and to a 90-day timeframe for audit</li> <li>- IAB commits to update standards for measuring audiences (e.g. uniques, time spent, impact of cookie deletion)</li> <li>- IAB commits to "public education campaign" on "convergent validity"</li> </ul> </li> <li>◆ <b>May 22</b> <ul style="list-style-type: none"> <li>- IAB publicly announces results of Summit</li> </ul> </li> </ul>
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IAB also has enhanced broadly our connection with the AAAA, including an unprecedented joint meeting between our senior teams in May, to foster relationships and share agendas. Working through our Ad Operations Council, led by IAB Director Jeremy Fain and Dan Murphy of Univision, we are engaging with the agencies on five major issues: ad-serving discrepancies, back-office operations, standardizing terms and conditions, billing process improvement, and late creative policy.

The Industry Services team runs the IAB's platform committees. Notable committee work during the past quarter includes the Email Committee's finalizing and circulation of a Campaign Performance Metrics Definition report; the Games Committee's completion of a Platform Status Report; the addition of two new standard ad sizes to the Ad Unit Guidelines by the Ad Sizes Working Group; and the launch of a User-Generated Content Committee.

### Public Policy

Led by Vice President Mike Zaneis here in Washington, the IAB's Public Policy team has had a busy quarter trying to avert ill-considered legislation that threatens to impair marketers' ability to deliver relevant information to consumers, and to hinder consumers' access to the wealth of information, entertainment, and services on the Internet.

The most pressing issue we faced was "spyware" legislation that could regulate the use of cookies. IAB actively supported and aggressively lobbied for H.R. 1525, which passed the house last month. This bill would render illegal specific bad acts intended to defraud consumers or impair users' computer security protections. A second, more burdensome bill, H.R. 964, passed the House earlier this month, over IAB's testimony in opposition. Mike, IAB Policy Council Chair Dave Morgan, and the Council had organized a broad industry coalition to oppose this bill. The group did succeed in removing language that would have regulated cookies and other critical Web technologies.

The Policy Council has become a critical underpinning of the IAB. Companies with significant participation include Disney, Time Warner, Google, CNET, Yahoo, Microsoft, Q Interactive, Valueclick, Washington Post, Weather.com, Tacoda, and IAC. We welcome more participation as regulator and legislator interest in our industry grows.

### Member Services

Our Member Services team under Vice President Andrew Kraft initiated several new programs during the second quarter, all of them aimed to create networking opportunities among our growing body of member companies.

IAB launched a Sales Council to bring together senior sales executives from interactive media companies. More than 100 companies have joined, and the first meeting assembled dozens of sales leaders from around the country to discuss the development of a sales training program and other programs for interactive sales personnel. Brian Quinn of Dow Jones and Michael Rosen of Weatherbug were elected co-chairs of the council.

The team also inaugurated the “Social MIXXER” series – a monthly event that serves no purpose other than to bring staff from member companies together for an evening of innocent enjoyment and geek-speak. The first MIXXER drew more than 80 people to a bar across the street from the IAB offices, which proved to us that (a) the concept is viable; and (b) the price point is too low. We will continue the series, and intend to (c) bring it to other cities; and (d) raise the price to \$30 per person.

As part of our service to members, I continue to maintain a robust schedule of appearances at member and customer events. I am holding to the twice-monthly schedule I projected at our last board meeting.

### CEO Flies IAB’s Flag at Member & Customer Events

- ◆ 4/3/07: Padrao Editorial Modern Consumer Marketing Show, “Future of Advertising” (speaker)
- ◆ 5/1/07: Doremus Advertising Senior Management Meeting, “Future of Advertising” (panelist)
- ◆ 5/5-6/07: Forbes.com Brand Leadership Forum (moderator)
- ◆ 5/8-9/07: Microsoft Strategic Account Summit (attendee)
- ◆ 5/31/07: 24/7 Realmedia “Food for Thought” Forum (attendee)
- ◆ 6/11/07: CondeNet Sales Conference, “Future of Advertising” (speaker)

## Events

The redevelopment of the IAB Events business has continued at a fast pace under the leadership of Vice President Jonathan Moore.

The team inaugurated two new “Leadership Forums” during the quarter: Digital Video and User-Generated Content. Each drew more than 400 registrants, including representatives of Fortune 500 marketers and major agencies.

