

PRICEWATERHOUSECOOPERS



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Background

About the IAB Internet Advertising Revenue Report

Conducted by the New Media Group of PricewaterhouseCoopers 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 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, online classifieds and auction listings, broadcast and push technologies, as well as other companies selling on-line advertising.

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

Tom Hyland
Partner, New Media Group Chair
PricewaterhouseCoopers

Pete Petrusky
Director, New Media
PricewaterhouseCoopers

Executive Summary

IAB Internet Advertising Revenue Report 2002 Second-Quarter and First Six-Month Highlights

Internet advertising revenues (“revenues”) in the United States totaled \$2.98 billion for the first six months of 2002, with Q1 accounting for \$1.52 billion and Q2 totaling \$1.46 billion. Internet advertising revenues for the first six months of 2002 declined 21 percent from the same period in 2001.

Key trends underlying 2002 year-to-date results:

- ◆ **Revenues Decline** – revenues totaled slightly under \$3.0 billion for the first six months of 2002, a 21 percent decrease over the first six months of 2001. This compares to a decline of 10 percent for cable TV advertising,* while advertising for local newspapers and network TV increased 6 percent and 4 percent respectively for the first six months of 2002.

“The results for the first half of this year come as no surprise to the industry and continue to reflect the weakened media market which all ad sectors have experienced for the first half of 2002. That said, we are heartened by some very clear indicators that the overall market is improving. In addition to reports of growth from certain other media sectors, a number of online ad sellers, in their recent SEC filings and public statements, have indicated substantial growth as well.”

– Greg Stuart, IAB President and CEO

- ◆ **Diversification in Advertising Formats** – Ad banners accounted for 33 percent of total revenues during the first six months of 2002, down from the 36 percent reported in the first two quarters of 2001. Sponsorships and Classifieds represented 24 and 15 percent of revenues, respectively, in the first six months of 2002, compared to 28 and 15 percent in the same period in 2001, respectively.

“The decline in classifieds partly reflects the continued weakness in the job market, partly offset by strength in auction-based listings and auto classifieds. Over the long term, we believe classifieds will continue to increase as an effective direct marketing vehicle for online advertisers.”

– Pete Petrusky, Director, PricewaterhouseCoopers

- ◆ **Internet Advertising Concentrated** – the 10 leading companies accounted for 76 percent of total 2002 and 2001 first and second quarter revenues. The 25 and 50 leading publishers accounted for 89 percent and 97 percent of 2002 first six-month revenues, respectively.

“Web advertising will remain relatively top-heavy, where a high percentage of online advertising revenue is concentrated among the leading companies with the largest reach vehicles. This is borne out by the degree of industry consolidation during the past two years, and reflects other media concentration characteristics.”

– Tom Hyland, Chair, New Media, PricewaterhouseCoopers

- ◆ **Consumer Advertisers Lead Spending** – consumer brand advertisers represented the largest category of advertiser spending at 32 percent of 2002 first six-month revenues. Computing advertisers, the second-largest category, accounted for 19 percent, followed by financial services companies and media companies, both at 13 percent. Within the consumer category the largest sub-categories are retail (46 percent of the consumer category), automotive (16 percent) and travel/hotels (13 percent).

“Learnings derived from the McDonald’s/IAB Cross Media Optimization Study clearly support increases in the online portion of ad budgets. This sort of data should be music to the ears of marketers, as they seriously look to the interactive medium as the outlet of choice, they now have more compelling data to prove their point.”

– Greg Stuart, IAB President and CEO

- ◆ **Performance-based Pricing Increases** – The prevalent pricing model remains impression-based pricing for the first six-month of 2002 at 45 percent, down from 50 percent for the same period in 2001. Hybrid pricing deals remained constant while straight performance pricing deals increased to 15 percent of 2002 first six-month revenues, up sharply from 10 percent for the same period of 2001.

