# THE USER REVOLUTION

## THE NEW ADVERTISING ECOSYSTEM AND THE RISE OF THE INTERNET AS A MASS MEDIUM

**FEBRUARY 2007**

**Safa Rashtchy**
*Managing Director, Senior Analyst, Internet Media, Commerce and Marketing*

**Aaron M. Kessler, CFA**
*Vice President, Senior Analyst, Internet Media, Commerce and Marketing*

**Paul J. Bieber**
*Research Analyst, Internet Media, Commerce and Marketing*

**Nathaniel H. Schindler**
*Research Analyst, Internet Media, Commerce and Marketing*

**Judith C. Tzeng**
*Research Analyst, Internet Media, Commerce and Marketing*

GUIDES FOR THE JOURNEY.® | PiperJaffray®

# THE USER REVOLUTION

## The New Advertising Ecosystem And The Rise Of The Internet As A Mass Medium

**Safa Rashtchy**
Managing Director,
Senior Analyst,
Internet Media, Commerce
  and Marketing
650 838-1347
safa.a.rashtchy@pjc.com

**Aaron M. Kessler, CFA**
Vice President,
Senior Analyst,
Internet Media, Commerce
  and Marketing
650 837-1434
aaron.m.kessler@pjc.com

**Paul J. Bieber**
Research Analyst,
Internet Media, Commerce
  and Marketing
650 838-1378
paul.j.bieber@pjc.com

**Nathaniel H. Schindler**
Research Analyst,
Internet Media, Commerce
  and Marketing
650 838-317
nathaniel.h.schindler@pjc.com

**Judith C. Tzeng**
Research Analyst,
Internet Media, Commerce
  and Marketing
650 838-1348
judith.c.tzeng@pjc.com

East Palo Alto

# TABLE OF CONTENTS

**Exhibits**

# KEY FINDINGS

1. **We expect global online advertising revenue to reach $81.1 billion by 2011, representing a 21% CAGR (2006-2011).** We expect U.S. online advertising revenue to reach $42 billion by 2011, representing 11.4% of total advertising budgets, up from approximately 6.6% of total advertising budgets in 2006. **In the United States, we expect search revenues to reach $21.5 billion by 2011, slightly ahead of non-search revenues of $20.5 billion, while we expect both segments to grow at a CAGR of around 17% (2006-2011).**

2. **The User Revolution.** The advertising world is going through a revolution, one that we call the "User Revolution" as it is happening primarily with the consumers, who are taking control of content consumption and branding. The historically passive consumer is changing rapidly, not only becoming more informed and confident about purchase decisions, but also increasingly taking control of the consumption of information and content that used to be distributed by networks, studios, publishers, and retailers. **We believe this trend will cause a significant rise in prominence of the Internet as a major content consumption and marketing medium.**

3. **"Communitainment."** The Internet has increasingly become a principal medium for *community, communication, and entertainment*—three areas that have collided together and are impacting each other's growth—generating a new type of activity that we call *communitainment*. **We believe communitainment is an emerging trend that will partially replace other forms of content consumption, from television to magazines, as well as other types of Internet sites as content consumption fragments along the "Long Tail."**

4. **The Internet is Mainstream.** The Internet has become a mainstream media outlet that is now rivaling traditional media such as radio, television, newspapers, and magazines for reach and advertising dollars. In fact, **the Internet is the leading medium at work and the second leading medium at home behind television.**

5. **Media Fragmentation.** The proliferation of online and offline media outlets has resulted in shrinking television audiences and an increasingly fragmented media landscape. More importantly, the quality of time people spend on TV has deteriorated rapidly with multi-tasking and the simultaneous use of other types of media, most notably usage of the Web while watching TV. DVR penetration and the proliferation of new content consumption channels have further exacerbated the challenges facing advertisers. **The net result is that advertisers increasingly will need to buy more inventory, from nearly all types of media, especially the Internet, to have the desired impact.**

6. **The Golden Search.** Search is the second most commonly used application on the Web with 550 million searches daily in the United States, and search marketing is a $15.8 billion global industry growing to $44.5 billion over the next five years. **We believe the five key trends in the search industry are as follows: 1) Search is the new portal; 2) Search is becoming a branding tool; 3) Google's dominance is increasing;**

4) **Local search remains a looming opportunity; and 5) New search technologies are likely to expand the field.**

7.  **We believe Google's wide variety of non-search-related products creates a virtuous cycle of brand affinity that drives incremental search volume.** Many of Google's non-search-related products, when first introduced, were thought to be unlikely to generate revenues anytime soon and, in fact, few have had even noticeable direct revenues. The combined synergistic effect of these products, however, is to create increasing user activity and loyalty, as well as additional users to Google's main monetization engine: Search and the AdWords and AdSense search platforms.

8.  **Video Ads Could Drive The Next Wave.** We believe **Internet video ads could become a game changer for large brand advertisers,** who are used to the 15 or 30 second TV commercial. In today's Internet, the advertiser must actively engage the user in order to create a brand impression. This engagement could include watching an online video, playing an interactive game, creating user-generated brands, or publishing content. We believe we are very early in the adoption of video ads, which could drive the next big wave of advertiser dollars migrating online.

9.  **Internet Usage Patterns Are Changing.** Portals maintain the highest reach, but the fastest growing category of destinations is communitainment sites such as MySpace and Facebook. The most valuable advertising for broad reach inventory is in the Portal, Search, News, and Entertainment categories. Communitaiment-oriented sites are the best new inventory for establishing close connection with users and creating engagement.

10. **Ad networks** are experiencing increased demand due to increasing Internet fragmentation, desire for more targeted inventory, increasing usage of networks for branding, and increased site visibility. We expect affiliate marketing to remain a vital marketing channel for advertisers due to its high ROI proposition.

11. **Agencies** are rapidly evolving into more sophisticated, technology-savvy entities that combine best of breed offerings. We expect large, multi-national traditional agencies to eventually have full interactive capabilities, largely through acquisitions of pure-play agencies. The current focus of agencies is on engagement marketing, user-generated content, and viral marketing through Web-focused creative and video.

12. **Watch These Companies.** We expect companies such as Google (and YouTube), Yahoo!, Disney, News Corp., Time Warner, Microsoft, InterActive, Facebook, Craigslist, Brightcove, Yelp, SINA Corp., Baidu, aQuantive, ValueClick, 24/7 Media, Netflix , Wikipedia, MobiTV, Digg, and Hakia to be the most important players to watch. Many of these companies will be major beneficiaries of the new trends, some will help define it, and others may be severely hurt because of the User Revolution. (See Executive Summary for a discussion on why these companies should be watched.)

# *The Revolution In Charts*

## CONSUMERS' CHOICE FOR MEDIA CHANNELS HAS MUSHROOMED…

Exhibit 1

**FRAGMENTATION OF MEDIA CONSUMPTION**

| 1966 | 1986 | 2006 |
|---|---|---|
| 1 Newspapers | 1 Newspapers | 1 Newspapers |
| 2 Broadcast TV | 2 Magazines | 2 Magazines |
| 3 Magazines | 3 Cable TV | 3 Email |
| 4 Broadcast Radio | 4 Broadcast TV | 4 Broadcast TV |
| 5 Eight Track | 5 Radio | 5 Radio |
| | 6 Cassette Tapes | 6 CD Player |
| | 7 Walkman | 7 Cable TV |
| | 8 VCR | 8 Personal Computer |
| | 9 Cable TV | 9 Satellite Television |
| | 10 Personal Computer | 10 Internet |
| | 11 Console Video Games | 11 Cell Phone |
| | 12 PC Video Games | 12 DVD Players |
| | | 13 Satellite Radio |
| | | 14 MP3 Players |
| | | 15 Tivo/DVR |
| | | 16 Slingbox |
| | | 17 iPod |
| | | 18 Blogs |
| | | 19 Online Video |
| | | 20 Mobile Internet |
| | | 21 Console Video Games |
| | | 22 PC Video Games |
| | | 23 MMORP Games |
| | | 24 Mobile Games |
| | | 25 Text Messaging |
| | | 26 Mobile Video |
| | | 27 Download Movies |
| | | 28 Podcasts |
| | | 29 Instant Messaging |
| | | 30 Social Networks |

Source: : Piper Jaffray & Co.

# …AND THEY ARE WATCHING LESS TV…

Exhibit 2

## CONSUMERS WATCHING LESS TV THAN TWO YEARS AGO

Do you watch more/less/same TV than two years ago?
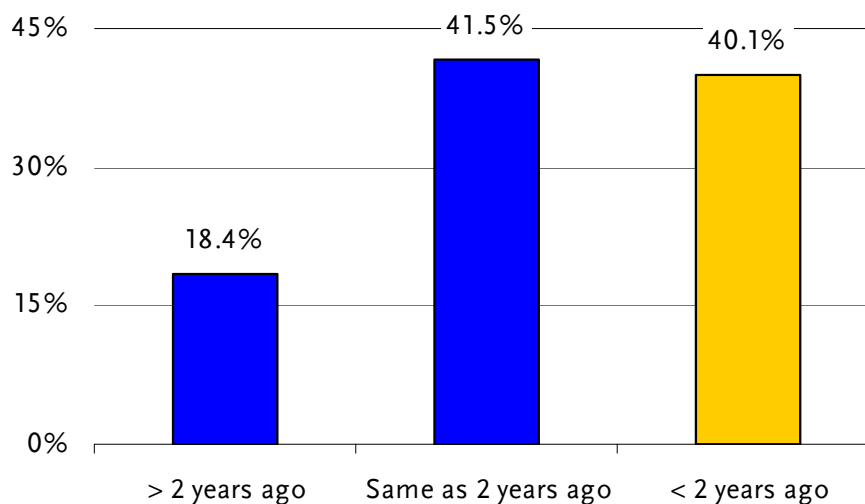


Source: Piper Jaffray & Co. 2006 Online Media Survey

Exhibit 3

## RATINGS AND SHARE FOR TOP TEN PROGRAMS

### 1998 - 1999 Broadcast Season

| Program | Household | |
| --- | --- | --- |
| | Rating | Share |
| E.R. | 17.8 | 29 |
| Friends | 15.7 | 26 |
| Frasier | 15.6 | 24 |
| NFL Monday Night Football | 13.9 | 22 |
| Jesse | 13.7 | 22 |
| Veronica's Closet | 13.7 | 21 |
| 60 Minutes | 13.2 | 22 |
| Touched By An Angel | 13.1 | 20 |
| CBS Sunday Movie | 12.1 | 19 |
| 20/20 Wed | 11.2 | 19 |
| Average | 14.0 | 22.4 |
| % decline | | |

### 2006 - 2007 Broadcast Season (Through December 17th)

| Program | Household | |
| --- | --- | --- |
| | Rating | Share |
| Dancing with the Stars | 13.5 | 20 |
| Desperate Housewives | 13.3 | 19 |
| Grey's Anatomy | 13.3 | 20 |
| CSI | 13.1 | 19 |
| Dancing with the Stars Results | 12.7 | 20 |
| CSI Miami | 11.3 | 18 |
| Sunday Night Football | 11.1 | 17 |
| Criminal Minds | 10.8 | 16 |
| Lost | 10.7 | 16 |
| CSI: NY | 10.6 | 18 |
| Average | 12.0 | 18.3 |
| % decline | -14% | -18% |

Source: Nielsen Media Research

## …AND MULTITASKING OR SKIPPING ADS WHEN THEY DO WATCH TV…

Exhibit 5

**CONSUMERS LIKELY TO SURF THE INTERNET WHILE WATCHING TV**

How often do you surf the Internet at the same time as watching TV?

Never
26%

Always
17%

Usually
15%

Sometimes
26%

Seldom
16%
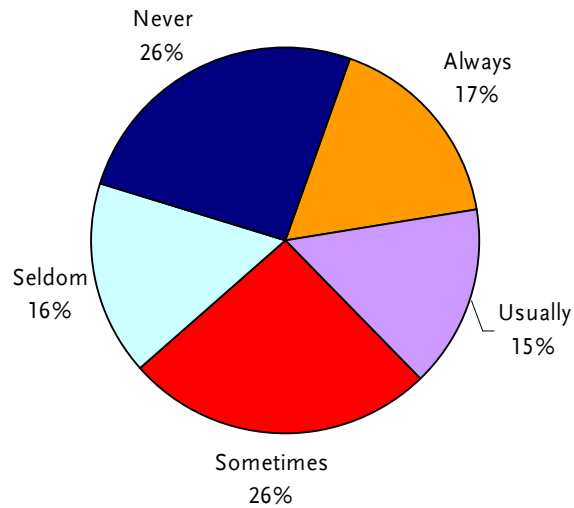
Source: 2006 Piper Jaffray & Co. Online Media Survey

Exhibit 4

**DVR USERS AND AD VIEWING BEHAVIOR**

Do you use your Tivo or DVR to skip television ads?

Watch Most
Ads
6%

Never Skip
Ads
6%

Skip Some
Ads
36%

Skips All Ads
52%
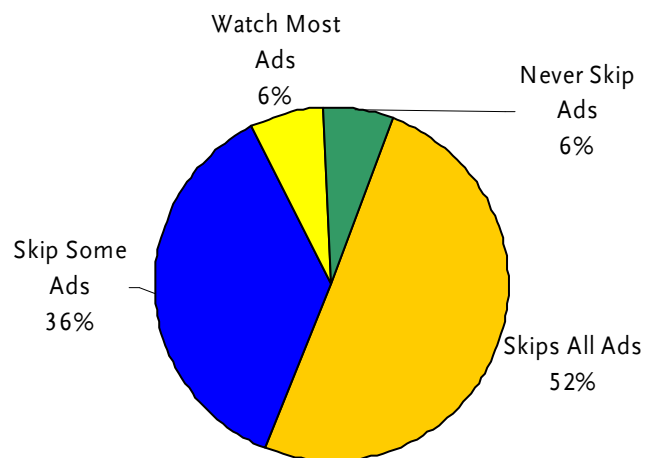
Source: 2006 Piper Jaffray & Co. Online Media Survey

## ...BUT ONLINE USAGE IS GROWING...

---

Exhibit 6

---

**CONSUMERS SPENDING LESS TIME WITH TRADITIONAL MEDIA**

% Spending Less Time With Medium Due To Time Spent Online
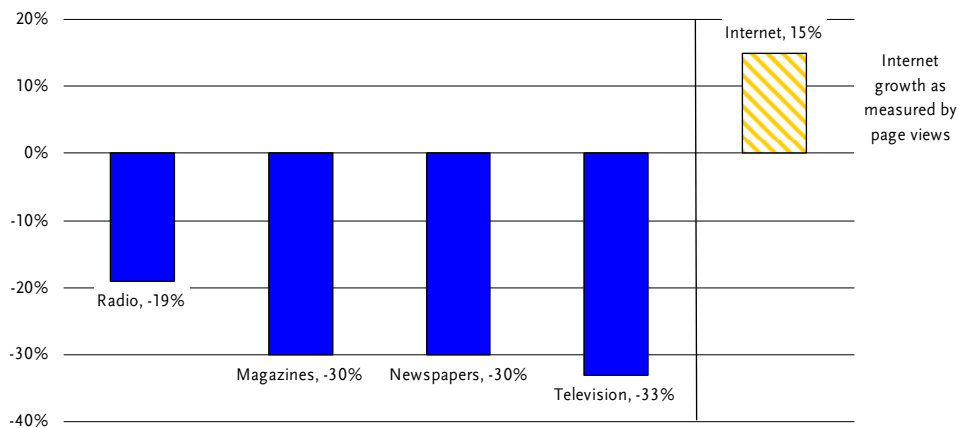


Source: Arbitron/Edison Media Research Internet and Multimedia 2006: On-Demand Media Explodes and comScore Networks. Blue indicates percentage of people who are spending less time with medium while yellow indicates percent growth in Internet page views.

---

Exhibit 7

---

**BROADCAST TV ADVERTISING AS A PERCENTAGE OF TOTAL ADVERTISING**
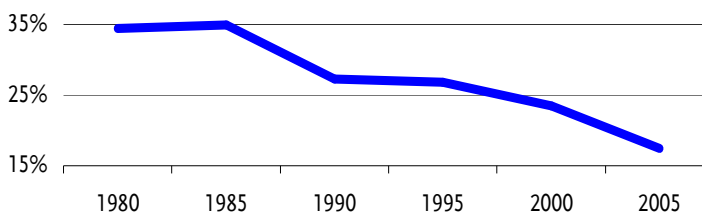


Source: Robert J. Coen - Universal McCann

# …MAKING ONLINE A MASS MEDIUM FOR THE FIRST TIME

Exhibit 8

**DAILY REACH AND DURATION FOR VARIOUS MEDIA OUTLETS**
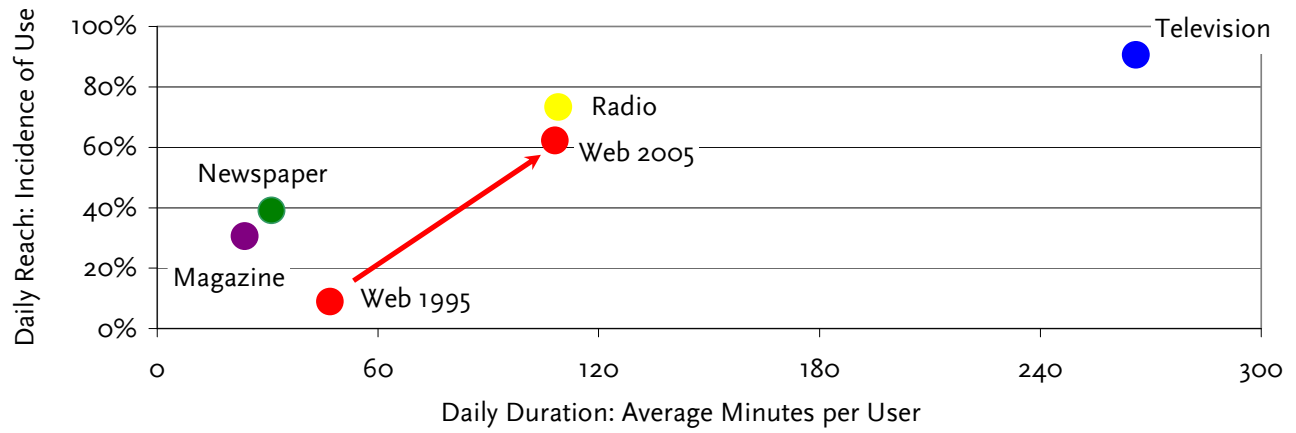


Source: Ball State University Center for Media Design - A Day in the Life: An Ethnographic Study of Media Consumption

## ...MAKING ONLINE A MASS MEDIUM FOR THE FIRST TIME.

Exhibit 9

**INTERNET IS NUMBER TWO MEDIA AT HOME**
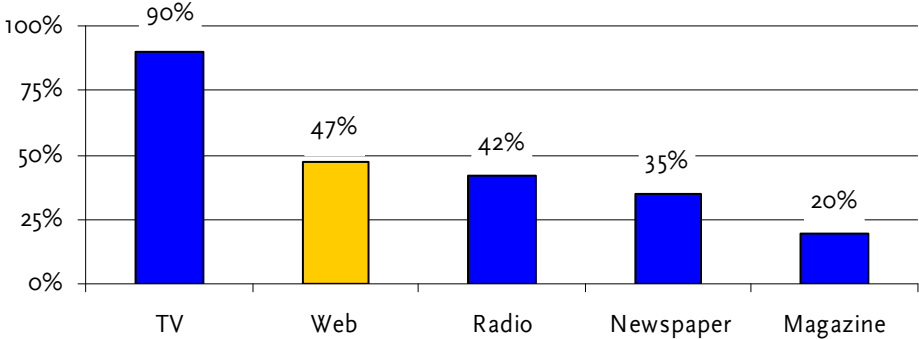
Reach At Home



Source: Ball State University Center for Media Design - A Day in the Life: An Ethnographic Study of Media Consumption

Exhibit 10

**INTERNET IS NUMBER ONE MEDIA AT WORK**

Reach At Work
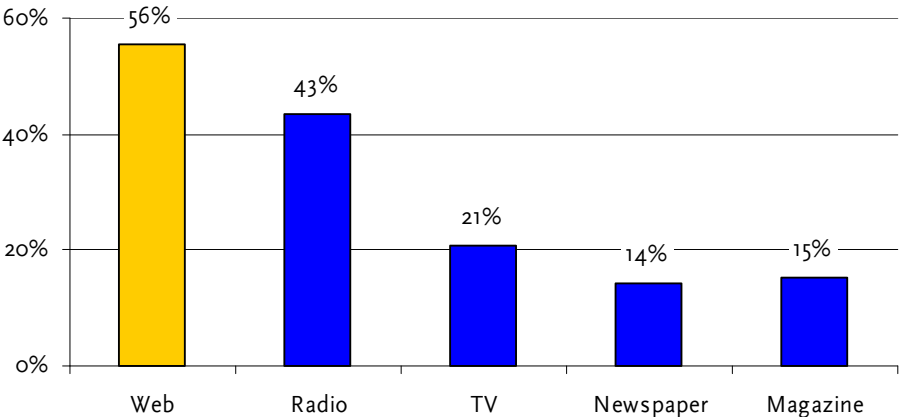


Source: Ball State University Center for Media Design - A Day in the Life: An Ethnographic Study of Media Consumption

## ALL POPULATION GROUPS ARE NOW ACTIVE ONLINE...

Exhibit 11

**PERCENTAGE OF ONLINE MINUTES CONSUMED**
By Age Demographic
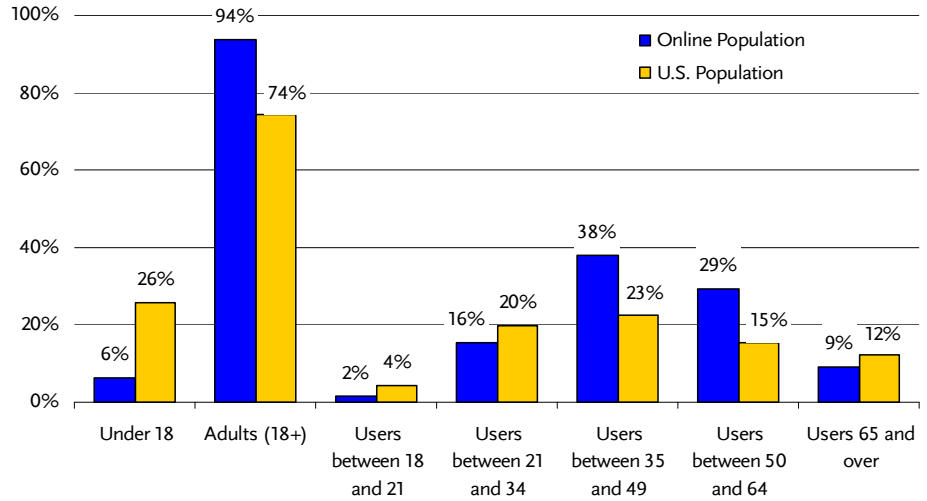


Source: Nielsen/NetRatings data, September 2006 and U.S. Census Bureau – 2000 Census

Exhibit 12

**U.S. INTERNET USAGE BY HOUSEHOLD INCOME**
Online Versus Offline
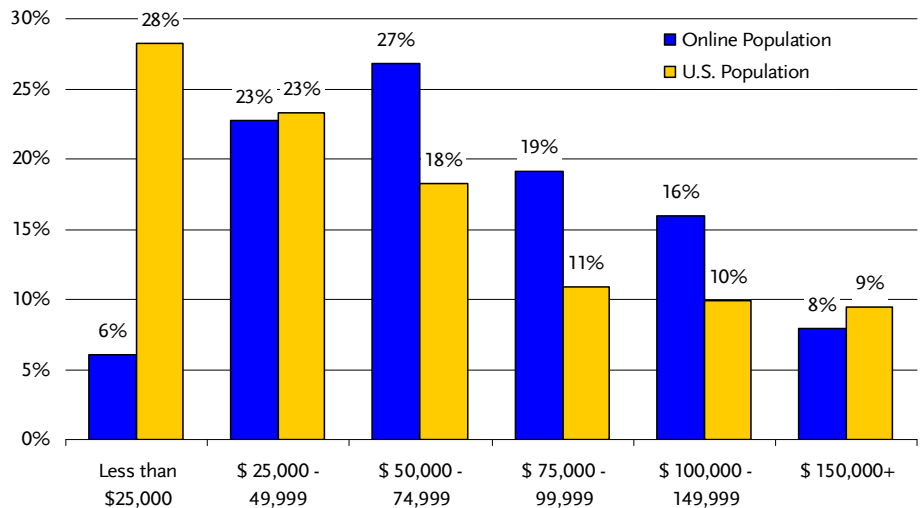


Source: Nielsen/NetRatings data, September 2006 and U.S. Census Bureau – 2000 Census