### New Events Inaugurated

- ◆ **IAB Leadership Forums: Performance Marketing, Digital Video and User Generated Content**
  - Over 1150 Registrants
  - Top brands and agencies including: *American Express, AT&T, Avenue A, Avon, Bayer, BMW, Cadbury, Cartier, Citigroup, Clarins, Coke, Colgate, Dell, Denuo, Diageo, Digitas, Discover Card, Draft, Ford, GM, Godiva, Hilton, IBM, J&J, JWT, Kraft, L’Oreal, Lufthansa, MasterCard, Merck, Midas, Miller Brewing, Movado, Novartis, OMD, Organic, Pepsi, P&G, Samsung, Sears, Starwood, Tribal DDB, United Airlines, Unilever, Universal McCann, Verizon, Yamaha.*
- ◆ **IAB Leadership Luncheons**
  - Debut luncheon sold out
  - Small-scale, monthly networking/learning events devoted to “hot topics”
  - Held in IAB offices

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IAB also initiated a new, more intimate event – the “Leadership Luncheon” series. These inexpensive forums in the IAB boardroom bring industry innovators together with members, marketers, and agencies to explore business-leading opportunities. Our first event, with Bill Katz of Visible World, filled the room. We will continue these monthly.

Another success was the launch of IAB’s Professional Development Program. Working with Doug Weaver, founder of the Upstream Group, we have developed two sales training modules: a beginners’ “101” course and a more advanced “401” course. Our New York event sold out, with more than 100 participants, while Chicago reached projections, with about 50. The next two courses are next month, in San Francisco and New York. Management has little doubt that Professional Development is a major opportunity for IAB, and we will continue to build out this program.

We are very excited about the prospects for our MIXX Conference, Expo, and Awards Show in New York in September. As discussed at our last board meeting, we intend to turn MIXX into the definitive conference about innovation in advertising and marketing. Our theme is that value derives from the “MIXX” of strategy+content+channel, and the collaborative “MIXX” of marketers+agencies+media. During the quarter, we secured American Express CMO John Hayes as a keynote speaker, and management guru Seth Godin will be interviewed by Charlie Rose. Major presentations on “the new strategy” will bring together agency leaders such



as Rishad Tobaccowalla from DeNuo, Carla Hendra from Ogilvy, and others. We also have agreement from aQuantive's Brian McAndrews, Doubleclick's David Rosenblatt, David Moore of 24/7 Realmedia, and Michael Walrath of Right Media to share the stage and provide their vision of "the new landscape." Several brand-name journalists will serve as moderators, including Steve Levy of Newsweek, Melanie Wells of Forbes, and David Kirkpatrick of Fortune.

The MIXX awards may be on the verge of a breakthrough; we already have assembled a list of blue-chip judges from some of the top agencies and marketers in the U.S. This year, we will add leading creatives to the panel as well.

## Blue Chip MIXX Awards Judges

- ◆ David Adelman - Connections Director, Global Marketing Group, Johnson & Johnson
- ◆ Deirdre Bigley - VP, Worldwide Advertising & Interactive, IBM
- ◆ Jack Haber - VP, e-Business, Colgate Palmolive
- ◆ Bob Holtcamp - VP Brand Management, Wendy's International, Inc.
- ◆ Jenny Howell - Manager of Interactive Marketing, American Honda Motor Co., Inc.
- ◆ Jia Hyun - Global Interactive Marketing Director, GE Money
- ◆ Chris Jogis - VP, US Brand Marketing, MasterCard
- ◆ Steve Kerho - Director, Media and Interactive Marketing, Nissan North America
- ◆ Arjen Linders - VP of Marketing, Philips DAP N.A.
- ◆ Bob Liodice - President and CEO, Association of National Advertisers, Inc.
- ◆ Patrick McKenna - Manager, Marketing & Communications, BMW
- ◆ Kristen Metzger - Director, Media & Interactive Marketing, L'Oreal Paris
- ◆ Courtney Monroe - SVP, Consumer Marketing, HBO
- ◆ Tim Murphy - Senior Director Digital Marketing, Anheuser-Busch
- ◆ Kathleen Olvany-Riordan - VP of Global Consumer Relationship Marketing, Kraft Foods, Inc.
- ◆ Jon Raj - VP, Advertising and Emerging Media Platforms, Visa USA
- ◆ David Roman - VP, WW Marketing Communications, Personal Systems Group, Hewlett-Packard Company
- ◆ Brad Santeler - Director Media and Relationship Marketing, Kimberly-Clark
- ◆ Debbie Jo Severin - VP - Marketing, Covad Communications Group, Inc.
- ◆ Todd Wasserman - Editor, Brandweek

Finally, attention should be called to IAB's plans to launch a conference on measurement and accountability in November. Our open letter to comScore and Nielsen//Netratings revealed a deep well of interest among marketers, agencies and media to learn more about alternative measurement technologies and providers, and about the evolution of cross-platform metrics. In a meeting this week, leaders of our Research Council vigorously approved the concept, so we will pursue planning during the next several months.