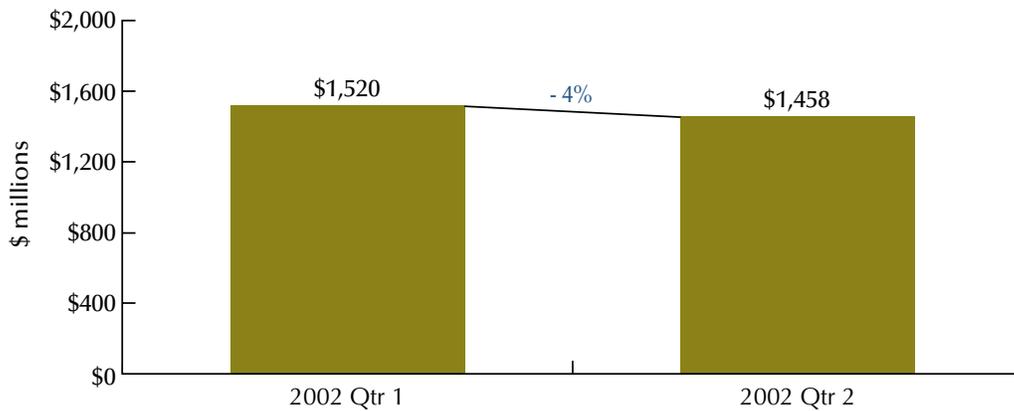
*Based on figures released by Competitive Media Reporting

Detailed Findings

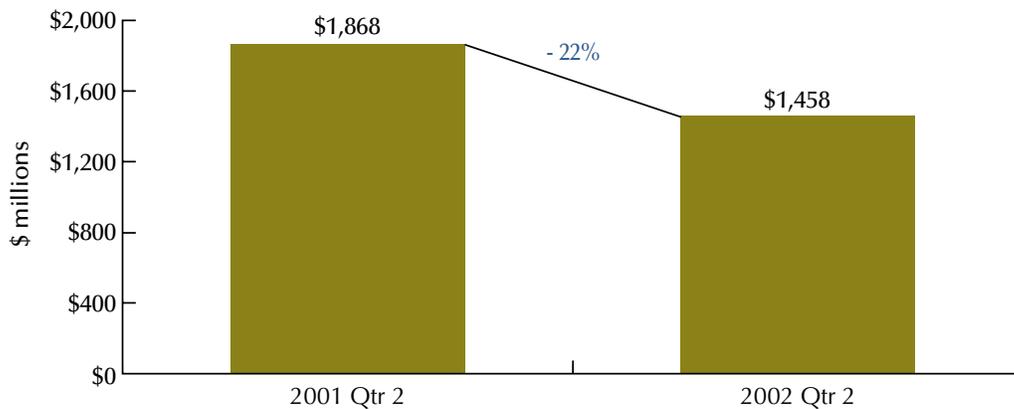
Revenues Totaled Nearly \$1.5 Billion for the Second Quarter of 2002

- ◆ On-line ad sellers reported aggregate revenues totaling just under \$1.5 billion for the second quarter of 2002, marking the sixth quarterly decline since the fourth quarter of 2000.
- ◆ Total 2002 second-quarter revenues were \$62 million or 4 percent lower than the first quarter of 2002, and \$410 million or 22 percent lower than the second quarter of 2001.