# ...BUT THE PICTURE ON THE WEB IS ALSO CHANGING.

Exhibit 13

**TOP 20 DESTINATIONS TRAFFIC DATA**

| Rank | Property | Unique Visitors | Reach | Page Views | % of Total Internet - 2005 | % of Total Internet - 2006 |
|------|----------|-----------------|-------|------------|----------------------------|----------------------------|
| 1 | Yahoo! | 131,443 | 76% | 35,927 | 9% | 8% |
| 2 | AOL | 120,980 | 69% | 16,600 | 6% | 4% |
| 3 | MSN | 116,506 | 67% | 17,968 | 4% | 4% |
| 4 | Google | 112,845 | 65% | 13,387 | 1% | 3% |
| 5 | Fox Interactive | 73,273 | 42% | 41,450 | 0% | 9% |
| 6 | Ask | 55,572 | 32% | 1,711 | 0% | 0% |
| 7 | Viacom Digital | 40,042 | 23% | 3,527 | 0% | 1% |
| 8 | New York Times Digital | 39,242 | 23% | 481 | 0% | 0% |
| 9 | The Weather Channel | 32,606 | 19% | 599 | 0% | 0% |
| 10 | CNET | 31,969 | 18% | 644 | 0% | 0% |
| 11 | Disney Online | 25,049 | 14% | 1,067 | 0% | 0% |
| 12 | CBS | 23,164 | 13% | 740 | 0% | 0% |
| 13 | Lycos | 22,598 | 13% | 312 | 0% | 0% |
| 14 | Facebook | 19,429 | 11% | 9,064 | 1% | 2% |
| 15 | Gannet Sites | 18,167 | 10% | 429 | 0% | 0% |
| 16 | iVIllage | 17,686 | 8% | 195 | 0% | 0% |
| 17 | ESPN | 17,095 | 10% | 960 | 0% | 0% |
| 18 | EW Scripps | 16,235 | 9% | 439 | 0% | 0% |
| 19 | Cox Enterprises | 14,420 | 8% | 831 | 0% | 0% |
| 20 | WebMD | 13,552 | 8% | 168 | 0% | 0% |

Source: comScore Networks, December 2005, 2006 Data

## COMMUNITAINMENT AND USITES HAVE EMERGED AS NEW AND WINNING CATEGORIES.

Exhibit 14

**SELECTION OF USITES**

| Site | Description | Unique Visitors (000) |
|---|---|---|
| Yahoo! Answers | Social Search | N/A |
| Fox Interactive (MySpace) | Social Networking | 73,831 |
| Wikipedia | Online Encyclopedia | 39,142 |
| YouTube | Online Video | 25,471 |
| Blogger | Blogging | 21,849 |
| Facebook | Social Networking | 16,695 |
| Google Video | Online Video | 15,154 |
| Craigslist | Online Classifieds | 14,268 |
| Bolt | Social Networking and Online Video | 10,842 |
| Six Apart | Blogging | 10,343 |
| Heavy.com | Online Video | 6,888 |
| Flilckr | Photo and Video Sharing | 6,550 |
| Xanga | Blooging | 4,911 |
| Metacafe | Online Video | 3,173 |
| Eurekster | Social Search | 2,934 |
| Bebo | Social Networking | 2,482 |
| Digg | Social Bookmarking and Content | 2,157 |
| del.icio.us | Social Bookmarking | 1,228 |
| Friendster | Social Networking | 1,112 |
| Yelp | Use Generated Local Directory | 711 |
| Upcoming.org | Social Event Calendar | 398 |
| Current TV | User Generated Video | 113 |

Source: comScore Networks, November 2006 Traffic Data

# NEW DESTINATIONS ARE GAINING OVER ESTABLISHED PLAYERS.

Exhibit 15

**TYPES OF SITES USED ONLINE - CONTENT, UTILITY, AND HYBRID**

Segmentation Of Internet Usage Based On Total Minutes Consumed Of The Top 100 Sites

April 2005

Hybrid
3%

Content
40%

Utility (email, communi- cations, commerce, etc.)
57%

October 2006

Hybrid
24%

Content
28%

Utility (email, communi- cations, commerce, etc.)
48%
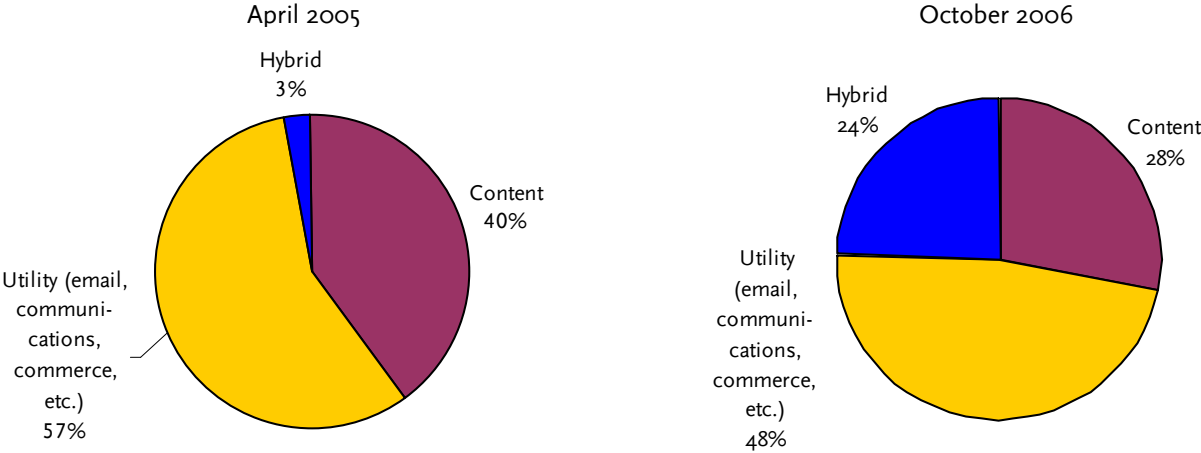
Source: comScore Networks, November 2006, segmentation by Piper Jaffray & Co.

## NEW DESTINATIONS ARE GAINING OVER ESTABLISHED PLAYERS.

Exhibit 16

**USITE USAGE VERSUS GENERAL INTERNET USAGE**
Segmentation of Internet Usage Based on Total Minutes Consumed of the Top 100 Sites

April 2005

Usites
3%

General
Internet
97%

October 2006

Usites
31%

General
Internet
69%
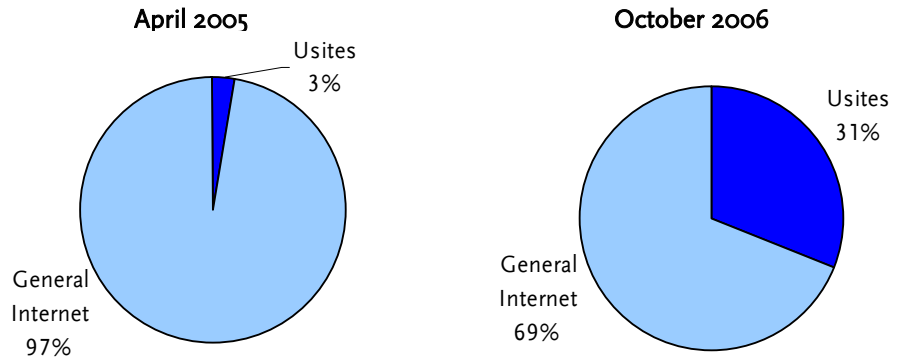
Source: comScore Networks and Piper Jaffray & Co.

COMMUNITAINMENT AND USITES HAVE MERGED AS
NEW AND WINNING CATEGORIES…

> ## Over The Next Ten Years, More Than Half Of Internet Usage Will Be Communitainment
>
> Source: Piper Jaffray and Co.

Exhibit 17

**SELECTED USITE TRAFFIC GROWTH**

|  | October 2005 | October 2006 | % Change |
|---|---|---|---|
| Total Internet : Total Audience | 169,315 | 173,258 | 2.3% |
| Yahoo! Sites | 124,429 | 129,603 | 4.2% |
| Time Warner Network | 117,018 | 120,291 | 2.8% |
| Microsoft Sites | 115,419 | 118,028 | 2.3% |
| Google Sites | 89,807 | 109,721 | 22.2% |
| eBay | 69,649 | 80,820 | 16.0% |
|  |  |  |  |
| **Top 5 Average** |  |  | **9.5%** |
| **Portals Average** |  |  | **3.1%** |
|  |  |  |  |
| Fox Interactive Media | 12,430 | 71,346 | 474.0% |
| Wikipedia Sites | 15,618 | 38,897 | 149.0% |
| YouTube | 673 | 23,480 | 3386.7% |
| Facebook | 9,473 | 15,108 | 59.5% |
| Craiglist | 8,236 | 14,327 | 74.0% |
| Flickr | 2,397 | 6,153 | 156.7% |
| Bebo | 999 | 2,302 | 130.4% |
| Metacafe | 313 | 3,774 | 1104.5% |
| Break | 1,978 | 2,838 | 43.4% |
|  |  |  |  |
| **Average of Top Usites** |  |  | **619.8%** |
| **Average of Top Usites excluding YouTube** |  |  | **273.9%** |
| **Average of Top Usites excluding YouTube and Metacafe** |  |  | **155.3%** |

Source: comScore Networks

# …BUT NOT EVERY CATEGORY HAS THE SAME EFFECTIVENESS FOR ADVERTISING…

Exhibit 18

**THE EIGHT CATEGORIES OF ONLINE INVENTORY**

An Index Of Size, Targetability, And Time Spent
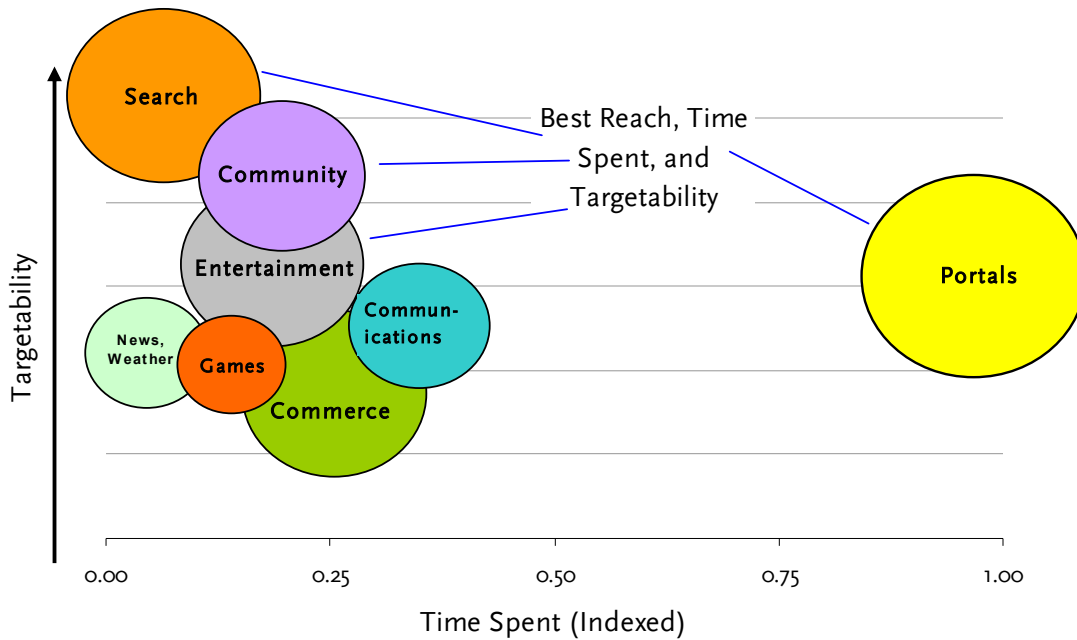


Note: Circle size denotes reach of each category.

Source: Piper Jaffray and Co.

## …AND NOT EVERY CATEGORY IS SUITABLE FOR ADVERTISING.

Exhibit 19

**REACH, ENGAGEMENT, AND MONETIZATION POTENTIAL INTERNET CATEGORIES**

| | Reach | Engagement | Monetization |
|---|---|---|---|
| Highest | Portals | Community | Search |
| | Search | Games | News/Weather/Sports |
| | Entertainment | Entertainment | Entertainment |
| | Community | Search | Portals |
| | Communications | Communications | Games |
| | News/Weather/Sports | News/Weather/Sports | Community |
| Lowest | Games | Portals | Communications |
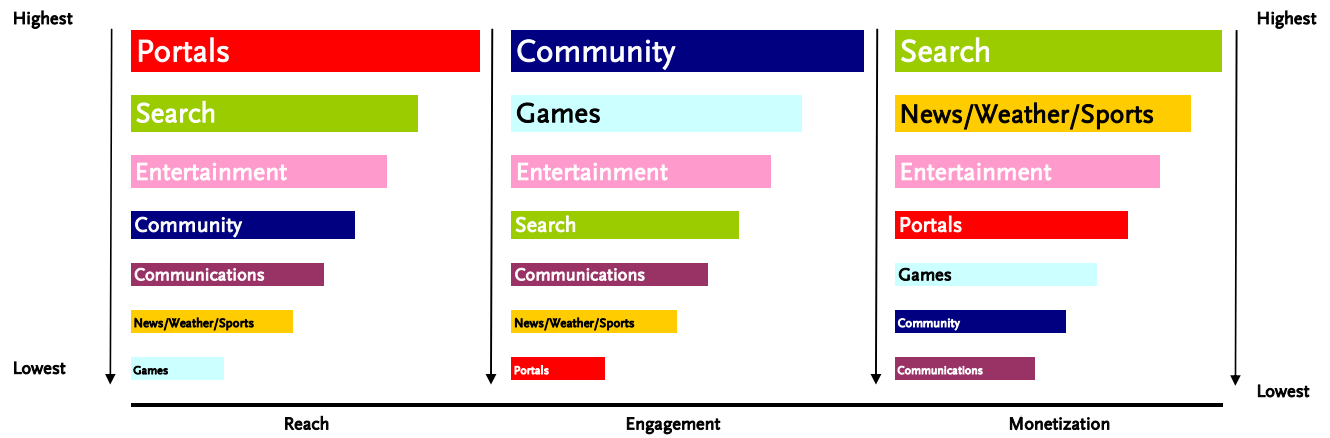
Source: Piper Jaffray and Co.

## GOOGLE GAINING MORE MARKET AND MIND SHARE

Exhibit 20

**U.S. SEARCH MARKET SHARE**

U.S. Search Market Share
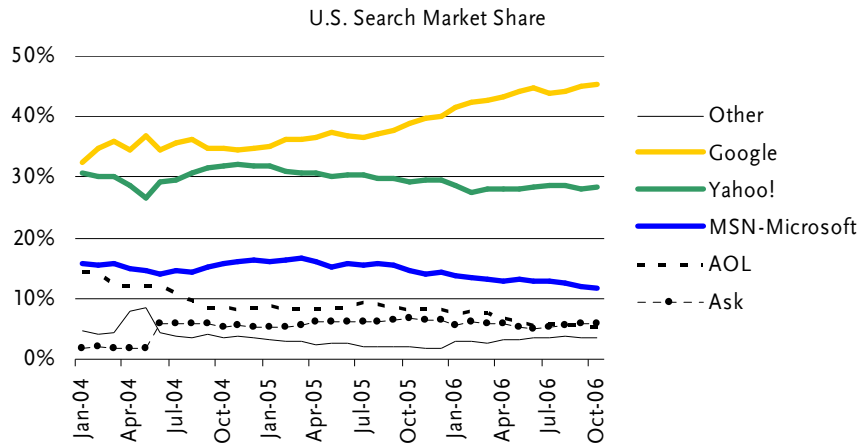


Source: comScore Networks, December 2006 QSearch Data

In 2006, Google's revenues represented nearly 20% of global online advertising spending.

Source: Piper Jaffray and Co.

# GOOGLE GAINING MORE MARKET AND MIND SHARE

Exhibit 21

**U.S. SEARCH MARKET SHARE**
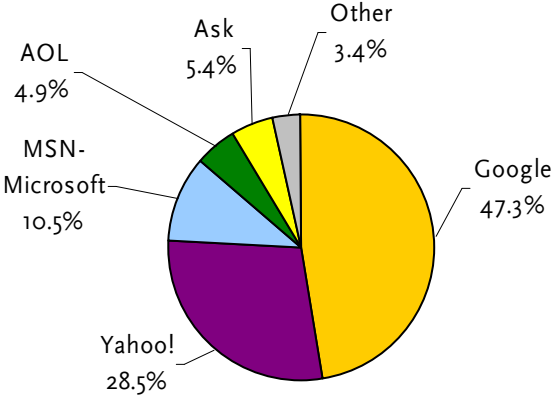


Source: comScore Networks, December 2006 QSearch Data

Exhibit 22

**GOOGLE USAGE GROWING BEYOND SEARCH**
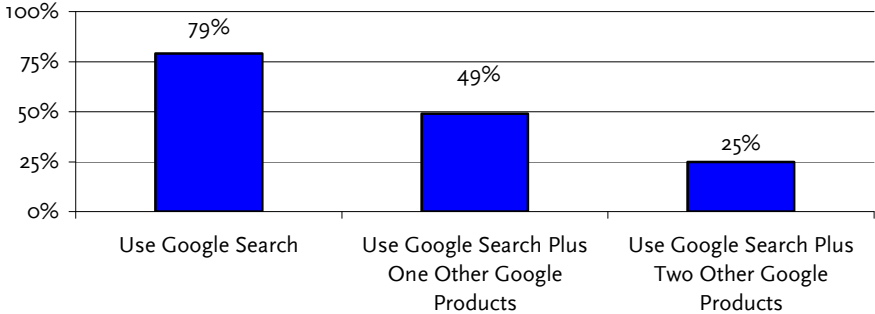


Source: Piper Jaffray & Co. 2006 Online Media Survey

## ALL THESE CHANGES LEADING TO FAST GROWTH FOR ONLINE ADVERTISING

Exhibit 23

**PIPER JAFFRAY GLOBAL PAID SEARCH AND BRANDED ADVERTISING FORECAST**
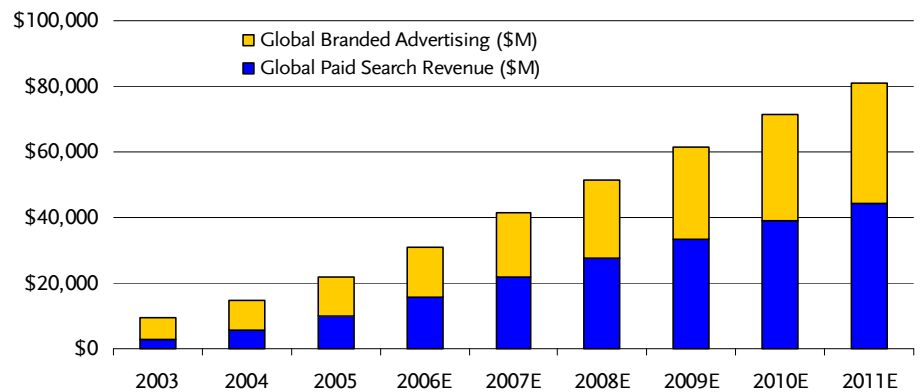


Source: Piper Jaffray & Co. estimates

Exhibit 24

**PIPER JAFFRAY U.S. ONLINE ADVERTISING FORECAST**
As A Percentage Of Total Advertising Spending
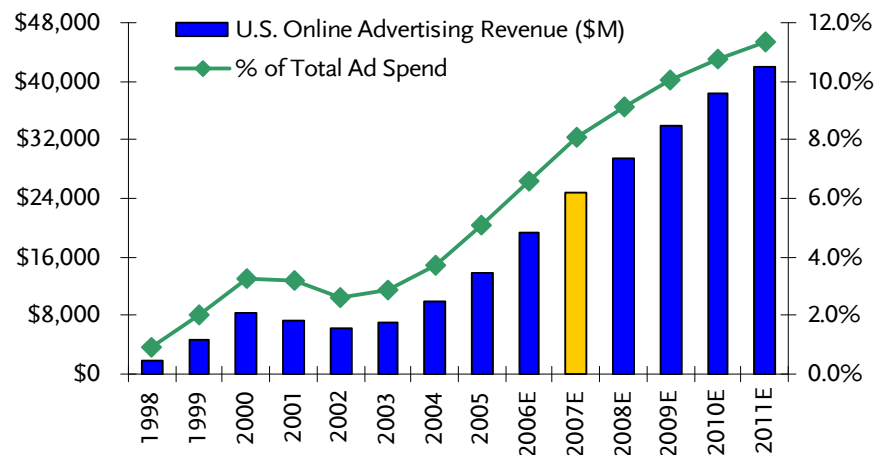


Source: Piper Jaffray & Co. estimates

## AS ONLINE'S SHARE OF THE BUDGET CONTINUES TO INCREASE...

Exhibit 25

**ADVERTISING EXPENDITURES ACROSS MEDIA**
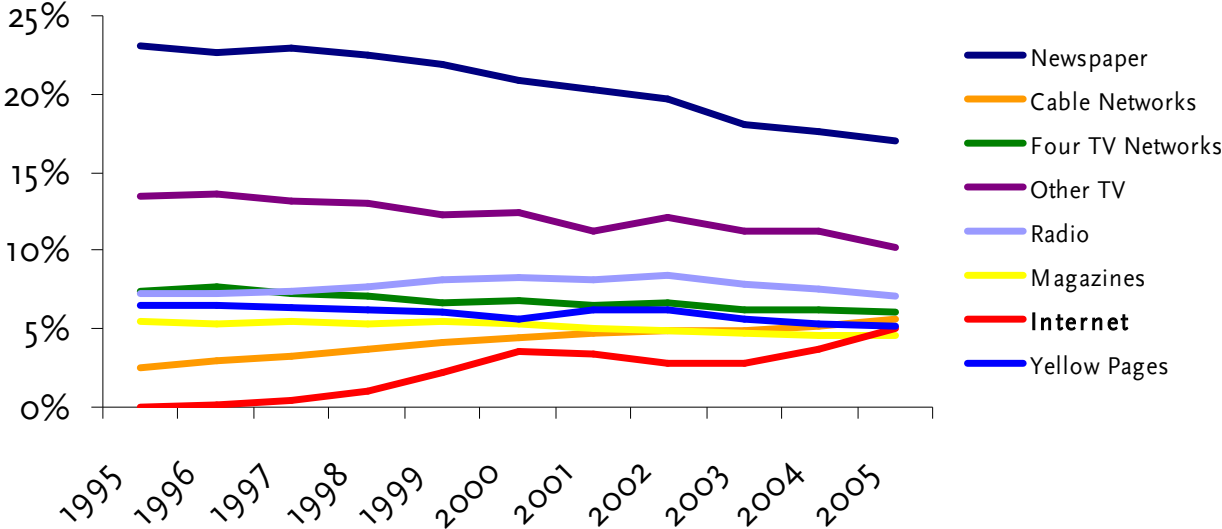
1995-2005



Source: Piper Jaffray & Co, Newspaper Association of America, Yellow Pages Association of America, National Cable and Telecommunications Association and Robert J. Coen, Universal McCann

Exhibit 26

**TOP 50 ADVERTISERS BY MEDIA VALUE**
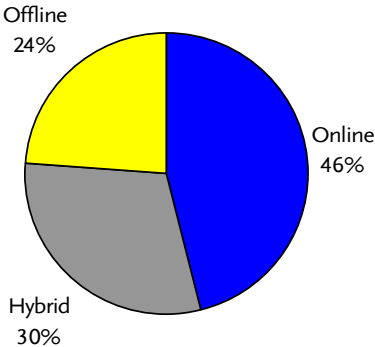


Source: TNS Media Intelligence and Piper Jaffray & Co.