### Our Organization

As we projected in our strategic plan, the IAB is growing as an organization. We added five new people to our staff this past quarter: Michael Theodore, the senior director of Member Services; Member Services Manager Corie Blumstein; Interactive Creative Services Manager Greg Van Ullen; Marketing Manager Chris Glushko; and Office Manager Shawna Cooper. Already, they have contributed to improving our operations.

## Strategic Hires

- ◆ **Michael Theodore, Senior Director, Member Services:** Responsible for ensuring the engagement of new and existing members, as well as overseeing new programs that increase the ROI of membership. Michael was previously COO of NYNMA and GM of Kosmo.com's NYC facilities.
- ◆ **Corie Blumstein Manager, Member Services & Sales Support:** Responsible for the tactical operation of member services and sales-related programs, as well as assisting in the sales process for associate members and smaller conference sponsorships. Corie previously held a variety of sales and sales support positions.
- ◆ **Gregory Van Ullen, Manager of Interactive and Creative Services:** Responsible for the design of the IAB's web and print identity and materials. He is working to help reposition iab.net as the go-to authority site for all things interactive. Greg's background includes work in search engine optimization consulting, E-commerce, and interactive sports marketing. Before joining the IAB he held positions at Major League Baseball Advanced Media and Broadspan Commerce.
- ◆ **Chris Glushko, Marketing Manager:** Responsible for events marketing, campaign management and cross-functional marketing support. Prior to joining the IAB, Chris spent 8 years in various positions with Realogy/Cendant Corporation. During the last three, he served as Manager, Interactive Marketing for Century 21 Real Estate where he was responsible for site management/development, consumer email marketing campaigns and managing the brand's CRM efforts.
- ◆ **Shawna Cooper, Office Manager:** Responsible for all office functions and co-ordination of office meetings and activities. Additionally assists with the Financial and HR functions. Shawna is a graduate of Duke University and has held positions as a Marketing Events Coordinator for the Betty Cunningham Gallery and Project/Office Manager for Bruce T. Bananto, Inc. an architectural design firm.

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As anticipated, Vice President for Industry Services Leo Scullin left the IAB this month. His role has been more than ably filled by Sheryl Draizen. We are actively recruiting for this position, as well as for a Director of Research, and exploring various scenarios for the management of the Industry Services portfolio.

We also made a change in the IAB's General Counsel, replacing David & Gilbert with Reed Smith, represented by partner Joe Rosenbaum and his team. IAB has worked very well with Reed Smith in the past, in our initial development of T's & C's. We also have had excellent interaction with them, through partner Doug Wood's representation of the ANA. The firm's expertise in media, marketing, and trade association representation will, we believe, advantage the IAB in such critical areas as T's & C's negotiations, media and agency consolidation, vendor contracting, control policies, and the like. With Venable handling our policy and lobbying in Washington and Reed Smith working with us on supply chain and association issues, we believe we have the best legal representation available to a media association.

### Quarter of Accomplishment

In summary, I am happy with the progress IAB is making against our strategic objectives. A review of the 10 Priorities management laid out for the Board at the last meeting shows that we have made significant progress against eight, with a 9<sup>th</sup> due to launch imminently.

## IAB's Highest-Priority Activities in 2007...

	Engagement	Accountability	Operational Effectiveness
1. "CMO Growth Show/Interactive Marketing Boot Camp" (with ANA)	√	√	√
2. Digital Video Best-Practice Report/Creative Standard Use Findings	√	√	√
3. Measurement Guidelines 2007: AJAX/Rich Internet Apps Impact Report; Draft Guidelines on Time Spent and Uniques, Clicks & Click Fraud, Digital Video		√	√
4. Measurement Certification Campaign		√	√
5. Discrepancy Resolution Initiatives w/ ANA, Agencies, 3PA's, third-party metrics firms		√	√
6. Relaunch IAB.net: Interactive marketing & advertising "thought leadership portal"	√	√	√
7. Washington policy office: publish Spyware and Privacy Reports		√	√
8. Initiate Member Services capability through launch of "Insights Center"	√	√	√
9. Upgrade MIXX Conference	√	√	
10. Launch training initiatives: Sales, Ad Ops			√

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None of this would be possible without a superb staff – a team of skilled and energetic men and women who are as eager as our members to grow the interactive advertising industry. And none would be possible without the support of the Board. On behalf of IAB's management and staff, I thank you again for your guidance and your confidence.

Randall Rothenberg  
 President & Chief Executive Officer  
 June 21, 2007