2002 Q2 vs 2002 Q1



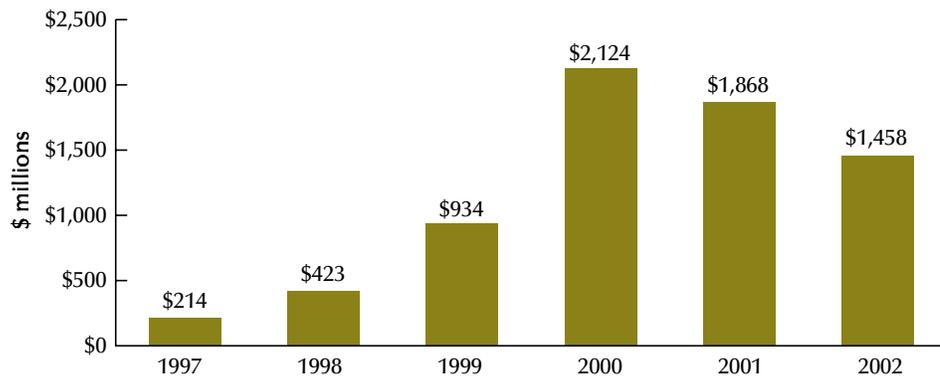
2002 Q2 vs 2001 Q2



Historical Second-Quarter Revenue Trends

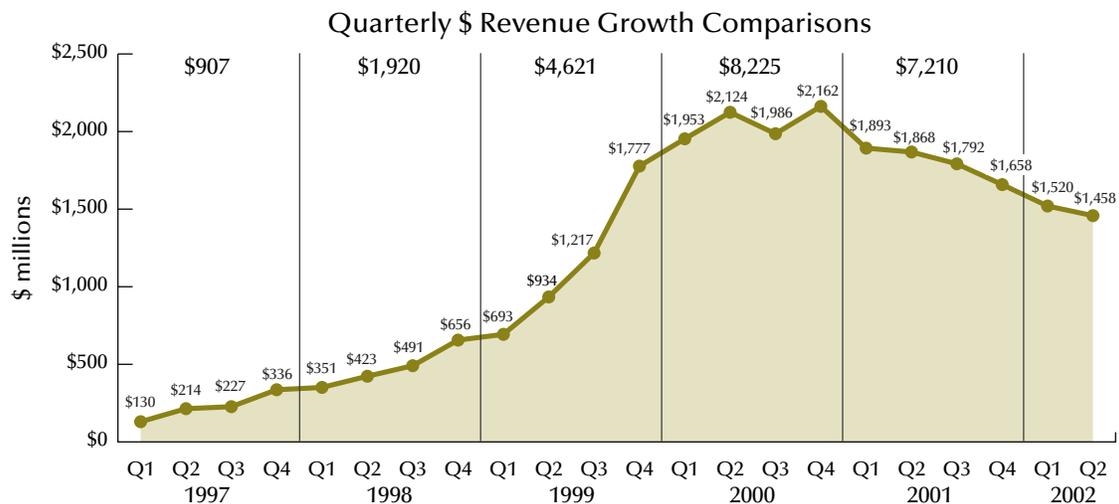
- ◆ Second-quarter revenues have increased significantly on a year-over-year percentage and dollar basis between 1997 and 2000, but scaled back considerably in 2001 and 2002.
- ◆ Revenues averaged \$486 million per month during the second quarter of 2002, compared to the 2001 second-quarter average of \$623 million.

Second-Quarter \$ Revenue Comparisons – 1996 thru 2002



Historical Revenues Exhibit Seasonality

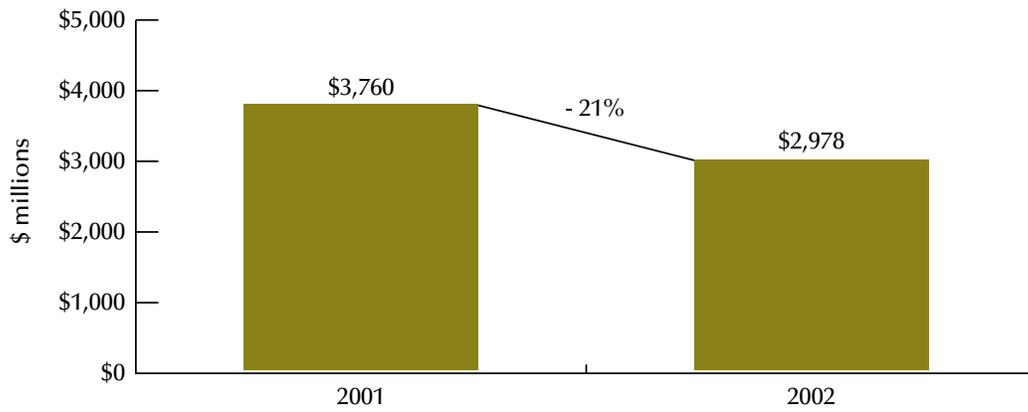
- ◆ Quarterly industry revenues exhibited a seasonal growth pattern in 1999 and 2000, where the strongest growth occurred during the second and fourth quarters.
- ◆ Following four years of significant revenue growth, 2002 revenues reflect a continued decline since the fourth quarter of 2000.



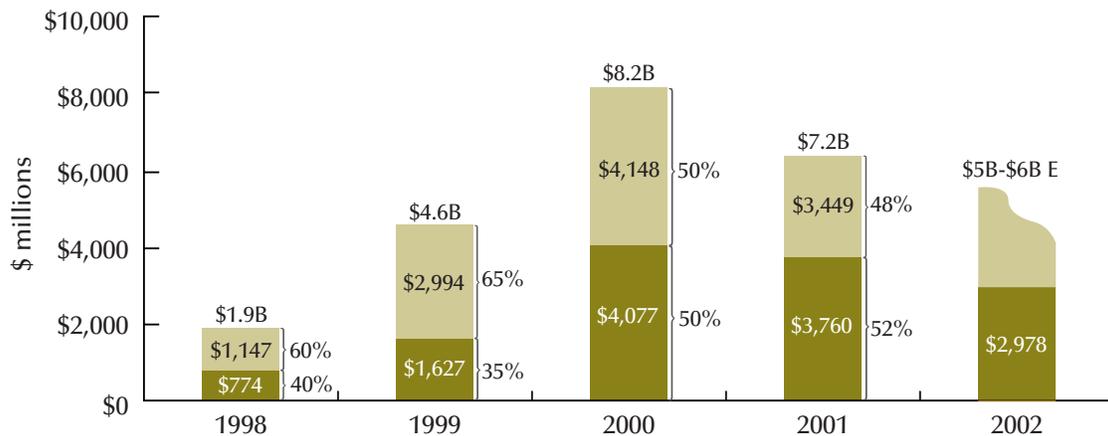
2002 First Six-Month Revenues Totaled Nearly \$3.0 Billion