## …BUT THERE IS POTENTIAL FOR EVEN FASTER GROWTH.

Exhibit 27

**INTERNET CONSUMPTION AND ADVERTISING SPENDING**
As A Percentage Of Total Media Consumption And Advertising
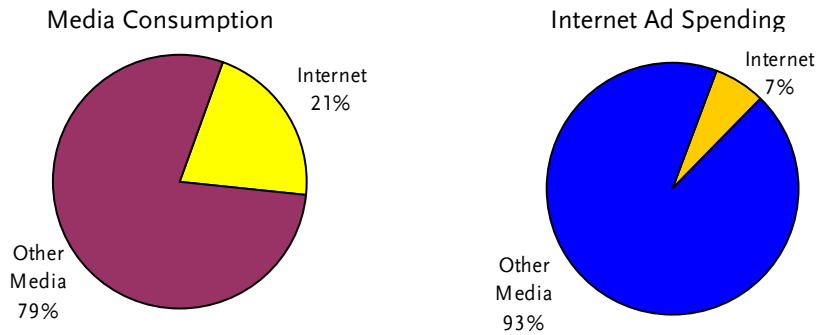


Source: Television Advertising Bureau, Nielsen Media Research, Advertising Age, and Piper Jaffray & Co. estimates.

Exhibit 28

**COMPARISON OF INTERNET VERSUS CABLE ADVERTISING**
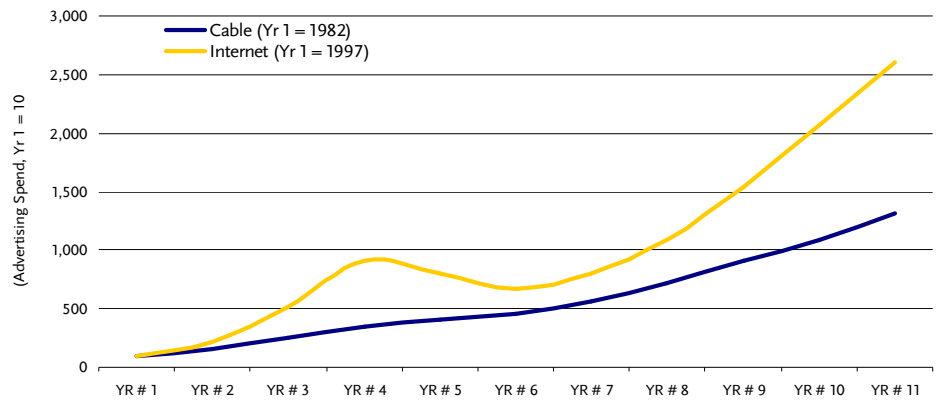


Source: Piper Jaffray & Co. estimates

## …BUT THERE IS POTENTIAL FOR EVEN FASTER GROWTH.

Exhibit 29

**TREMENDOUS OPPORTUNITY IN MIGRATION OF LOCAL AD DOLLARS**

| Offline Yellow Pages and Classifieds Market | $37 Billion | |
|---|---|---|
| | Millions of $ | % of Offline |
| Local Search | $989 | N/A |
| Online Yellow Pages | $800 | 5% |
| Classifieds | $2,800 | 16% |
| Current Total Online Local Ad Market | $4,589 | 12% |
| Potential Online Local Ad Market - 70% of Total | $25,900 | |

Source: Piper Jaffray and Co.

# THE RESULT IS A NEW WORLD ORDER IN MEDIA

Exhibit 30

**MEDIA WORLD IN THE NEW REGIME**

## MEDIA WORLD ORDER

| Media Trends | Pre Revolution | Post Revolution |
|---|---|---|
| 1. Online vs. Offline Media | Separate, competitive | Integrated into one medium |
| 2. Media Sources | Few, large content providers | Multiple sources, vertically focused |
| 3. Content Control | Centralized—controlled by the publishers | Fragmented—controlled by the users |
| 4. Internet Content | Text-based | Video-based |
| 5. Main Navigation Method | Portals | Search |
| 6. Consumer Decision Process | Basic, largely influenced by advertising | Sophisticated, driven by reviews and rating |
| 7. Competitive Advantage | Exclusive content | Simplicity, speed, interconnectivity |
| 8. Media Consumption Pattern | Focused single channel use | Multi-channel, distributed attention |
| 9. Social Networking | Limited to few early adopters/teenagers | Mainstream/routine activity |

Source: Piper Jaffray and Co.

## EXECUTIVE SUMMARY

**Birth of a New Era In Advertising.** We are living through pivotal times in the advertising world, which is marked by the end of one era—the golden age of advertising that began after the end of World War II—and the beginning of a new era. This new era can also be termed a golden age, but not necessarily for the advertiser. It is the golden era for consumers, and it is already impacting advertising far more profoundly than any other development over the last 50 years. These changes are driven by what we call the User Revolution.[1] Like many major social trends, the changes will not happen overnight, and we expect the User Revolution, which has just begun, to last several years before the new regime is fully established and the old statues have all been toppled over.

**Five-Year Growth Estimates For Internet Advertising: Over 20% CAGR.** For the Internet sector, the new era is a welcome change as the Internet's most important characteristics, flexibility and user control, are also the hallmarks of the User Revolution. (In fact, the Web been a major instigator of this user uprising.) As such, we believe the Internet will assume a premium position in the new regime of media consumption. This is in part why we believe our new estimates for global online ad spending may prove overly conservative. We estimate a 20% CAGR over the next five years, far outpacing all other major sectors of media and advertising. We believe global online ad spending, now around $32 billion (in 2006), will exceed $80 billion by 2011. We note that every year for the past three years, we have had to increase our estimates based on the faster growth rates in the online ad sector than we had originally predicted.

**The Revolution Is About Control.** The uprising by the users is over control—control of the **type of content** users want, control of the **place and time** content is delivered, control of the **advertisements** that the users are willing to take, and control of the **brands** they want to create. Unlike most revolutions, where the masses revolt because of major hardship and grievances, the User Revolution was largely driven by the proliferation of media options, the emergence of the Internet, and the growing sophistication of consumers.

---

[1] The analogy of a revolution is not fully representative of consumer trends, as a revolution generally suggests a sudden and violent change of regime and the current user trends are gradual and, happily, non-violent. However, we feel that the impact of the changes warrants the use of the word revolution.

**The Picture Of The Media World In The New Regime.** In the new era, we expect the following:

*(1) search will assume an even more central role; (2) the distinction between traditional and new media will disappear; (3) consumers will use an increasing and large number of Websites, TV channels, and other sources; (4) consumers will design their own content and programming, and companies that enable and encourage this will prosper; (5) social networking sites will continue to grow and potentially become the new portals; (6) users will select most products and services they buy based heavily on reviews and ratings (by other users and experts), changing the impact of traditional ways of advertising (7) video will be the killer app of the Web, supplementing or taking over most other types of content; (8) simplicity, speed, intuitiveness, and usefulness will be the key attributes of the successful media channels; and (9) multi-tasking and multi-channel use will be the norm.*

In this new media reality, companies will need to own or partner with many channels to be omnipresent with the users, forcing media companies to cooperate much more on standards, realizing that the user is king.

---

**BUSINESS RISKS**

Risks associated with the continued growth of online advertising include, but are not limited to, the following:

- An aggressive strategy by traditional media companies to control and monetize content and potentially stifle the growth of online advertising and emerging Internet business models
- A decrease in advertising expenditures due to general macro-economic conditions
- The loss of confidence by advertisers in the efficacy of online advertising
- A decrease in the efficacy of online advertising including display and search advertising
- The ability to adapt to rapidly changing technologies and consumer behavior trends
- The continued maintenance of Internet infrastructure including backbone speed, capacity, and security
- A change in the regulatory environment regarding the collection of user data and information

Exhibit 31

**MEDIA WORLD IN THE NEW REGIME**

## MEDIA WORLD ORDER

| Media Trends | Pre Revolution | Post Revolution |
| --- | --- | --- |
| 1. Online vs. Offline Media | Separate, competitive | Integrated into one medium |
| 2. Media Sources | Few, large content providers | Multiple sources, vertically focused |
| 3. Content Control | Centralized— controlled by the publishers | Fragmented— controlled by the users |
| 4. Internet Content | Text-based | Video-based |
| 5. Main Navigation Method | Portals | Search |
| 6. Consumer Decision Process | Basic, largely influenced by advertising | Sophisticated, driven by reviews and rating |
| 7. Competitive Advantage | Exclusive content | Simplicity, speed, interconnectivity |
| 8. Media Consumption Pattern | Focused single channel use | Multi-channel, distributed attention |
| 9. Social Networking | Limited to few early adopters/teenagers | Mainstream/routine activity |

Source: Piper Jaffray and Co.

**The Drivers Of The User Revolution.** We have identified six major trends in the media world and the Internet that define the User Revolution. These are as follows:

1. **The Emergence of Communitainment** – the combination of communication with entertainment and community
2. **The Increasing Popularity of Usites** – Websites with predominantly user generated content will flourish
3. **Mainstreaming of the Internet** – the Web is now a routine media channel for most demographic groups
4. **Evolution of User-Generated Brands** – users are taking control of both the promotion and definition of brands
5. **Declining Usage of Traditional Media** – consumers are spending less time on TV and newspapers in particular; simultaneous media usage makes traditional media less effective for the advertiser
6. **Fragmentation of Content Consumption** – consumers are using an increasing number of channels both offline and online in order to get content from their "best-of-the breed" source; larger networks are losing out

**Communitainment and Usites** are the most serious threat to the traditional method of content consumption (online or offline) and are the hallmark of this User Revolution. For example, how does a site like Yelp merge merchant reviews and social networking to become an online phenomenon, growing from 200,000 unique visitors in February 2006 to more than 800,000 in December 2006? Similarly, where are young people getting the time to spend one to three hours a day on MySpace? On what other activities and media sources are they cutting back? Finally, why is this type of activity—combining entertainment with communication with a group of like-minded friends—so popular and does it indicate the next stage in media usage, which is going from the shared experience of the early days of network TV to the more individualized preferences of cable TV and Tivo, and finally to the shared experience of fully connected virtual networks. The new regime has people "Googling," YouTubing," "Yelping," "MySpacing," and, of course IMing/chatting, while at the same time they are sharing their favorite songs, movies, stores, and destinations with each other. Communitainment is the major achievement of the User Revolution, and it could replace other activities unless media companies acknowledge this trend and opportunistically embrace it.

**Traditional Media.** The growth and popularity of communitainment is in direct contrast to the declining value of traditional media, as reflected in the decreasing use of TV, newspapers, and other sources. In our 2006 Online Media Survey, 40% of the respondents said they watch less TV than they did two years ago, while less than 18% said they watched more.

**Search and Google Dominate the Internet.** While consumers are spending far less time and attention on TV and newspapers, they are busy searching, or more accurately, Googling, as Google's share of search continues to rise, and we except this trend to continue for some time. We believe Google can eventually achieve 70%-80% market share both in the United States and worldwide. Search itself has become the new portal model, as many users now rely on search to navigate the Web and find answers to their questions. Searching is no longer just used to find information or to buy a product; search is the way people navigate around the Internet.

**We believe Google is the most important company to watch over the next ten years** in the Internet, as the User Revolution fully unfolds. The combination of Google's strong

market share and brand in search and the company's aggressive innovative strategy on new products aligns Google more than any other company with the new User-based media.

**What Are Media Companies to Do?** The upshot of the above trends, which we discuss in detail in this report, is that both advertisers and publishers need to change their strategies, and in some cases, their business models.

**Publishers** need to realize that their competition is no longer the other publishers, but a range of what we would call content and services destinations. Many of these, such as Flicker, Yelp, or YouTube, are not considered publishers in the traditional sense yet they pull consumer attention away from the traditional publishers. Thus, both traditional media channels and Internet sites have to adapt to user control and content, as well as to a consumer's desire to go to smaller, more specialized content sources. This requires new thinking for many companies, and it gives an advantage to the so-called "Web 2.0" firms, such as Google, which are inherently much more user-focused.

**The Web's Darwinism.** Successful online destinations (we prefer to use destinations rather than the word "publisher" as we believe the latter does not accurately describe the networks on the Web today) will need to embrace users and transition their business models away from providing content and services in return for advertising to a business model that is focused on creating cohesive communities of users that generate ideas, content, and, most importantly, brands. The next task of these destinations is to match the best advertisers with the user groups, allowing the content to get richer and more relevant for the users, and enabling the advertisers to engage their target group in their brand. Providing news or entertainment is now a commodity, and successful destinations need to go well beyond this, looking into the needs of the modern Internet users. The "portal," as we know it, is effectively dead. Users now do not need a single destination that provides every type of service or content with effective search tools; they can navigate to best-of-breed destinations and tools. The successful destinations of the next ten years will be agile and aggressive networks of smaller sites with specific applications that are highly tailored to user needs. With users becoming much more sophisticated, we have become more convinced that only the fittest will survive and Web Darwinism will play out over the next five years as the User Revolution fully unfolds.

**The Advertisers** need to adapt to the new consumer demands and match their services closely with consumer needs. The old advertising adage that advertising is about "convincing consumers to buy what they don't know they need" has to change. Consumers largely know what they need, and they want messages that are targeted at those specific needs. They also want to associate the brand with their lifestyle, and in doing so, they will become evangelizers for that brand. Thus advertisers need to forge closer relationships with consumers – close enough to be part of the content they are consuming, not just a commercial interruption of the content. In the new regime, advertisers must not only follow customer cues, they must also join their networks as active participants with a genuine interest in promoting the consumers' interest. This is probably one of the most radical changes that the User Revolution will cause in the advertising world, but we believe the most successful businesses in the next 20 years will be those who are fully aligned with the consumers' social ideals.

**Companies To Watch.** The User Revolution will drastically change the Internet and the media landscape over the next 10 years. Some companies are likely to become extinct; others will prosper enormously. The most successful ones, however, will not necessarily be the biggest Internet or traditional media giants of today. There are many

> *The successful destinations of the next ten years will be agile and aggressive networks of smaller sites with specific applications that are highly tailored to user needs.*

> *Thus advertisers need to forge closer relationships with consumers – close enough to be part of the content they are consuming, not just a commercial interruption of the content.*

companies to watch, but we encourage investors to pay particular attention to the following sample of large and small companies that are likely to be very active participants in the new media environment and part of the User Revolution. Beyond the major players such as Disney and Google, we highlight a number of smaller start-ups as representing new trends that are important to watch. Some of these companies may not have viable business models currently, and many may be overtaken by competition, but we believe these companies represent important new trends that investors should be monitoring:

**Google Inc. (GOOG).** The role of search is expanding, and Google's brand (both in search and beyond) is growing in popularity. Google is likely to have a pivotal role in the new environment. We expect the company to continue to be the top innovator in search, as we progress from this early stage to advanced search functionality over the next decade or so.

**Yahoo! Inc. (YHOO).** The company is at the crossroads of changing its structure and embracing the User Revolution. Without major structural changes, however, the future may be bleak while with the right restructuring, Yahoo! could be one of the top five media companies in the emerging landscape.

**Walt Disney Co. (DIS).** The company's enormous assets and brands are helpful starting blocks. More importantly, the resources that the company devotes to the new media will likely give them a competitive advantage.

**News Corporation (NWS).** A tradition of being close to customers and producing what they want has helped News Corp. become an early participant in the User Revolution. If the company continues on this path, it is likely to be a major winner in the new media world.

**Time Warner Inc. (TWX).** It remains to be seen what Time Warner can do with its multitude of valuable but declining assets. The company, however, remains a major player in the media world and is bound to impact the emerging landscape.

**Microsoft Corp. (MSFT).** Another company on the crossroads of potentially major long-term restructuring of its strategy; it is not clear yet where new media will fit in the new Microsoft and how the company can remain a major player in the Internet. While Microsoft has strong technological capabilities, it lacks strong positioning with consumers, especially as it relates to media assets.

**Apple Inc. (AAPL).** Apple has a tremendous brand following, led by innovative and intuitive hardware designs. We expect Apple to maintain its dominance in online music and to potentially become the media hub for the living room. Beyond this, it is not clear what role Apple can play in ad-based media model, but we believe the changes the company helps bring about in new distribution methods are very important to watch.

**IAC/InterActiveCorp (IACI).** One of the more promising conglomerates to watch, especially as the company has just started investing in search and content.

**MySpace (A division of News Corporation).** The massive growth of the premier social networking site could hit some hurdles with smaller sites gaining, but the appeal of its large network is likely to remain a major advantage. Advertising will be a key element of its strategy, not just for monetization, but also how it can improve its community content.

**YouTube (a division of Google Inc.).** The biggest challenge the company will face will be from professional content creators. If YouTube can continue to sign up these licenses, it will have a very good chance of remaining one of the top video sites on the Web. The major next step for YouTube is to become a full Communitainment site by incorporating more social networking tools and services.

**Facebook.** The value of a more controlled social networking environment that is more focused on communications will be tested in the coming years.

**Craigslist.** The simplicity of finding what you need, without the benefits or complexity of ratings, has caused this company to capture a large share of the classified business. It will be important to watch how the new dynamics of community-based referrals impact Craigslist. Craigslist has become the general purpose bulletin board of large metropolitan cities—a major achievement that would have been unthinkable, especially with no marketing spending, just a few years ago.

**Brightcove, Inc.** The concept of enabling and syndicating video distribution online will become increasingly more important as we are likely to get many more content creators in the "Long Tail."

**Yelp.** The marriage of social networking and local search is a very powerful trend and is very likely to become the norm for many people to find a business.

**SINA Corporation (SINA).** China is poised to become the largest Internet market, overtaking the United States in a few years. The trends we see in the United States are already happening in China as well, with the Chinese market sometimes skipping a stage or two in its evolution. As the largest portal in China, SINA will continue to have major weight in the development of the new media market.

**Baidu.com, Inc. (BIDU).** The company has become the Google of China, a market which will overtake the United States as the largest Internet population over the coming years.

**aQuantive, Inc. (AQNT), ValueClick Inc. (VCLK), 24/7 Real Media Inc. (TFSM).** Advertising services companies and ad networks will continue to benefit from the increased spending, especially as the User Revolution fragments and expands the available inventory.

**Netflix, Inc. (NFLX).** As the consumption of video moves online, the value of merging the traditional models of renting movies and the online method of creating a community of users will become more important. Netflix's 5 million subscribers are already online and are an important asset for the company and its studio partners.

**Wikipedia Foundation.** This enormously valuable, free site defied the common wisdom that a totally open encyclopedia could be accurate and useful. The site's comprehensiveness has catapulted it to the top of search results for an increasing number of queries, and the community has proven to be extremely efficient in policing the quality of the information. This model of knowledge aggregation and distribution could profoundly impact a number of existing business models and companies.

**MobiTV, Inc.** Watching video on a cell phone will become routine, but the key is that such video consumption will be different from the traditional video watching. Companies will need to tailor not just their content, but also their delivery mechanisms and targeting to support mobile content consumption.

**digg Inc.** There is increasing demand for an infrastructure that can allow broader social networking by loosely connecting users through shared interests, creating more efficient content targeting through collective ranking by like-minded people. The concept of "digging" is very interesting and is likely to evolve into broader applications.

**hakia, Inc.** The concept of understanding the meaning of a page of content rather than matching keywords is the roadmap for the future of search technology. The concept may well be adopted by the existing players, or it could be harnessed by new emergent companies. Over the next 20 years, we will see major improvements in both gathering and indexing knowledge beyond what is on the Web, and search engines will be capable of finding solutions to users questions, by not only better understanding the query but also understanding the content and knowledge that is available.

Exhibit 32

## COMPANIES TO WATCH

| Company | Reason To Watch |
|---|---|
| Google Inc. (GOOG) | The role of search is expanding and Google's brand, both in search and beyond, is growing in popularity. Google is likely to have a pivotal role in the new environment. We expect the company to continue to be the top innovator in search, as we progress from this early stage to advanced search functionality over the next decade or so. |
| Yahoo! Inc. (YHOO) | The company is at the crossroads of changing its structure and embracing the User Revolution. Without major structural changes, however, the future may be bleak while with the right re-structuring, Yahoo! could be one of the top five media companies in the emerging landscape. |
| Walt Disney Co. (DIS) | The company's enormous assets and brands are helpful starting blocks. More importantly, the resources that the company devotes to the new media will likely give them a competitive advantage. |
| News Corporation (NWS) | A tradition of being close to customers and producing what they want has helped News Corp. become an early participant in the User Revolution. If the company continues on this path, it is likely to be a major winner in the new media world. |
| Time Warner Inc. (TWX) | It remains to be seen what Time Warner can do with its multitude of valuable but declining assets. The company, however, remains a major player in the media world and is bound to impact the emerging landscape. |
| Microsoft Corp. (MSFT) | Another company on the crossroads of potentially major long-term restructuring of its strategy; it is not clear yet where new media will fit in the new Microsoft and how the company can remain a major player in the Internet. While Microsoft has strong technological capabilities, it lacks strong positioning with consumers, especially as it relates to media assets. |
| Apple Inc. (AAPL) | Apple has a tremendous brand following, led by innovative and intuitive hardware designs. We expect Apple to maintain its dominance in online music and to potentially become the media hub for the living room. Beyond this, it is not clear what role Apple can play in ad-based media model but we belive the changes that the company helps bring about in new distribution methods are very important to watch. |
| IAC/InterActiveCorp (IACI) | One of the more promising conglomerates to watch, especially as the company has just started investing in search and content. |
| MySpace (subsidiary of News Corporation) | The massive growth of the premier social networking site could hit some hurdles with smaller sites gaining, but the appeal of its large network is likely to remain a major advantage. Advertising will be a key element of its strategy, not just for monetization, but also how it can improve its community content. |
| YouTube (subsidiary of Google Inc.) | The biggest challenge the company will face will be from professional content creators. If YouTube can continue to sign up these licenses, it will have a very good chance of remaining one of the top video sites on the Web. The major next step for YouTube is to become a full Communitainment site by incorporating more social networking tools and services. |
| Facebook | The value of a more controlled social networking environment that is more focused on communications will be tested in the coming years. |

Source: Piper Jaffray and Co.

Footnote: The analogy of a revolution is not fully representative of consumer trends, as a revolution generally suggests a sudden and violent change of regime and the current user trends are gradual and, happily, non-violent. However, we feel that the impact of the changes warrants the use of the word revolution.

## COMPANIES TO WATCH, CONTINUED

| Company | Reason To Watch |
|---|---|
| Craigslist | The simplicity of finding what you need, without the benefits or complexity of ratings, has caused this company to capture a large share of the classified business. It will be important to watch how the new dynamics of community-based referrals impact Craigslist. Craigslist has become the general purpose bulletin board of large metropolitan cities, a major achievement that would have been unthinkable, especially with no marketing spend, just a few years ago. |
| Brightcove, Inc. | The concept of enabling and syndicating video distribution online will become increasingly more important as we are likely to get many more content creators in the "Long Tail." |
| Yelp | The marriage of social networking and local search is a very powerful trend and is very likely to become the norm for many people to find a business. |
| SINA Corporation (SINA) | China is poised to become the largest Internet market, overtaking the United States in a few years. The trends we see in the United States are already happening in China as well, with the Chinese market sometimes skipping a stage or two in its evolution. As the largest portal in China, SINA will continue to have major weight in the development of the new media market. |
| Baidu.com, Inc. (BIDU) | The company has become the Google of China, a market which will overtake the United States as the largest Internet population over the coming years. |
| aQuantive, Inc. (AQNT), ValueClick Inc. (VCLK), 24/7 Real Media Inc. (TFSM) | Advertising services companies and ad networks will continue to benefit from the increased spending, especially as the User Revolution fragments and expands the available inventory. |
| Netflix, Inc. (NFLX) | As the consumption of video moves online, the value of merging the traditional models of renting movies and the online method of creating community of users will become more important. Netflix's five million subscribers are already online and are an important asset for the company and its studio partners. |
| Wikipedia Foundation | This enormously valuable, free site defied the common wisdom that a totally open encyclopedia could be accurate and useful. The site's comprehensiveness has catapulted it to the top of search results for an increasing number of queries, and the community has proven to be extremely efficient in policing the quality of the information. This model of knowledge aggregation and distribution could profoundly impact a number of existing business models and companies. |
| MobiTV, Inc. | Watching video on a cell phone will become routine, but the key is that such video consumption will be different from the traditional video watching. Companies will need to tailor not just their content, but also their delivery mechanisms and targeting to support mobile content consumption. |
| digg Inc. | There is increasing demand for an infrastructure that can allow broader social networking by loosely connecting users through shared interests, creating more efficient content targeting through collective ranking by like-minded people. The concept of "digging" is very interesting and is likely to evolve into broader applications. |
| hakia, Inc. | The concept of understanding the meaning of a page of content rather than matching keywords is the roadmap for the future of search technology. The concept may well be adopted by the existing players, or it could be harnessed by new emergent companies. Over the next twenty years, we will see major improvements in both gathering and indexing knowledge beyond what is on the Web, and search engines will be capable of finding solutions to users questions, by not only better understanding the query but also understanding the content and knowledge that is available. |

Source: Piper Jaffray and Co.