- ◆ First Six-Month revenues for 2002 totaled nearly \$3.0 billion, \$782 million or 21 percent lower than revenues for the same period in 2001.
- ◆ Using historical seasonal data, the 2002 first six-month revenues of nearly \$3.0 billion are on an annual run-rate of between \$5 Billion and \$6 Billion.

First-Six Month Revenues



First Six-Month Revenue Growth Comparisons



Historical Revenue Performance (1996-2002)

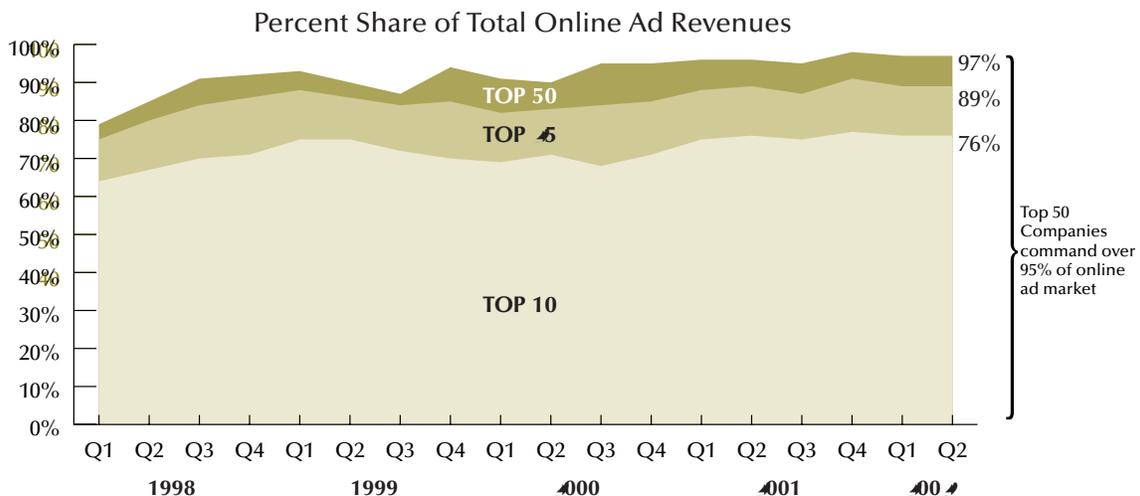
Annual and Quarterly Revenue Growth Comparisons

	\$ Rev Millions	% Growth			\$ Rev Millions	% Growth	
		Qtr/Qtr	Year/Year			Qtr/Qtr	Year/Year
1Q96	\$30	NA		1Q00	\$1,953	10%	182%
2Q96	\$52	74%		2Q00	\$2,124	9%	127%
3Q96	\$76	46%		3Q00	\$1,986	-7%	63%
4Q96	\$110	45%		4Q00	\$2,162	9%	22%
Total 1996	\$267			Total 2000	\$8,225		78%
1Q97	\$130	18%	333%	1Q01	\$1,893	-12%	-3%
2Q97	\$214	66%	313%	2Q01	\$1,868	-1%	-12%
3Q97	\$227	6%	200%	3Q01	\$1,792	-4%	-10%
4Q97	\$336	48%	205%	4Q01	\$1,658	-8%	-23%
Total 1997	\$907		239%	Total 2001	\$7,210		-12%
1Q98	\$351	5%	171%	1Q02	\$1,520	-8%	-20%
2Q98	\$423	20%	97%	2Q02	\$1,458	-4%	-22%
3Q98	\$491	16%	116%	YTD 2002*	\$2,978		-21%
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%				

* YTD compared to 2001 6 month total

Industry Revenues Remain Concentrated

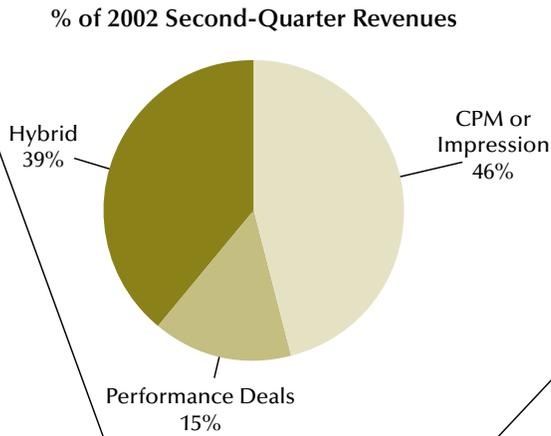
- ◆ On-line advertising remains concentrated with the 10 leading ad-selling companies, which accounted for 76 percent of total revenues in the second quarter of 2002 and the same period in 2001.
- ◆ Companies ranked 11th to 25th accounted for 13 percent of revenues for the second quarter of 2002. Companies ranked 26th to 50th accounted for 8 percent in the second quarter of 2002.



Performance-based Pricing Continues to Rise

- ◆ Survey participants reported 46 percent of 2002 second-quarter revenues were priced on an impression basis (includes sponsorships), down from 51 percent reported for the second quarter of 2001.
- ◆ 39 percent of 2002 and 2001 second-quarter revenues were priced on a hybrid basis (e.g., CPM plus performance-based compensation).
- ◆ 15 percent of 2002 second-quarter revenues were priced on a performance basis (e.g., cost per lead or straight revenue share), up sharply from 10 percent for the same period in 2001.

Internet Ad Revenues by Pricing Model



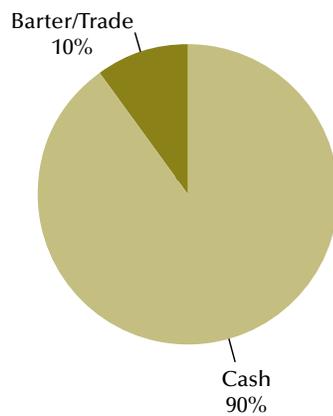
Total – \$1.5 billion

Cash Deals Dominate

- ◆ Approximately 90 percent of total advertising revenues generated in the second quarter of 2002 were reported as cash deals, flat from the 90 percent reported for the second quarter of 2001.
- ◆ Barter or trade deals accounted for 10 percent of revenues, while packaged deal allocations (e.g., portion of a media buy that may include other traditional media such as TV or radio or print) accounted for less than 1 percent of total 2002 second-quarter revenues.
- ◆ The actual volume of barter deals is likely higher than the dollar activity reported.