# CHAPTER 1

# *Major Trends*

- The six major trends that are driving The User Revolution are as follows:

  1. The emergence of "Communitainment"
  2. The development and growth of "Usites"
  3. The Internet as a mainstream media channel
  4. The advance of user-generated brands
  5. The declining usage of traditional media
  6. The fragmentation of content consumption

- The key impact of the User Revolution is the rise in prominence of the Internet as a major content consumption and marketing medium

# MAJOR TREND I:
# THE EMERGENCE OF COMMUNITAINMENT

**Communitainment**

Communitainment is the merging of communication, community, and entertainment, with consumers extending communication from an exchange of information to an exchange of content and entertainment within a community environment. This trend began with young users of IM (instant messaging) chat who increasingly used IM as a communication and entertainment medium instead of engaging in other entertainment activities. Later on, the widespread use of social networking sites helped solidify the trend – a trend that we believe has not been given the appropriate attention by most observers. The social networking sites, in particular MySpace, allowed millions of users, including many from older demographics, to turn communication with others into a form of entertainment by sharing their views, favorite activities, content, gossip, hobbies, etc. This unique form of online activity appealed to millions rapidly precisely because it allowed people to express themselves while connecting with others, including strangers, fulfilling a basic need in human nature. *The importance of this trend is that communitainment will partially replace other forms of content consumption, from television shows to magazines, as well as other types of Internet sites, as Internet content consumption fragments along the long tail.*

Five Reasons To Pay Attention to Communitainment

We believe Communitainment is a very important trend for the media and advertising sectors because of the following:

1. It impacts how people spend their time
2. It impacts how consumers use content and how they value it
3. It emphasizes communication platforms
4. It makes it critical for key entertainment sites to integrate communication as a key component of their value propositions
5. It makes it much harder for traditional methods of advertising to connect with consumers but also opens up new opportunities for advertisers to build brand recognition and loyalty by leveraging online communities

*[W]e believe that at least one-half of all content consumption on the Internet over the next decade will be "communitainment"*

**One-Half Of Content Consumption Will Be Communitainment Over The Next 10 Years.** Communitainment is a fast-growing trend, and we expect that it will gain over other types of Internet usage. In fact, based on the trends we monitor, we believe at least one-half of all content consumption on the Internet over the next decade will be "communitainment," driven by the popularity of IM, social networking, and photo and video sharing sites, up from around 30% in 2006. In our recent proprietary survey of Internet users, we found that while communicating with friends was the most popular activity on social networking sites, browsing for fun, sampling music, blogging, and online dating were also ranked highly by users (see Exhibit 34).

Exhibit 33

**EXAMPLES OF COMMUNITAINMENT THROUGH MYSPACE**
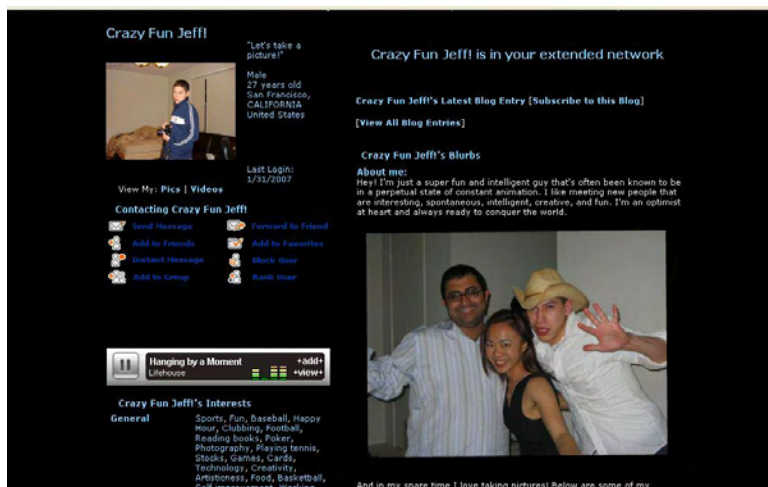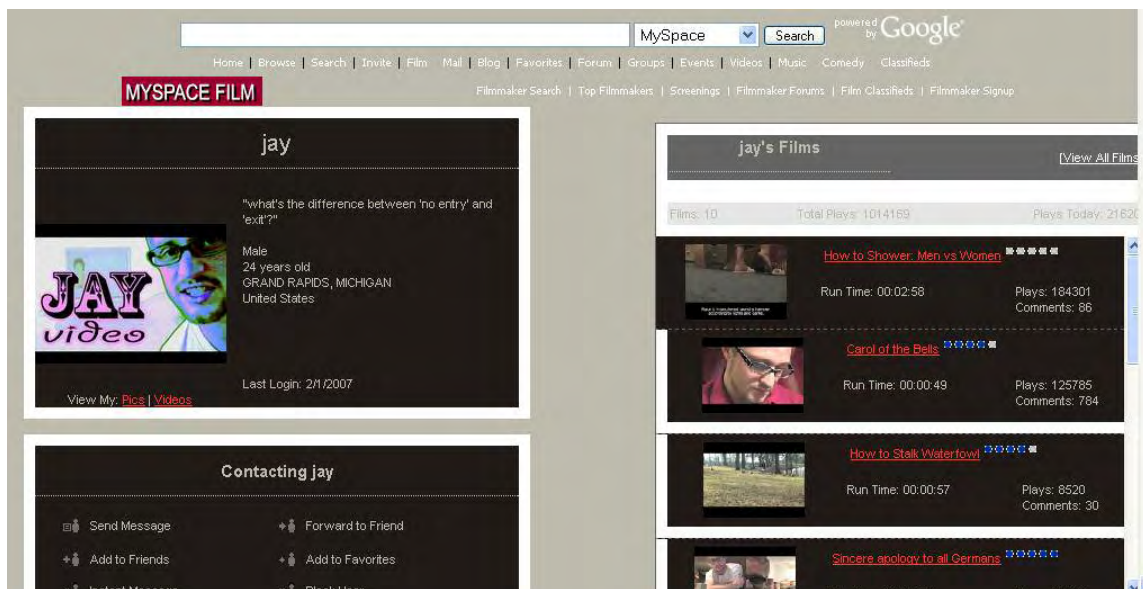




Source: MySpace.com Fox Interactive. Reproduced with permission

Exhibit 34

**POPULAR ACTIVITIES ON SOCIAL NETWORKING SITES**
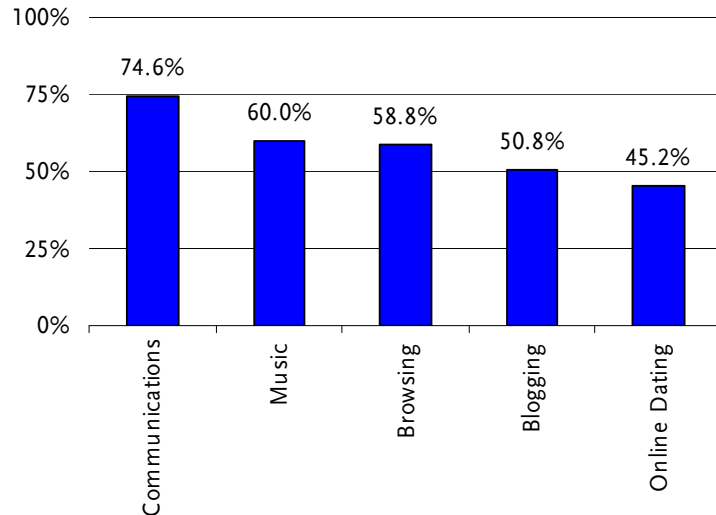


Source: Piper Jaffray & Co. 2006 Online Media Survey

***Our 2006 Media Survey indicates that social networking site users are not only communicating with friends but are also having fun engaging in entertainment while connecting with their friends.*** The common thread between communitainment sites is that users communicate with each other, either as the primary activity or a secondary one, and tend to view the site as a place where they can socialize or "hang out." Communitainment sites are not simply online destinations where users go to transact, search, read, download, or purchase something. As such, simply adding communication features will not transform any site into a communitainment-oriented site. Nor will an inorganic collection of different services create a site that users will view as a social entertainment destination, one on which they will spend a disproportionate amount of their time. The content and functionality of a communitainment site must lend itself to sharing among friends or family, and, in fact, must become an integral part of a user's daily communication behavior. Such are the viral characteristics of music and video, for example, which are important parts of young people's daily lives, hence, the success of MySpace.

**Communitainment Changes The Definition of Content.** The importance of the communitainment trend is not just in shifting traffic patterns but, more importantly, in the way users view content as a free-flowing part of the communication spectrum. As such, many participants in communitainment view content such as music or video as an integral part of their experience and not as a distinct entity for which they have to pay. (Of course, beyond communitainment, there are other contexts in which users are willing to either pay for content or, at a minimum, receive an advertisement in exchange for the content.)

**Advertisers Must Leverage The Community Aspect Of Communitainment.** The importance of the communitainment trend is that it highlights the growing importance of communities, and how advertisers can use online communities to create and reinforce brands in a manner analogous to companies providing, for example, a free sponsored concert in a shopping mall. Advertisers need to become integrated in the activities in which users engage, providing free content if needed, to further align themselves with the users' interests. If done successfully, this type of advertiser engagement could have a significant long-term impact as consumers will be willing and eager distributors of the advertisers' message and brand to the rest of the community. In short, communication mixed with entertainment and communities will be the most popular online activity for an increasingly large number of consumers, replacing other forms of content consumption. As such, advertisers and content publishers must realign their strategies to take advantage of this trend.

# MAJOR TREND II:
# DEVELOPMENT AND GROWTH OF USITES

**Usites: The Reality TV Of The Web**

We broadly define Usites as Websites with user-generated content comprising all or the predominant part of their offering. Sites like YouTube, Heavy.com, Facebook, Yahoo! Answers, Google Video, and MySpace have been crucial in redefining content consumption patterns, in the process creating confusion for advertisers and agencies alike. In a way, we believe Usites are the Internet's democraticized version of the reality TV trend with users placed in control of content creation. **While communitainment describes a trend for users to view online services as a combined communication and entertainment activity, many users find the best way to exercise this trend is in a category of Websites that we call Usites – or user generated sites.** In other words, communitainment is a much broader activity and does not require Usites. Examples of communitainment can be found on IM or mobile phones, as well as on advanced email applications. But a lot of communitainment activities do take place in a single category of sites in which user content is paramount – the Usites. Usites are typically more challenging for advertisers to penetrate and effectively leverage. Some Usites with strong elements of broad content distribution and communication (like MySpace) are excellent advertising platforms since consumers use the sites for general browsing, communication, and entertainment. Other Usites, such as advice and listing sites that are more of a utility and are transaction oriented, are less suitable for direct advertisements. In fact, we believe there is an inherent conflict in advertisements in some Usites as they can reduce the value of the site. An example of such a case is TripAdvisor, which provides value by allowing travelers to post their opinions about specific hotels. Populating the page with advertisements from various hotels, travel agencies, and airlines reduces the effectiveness of the site for users. Conversely, the reason Craigslist has become so popular is precisely because users only see what they are looking for, without *any* advertisements.

**Usites Address The "Long Tail"**

The appeal of Usites is not that the content is made by amateurs, but that the subject matter is diverse and covers the spectrum of the long tail of consumer interests. Despite the new name we have given these sites, Usites are not a new phenomenon. Since the beginning of the Internet, users have created content online but usually both the producers and the consumers of this content were advanced users or people with special interests. Now, the content on Usites spans the long tail of consumers' general interests and has become valuable to the mass market for entertainment and practical reasons. Lists and review sites such as Craigslist, Angie's List, TripAdvisor, and Yelp are becoming common (see Exhibit 35), while the mega sites with user-generated content (MySpace, Facebook and others) continue to grow in popularity.

Exhibit 35

## CONSUMERS ARE TURNING TO USITES FOR SHOPPING AND ENTERTAINMENT, SKIPPING THE TRADITIONAL ONLINE CHANNELS

YELP AND YOUTUBE



Source: Company Websites. Reproduced with permission of Yelp.com and Google Inc.

Exhibit 36

**SELECTION OF USITES**

| Site | Description | Unique Visitors (000) |
|---|---|---|
| Yahoo! Answers | Social Search | N/A |
| Fox Interactive (MySpace) | Social Networking | 73,831 |
| Wikipedia | Online Encyclopedia | 39,142 |
| YouTube | Online Video | 25,471 |
| Blogger | Blogging | 21,849 |
| Facebook | Social Networking | 16,695 |
| Google Video | Online Video | 15,154 |
| Craigslist | Online Classifieds | 14,268 |
| Bolt | Social Networking and Online Video | 10,842 |
| Six Apart | Blogging | 10,343 |
| Heavy.com | Online Video | 6,888 |
| Flilckr | Photo and Video Sharing | 6,550 |
| Xanga | Blogging | 4,911 |
| Metacafe | Online Video | 3,173 |
| Eurekster | Social Search | 2,934 |
| Bebo | Social Networking | 2,482 |
| Digg | Social Bookmarking | 2,157 |
| del.icio.us | Social Bookmarking | 1,228 |
| Friendster | Social Networking | 1,112 |
| Yelp | Use Generated Local Directory | 711 |
| Upcoming.org | Social Event Calendar | 398 |
| Current TV | Online Video | 113 |

Source: comScore Networks, November 2006 Traffic Data

**Usites Are Growing Very Fast, Taking Share From Other Sites**

The growth of Usites in the last 18 months has been dramatic. Over the past year, usage of Usites increased by more than 100%, compared with the overall Internet traffic growth rate of 2% in the United States. We estimate that of the top 100 sites on the Web, time spent on Usites has grown from just 3% of total minutes online to 31% since April 2005. Although the bulk of this rise is attributable to MySpace's success, other sites such as Craigslist and YouTube have also experienced dramatic growth as users have become more accustomed to both creating and sharing their own content as well as consuming others' non-professional content.

Exhibit 37

## USITE USAGE VERSUS GENERAL INTERNET USAGE
Segmentation of Internet Usage Based on Total Minutes Consumed of the Top 100 Sites

April 2005
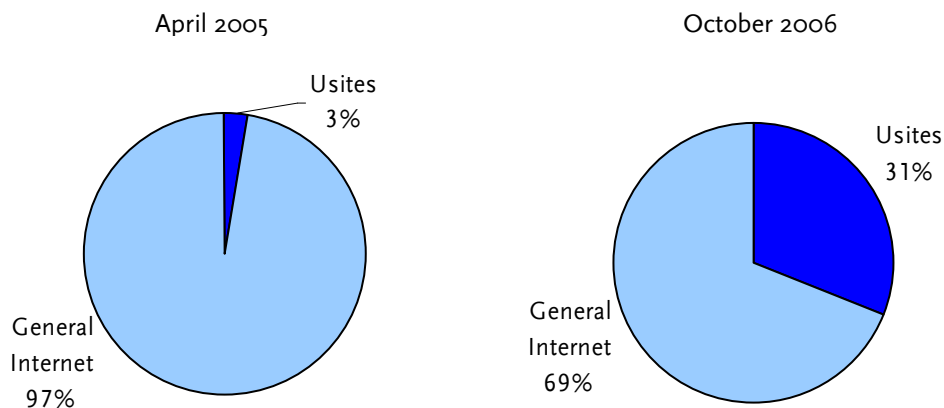
October 2006



Source: comScore Networks and Piper Jaffray & Co.

Exhibit 38

## SELECTED USITE TRAFFIC GROWTH

|  | October 2005 | October 2006 | % Change |
|---|---|---|---|
| Total Internet : Total Audience | 169,315 | 173,258 | 2.3% |
| Yahoo! Sites | 124,429 | 129,603 | 4.2% |
| Time Warner Network | 117,018 | 120,291 | 2.8% |
| Microsoft Sites | 115,419 | 118,028 | 2.3% |
| Google Sites | 89,807 | 109,721 | 22.2% |
| eBay | 69,649 | 80,820 | 16.0% |
| | | | |
| **Top 5 Average** | | | **9.5%** |
| **Portals Average** | | | **3.1%** |
| | | | |
| Fox Interactive Media | 12,430 | 71,346 | 474.0% |
| Wikipedia Sites | 15,618 | 38,897 | 149.0% |
| YouTube | 673 | 23,480 | 3386.7% |
| Facebook | 9,473 | 15,108 | 59.5% |
| Craiglist | 8,236 | 14,327 | 74.0% |
| Flickr | 2,397 | 6,153 | 156.7% |
| Bebo | 999 | 2,302 | 130.4% |
| Metacafe | 313 | 3,774 | 1104.5% |
| Break | 1,978 | 2,838 | 43.4% |
| | | | |
| **Average of Top Usites** | | | **619.8%** |
| **Average of Top Usites excluding YouTube** | | | **273.9%** |
| **Average of Top Usites excluding YouTube and Metacafe** | | | **155.3%** |

Source: comScore Networks

The Challenge Of
Advertising On
Usites

Usites pose a particular challenge to advertisers as the content on Usites is highly diverse both in quality and subject matter. While the broad and eclectic collection of content is a key reason for the popularity of theses sites, the inherent lack of publisher control is of concern for some advertisers. Although Usites have clearly seen tremendous growth and gained media attention, there is still debate whether or not these sites can develop highly profitable business models – a skepticism, which we believe will gradually fade away. The skepticism today resides around two key areas:

- First, given that by their nature these sites are interactive, users are often engaged in forming their own content rather than reading content and advertisements. Advertisers find it challenging to reach these users and engage with them. Users are less willing to accept intrusive advertising such as watching a 30-second commercial before watching a video clip unless such ads are well-designed, contextual, and engaging.
- Second, there is still some hesitation among large brand advertisers to have their brands associated with some of the user-generated content that may be considered inappropriate. We believe this is a matter of "advertiser education," where the advertisers need to adapt to this new medium and use it appropriately.

Everybody's On
Usites: The Broad
Demographic Appeal

The appeal of Usites for consumers is increasing, in our view, as the "network power" of the Internet is realized and appreciated by mainstream users. All segments of the population, including older demographics, who have traditionally not been heavy participants on Usites, are now realizing the utility and the entertainment value of Usites.

Exhibit 39

## DEMOGRAPHICS OF POPULAR USITES

| | MySpace Users | Facebook Users | Online Population 2006 | U.S. Population |
|---|---|---|---|---|
| Population (in millions) | 49.5 | 8.7 | 157.1 | 281.4 |
| | | | | |
| Males | 48% | 43% | 48% | 49% |
| Females | 52% | 57% | 52% | 51% |
| | | | | |
| **Age demographics:** | | | | |
| Under 18 | 23% | 55% | 20% | 26% |
| Adults (18+) | 77% | 45% | 80% | 74% |
| Users between 21 and 34 | 22% | 14% | 17% | 20% |
| Users between 35 and 49 | 30% | 12% | 28% | 23% |
| Users between 50 and 64 | 14% | 6% | 23% | 15% |
| Users 65 and over | 2% | 1% | 9% | 12% |
| | | | | |
| **Racial breakdown:** | | | | |
| White | 87% | 89% | 89% | 80% |
| Black | 9% | 8% | 8% | 13% |
| Asian | 3% | 2% | 2% | 4% |
| Other | 1% | 0% | 1% | 3% |
| | | | | |
| **Regional distribution:** | | | | |
| West North Central | 6% | 14% | 8% | 7% |
| Mountain | 6% | 2% | 7% | 6% |
| Pacific | 19% | 9% | 17% | 16% |
| New England | 5% | 6% | 5% | 5% |
| Mid Atlantic | 16% | 17% | 15% | 14% |
| South Atlantic | 18% | 16% | 18% | 18% |
| East South Central | 4% | 4% | 4% | 6% |
| West South Central | 12% | 11% | 10% | 11% |
| East North Central | 15% | 21% | 16% | 16% |
| | | | | |
| **Household income:** | | | | |
| Less than $25,000 | 6% | 4% | 6% | 28% |
| $ 25,000 - 49,999 | 22% | 18% | 23% | 23% |
| $ 50,000 - 74,999 | 30% | 29% | 27% | 18% |
| $ 75,000 - 99,999 | 20% | 19% | 19% | 11% |
| $ 100,000 - 149,999 | 15% | 18% | 16% | 10% |
| $ 150,000+ | 7% | 11% | 8% | 9% |
| No Response | 1% | 1% | 3% | NA |

Source: Nielsen/NetRatings, November 2006 and U.S. Census Bureau, 2000 Census

Demographics Of
Usites

Looking at two of the largest Usites, MySpace and Facebook, which target primarily the youth demographic, demonstrate the ubiquity of the medium (see Exhibit 39). Users of MySpace, for example, track very closely with the U.S. population in age, sex, and regional demographics, and their average household income is consistent with the Internet as a whole. Surprisingly, given its reputation as a teen site, MySpace has a strong following by adults. Users who are 35-49 generate 30% of MySpace traffic, while 21-34 year olds comprise just 22% of the total users. Facebook's demographics are considerably more skewed toward younger users as one would expect given that fact that until recently usage of Facebook was restricted to registrants with a college email address.

The Upshot: The Best
Way To Monetize
Usites

Usites can be created relatively easily and only possess significant barriers to entry once they reach critical mass. Their value for advertisers, however, is highly dependent on their content and whether an advertiser has the appropriate product for the users of the site. In most cases, Usites are not appropriate for general branding. As Usites are growing rapidly in popularity, we believe online destinations and publishers should pay close attention to this category. In our opinion, the best way for destinations and publishers to participate in this trend is to offer clean and controlled platforms for the free exchange of user information, content, and opinions. This platform can then be monetized through highly targeted and measured advertisements as well as building a stronger brand and traffic for the parent site. A site like Yahoo! Answers can potentially be monetized by useful advertisements, but only if the advertising is relevant and not overwhelming. But even without any advertisements, a successful Yahoo! Answers could be very valuable to the Yahoo! brand and Yahoo! network, as we have seen from the examples of other companies such as Google. We believe general brand advertising, without regard for the content the user consumes, is likely to be ineffective on Usites. These sites are generally transaction-oriented, and the implicit contract that exists between consumers and large content creators and distributors for acceptance of advertising does not apply within these environments. As such, while a user may accept a BMW ad on the front page of Yahoo! or The Wall Street Journal or the New York Times Online (and is likely to be impacted by the ad), the expectation of users are entirely different when they go to sites like YouTube, Yahoo! Answers, or TripAdvisor. We believe the best way to monetize Usites is through contextual advertisements, such as Google's AdSense for Content or Yahoo! Publisher Network.

## MAJOR TREND III:
## THE INTERNET IS BECOMING MAINSTREAM

Internet usage is spreading across demographic lines and has become deeply entrenched in the every day activities of most consumers. The daily life of the average American is gradually changing, and the Internet is playing a major role in this change. The image of a parent sitting around the breakfast table reading the morning newspaper is obsolete, and the behavior of watching television is rapidly changing as the PC creeps into living room. The key trend here is not the increased amount of time spent on the Internet or even the broadening of the online demographic, but the fact that using the Internet is becoming a routine activity for most Americans. The possible inflection point for this trend was when the computer moved from the home office to the living room and is now well on its way into the kitchen with the proliferating use of Wi-Fi connections at home.

**Three Factors Fueling The Pervasive Internet**

We believe three key factors have shaped the usage of Internet as a mainstream activity, making it pervasive among households across the demographic spectrum.

- First, the always-on feature of **broadband** (more than 50% of U.S. households have a broadband connection) means that the Internet is not like a library for finding obscure data, but a constant source of information, communication, and entertainment that is always readily available – much like a utility device such as the telephone, TV, or electricity.

- Second, the utility and effectiveness of **search**, as pioneered by Google, has made the Internet more relevant to the daily activities and interests of many people. Googling has not only become a verb, but also a common practice for most Internet consumers.

- Finally, **email**, the persistent killer app, continues to increase the efficiency of many consumers, supplementing or even replacing the phone and other types of communication in some cases.

The result of the widespread penetration of broadband, search, and email is that more Americans are using the Internet during their normal daily lives to communicate with friends and family, search for goods and services, consume content, and purchase goods. This pattern has made the internet a true mass medium for the first time, a medium that can not only deliver "eyeballs," but also has broad demographic representation. There is one important characteristic of this mainstreaming, however, that should be carefully considered. The majority of the use of the Internet, especially by new users who represent most typical Americans, is still on what we would classify as transaction or utility functions versus content consumption, which is similar to traditional media usage (see Chapter 6, exhibits 79 and Exhibit 81 for a more detailed discussion).