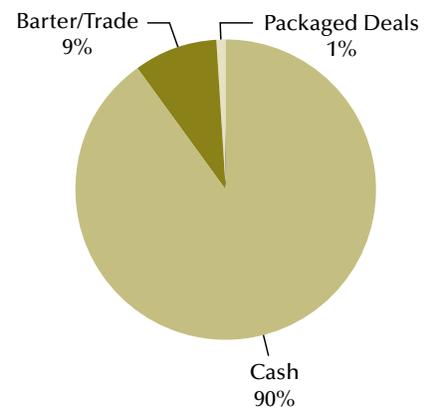
Internet Ad Revenues by Transactions

% of 2002 Second-Quarter Revenues



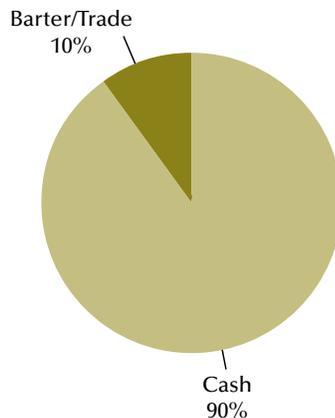
Total – \$1.5 billion

% of 2001 Second-Quarter Revenues



Total – \$1.9 billion

% of 2002 First Six-Month Revenues



Total – \$3.0 billion

% of 2001 First Six-Month Revenues

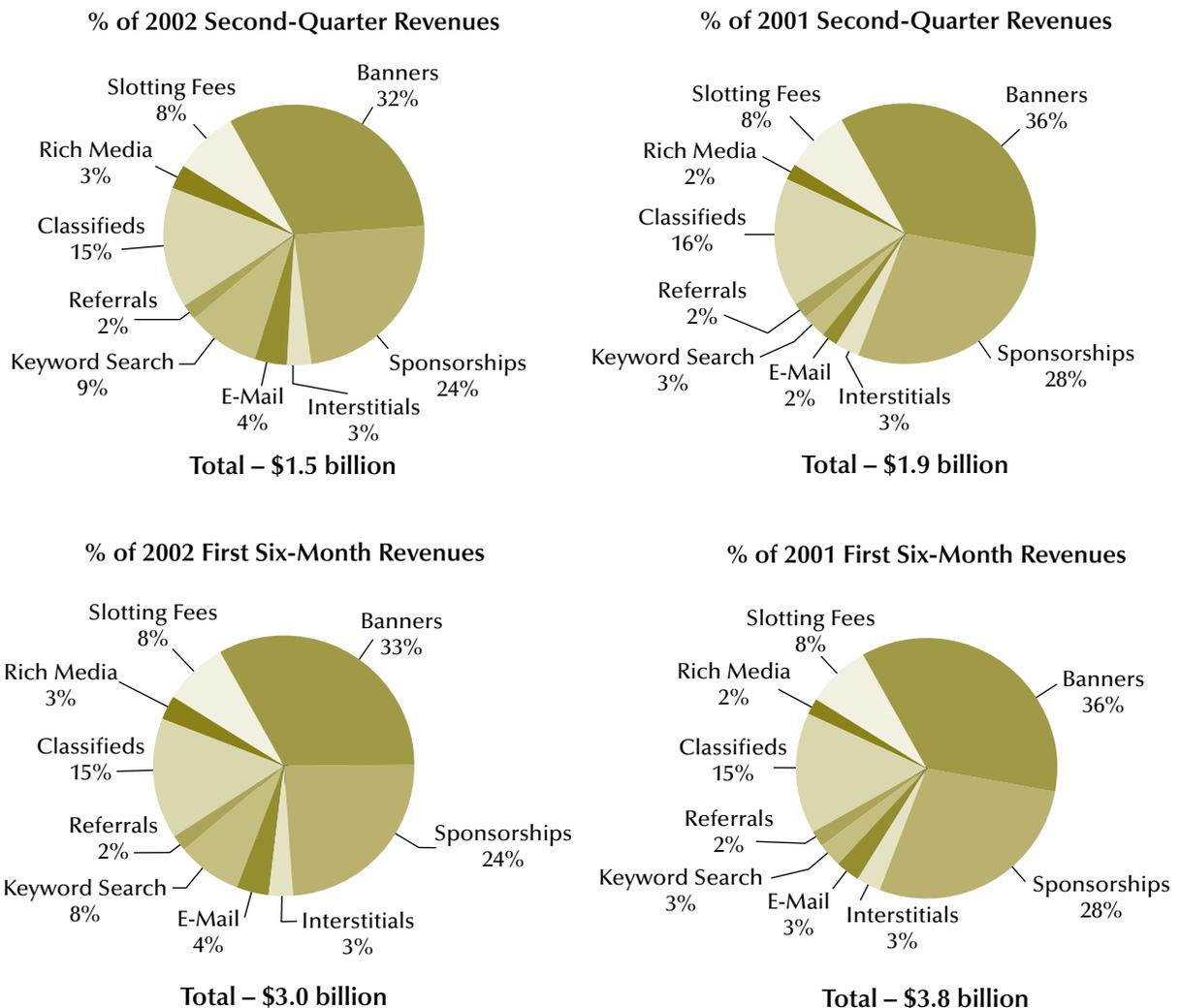


Total – \$3.8 billion

Online Advertising Formats Continue to Diversify

- ◆ Ad banners accounted for 32 percent of total revenues during the second quarter of 2002, down from the 36 percent reported in the second quarter of 2001. Banners accounted for 33 percent of revenues in the first half of 2002, down from the 36 percent reported for the first six months of 2001.
- ◆ Sponsorships generated 24 percent of revenues during the second quarter of 2002, down from the 28 percent reported for the second quarter of 2001.
- ◆ Emerging online ad formats showed continued strength in the 2002 second quarter, including keyword searches at 9 percent of 2002 second-quarter revenues, up sharply from the second quarter of 2001, while classifieds, at 15 percent of 2002 second-quarter revenues, were down slightly from 16 percent in the second quarter of 2001.
- ◆ Slotting fees remained constant at 8 percent of 2001 and 2002 second quarter revenues

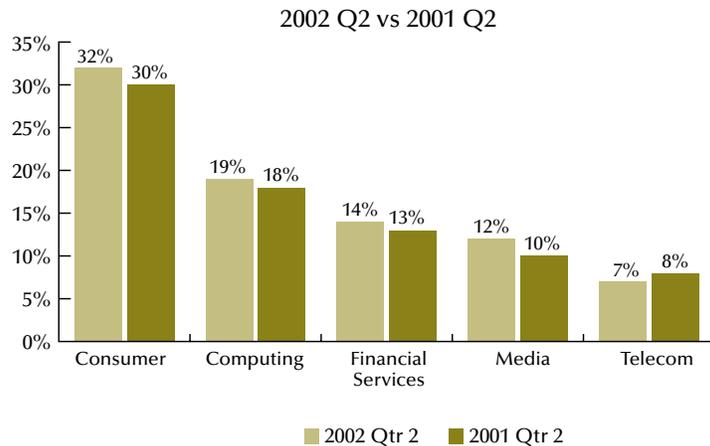
Internet Ad Revenues by Advertising Vehicle



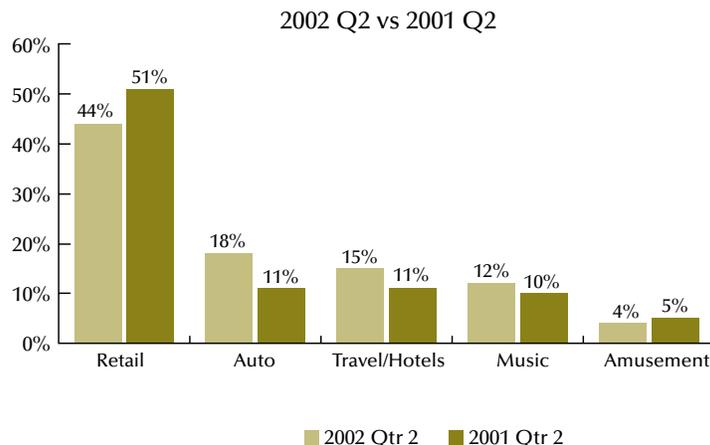
Internet Advertising Remains Concentrated in Five Industry Sectors

- ◆ Five industry sectors accounted for 84 percent of total 2002 second-quarter revenues, up from 79 percent in the same period for 2001. Consumer advertisers represented the largest category of spending, accounting for 32 percent of 2002 second-quarter revenues and 30 percent 2001 second-quarter revenues.
- ◆ Computing advertisers represented the second-largest category of spending at 19 percent of 2002 second-quarter revenues, up from 18 percent reported in the second quarter of 2001. Financial Services advertisers represented the third-largest category of spending at 14 percent of 2002 second-quarter revenues, up from 13 percent reported in the second quarter of 2001.
- ◆ Media companies accounted for 12 percent of 2002 second-quarter revenues, up from 10 percent reported for the second quarter of 2001, while Telecom accounted for 7 percent of 2002 second-quarter revenues, down slightly from 8 percent reported for the second quarter of 2001.
- ◆ Retail and Automotive companies, at 44 and 18 percent, respectively, together accounted for 62 percent of 2002 second-quarter consumer-related revenues, followed by Travel/Hotels at 15 percent, Music at 12 percent, and Amusement & Recreational services at 4 percent.

Internet Ad Revenues by Major Industry Category



Internet Ad Revenues by Major Consumer Category

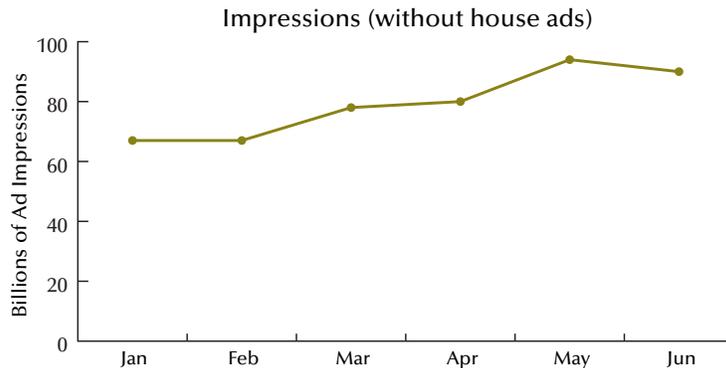


Nielsen//NetRatings Data

- ◆ PwC introduces a new series of statistics that use online audience measurement and related data from Nielsen//NetRatings.
- ◆ This data examines web usage trends, delivery of ad impressions, and user access trends.
- ◆ This data can add value to analysis of online advertising trends with the proper caveats applied (e.g., difficult to make straight-line correlations of online ad impressions with online ad revenues).