**Impact On Advertisers**

The mainstreaming of the Internet opens up the Internet not only as a component of a media buy for advertisers, but also as a key element of it, especially given the increasing usage patterns of the Internet combined with the decreasing usage patterns of other

types of media. Advertisers are beginning to buy Internet inventory not only because the highly coveted 18-34 year old male demographic are online, but also because the 45 year old middle-class homemakers and blue collar workers, as well as retired Americans and others, are also using the Internet on a daily basis, not just occasionally. To risk a stereotype, we believe the QVC and the soap opera audience are now using the Web on a regular basis (see Exhibit 69), and this audience is, in the final analysis, the bread-and-butter of most marketers. Finally, we note that the baby boomers are now the largest single segment of the Web demographic, and they continue to be the single largest spending group in the population.

**Digital Divide: Major Progress, But It Can't Be Eliminated**

While the digital divide, the gap in usage of Internet and online services among various demographics, has narrowed significantly for most groups, the remaining part of the divide is hardest to close, and we believe it could remain with us for some time. It is important to note that mainstreaming of the Internet is not complete, and some demographics are either still under-represented (Hispanics, for example) or nearly entirely absent (low income, older population). We expect continued progress in getting under-represented groups online. However, we believe some of the under-penetrated demographics groups have not been the target for advertisers. As such, little attention has been paid to the groups that are left out. Another factor impacting the under-representation of some demographic groups is that using the Internet and many online services remains too complicated for those who have not grown up with the medium. Despite advances in user interface and relevancy of services, the Internet remains a specialty tool for some demographics who find little relevance in the online services to their daily life. We do not expect this trend to reverse, and we believe this unfortunate outcome could further deepen some of the social inequalities resulting from the digital divide.

## MAJOR TREND IV:
## THE ADVANCE OF USER-GENERATED BRANDS

**User-Generated Brands**

Over the last five years, advertisers have found that creating brands or improving brand loyalty is becoming increasingly difficult. Noted marketing guru, Peter Sealy, attributed the increasingly short tenure of Chief Marketing Officers (now on average 23 months, down from 24 months in 2004) to the difficulty in building brands. We believe a key reason for the increasing difficulty is the change in consumers' attitude toward advertising. The passive consumer of the 1960s, 70s, 80s, and even 90s, when CMOs could relatively easily establish a brand by a well-designed mass media buy, has disappeared—replaced by a consumer who is bombarded by marketing messages each day, uses Tivo to bypass television ads, and spends time on YouTube for entertainment. As a result, advertisers are finding that the creation of brands by mass marketing to be increasingly ineffective. At the same time, the promise of micro targeting, matching products with exact preferences of each user, has not flourished either. In our view, effective and full targeting is still many years away from becoming a pervasive marketing tool. The notable exception, of course, is search, which has worked so well because it matches products and services, not brands, with specific user demands at the time the user has the need for the product or service. As a result, we believe the best way for advertisers to create brands is to target specific *groups of people* – not just demographics with similar spending patterns, but groups that share certain views, as demonstrated by their "communitainment" activities, among others. Advertisers should focus heavily on associating with certain types of lifestyles that are relevant to their brand. Additionally, we believe the advertisers must let users take control of the brand, taking it to its ultimate position within the target demographic group. This approach is much more than targeting a demographic for the brand as it involves identifying groups that can help *build* the brand. Thus, a User-Generated Brand becomes a much more relevant and familiar concept to the target demographic, since it relates to their daily activities and interests and is not just a product that matches their needs. To use an analogy from the traditional marketing models, this is akin to the Tupperware marketing which, while heavily benefiting from the network effect, was used by many women because it was part of their social fabric, and they helped create it.

*"Consumers are beginning in a very real sense to own our brands and participate in their creation… We need to learn to begin to let go."*
--A.G. Lafley, CEO of Procter & Gamble

**Consumer Brand Engagement**

We believe branding is still alive and consumers continue to be driven by brands, but building and maintaining a brand requires different marketing methods, specifically ones that involve consumers contributing to the brand message. Advertisers are now beginning to realize this trend, and the most progressive ones are likely to quickly embrace it. At a recent Association of National Advertisers (ANA) conference in Florida, A.G. Lafley, CEO of Procter & Gamble, said, "Consumers are beginning in a very real sense to own our brands and participate in their creation… We need to learn to begin to let go."

The implication of User-Generated Brands is that the advertisers will need to find the best ways to establish a close connection with the consumers. The Web, in our view, is becoming one of the most critical components of this new engagement, but the brands cannot hope to engage consumers simply with their conventional sites, even if they contain innovative content. Consumers aggregate at the destinations of their choice,

and the brands need to follow them. Some of the best examples of user-generated (or, in many cases enhanced) brands include Burger King's involvement with Heavy.com, Philip's micro-site, www.shaveeverywhere.com, and Orbit White's micro-site, www.friendsofbright.com. Usites provide a significant marketing opportunity for user-generated brands, but the key is that the advertiser must be willing to "let go of the brand." While we are not suggesting that all branding will be done through user-generated or user-assisted methods, we do believe such brands will engender longer lifecycles and deeper customer loyalty. Although it is more difficult for advertisers to successfully establish user-generated brands, we believe it is more effective and costs far less than traditional methods of brand building. The Web destinations and publishers can benefit handsomely from this trend if they provide the appropriate forum for users and, at the same time, allow controlled participation by the advertisers, helping them with appropriate targeting methods.

## MAJOR TREND V:
## DECLINING USAGE OF TRADITIONAL MEDIA

**Declining Usage Of
Traditional Media**

The proliferation of online and offline media outlets has resulted in shrinking television audiences and an extremely fragmented media landscape. Although Nielsen Research data indicates stable to increasing television audiences, our 2006 Online Media Survey, qualitative information from industry sources, and interviews with Internet users indicate declining TV usage, especially among younger Internet users (see Chapter 2 for additional details).

Exhibit 40

**CONSUMERS WATCHING LESS TV THAN TWO YEARS AGO**

Do you watch more/less/same TV than two years ago?
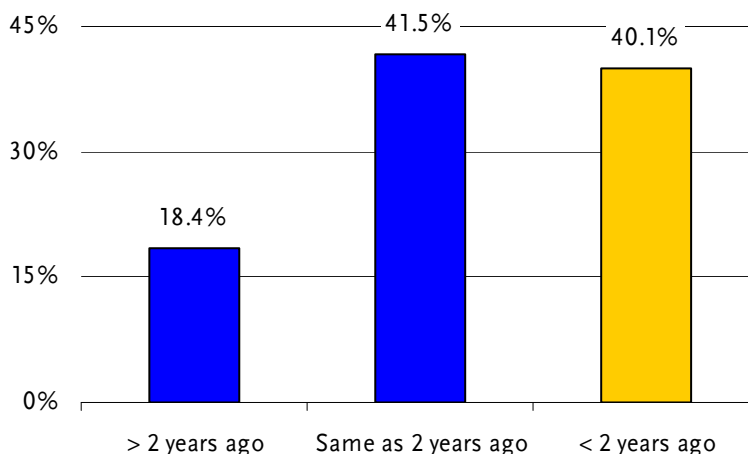


Source: Piper Jaffray & Co. 2006 Online Media Survey

More importantly, the quality of time people spend on TV has deteriorated rapidly with multi-tasking and the simultaneous use of other types of media, most notably the Web, while watching TV. At the same time, the attention span of the new generation of viewers continues to shrink with the most popular content consumption portions fast becoming "bite-size" pieces of content. The net effect of fewer hours watching TV and less consumer attention paid to TV, combined with decreasing tolerance for watching full-hour shows, is making TV considerably less effective as a mass market advertising platform. Importantly, time shifting through Tivo and other DVRs, as well as place-shifting (watching the TV shows online or on a mobile device) are creating even more chaos for the hitherto orderly audiences of TV and cable networks. While TV

continues to command reach and the highest percentage of total ad budgets, the decreasing effectiveness of TV is compelling advertisers to look not only at other types of media, but also other types of marketing strategies. The decline in media usage is not limited to TV. Newspaper readership has also declined significantly as the Internet has gained popularity as a medium.

Exhibit 41

**AVERAGE WEEKDAY NEWSPAPER READERSHIP**
(As A Percentage Of Adults)
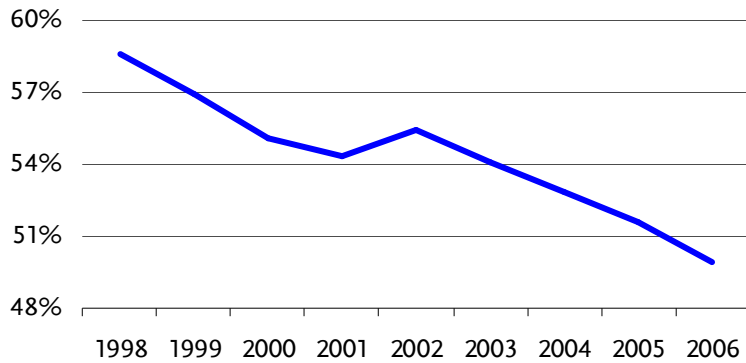


Source: Scarborough Research

*"We must accept the fact that there is no 'mass' in 'mass media' anymore."*
- Jim Stengel, Proctor & Gamble

Part of the reason for this decline in media consumption has to do with the increasing popularity of the Internet. But the Internet is a relatively new phenomenon and the decline in TV viewership, for example, has been a gradual phenomenon that has recently accelerated. We believe a core reason for the decline is changing consumer attitudes toward content consumption, which probably started with the advent of cable TV and accelerated with the emergence of the Internet and Tivo.

**Increasing Fragmentation Of Media Consumption**

In 1965 ABC, CBS, and NBC dominated the airwaves and reached 80% of viewers during prime time. In 1994 ABC, NBC, CBS, and Fox achieved a prime time audience share of approximately 52%. By 2004, when cable and satellite TV had become widespread, the average U.S. household had more than 100 channels from which to choose, and the Internet had emerged as a media platform, the four networks' share of the prime time audience declined to less than 35%, according to DoubleClick. The decline in network TV news viewership over the last 20 years is emblematic of the declining audience share of network TV. In the words of Jim Stengel, Proctor & Gamble's Global Marketing Officer, "We must accept the fact that there is no 'mass' in 'mass media' anymore."

## MAJOR TREND VI:
## THE FRAGMENTATION OF CONTENT CONSUMPTION

**Fragmentation of the Internet Content Consumption**

As with the trend we discussed for traditional media, a similar pattern has developed on the Internet with increasing fragmentation of online destinations, especially as new social networking sites have become popular. The new users of the Internet, as well as tenured users, are exhibiting three key patterns of online behavior, which are increasingly undermining the large established networks for content and commerce:

1. The users are increasingly less loyal to established brands
2. Users are going to an increasingly larger number of sites
3. Popular new sites are growing through viral marketing with advertising having little impact on creating a critical mass for less successful sites

A clear case in point, in our view, was Yahoo!'s experience with advertisers following the users to networks of smaller sites – sites that Yahoo! has called non-premium inventory. The outcome was a shortfall in Yahoo!'s advertising revenues in the third quarter of 2006 and a lower guidance for the typically strong fourth quarter. We believe the changes in users' online behavior and the increasing fragmentation of the Web have caused challenges for the top Internet players. These challenges have seriously slowed growth for eBay and are posing problems for Yahoo! while Google has positioned itself to benefit from these changes by aggressively partnering with the new sources of traffic. We believe the fragmentation phenomenon is, in fact, an omni-media trend, and consumers are typically using significantly more sources for their content consumption and entertainment. This is largely due to the vast proliferation of media options available to consumers. As shown in exhibit 42, the key media categories grew from five in 1966 to 11 in 1986, and now stand at more than 30 categories.

Exhibit 42

**FRAGMENTATION OF MEDIA CONSUMPTION**

| 2006 | |
|---|---|
| 1 | Newspapers |
| 2 | Magazines |
| 3 | Email |
| 4 | Broadcast TV |
| 5 | Radio |
| 6 | CD Player |
| 7 | Cable TV |
| 8 | Personal Computer |
| 9 | Satellite Television |
| 10 | Internet |
| 11 | Cell Phone |
| 12 | DVD Players |
| 13 | Satellite Radio |
| 14 | MP3 Players |
| 15 | Tivo/DVR |
| 16 | Slingbox |
| 17 | iPod |
| 18 | Blogs |
| 19 | Online Video |
| 20 | Mobile Internet |
| 21 | Console Video Games |
| 22 | PC Video Games |
| 23 | MMORP Games |
| 24 | Mobile Games |
| 25 | Text Messaging |
| 26 | Mobile Video |
| 27 | Download Movies |
| 28 | Podcasts |
| 29 | Instant Messaging |
| 30 | Social Networks |

| 1986 | |
|---|---|
| 1 | Newspapers |
| 2 | Magazines |
| 3 | Cable TV |
| 4 | Broadcast TV |
| 5 | Radio |
| 6 | Cassette Tapes |
| 7 | Walkman |
| 8 | VCR |
| 9 | Cable TV |
| 10 | Personal Computer |
| 11 | Console Video Games |
| 12 | PC Video Games |

| 1966 | |
|---|---|
| 1 | Newspapers |
| 2 | Broadcast TV |
| 3 | Magazines |
| 4 | Broadcast Radio |
| 5 | Eight Track |

Source: : Piper Jaffray & Co.

Because the total amount of time spent on media consumption has not changed significantly, the net result is that each content source, not just each medium, receives a shorter period of attention from consumers. The challenge is, of course, tremendous

for advertisers who not only need to buy a much larger number of properties, but also need to convey their message with fewer impressions per channel. The opportunity, on the other hand, is to create a true omni-media campaign that touches the consumers, however briefly at times, at whatever channel they use. For the media companies and online destinations, this trend is particularly important because it eventually means that no single property, no matter how large, could remain a "must buy" for the advertisers. The strategy of the online destinations, therefore, has to be one that embraces the fragmentation trend, by consolidation, creating multiple brands and destinations, or other methods of diversification. The net result is that advertisers increasingly will need to buy a lot more inventory, from nearly all types of media, to have their desired impact. In addition to buying more types of inventory, we believe the advertisers also will need to focus on new methods, such as user-generated brands we discussed above.

## THE SYNTHESIS OF SIX MAJOR TRENDS: THE USER REVOLUTION

Summarizing our discussion above, we note that the following six factors are dramatically changing user behavior, creating a revolution in content consumption and brand loyalty:

1. The Emergence of Communitainment
2. The Increasing Popularity of Usites
3. Mainstreaming of the Internet
4. Success of User-Generated Brands
5. Declining Usage of Traditional Media
6. Fragmentation of Content Consumption

The net effect of these six macro trends is that the advertising world is going through a revolution, one that we call the "User Revolution," as it is happening primarily with the consumers, or users, taking control of content consumption and branding. The historically passive state of consumers is changing rapidly as they not only are becoming much more informed and confident about purchase decisions, but are also increasingly controlling the consumption of information and content that used to be distributed by major companies – networks, studios, large retailers, and others. The major impact of this trend is the significant rise in prominence of the Internet as a major content consumption and marketing medium: The medium where all the above trends are playing out, and the arena where we see how companies will adapt to the new rules of the evolving media, entertainment, and advertising landscapes. This trend will partly create more advertising dollars for online sites, but will also make connecting with consumers online an integral part of creating and promoting brands. In other words, direct brand advertising on the various types of Internet sites will only be part of the overall spending companies must deploy to achieve their marketing goals. A notable part of the spending must also occur by a brand's active participation on the Usites and in communitainment activities. In doing so, the advertisers must create new channels of expression or content for their target demographics.

*[D]irect brand advertising on the various types of Internet sites will only be part of the overall spending companies must deploy to achieve their marketing goals. A notable part of the spending must also occur by a brand's active participation on the Usites and in communitainment activities.*

We believe this will be reminiscent of the early days of TV, when the brands were actively involved in creating content and TV shows. The major difference this time around is that the consumers will be in the driver's seat, acting as the directors, and the brands will need to be the producers.

In this report, we have undertaken a comprehensive review of the online advertising world, noting also the key trends in the broader media world, and providing our predictions on how the various companies and entities will adapt to this changing market. We begin by addressing some of the key trends about media consumption, advertising, and the evolution of the Internet that have unfolded over the last several years. We then introduce a brief history of online advertising and discuss the various types of online advertising. Finally, we discuss the role of each of the five major stakeholders—publishers/destinations, consumers, advertisers, agencies, and intermediaries—in this constantly evolving market.

# CHAPTER 2

# *The Disintegration Of Traditional Media Models*

- Proliferation of online and offline media outlets is resulting in shrinking TV audiences.

- Broadcast TV advertising budgets are declining as a percentage of total ad budgets.

- U.S. consumers are spending less time with traditional outlets, partly due to the emergence of the Internet.

- Fragmentation undermines the dominance and reach of any one single media type.

- Simultaneous and fragmented media usage further undermines the effectiveness of all types of media.

- DVR revolution has exacerbated advertisers' difficulty in reaching consumers through television.

- Proliferation of content consumption channels empowers consumers.

**Multi-Media
Consumption Habits**

In 1965, advertisers could reach 80% of Americans aged 18-49 by advertising on the four television networks. By 2004, the 80% reach had declined to 31%. The proliferation of online and offline media outlets has resulted in shrinking television audiences and an extremely fragmented media landscape. This new landscape has become further fragmented by the emergence of consumer-centric publishing tools such as blogs, social networking sites, podcasts, wikis, video sharing sites, and usites such as MySpace, flickr and del.icio.us. While Nielsen data indicates TV viewership is stable to increasing (see Exhibit 43), the fragmentation is reflected in the declining ratings and reach of top television shows over the last several years. Over a relatively short period of seven years, the average ratings of the top 10 programs on television have declined by approximately 14% (a rating, in 2005-2006 season, represented 1.1 million households) while the share (percent of TVs tuned to the given program) declined by 18%, as shown in Exhibit 45.

Exhibit 43

**TIME SPENT VIEWING TV**

According to Nielsen Media Research
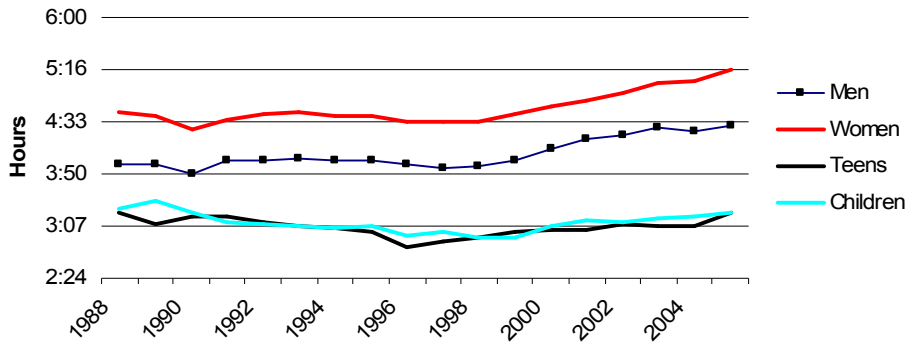


Source: Nielsen Media Research, NTI Annual Averages

Exhibit 44

**EVENING NEWS VIEWERSHIP ON ALL NETWORK TV CHANNELS**
(In Millions)
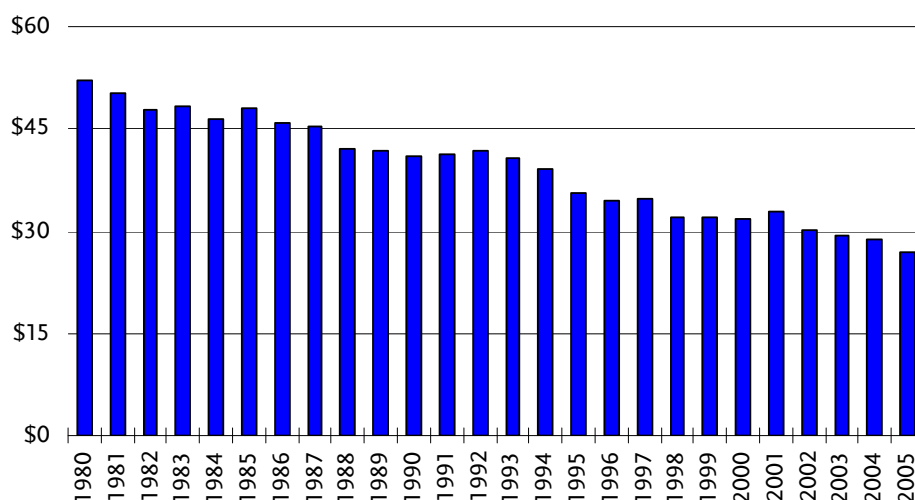


Source: Nielsen Media Research

Exhibit 45

## RATINGS AND SHARE FOR TOP 10 PROGRAMS

### 1998 - 1999 Broadcast Season

| Program | Household | |
| --- | --- | --- |
| | Rating | Share |
| E.R. | 17.8 | 29 |
| Friends | 15.7 | 26 |
| Frasier | 15.6 | 24 |
| NFL Monday Night Football | 13.9 | 22 |
| Jesse | 13.7 | 22 |
| Veronica's Closet | 13.7 | 21 |
| 60 Minutes | 13.2 | 22 |
| Touched By An Angel | 13.1 | 20 |
| CBS Sunday Movie | 12.1 | 19 |
| 20/20 Wed | 11.2 | 19 |
| Average | 14.0 | 22.4 |
| % decline | | |

### 2006 - 2007 Broadcast Season (Through December 17th)

| Program | Household | |
| --- | --- | --- |
| | Rating | Share |
| Dancing with the Stars | 13.5 | 20 |
| Desperate Housewives | 13.3 | 19 |
| Grey's Anatomy | 13.3 | 20 |
| CSI | 13.1 | 19 |
| Dancing with the Stars Results | 12.7 | 20 |
| CSI Miami | 11.3 | 18 |
| Sunday Night Football | 11.1 | 17 |
| Criminal Minds | 10.8 | 16 |
| Lost | 10.7 | 16 |
| CSI: NY | 10.6 | 18 |
| Average | 12.0 | 18.3 |
| % decline | -14% | -18% |

Source: Nielsen Media Research

Also, contrary to data from Nielsen Media Research, our 2006 Online Media Survey indicated consumers are watching less TV compared with just two years ago. We note, of course, that our media survey was limited in scope and self-reported, but we also note that Nielsen's measurements have come under significant criticism for possible inaccuracies and methodology problems.

Exhibit 46

**CONSUMERS WATCHING LESS TV THAN TWO YEARS AGO**

Do you watch more/less/same TV than two years ago?
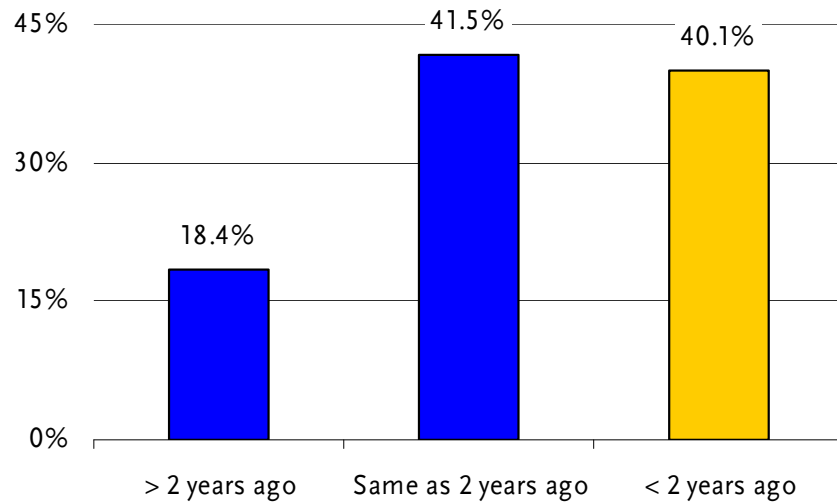


Source: Piper Jaffray & Co. 2006 Online Media Survey

The fragmentation is also reflected by the declining percentage of broadcast television advertising spending as a percentage of total advertising spending since 1980, as seen in Exhibit 47.

Exhibit 47

**BROADCAST TV ADVERTISING AS A PERCENTAGE OF TOTAL ADVERTISING**



Source: Robert J. Coen - Universal McCann

NBC Universal's recent announcement to cut $750 million in operating expenses primarily from its news programming and 8:00 PM – 9:00 PM prime time television spot is emblematic of the challenges facing broadcast television. We believe these cuts are a direct response to declining ratings as a result of media fragmentation and the emergence of new media distribution channels, coupled with the declining fundamentals of television-based advertising.

The declining ratings and proportion of television advertising spending indicates that U.S. consumers are spending less time interacting with traditional media outlets, a manifestation of media fragmentation. We believe U.S. consumers are spending less time interacting with traditional media outlets primarily due to the amount of time they are spending online.

Exhibit 48

## CONSUMERS SPENDING LESS TIME WITH TRADITIONAL MEDIA

% Spending Less Time With Medium Due To Time Spent Online
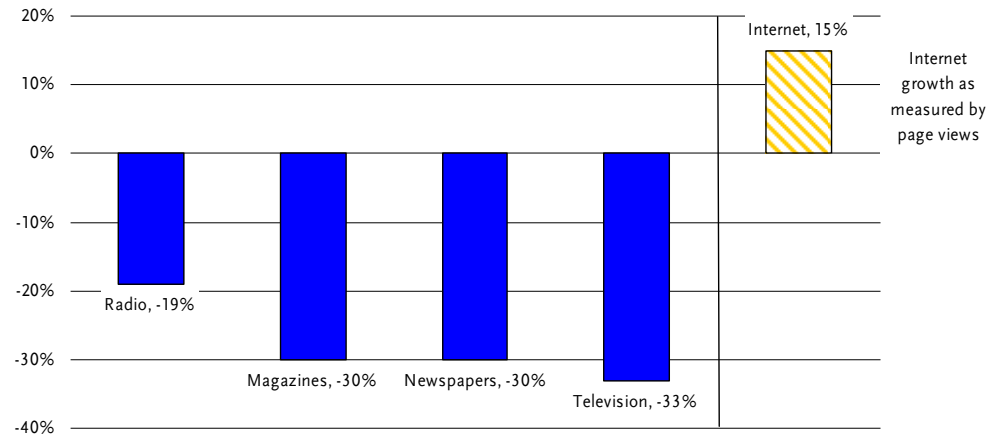


Source: Arbitron/Edison Media Research Internet and Multimedia 2006: On-Demand Media Explodes and comScore Networks. Blue indicates percentage of people who are spending less time with medium while yellow indicates percent growth in Internet page views.

**Nearly All Types Of Media Losing Effectiveness**

By spending less time with most types of traditional media, as shown in Exhibit 48, consumers have undermined the dominance and reach of any one single media type. More importantly, simultaneous and fragmented media usage (two important patterns of consumption that have emerged over the past 10 years) have seriously undermined the effectiveness of all types of media, in our opinion.

Simultaneous Use

Consumers are increasingly interacting with multiple media outlets, simultaneously diluting the impact of a single media source. Specifically, TV viewers are increasingly using the Internet while watching TV. About 25% of consumers with home Internet access frequently use the Internet while watching TV in the same room, and 19% of consumers say they sometimes use the Internet and watch TV in the same room at the same time, according to a survey by Arbitron. Our 2006 Online Media Survey confirmed that nearly 60% of consumers at least sometimes surf the Internet while watching TV, as show in Exhibit 49.

Exhibit 49

**CONSUMERS LIKELY TO SURF THE INTERNET WHILE WATCHING TV**

How often do you surf the Internet at the same time as watching TV?
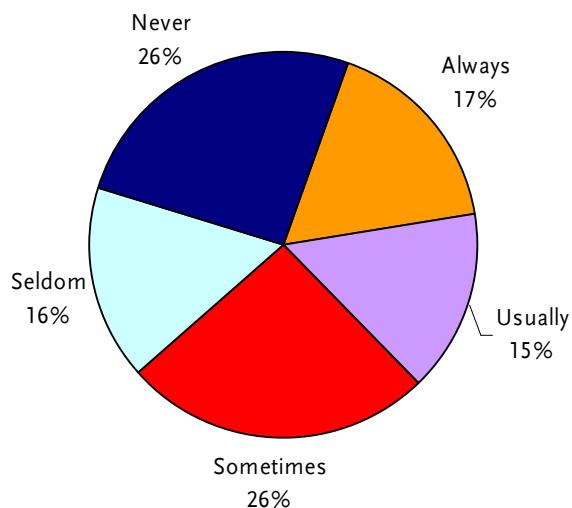


Source: 2006 Piper Jaffray & Co. Online Media Survey

The simultaneous usage behavior undoubtedly undermines the effectiveness of traditional television-based brand advertising.

Fragmented Use

Instead of spending long periods of time consuming traditional media, people, especially young users, are spending shorter durations in each session of media consumption. This pattern makes the media's effectiveness for advertising even lower because consumers are much more inclined to skip the ads, on TV or elsewhere, when they are engaging in quick "snacks" of media content, rather than having "full meals." In effect, the trend of consuming brief portions of media content effectively dilutes the reach of traditional advertising. In fact, the emergence of online video sites has created a culture of short-form media consumption that inherently undermines the reach of traditional media. While this trend is not new, we believe the trend of consuming quick snacks of media is accelerating, fueled by the overwhelming success of online video sites like YouTube, MySpace Video, Google Video, and Heavy.com. According to comScore Networks, YouTube, Yahoo! Video, and AOL Video are the leading online video companies in terms of unique visitors and are all experiencing rapid growth. YouTube, Yahoo! Video, and AOL Video each grew by 8%, 6%, and 19%, respectively, in November from October, as shown in Exhibit 50.

Exhibit 50

**LEADING ONLINE VIDEO SITE TRAFFIC**

|  | October 2006 | November 2006 | M/M Growth |
|---|---|---|---|
| AOL Video | 14,365 | 17,162 | 19% |
| YOUTUBE.COM | 23,480 | 25,471 | 8% |
| Yahoo! Video | 20,879 | 22,059 | 6% |
| Myspace Videos | 10,047 | 10,553 | 5% |
| Google Video | 14,564 | 15,154 | 4% |
| HEAVY.COM | 7,750 | 6,840 | -12% |

Source: comScore Networks, Inc.

Given the declining effectiveness of traditional media due to simultaneous and fragmented use, it is becoming more difficult for brand advertisers to connect with consumers via television advertising alone, which in the past had been effective because of mass market reach. As a result, advertisers must target both large sources of Internet traffic, as well as smaller entities within the long tail and emerging formats, such as video and wireless, in order to achieve the necessary advertising reach and ensure a distributed brand experience for consumers.

**Time Shifting Of Content Consumption: The DVR Revolution Is On.** The advent of digital video recorders (DVRs) has further exacerbated advertisers' difficulty in reaching consumers through television. DVRs provide consumers with control of television content consumption and also enable consumers to skip ads, which further undermines the efficacy of the underlying principle of television advertising—its broad mass market reach. In fact, recent Nielson data indicates that virtually no viewers stop to watch ads when viewing a program in time shift mode. Our 2006 Online Media Survey indicates that more than 50% of DVR users skip all ads.

Exhibit 51

**DVR USERS AND AD VIEWING BEHAVIOR**

Do you use your Tivo or DVR to skip television ads?



Source: 2006 Piper Jaffray & Co. Online Media Survey

We believe that as the media landscape becomes increasingly fragmented, consumers are gaining more control of their content consumption. People are increasingly consuming content of their choosing on demand instead of in a pre-programmed and scheduled manner, which turns consumers away from television advertising, compounding the challenge confronting advertisers. The very value proposition of DVRs – user empowerment and control – undermines the effectiveness of television-based brand advertising and should contribute to the migration of advertising dollars online.

*Over 50% of the users of DVRs skip ads all the time.*

A 2005 IDC forecast estimated that DVR penetration would reach 19% in 2006. However, our 2006 Online Media survey indicated a 23% DVR penetration rate.

Exhibit 52

**U.S. DVR HOUSEHOLD FORECAST**
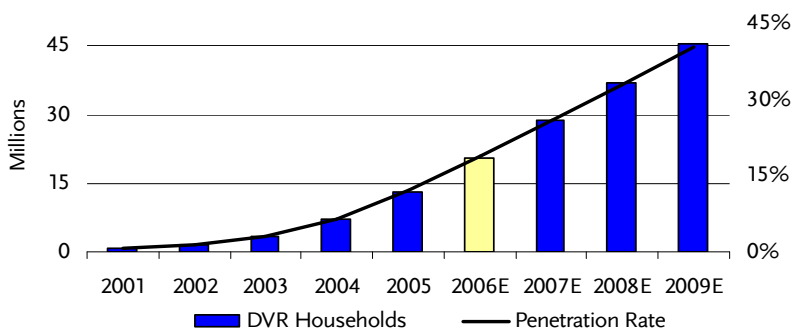


Source: IDC

Exhibit 53

**DVR PENETRATION FROM 2006 ONLINE MEDIA SURVEY**

Do you own a Tivo or similar device like a personal digital video recorder (DVR) provided by your cable or satellite company?
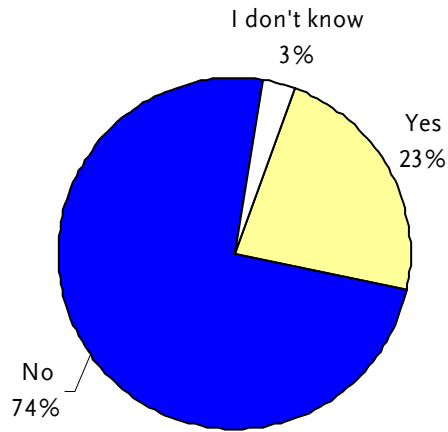


Source: 2006 Piper Jaffray & Co. Online Media Survey

**DVR Penetration Could Reach 50% In Five Years.** We believe the penetration rate of DVRs could reach 50% over the next five years. When we consider that adoption of DVRs by U.S. households is in the early stages of the technology adoption life cycle, we expect it to become increasingly difficult to reach U.S. consumers through traditional television advertising as DVRs become more widely adopted and provide more consumers with the ability to skip ads with little effort.

*60% of advertisers intend to reduce television advertising when DVRs reach mass market household adoption, according to Forrester Research.*

Our discussions with advertisers indicate that the mass market adoption of DVR technology will result in increased scrutiny of television advertising budgets by brand marketers. A recent report published by Forrester Research in conjunction with the Association of National Advertisers corroborates our findings regarding the mainstream adoption of DVRs by U.S. households and its effect on TV advertising. 63% of advertisers surveyed indicated the DVR will have a negative effect on television advertising, and 60% of advertisers intend to reduce television advertising when DVRs reach mass market household adoption, according to Forrester Research (see Exhibit 55). While this is a lower rate of advertisers who would reduce their TV spending, compared to previous years, we believe it reflects a more mature understanding of DVRs. The fear of the unknown probably contributed to the high rate of advertiser concern from 2002-2004.

Exhibit 54

**HOW WILL DVRS AND VOD AFFECT THE 30-SECOND TELEVISION COMMERCIAL?**
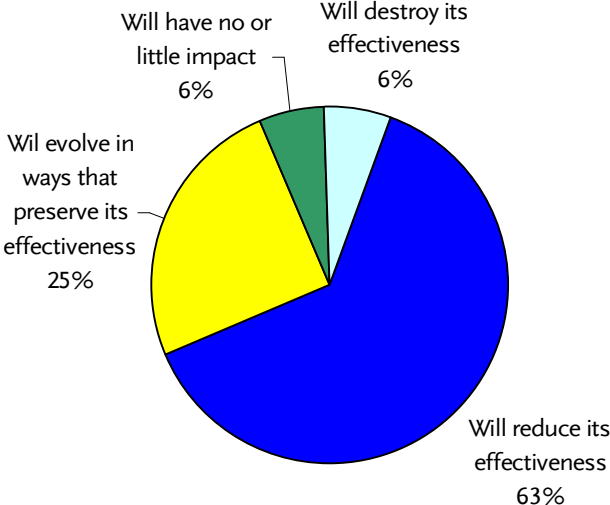


Source: Forrester Research

Exhibit 55

**MAJORITY OF ADVERTISERS INTEND TO REDUCE TV ADVERTISING**

Assuming 30 million households own DVRs, would you reduce TV advertising?
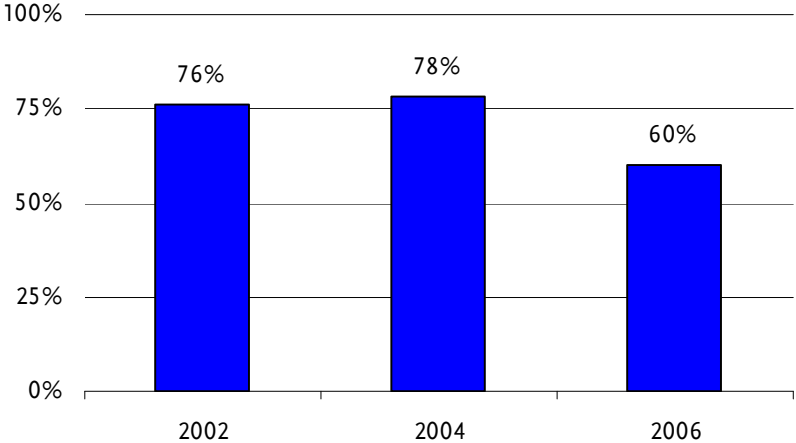


Source: Forrester Research

**From Podcasts to Mobisodes: Proliferation Of Consumption Channels**

In addition to the digital video recorder, there is another major trend that is rapidly unfolding: Users are consuming content they once consumed on TV or radio through other channels, at the time of their own choosing on demand. iPods and similar devices are enabling users to watch television content on the go while podcasts are changing the way consumers listen to audio content. Mobile TV and radio are making mobile phones a content hub, and mobisodes (videos designed specifically for viewing on mobile devices) are proliferating. Television studios are offering their content online, and YouTube, Google Video, and Heavy.com are transforming the very definition of short-form video entertainment. The proliferation of content consumption channels has left consumers with a dizzying array of choices and has left traditional media companies scrambling to embrace and experiment with new distribution models. As a result, traditional media companies are constantly announcing new and innovative initiatives to broaden the scope of their content distribution to include new emerging formats, while the established Internet powers and younger pure-play start-ups are also vying to capitalize on the proliferation of content choices and distribution options.

# CHAPTER 3

# *The Internet As A Mainstream Medium*

- Internet is the leading medium at work, and the second leading medium at home behind TV.

- Online usage is pervasive: eight out of ten Americans are now online.

- Online usage is growing at 18% a year, far outpacing user base growth.

- Broadband, search, and communitainment are making Internet usage pervasive.

- Internet has become a mainstream media outlet, used frequently throughout the day.

*While the idea of community, content, and commerce (the three C's of the dot com era) were quite popular in the past, we believe there is little evidence that users are viewing these activities as interrelated.*

**The Internet Is Pervasive.** The Internet has fundamentally changed the way consumers gather information, purchase goods and services, and communicate. Innovative technologies such as Google's search, Netflix's online movie rental platform, and communication and entertainment sites such as MySpace, Skype, and YouTube, have all made the Internet an integral component of many people's lives. The value derived from the Internet has also accelerated as broadband connection has become more widely penetrated. It is important to note that during this evolution, the Internet has increasingly become a principal medium for *community, communication, and entertainment*, three areas that have collided and are impacting each other's growth, generating a new type of communication and community-based entertainment phenomenon that we call *communitainment*. Notably absent from this group is commerce, which has increasingly become a simple transaction that is becoming commoditized, especially with the advent of search. While the idea of community, content, and commerce (the three C's of the dot com era) were quite popular in the past, we believe there is little evidence that users are viewing these activities as interrelated.

Communitainment sites like MySpace, YouTube, Facebook, and Yahoo! Answers have rapidly become key media and entertainment properties, while IM and VoIP services have become ubiquitous communication tools. This convergence yields a more involved consumer, one who demands instant communication, entertainment on demand, and relevant advertisements, which are driven by consumer demands. The result is a pervasive Internet with eight in ten Americans now online.

Exhibit 56

**EIGHT IN TEN AMERICANS ARE NOW ONLINE**
(Percentage Who Have Internet Access At Each Location)
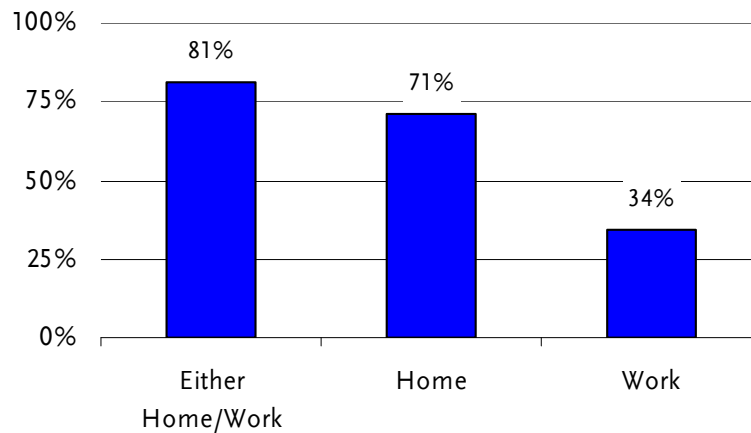
*The result is a pervasive Internet with eight in ten Americans now online.*



Source: Arbitron/Edison Media Research Internet and Multimedia 2006: On-Demand Media Explodes

**Usage Growing
Faster Than
Audience**

Since 2000, the total active Internet audience has increased by approximately 8% annually while during the same period, page views have increased by approximately 18% annually. *Thus, the overall usage of Internet is growing much faster than the user base growth.* This has important implications for advertisers as it indicates that consumers are increasing their dependence on the online medium. Growth in broadband connections has made work and personal use of the Internet ubiquitous. The increased speed and ease of access has transformed occasional use into everyday use.

**From A "Useful Tool"
To A Mainstream
Media Outlet:
Gaining Over
Traditional Channels**

Not only has the adoption of Internet services become widespread, but the Internet has also become a mainstream media outlet that is now rivaling traditional media such as radio, television, newspapers, and magazines for reach and advertising dollars. A recent study conducted by Ball State University's Center for Media Design entitled "A Day in the Life: An Ethnographic Study of Media Consumption," indicates that the Internet has joined television and radio in achieving significant reach in all major day parts. In fact, the Internet is the second leading medium at home, and the leading medium at work. Furthermore, the Internet exhibits fewer age and gender differences in its reach compared with traditional media channels.

Exhibit 57

**INTERNET IS NUMBER TWO MEDIA AT HOME**
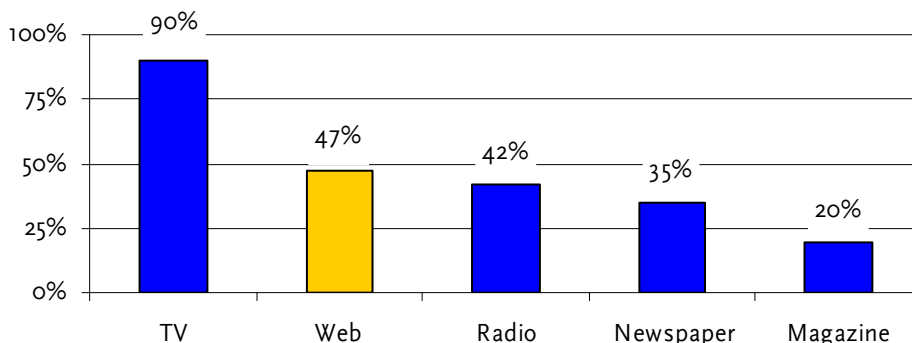
Reach At Home



Source: Ball State University Center for Media Design - A Day in the Life: An Ethnographic Study of Media Consumption

The Ball State study clearly demonstrates that the Internet as a medium is mainstream and has mass reach during almost all times of the day. In addition, the study indicates the extent to which online usage has increased dramatically over a 10-year period. Specifically, average minutes per user has roughly doubled from 47 minutes in 1995 to 108 minutes in 2005. At the same time, Internet's reach has expanded massively, from less than 20% to approximately 60% (in 2005), making the Web a mainstream medium like radio, as displayed in Exhibit 59. While the study illuminates the ascendancy of the Internet as a media channel, it is important to note that TV still overwhelmingly dominates the overall media landscape in terms of its daily reach and usage.

Exhibit 58

**INTERNET IS NUMBER ONE MEDIUM AT WORK**

Reach At Work
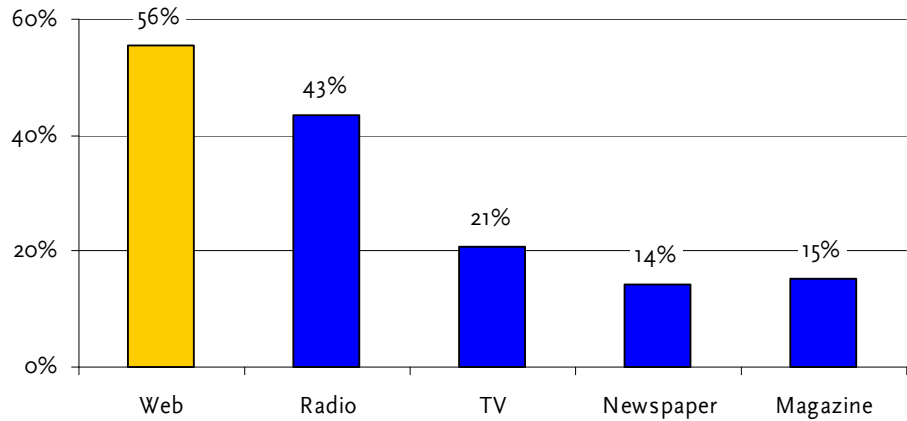


Source: Ball State University Center for Media Design - A Day in the Life: An Ethnographic Study of Media Consumption

Exhibit 59

**DAILY REACH AND DURATION FOR VARIOUS MEDIA OUTLETS**
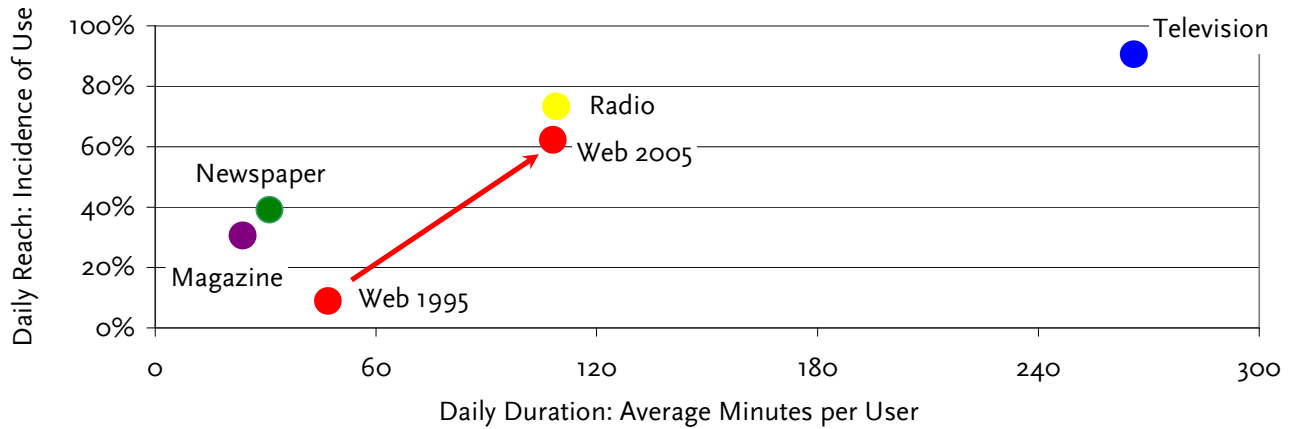


Source: Ball State University Center for Media Design - A Day in the Life: An Ethnographic Study of Media Consumption

**I Want My Internet**

Simply put, the Internet is becoming increasingly irreplaceable for many Americans. In a recent survey by Arbitron, given the choice between never using the Internet or never watching TV, 40% of respondents would choose to keep the Internet and eliminate television. By comparison, in 2001, 26% of respondents selected to keep the Internet and eliminate television. The Arbitron survey demonstrates that for many Americans the Internet has become an integral part of their lives comparable to or of greater importance than television.

Exhibit 60

**I WANT MY INTERNET**

What Are Consumers Willing to Give Up - TV or Internet?
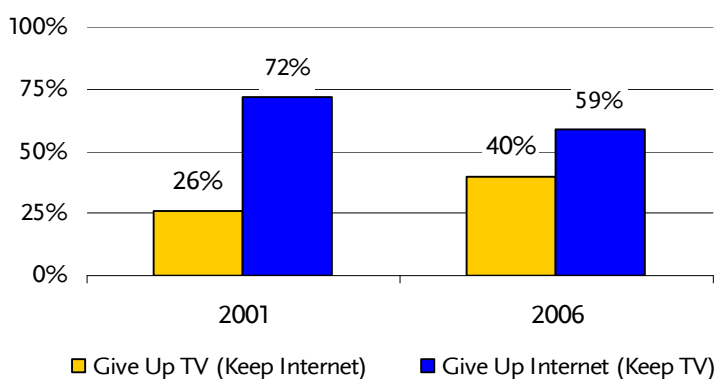


Source: Arbitron/Edison Media Research Internet and Multimedia 2006: On-Demand Media Explodes

**[This page is left intentionally blank.]**

# CHAPTER 4

# *The Video Explosion*

- Proliferation of video content, a trend that started in 2006, will continue its momentum in 2007 and will play an important role in the continued mainstreaming of the Internet.