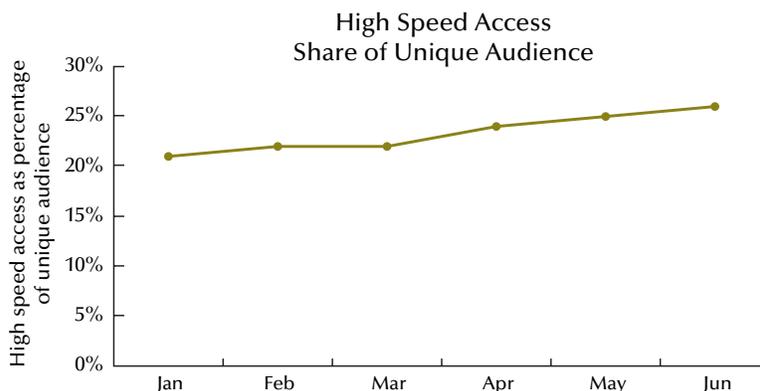
Online Audience Metrics Exhibit Overall Strength During First Half of 2002

- ◆ Ad impressions grew 34% between January and June, increasing from 67 billion to 90 billion.
- ◆ Ad impression data does not include house ads.



Source: Nielsen//NetRatings

- ◆ Historically, Internet ad spend has been hampered in part due to slow growth in household penetration of high-speed Internet access, resulting in limited online advertising creative.
- ◆ User adoption of high-speed Internet access continues to increase, rising from approximately 20% share of U.S.-based unique users in January 2002, to 26% share in June 2002.



Source: Nielsen//NetRatings

Appendix

Definitions of Leading Industry Categories

The industry categories used in the IAB Internet Advertising Revenue Report were sourced from the U.S.

Office of Budget and Management's Standard Industrial Classification 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).

New Media – includes design, development, production and distribution of digital media, including consumer on-line services, Internet service providers, Web site developers, CD-ROM title developers, entertainment software, and other companies involved in the licensing, distribution and publishing of creative products in a digital environment.

**Survey participants reported results based on the 42 separate industry categories listed on the next page, 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."*

Survey Scope and Methodology

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.

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

IAB Officers

President & CEO	Greg Stuart	Interactive Advertising Bureau
Chair	Shelby Bonnie	CNET Networks, Inc.
Vice Chair	Steve Wadsworth	Walt Disney Internet Group
Secretary/Treasurer	David Moore	24/7 Media, Inc.

IAB Board

About, Inc.	Dave Hills
AOL Interactive Marketing	Lon Otremba
B2B Works	Bill Furlong
CondéNet	Sarah Chubb
The Excite Network	Bill Daugherty
Forbes.com	James Spanfeller
Gemstar-TV Guide International, Inc.	Jeffrey Mahl
iVillage, Inc.	Vanessa Benfield
MSN	Jed Savage
Net Creations, Inc.	Michael Mayor
New York Times Digital	Martin Nisenholz
Overture Services, Inc.	Ted Meisel
RealNetworks, Inc.	Dan Schwartz
Sportsline.com	Mark Mariani
TerraLycos	Bill Blummer
United Online	Mark Goldston
The Wall Street Journal Online	Randy Kilgore
Vindigo, Inc.	Jason Devitt
Walden VC	Rich LeFurgy
Yahoo!, Inc.	Wenda Harris Millard

About the Interactive Advertising Bureau

Founded in 1996, the IAB is the industry's leading interactive advertising association. Its activities include evaluating and recommending guidelines and best practices, fielding research to document the effectiveness of interactive media, and educating the advertising industry about the use of interactive advertising and marketing. Membership includes companies that are actively engaged in the sale of interactive advertising and marketing. For more information, please visit our Web site at www.iab.net.

PricewaterhouseCoopers New Media Group

PricewaterhouseCoopers (www.pwcglobal.com), the world's largest professional services organization, helps its clients build value, manage risk and improve their performance. Drawing on the talents of more than 150,000 people in 150 countries, PricewaterhouseCoopers provides a full range of business advisory services to leading global, national and local companies and to public institutions.

PricewaterhouseCoopers' New Media Group was the first practice of its kind at a Big Five 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:

- ◆ Management consulting
- ◆ Business assurance services
- ◆ Web audience measurement auditing and consulting
- ◆ Web advertising delivery auditing and consulting
- ◆ Privacy policy structuring, attestation and compliance consulting
- ◆ Mergers & Acquisition assistance
- ◆ Tax planning and compliance
- ◆ Capital sourcing and IPO assistance
- ◆ Employee benefits and executive compensation packages

PricewaterhouseCoopers 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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