- 2006 was a pivotal year for video distribution with more than 15 major content partnerships signed.

- We expect 2007 to be the Year of the Video, with online video consumption rivaling other major activities.

- The rapid adoption of online video will further contribute to the further mainstreaming of the Internet.

- As a highly suitable content category for targeting and engagement, video has extremely high potential for advertisers.

- YouTube and the TV sites currently dominate the online video world.

- Watching videos online will take away some of the time people spend on other activities.

**The New Killer App Is Here**

Nearly overnight, video has become the new killer app of the Web. This is not a fad, in our opinion. In fact, we believe the rapid proliferation of video content, a trend that started in 2006, is gaining momentum in 2007, and will play an important role in the continued "mainstreaming" of the Internet. The recent announcement by Wal-Mart Stores Inc. to offer digital movie downloads from all the major studios confirms our thesis. Throughout 2006, we witnessed the rapid emergence of a number of video-focused Internet sites (see Exhibit 62), which elevated online video to mainstream levels of usage.

Exhibit 61

**LEADING ONLINE VIDEO SITE TRAFFIC**

|               | October 2006 | November 2006 | M/M Growth |
|---------------|--------------|---------------|------------|
| AOL Video     | 14,365       | 17,162        | 19%        |
| YOUTUBE.COM   | 23,480       | 25,471        | 8%         |
| Yahoo! Video  | 20,879       | 22,059        | 6%         |
| Myspace Videos| 10,047       | 10,553        | 5%         |
| Google Video  | 14,564       | 15,154        | 4%         |
| HEAVY.COM     | 7,750        | 6,840         | -12%       |

Source: comScore Networks, Inc.

**2006: The Pivotal Year For Video**

These online video sites spanned the spectrum of content from amateur user-generated videos to professionally produced television and movie content. The increased penetration of broadband was certainly a catalyst for online video adoption, but until 2006, there was no "primer" for this new trend to take off. In our view, YouTube provided the platform for online video to succeed, and equally as important, served as a catalyst for professional content creators and networks to take online video very seriously. Over the past year most of the television networks began offering some or all of their shows free online supported by pre-roll advertising that cannot be skipped. Recent interesting TV-related announcements include:

- CBS offers several new episodes and returning series on its free ad-supported broadband channel at www.cbs.com/innertube. CBS also made several shows, including the premiere of "Smith," "The Class," and "The New Adventures of Old Christine," available on Google Video before the live television premiere. In the fall, CBS also began streaming "The CBS News with Katie Couric" at www.news.cbs.com.

- NBC offers all of its new series in a limited format on NBC 24/7 at www.nbc.com. NBC also made several episodes including "30 Rock," and "Twenty Good Years," and eight episodes of "Kidnapped," "Friday Night Lights," "Studio 60 on the Sunset Strip," and "Heroes," available after their premieres.

- ABC offers several series including "Desperate Housewives," "Grey's Anatomy," "Lost," "Six Degrees," "Ugly Betty," "The Knights of Prosperity" and "The Nine," the day after their premieres at www.ABC.com.

- Fox offers "Prison Break," "Vanished," "Bones," and several other shows on Fox's online streaming initiative, called "Full Throttle." Fox also makes the shows available free on MySpace and for a fee on Google Video.

**SIDEBAR**

**NEAR-TERM ADVERTISING OPPORTUNITY ON NETWORK TV STREAMING SITES**

As far as the advertising opportunity associated with the streaming of TV shows, ABC signed deals with 36 brand advertisers to support the online streaming of its prime time TV shows. Each advertiser paid $100,000 for three months of advertising on ABC.com. According to online sources, the pricing equates to $25 CPM compared to $12 CPM for traditional broadcast television advertising. Despite the limited reach of streaming TV shows online, online garners a higher CPM because the ads cannot be skipped, viewers are engaged, and Internet users represent an attractive socio-economic demographic. We believe the online streaming of television shows by the four networks may generate $50 million in advertising revenue for the major broadcast networks in the first year of its existence. A basic analysis suggests that there is strong potential for networks to generate solid revenue from online distribution as illustrated below.

**POTENTIAL AD REVENUE TO SUPPORT ONLINE STREAMING OF TV**
(In Thousands)

|        |                       | ABC     | NBC     | CBS     | Fox     |          |
|--------|-----------------------|---------|---------|---------|---------|----------|
| Fall   | Number of Advertisers | 36      | 36      | 36      | 36      |          |
|        | Three-Month Deal      | $100    | $100    | $100    | $100    |          |
|        |                       | $3,600  | $3,600  | $3,600  | $3,600  | $14,400  |
| Winter |                       | ABC     | NBC     | CBS     | Fox     |          |
|        | Number of Advertisers | 40      | 40      | 40      | 40      |          |
|        | Three-Month Deal      | $125    | $125    | $125    | $125    |          |
|        |                       | $5,000  | $5,000  | $5,000  | $5,000  | $20,000  |
| Spring |                       | ABC     | NBC     | CBS     | Fox     |          |
|        | Number of Advertisers | 36      | 36      | 36      | 36      |          |
|        | Three-Month Deal      | $75     | $75     | $75     | $75     |          |
|        |                       | $2,700  | $2,700  | $2,700  | $2,700  | $10,800  |
| Summer |                       | ABC     | NBC     | CBS     | Fox     |          |
|        | Number of Advertisers | 30      | 30      | 30      | 30      |          |
|        | Three-Month Deal      | $50     | $50     | $50     | $5      |          |
|        |                       | $1,500  | $1,500  | $1,500  | $150    | $4,650   |
|        |                       |         |         |         | Total   | $49,850  |

Source: Piper Jaffray & Co.

Also, over the past year, traditional media companies have announced numerous innovative initiatives and partnerships to broaden the scope of their content distribution to include new emerging formats, most noticeably the online distribution channel. In Exhibit 64, we have attempted to provide a comprehensive list of partnerships between media companies and content aggregators that have fueled the

proliferation of online video content, which is the precursor to continued robust growth in online video consumption and evidence of the increasing importance of online video.

Exhibit 62

## SELECTED LIST OF ONLINE VIDEO COMPANIES

| Site | Free/Paid | Description |
|------|-----------|-------------|
| Amazon Unbox | Paid | Offers movies from 20th Century Fox, Fox Searchlight, Lionsgate, Paramount, Sony, Universal, and Warner Bros. |
| AOL Video | Paid | Offers movies from Paramount, Universal, Sony, Fox Searchlight and 20th Century Fox. |
| Bittorrent | Paid | Will offermovies from Paramount, 20th Century Fox, Lionsgate, Warner Brothers and Palm Pictures. |
| CinemaNow | Paid | Offers movies from Disney, Fox, Lionsgate, NBC Universal, Sony, and Warner Bros. |
| Guba | Paid | Guba provides movies from Waner Bros. and Sony. |
| iTunes | Paid | Offers movies from Disney. |
| Movielink | Paid | Offers the widest choice of movies from studios such as MGM, Paramount, Sony, Universal, Warner Brothers, Disney, Sundance  BBC, and National Geographic. |
| Netflix | Paid | Offers movies from all major studios except Disney. |
| Wal-Mart | Paid | Offers movies from Twentieth Century, Disney, Lionsgate, MGM, Paramount, Sony, Universal, and Warners Bros. |

### Selected Sites Offering TV Content Online

| Site | Free/Paid | Description |
|------|-----------|-------------|
| ABC.com | Free | Offers ABC prime-time TV shows for free supported by advertising. |
| Amazon Unbox | Paid | Offers a wide variety of TV shows that have already been broadcasted for $1.99 an episode. |
| AOL Video | Free | Offers a wide variety of TV shows that have already been broadcasted for $1.99 an episode. |
| Bittorrent | Paid | Will offer a wide variety of TV shows.  Pricing to be determined. |
| Blinkx | Free | Offers a wide variety of video content from content providers around the world. |
| Brightcove | Free | Offers a wide range of TV content syndicated by content producers. |
| CBS.com | Free | Offers CBS prime-time TV shows for free supported by advertising on its "Innertube" service. |
| CNN Pipeline | Paid | Offers some headline news content as well as a subsciption service called "Pipeline" for $2.95 per month |
| ESPN.com | Free | Offers a wide range of ESPN content on its ESPN Motion and ESPN 360 services. |
| FOX.com | Free | Offers FOX prime-time TV shows for free supported by advertising. |
| Google Video | Paid | Offers a wide variety of TV shows that have already been broadcasted for $1.99 an episode. |
| iTunes | Paid | Offers a wide variety of TV shows that have already been broadcasted for $1.99 an episode. |
| MLB.com | Free | Offers a wide range of Major League Baseball content by subscription. |
| MSN Video | Free | Offers a range of NBC, FOX, MSNBC and other content but no network prime time TV shows. |
| MTV | Free | Offers music videos and MTV TV shows for free supported by advertising. |
| Musicplustv.com | Free | 24 hour online TV specializing in under-the-radar music and media |
| NBC.com | Free | Offers NBC prime-time TV shows for free supported by advertising. |
| Rootv.com | Free | Offers a wide variety of video content from content providers around the world. |
| TopTVBytes.com | Free | Offers short television news, sports and entertainment previews. |
| YouTube | Free | Offers clips from a wide-range of TV shows. |

Source: Piper Jaffray & Co.

## SELECTED LIST OF ONLINE VIDEO COMPANIES, CONTINUED

**Selected Sites Offering user-generated Video Content Online**

| Site | Free/Paid | Description |
|---|---|---|
| Bolt.com | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips within a social network environment. |
| Break.com | Free | Allows users to watch, share, create and submit user-generated content targeting men. |
| Current TV | Free | Offers short-form nonfiction videos, called "pods," targeting young adults. |
| Dailymotion.com | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| Ebaumsworld.con | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips targeting men. |
| fireant.tv | Free | Allows users to watch, share, create and submit video blogs. |
| Gofish.com | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| Google Video | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| Grouper.com | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| Heavy.com | Free | Allows users to watch, share, create and submit user-generated content targeting men. |
| iFilm.com | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| Metacafe.com | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| Multiply.com | Free | Allows users to share videos on a personalized Web site. |
| MySpace Video | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| Putfile.com | Free | Allows users to share videos on a personalized Web site. |
| Revver.com | Free | Leverages the viral power of the Internet to create a marketplace for online videos. |
| Tagworld.com | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| Veoh.com | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| Videoegg.com | Free | Allows users to share videos. |
| Vimeo.com | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| vMix.com | Free | Offers short television news, sports and entertainment clips. |
| Yahoo! Video | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |
| Yahoo! Video | Free | Allows users to watch, share, create and submit user-generated content and user submitted clips. |

Source: Piper Jaffray & Co.

**Online Video Consumption Becoming Routine**

With the cross-pollination of broadband adoption, the emergence of numerous video sites, and the proliferation of content licensing agreements, video has become a familiar, but not a routine activity yet. We believe in 2007, at least for a large part of the Internet population, video watching will become a routine activity, much as MySpace has become a routine destination for nearly 35% of total U.S. Internet users (according to Nielsen/NetRatings, November 2006 data).

**Implications Of Online Video Proliferations On Internet And Media Companies**

The implications of the proliferation of online video are enormous for the both the Internet companies and portals, as well as the traditional media companies. Initially the time spent on video will not necessarily be taking time away from other online activities but will impact the time consumers spend on other types of media, especially on TV. In fact, the emergence of online video sites has created a culture of short-form media consumption that inherently undermines the reach of traditional media. While this trend is not new, we believe the trend of consuming quick snacks of media is accelerating, fueled by the overwhelming success of online video sites like YouTube, MySpace Video, Google Video, and Heavy.com. In addition, the increased use of video will also condition users to expect more video content, and thus gradually move them toward sites with richer video content and an enhanced user experience. As an example, the popularity of the highly successful New York Times Online could easily be jeopardized if the site does not incorporate video content. But beyond these obvious implications, we expect a number of new companies to surface, focusing on distributing, sharing, rating, finding, and viewing video content. While these sites will not necessarily become the next YouTube, we believe they are likely to gather sufficient momentum to be important in the landscape and, as such, the large Internet firms and the traditional media companies should be on the lookout for these companies.

YouTubeing Takes Time Away From Other Activities

A recent study by Harris Interactive demonstrates the impact we discussed above is indeed already happening. As MySpace became increasingly popular, it started to take time away from people's other activities, including online activities, as users spent an increasing amount of time on MySpace. Similarly, watching videos on YouTube has begun to impact how people spend time with other online and traditional media activities. In fact, fully 36% and 32% of the users who watch videos on YouTube said they are using other Websites less and watching less TV as a result of their YouTube activity. Exhibit 63 displays the results of a Harris Interactive survey that illustrates the impact of watching YouTube on various online and traditional media activities.

Exhibit 63

**YOUTUBE TAKING TIME AWAY FROM OTHER ACTIVITIES**

Which of these activities are you spending less time doing as a result of spending time on YouTube?

| Activity | % |
| --- | --- |
| Using other Web sites | 36% |
| Watching TV | 32% |
| Emailing, Chatting Online, Blogging, etc. | 20% |
| Watching Videos on DVD | 12% |
| Reading Magazines/Newspapers | 11% |
| Going to the Movies | 7% |

Source: Harris Interactive

**Implications Of Online Video On Advertisers**

We believe Internet video ads could become a game changer for large brand advertisers who are accustomed to the 15 or 30 second TV commercials. In today's Internet, the advertiser must actively engage the user in order to create a brand impression, and video ads allow brand advertisers to create an emotional connection with a user similar to the dynamic in TV advertising. This engagement could include watching an online video, playing an interactive game, creating user-generated brands, or publishing content. We believe we are very early in the adoption of video ads, which could drive the next big wave of advertiser dollars migrating online. We also expect online video to change the advertising game, providing more choices for the users to customize their content and the advertising messages they wish to see, providing a golden opportunity for guerilla marketing campaigns. In fact, we predict one of the most important advertising trends of 2007 will be the unprecedented success of new large-scale ad campaigns that will be produced largely by users and distributed in YouTube-like networks, dwarfing the success of other traditional campaigns. We note the recent success of the Yahoo!/Doritos "Crash the Superbowl" (see Sidebar on page 247) ad campaign that relied on user-generated ads for viral impact online and TV impact at the Superbowl.

Exhibit 64

## SELECTED LIST OF ONLINE VIDEO DEALS, PARTNERSHIPS, AND COLLABORATIONS

| Parent Company | Content Aggregator | Distribution Partner | Type of Agreement |
| --- | --- | --- | --- |
| **CBS** | CBS Paramount Television | Google Video | Sell TV shows. |
| | CBS Television | Apple iTunes | Sell TV shows on iTunes |
| | | Youtube | Stream news, sports and entertainment shows |
| | | innertube on CBS.com | Stream television shows for free online supported by advertising |
| | | Google Video | Sell TV shows |
| | | CBSnews.com | Stream nightly news |
| | | CBSsports.com | Stream the NCAA Tournament. |
| | | Amazon | Sell TV shows on Amazon Unbox |
| | | Yahoo | Stream local TV news |
| | CSTV.com | CSTV.com | Stream live college sports |

| Parent Company | Content Aggregator | Distribution Partner | Type of Agreement |
| --- | --- | --- | --- |
| **Disney** | | | |
| | ABC | Apple iTunes | Sell TV shows on iTunes |
| | | ABC.com | Stream television shows for free online supported by advertising |
| | | ABCnews.com | Stream news programs |
| | | AOL.com | Stream news clips on AOL Video |
| | ABC News | Yahoo | Stream news stories |
| | | ABCnews.com | Stream news stories |
| | Biography Channel | Apple iTunes | Sell TV shows on iTunes |
| | | Biography.com | Stream clips from shows |
| | | AOL.com | Stream TV shows and clips on AOL Video |
| | | CinemaNow | Buy and rent TV Shows |
| | Disney | Apple iTunes | Sell TV shows on iTunes |
| | | DisnyeChannel.com | Stream children's television shows |
| | | Disney Motion | Stream videos and trailers and behind the scenes clips from theme parks |
| | | Cinemanow | Buy and rent movies |
| | | Movielink | Buy and rent movies |
| | | Wal-Mart | Sell movies |
| | ESPN | Apple iTunes | Sell college football, extreme sports and reality shows. |
| | | ESPN Motion | Stream sports news, interviews and clips |
| | | ESPN 360 | Stream TV shows and sporting events |
| | Pixar | Apple iTunes | Sell Pixar movies on iTunes |
| | | Pixar.com | Stream movie trailers, previews and short films |
| | E! Entertainment TV | Apple iTunes | Sell TV shows on iTunes |
| | The History Channel | Apple iTunes | Sell TV shows on iTunes |
| | | History.com | Stream clips and historical footage |
| | | AOL.com | Stream TV shows and clips on AOL Video |
| | | CinemaNow | Buy and rent TV Shows |
| | | Akimbo | Stream TV shows |

Source: Piper Jaffray and Co.

## SELECTED LIST OF ONLINE VIDEO DEALS, PARTNERSHIPS AND COLLABORATIONS, CONTINUED

| Parent Company | Content Aggregator | Distribution Partner | Type of Agreement |
|---|---|---|---|
| **Lionsgate** | | | |
| | Lionsgate | Apple iTunes | Sell episodes of "The Dead Zone" |
| | | Amazon | Sell movies on Amazon Unbox |
| | | Netflix | Stream movies |
| | | Cinemanow | Buy and rent movies |
| | | Lionsgate.com | Stream previews |
| | | Wal-Mart | Sell movies |

| Parent Company | Content Aggregator | Distribution Partner | Type of Agreement |
|---|---|---|---|
| **NBC Universal** | | | |
| | NBC | Youtube | Post videos on Youtube to promote prime time shows. |
| | | NBC.com | Stream television shows for free online supported by advertising |
| | | iTunes | Sell TV shows on iTunes |
| | | Forbes | Stream business and financial news |
| | | Cnet.com | Stream TV show clips |
| | | About.com | Informational videos |
| | | Newsweek.com | Stream news programs |
| | | Washington Post | Stream news programs |
| | | Howstuffworks | Stream news programs |
| | | Access Hollywood | Stream entertainment news |
| | | Sundance Channel | Stream TV and film clips |
| | | A&E | Stream TV clips |
| | | The History Channel | Stream TV Clips and historical footage |
| | | The Biography Channel | Stream TV clips |
| | | News Gator | Stream news and sports clips |
| | | Netflix | Stream TV shows |
| | Bravo | iTunes | Sell TV shows on iTunes |
| | Universal Studios | Amazon | Sell TV Shows on Amazon Unbox |
| | | AOL.com | Sell movies on AOL Video |
| | | Cinemanow | Buy and rent movies |
| | | Movielink | Buy and rent movies |
| | | Universalpictures.com | Stream previews |
| | | Akimbo | Stream movies |
| | | Netflix | Stream movies |
| | | Wal-Mart | Sell movies |
| | Sci-Fi Channel | iTunes | Sell TV shows on iTunes |
| | A&E | Apple iTunes | Sell TV shows on iTunes |
| | | AEtv.com | Stream clips from shows |
| | | Amazon | Sell TV shows on Amazon Unbox |
| | | Akimbo | Stream TV shows |
| | | Netflix | Stream movies and TV shows |
| | | AOL | Stream TV shows and clips on AOL Video |
| | | CinemaNow | Buy and rent TV Shows |
| | Showtime | iTunes | Sell TV shows on iTunes |
| | | Unbox | Sell TV shows on Amazon Unbox |
| | | CinemaNow | Buy and rent TV Shows |
| | | Yahoo | Stream TV shows |
| | USA Network | iTunes | Sell TV shows on iTunes |

Source: Piper Jaffray and Co.

## SELECTED LIST OF ONLINE VIDEO DEALS, PARTNERSHIPS AND COLLABORATIONS, CONTINUED

| Parent Company | Content Aggregator | Distribution Partner | Type of Agreement |
|---|---|---|---|
| **News Corp** | | | |
| | Fox | iTunes | Sell TV shows on iTunes |
| | | AOL | Sell and stream TV shows on AOL Video |
| | | Myspace | Stream and sell television shows |
| | | Amazon | Sell TV shows on Amazon Unbox |
| | Twentieth Century Fox | Amazon | Sell movies Amazon Unbox |
| | | iTunes | Sell TV shows on iTunes |
| | | AOL.com | Sell movies on AOL Video |
| | | Cinemanow | Buy and rent movies |
| | | IGN.com | Sell movie downloads. |
| | | Netflix | Stream movies |
| | | Movielink | Buy and rent movies |
| | | Wal-Mart | Sell movies |

| Parent Company | Content Aggregator | Distribution Partner | Type of Agreement |
|---|---|---|---|
| | | Foxmovies.com | Stream previews |
| **PBS** | | | |
| | PBS | Google | Sell Charlie Rose shows |
| | | iTunes | Sell TV shows on iTunes |

| Parent Company | Content Aggregator | Distribution Partner | Type of Agreement |
|---|---|---|---|
| **Sony** | | | |
| | Sony/Columbia Studios | Youtube | Stream music videos |
| | | Sonypictures.com | Previews of movies |
| | | AOL.com | Sell movies on AOL Video |
| | | Amazon | Sell movies Amazon Unbox |
| | | Cinemanow | Buy/rent movies |
| | | Guba | Buy/rent movies |
| | | Movielink | Buy/rent movies |
| | | Sonypictures.com | Stream previews |
| | | Netflix | Stream movies |
| | | Wal-Mart | Sell movies |

Source: Piper Jaffray and Co.

## SELECTED LIST OF ONLINE VIDEO DEALS, PARTNERSHIPS AND COLLABORATIONS, CONTINUED

| Parent Company | Content Aggregator | Distribution Partner | Type of Agreement |
|---|---|---|---|
| **Time Warner** | | | |
| | AOL | Sony | Sell movies on AOL Video |
| | | 20th Century Fox | Sell movies on AOL Video |
| | | Universal Pictures | Sell movies on AOL Video |
| | | Warner Bros | Sell movies and TV shows on AOL Video |
| | | A&E | Sell TV shows on AOL Video |
| | | The History Channel | Sell TV shows on AOL Video |
| | | MTV Networks | Sell TV shows on AOL Video |
| | | Comedy Central | Sell TV shows on AOL Video |
| | | VH1 | Sell TV shows on AOL Video |
| | | TBS | Sell TV shows on AOL Video |
| | | Fox | Sell TV shows on AOL Video |
| | | TNT | Sell TV shows on AOL Video |
| | | QVC | Stream QVC television in real time. |
| | CNN | AOL.com | Stream news clips on AOL Video |
| | | CNN.com | Streaming news subscription service |
| | Turner Broadcasting | AOL.com | Sell movies and stream TV shows on AOL Video. |
| | | iTunes | Sell TV shows on iTunes |
| | Warner Brothers | Amazon | Sell movies Amazon Unbox |
| | | Cinemanow | Buy/rent movies and TV shows. |
| | | AOL.com | Sell movies and stream TV shows on AOL Video. |
| | | Guba | Buy/rent movies |
| | | Akimbo | Stream movies |
| | | Netflix | Stream movies |
| | | Bittorrent | Sell and rent movies |
| | | Movielink | Buy and rent movies |
| | | Warnerbrothers.com | Stream movies |
| | | Wal-Mart | Sell movies |

| Parent Company | Content Aggregator | Distribution Partner | Type of Agreement |
|---|---|---|---|
| **Viacom** | | | |
| | MTV | MTV.com | Stream television shows for free online supported by advertising |
| | | AOL.com | Stream TV shows and clips on AOL Video |
| | | Google | Video syndication |
| | | Atomfilms.com | Stream animation clips |
| | | Amazon | Sell TV shows on Amazon Unbox |
| | Nickelodeon Networks | AOL.com | Stream TV shows and clips on AOL Video |
| | | Nick.com | Stream TV shows and clips |
| | | iTunes | Sell TV shows on iTunes |
| | | Google | Video syndication |
| | Comedy Central | AOL.com | Stream TV shows and clips on AOL Video |
| | | Amazon | Sell TV shows on Amazon Unbox |
| | | Google | Stream certain Comedy Central shows |
| | Paramount | AOL.com | Sell movies on AOL Video |
| | | Amazon | Sell movies on Amazon Unbox |
| | | Netflix | Stream movies |
| | | Movielink | Buy and rent movies |
| | | Paramountpictures.com | Stream movies |
| | | Akimbo | Stream movies |
| | | Wal-Mart | Sell movies |

Source: Piper Jaffray and Co.

**2006 Online Media Survey Video Findings**

We believe online video will take center stage in 2007, while usage of traditional media declines and online content usage fragments, with a corresponding shift away from large portals. As we believe the proliferation of online video will be the defining trend of 2007, we conducted a survey of Internet users to better understand usage patterns and the online video landscape. Key findings from our survey include the following:

- YouTube and network TV sites are the most popular online video destinations
- The popularity of the Networks is important as it suggests the mainstreaming of video usage beyond just amateur user-generated videos.
- News, movie previews, amateur videos, and music videos are the most popular content types
- Limited ads are tolerable, but paid online videos are not

Our survey findings confirm our beliefs as follows: 1) online video will impact the time consumers spend on other types of media, especially on TV; 2) professional content creators and networks are taking online video very seriously; 3) the increased use of video will condition users to expect more video content, and thus gradually move them toward sites with richer video content; and 4) online video can be monetized through advertising. We expect a number of new companies to surface, focusing on distributing, sharing, rating, finding, and viewing video content, and we have provided a partial list of destination sites attempting to capitalize on the proliferation of online video (see Exhibit 62).

**YouTube And TV Network Sites Are Popular**

About 44% of the our survey respondents watch online videos on YouTube, while 41% watch online videos on a TV network's site, indicating the increasing popularity of traditional networks as destination properties. About 78% of the 18-24 year old respondents use YouTube. However, usage is less concentrated in older demographics. 60% of 25-34 year olds use YouTube, 43% use TV network sites, and 32% use Google Video. Among 35-44 year old respondents, 37% use YouTube, 40% use TV network sites, 37% use MSN video, and 23% use Google Video and Yahoo! Video. Among 45-54 year olds, 47% use TV network sites, 22% use YouTube, 25% use Google Video, 26% use Yahoo! Video, and 28% use MSN video. Among the 55 year old and over demographic, only 11% use YouTube, 33% use TV network sites, 22% use MSN video, and 22% use Yahoo! Video.

Exhibit 65

## POPULARITY OF ONLINE VIDEO SITES

Where Do You Go To Watch Video Content Online? (Percentage of Total)



Source: Piper Jaffray & Co. 2006 Online Media Survey

News, Movie
Previews, And
Amateur Videos
Most Popular

Among respondents who do watch videos online, 51% indicated they watch news, 41% indicated they watch movie previews, 38% indicated music and amateur videos, and 26% indicated TV shows. We note this year marks the first year the TV networks began using the Internet as a distribution channel, so the 26% is an impressive indication of the potential popularity of viewing TV shows online.

Exhibit 66

**TYPE OF ONLINE VIDEO CONTENT**

What Type Of Video Content Do You Watch Online?
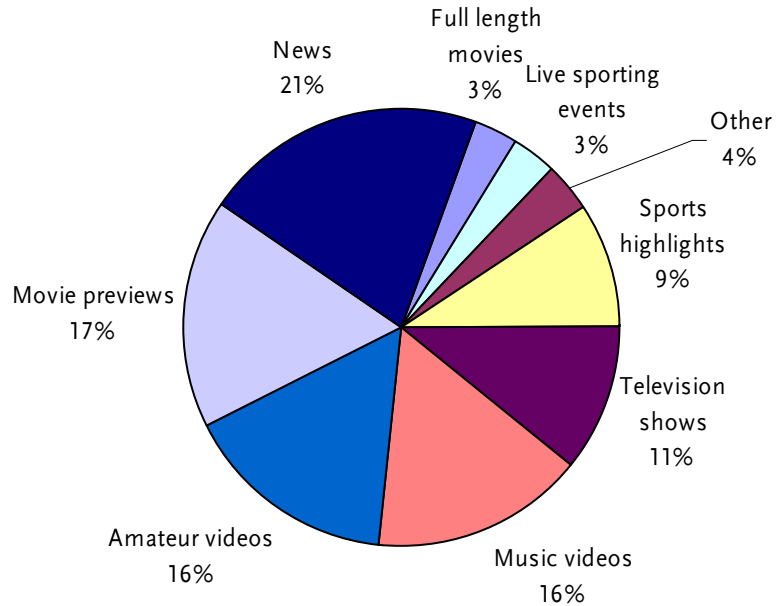


Source: Piper Jaffray & Company 2006 Online Media Survey

Limited Ads
Tolerable, But Paid
Online Videos Are
Not

Approximately 40% of our survey respondents indicated they are willing to watch limited commercials before an online video (assuming that the online video is free), and approximately 80% indicated they are not willing to pay for online videos.

Exhibit 67

**ACCEPTANCE OF ADVERTISING PRIOR TO ONLINE VIDEOS**
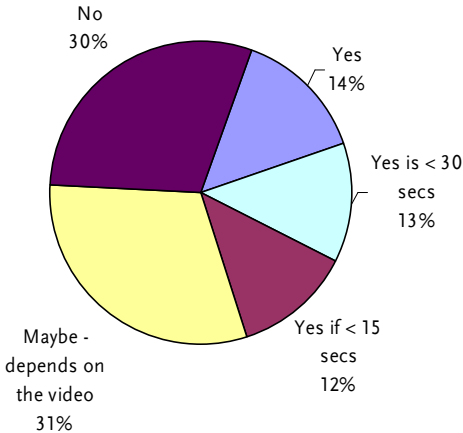
Are You Willing To Watch Ads Online?



Source: Piper Jaffray & Co. 2006 Online Media Survey

**[This page is left intentionally blank.]**

## CHAPTER 5

# *The Consumer And The Usage Trends*

- Internet usage is mainstream – 70% of U.S. households online, across all demographics.

- Middle-aged users make up the bulk of Internet usage today.

- The digital divide still exists with race and income disparities.

- As income rises, Internet usage increases and TV watching decreases.

- Approximately 25% of Internet usage is on content consumption, 46% on utility, and 31% on hybrid usage.

**Who Is Online?**
**Nearly Everyone**

For the first few years after the Internet's adoption in 1995, marketers viewed the Web as a special medium for reaching consumers for a few niche product categories, such as technology. By the late 1990s, with the Dotcom Bubble nearing its peak, online advertising was principally a method for Web-only brands to acquire "eyeballs." After the over-excitement of the Dotcom era subsided, however, savvy marketers saw the Internet for what it is: A large and rapidly growing medium that allows for targeted marketing and instant campaign feedback and optimization.

Nearly 70% of the U.S. population currently uses the Internet, and we project penetration will increase to more than 75% by 2010, with the bulk of the non-users coming from the edges of the demographic spectrum.

Exhibit 68

**U.S. INTERNET USAGE**
Historical And Projected Internet Usage In The United States (In Millions)
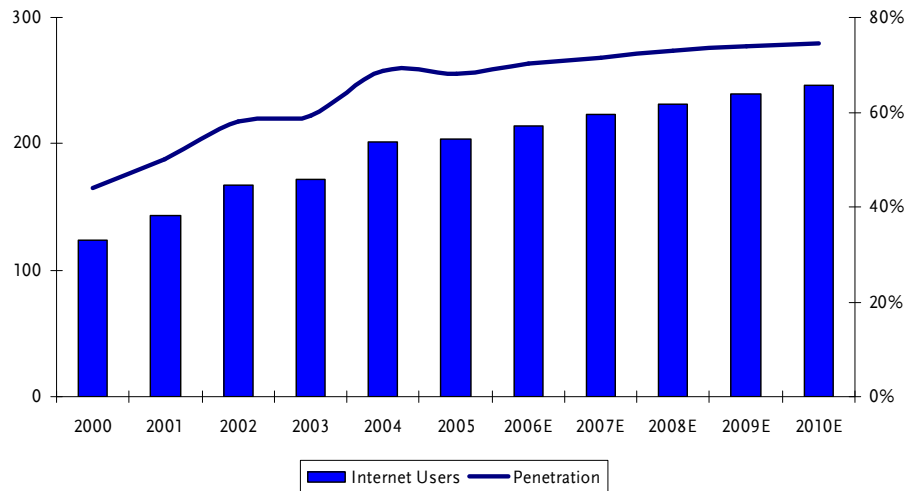


*Contrary to popular belief, Internet usage is not dominated by young people: in fact, 82% of U.S. Internet users are over 18, spending 88% of the total online*

Source: Nielsen/NetRatings and Piper Jaffray & Co. Estimates

An Older Population
Is Now Online

Contrary to popular belief, Internet usage is not dominated by young people; in fact, 82% of U.S. Internet users are over 18, spending 88% of the total online minutes versus the 75% of the general population that are over 18. With the exception of a drop-off post age 65, Internet users closely mirror the U.S. Census data in age, sex, and geographic distribution demographics, suggesting the Internet has become a mainstream medium. Exhibit 69 shows the demographics of Internet users in the United States in 2006, compared with the demographics five years earlier, showing the growing mainstreaming of the Web.

Exhibit 69

## ONLINE VERSUS OFFLINE U.S. DEMOGRAPHICS

|  | Online Population 2001 | Online Population 2006 | U.S. Population |
|---|---|---|---|
| U.S. Population (in millions) | 110.8 | 157.1 | 281.4 |
| Males | 48% | 48% | 49% |
| Females | 52% | 52% | 51% |
| **Age demographics:** | | | |
| Under 18 | 18% | 20% | 26% |
| Adults (18+) | 82% | 80% | 74% |
| Users between 21 and 34 | 23% | 17% | 20% |
| Users between 35 and 49 | 32% | 28% | 23% |
| Users between 50 and 64 | 18% | 23% | 15% |
| Users 65 and over | 5% | 9% | 12% |
| **Racial breakdown:** | | | |
| White | 88% | 89% | 80% |
| Black | 9% | 8% | 13% |
| Asian | 2% | 2% | 4% |
| Other | 1% | 1% | 3% |
| **Regional distribution:** | | | |
| West North Central | 8% | 8% | 7% |
| Mountain | 6% | 7% | 6% |
| Pacific | 17% | 17% | 16% |
| New England | 6% | 5% | 5% |
| Mid Atlantic | 15% | 15% | 14% |
| South Atlantic | 17% | 18% | 18% |
| East South Central | 5% | 4% | 6% |
| West South Central | 10% | 10% | 11% |
| East North Central | 17% | 16% | 16% |
| **Household income:** | | | |
| Less than $25,000 | 6% | 6% | 28% |
| $ 25,000 - 49,999 | 28% | 23% | 23% |
| $ 50,000 - 74,999 | 30% | 27% | 18% |
| $ 75,000 - 99,999 | 17% | 19% | 11% |
| $ 100,000 - 149,999 | 11% | 16% | 10% |
| $ 150,000+ | 5% | 8% | 9% |
| No Response | 1% | 3% | NA |

Source: Nielsen/NetRatings data, September 2001 and 2006 and U.S. Census Bureau – 2000 Census

The Internet Isn't
Just For Teens

Contrary to popular belief, Internet usage is not dominated by teens and youth. In fact, outside of the ends of the demographic spectrum (under 18 and over 65), Internet users in the United States closely mirror the general population, as displayed in Exhibit 70 below.

Exhibit 70

**U.S. INTERNET USERS VERSUS U.S. POPULATION**
By Age Demographic
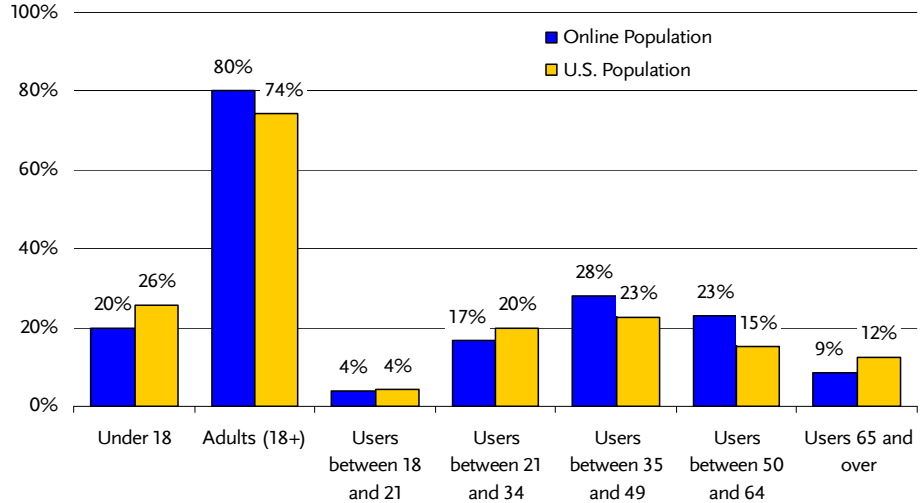


Source: Nielsen/NetRatings data, September 2006 and U.S. Census Bureau – 2000 Census

This slight over-representation of middle-aged users is noticeably starker when we consider time spent online. The 35-49 year old users dominate online usage, consuming 38% of the total minutes of U.S. online activity, as shown in Exhibit 71, which is based on September 2006 usage patterns.

Exhibit 71

**PERCENTAGE OF ONLINE MINUTES CONSUMED**
By Age Demographic
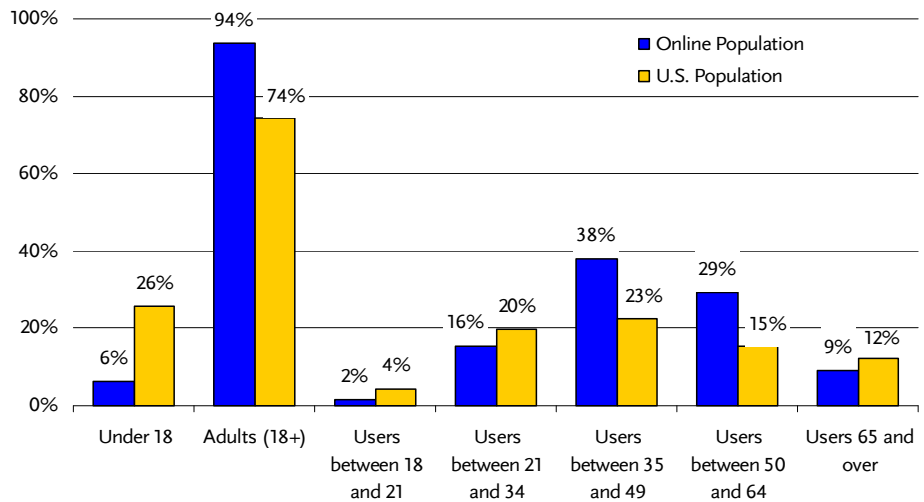


Source: Nielsen/NetRatings data, September 2006 and U.S. Census Bureau – 2000 Census

Although not "raised online" like many of today's teens, older users are accessing the Internet at work and at home for utility (such as email, search, and commerce), content, and even newer communitainment sites. Even sites like MySpace and Facebook, who have traditionally targeted a youth audience, are seeing 46% and 19% of their audiences, respectively, coming from users older than 35 (see Exhibit 39).

The Poor Are Still Offline

Despite the overall mainstreaming of the Internet, Internet users tend to be wealthier, with only 6% of the online population having annual household income below $25,000, compared to 28% of the U.S. population. More disturbing is the fact that over the last five years, little progress has occurred in this area.

Online Population is Wealthier

Beyond the lowest and the highest income groups, every other income bracket is over-represented in the online world, with the biggest over-representation in the middle class category of $50,000-$75,000 bracket. At the higher end, 22% of the online audience household income tops $100,000, compared to 19% for the general population. While this Digital Divide is worrisome from a social perspective, to advertisers and online publishers it is boon: It provides a medium that gives both broad reach across geographies and age demographics but slants toward those with more disposable income. Exhibit 72 shows the income distribution among Internet users, compared with the general population.

Exhibit 72

**U.S. INTERNET USAGE BY HOUSEHOLD INCOME**
Online Versus Offline
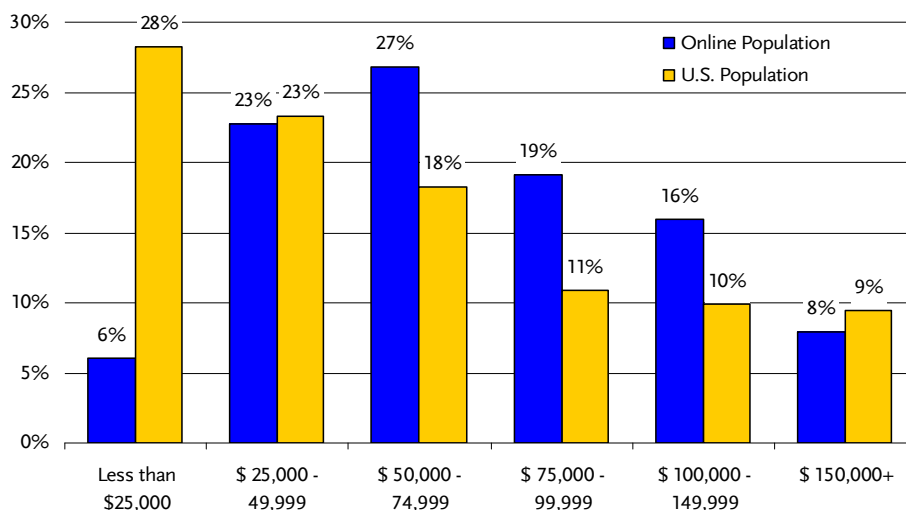


Source: Nielsen/NetRatings data, September 2006 and U.S. Census Bureau – 2000 Census

*[A]s income levels rise, TV usage falls and Internet usage rises*

More interestingly for advertisers is how household income relates to total media consumption and how the Internet stacks up versus traditional media. Although household income seems to have little effect on the total number of minutes spent consuming media (about 520 minutes per day on average), there are notable differences between how different income groups allocate their time. The higher-income Americans allocate more time reading newspapers than lower-income Americans (6% of total media consumption time versus 4%), while radio and magazine consumption seem to show only limited correlation with income levels. TV, the undisputed king of mass media distribution, and the Internet, the up-and-coming contender to the throne, show very strong and opposite correlations with household income level—as income levels rise, TV usage falls and Internet usage rises, as seen in Exhibit 73.

Exhibit 73

**U.S. INTERNET AND TV USAGE**
As A Percentage of Total Media Consumption By Household Income
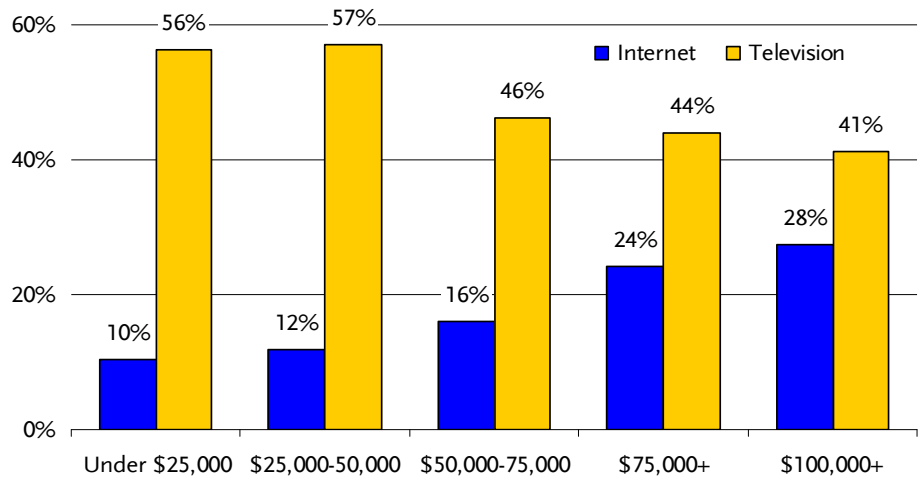


Source: TVB, Nielsen Media Research Custom Survey 2006

The Internet Is Fast Gaining Ground On TV Across Core Demographics

In order to distribute ad spending effectively across different media, advertisers should consider the relative consumption of the Internet versus TV. As expected, younger Internet users tend to spend more time online as a percentage of television time, but most interesting for advertisers is overlaying spending levels on these media consumption demographics. Although Internet usage as a percentage of TV consumption begins to drop off before hitting the highest spending demographic (45-54), and falls quickly thereafter, advertisers are much more concerned with the increasing side of the spending curve, creating brand awareness, and cementing consumer behavior early, as shown in Exhibit 74.

Exhibit 74

## TIME SPENT ONLINE AS A PERCENTAGE OF TV TIME

Among Internet Users Compared To Average Annual Spending By Age Demographic
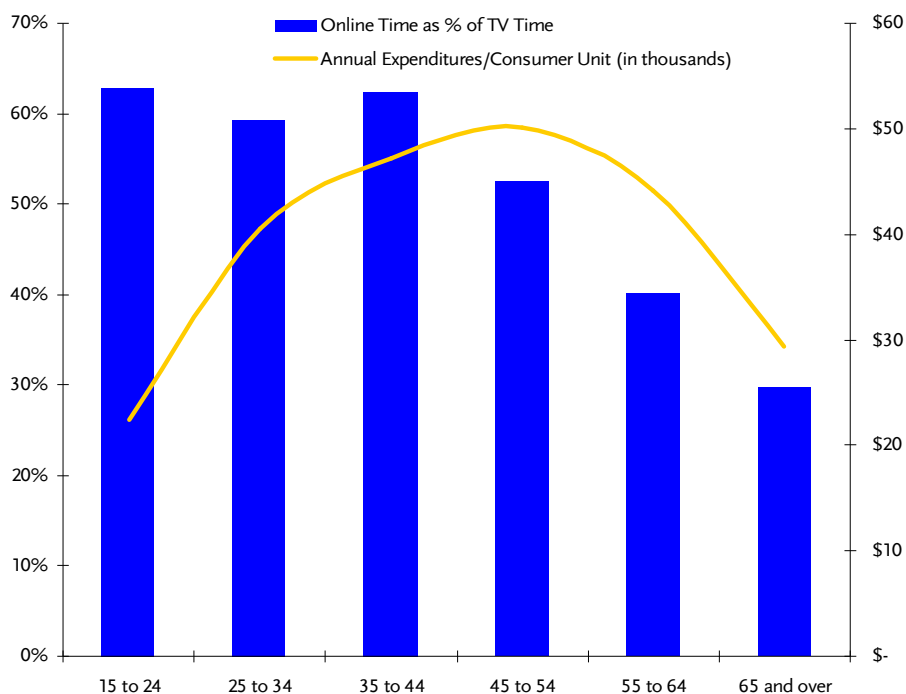


Source: comScore, September 2006 data and The Bureau of Labor Statistics' American Time Use Survey 2004

With time spent online as a percentage of TV viewing well above 50% in the top four demographics, and online ad spend in 2005 hovering around 13% of TV spending, it seems clear the public at large has adopted the new technology and medium far faster than advertisers. In addition, it is important to consider how these trends will shift in the next five years, as behaviors of each demographic shift with age toward the right of the chart shown in Exhibit 74. We estimate that by 2010 usage by each demographic group will increase between 5% and 10%, as the generations that grew up with the Internet age, and online tools and computers become easier to use for older Americans.

**What Are Consumers Doing Online?**

Communication, particularly through email, still dominates Internet usage across most demographics. According to a Pew Internet & American Life Project survey, email usage stands at about 90% of online users and varies very little across age demographics. Activities typically associated with Usites, such as reading and writing blogs, however, are still skewed toward the younger demographics, but the numbers are still impressive. For example, approximately 40% of Internet users under 29 read blogs, while 20% actually write and publish their own blogs.

Exhibit 75

**PERCENTAGE OF INTERNET USERS USING DIFFERENT ONLINE TOOLS AND CONTENT BY AGE DEMOGRAPHIC**

| | | 12 to 17 | 18 to 28 | 29 to 40 | 41 to 50 | 51 to 59 | 60 to 69 | 70 plus | All Adults |
|---|---|---|---|---|---|---|---|---|---|
| **Communication** | **Use Email** | 89% | 88% | 92% | 90% | 94% | 90% | 89% | **91%** |
| | **Text Message** | N/A | 60% | 44% | 29% | 15% | 11% | 8% | **35%** |
| | **Instant Message** | 75% | 66% | 52% | 38% | 42% | 33% | 25% | **47%** |
| **Commerce-related** | **Product Research** | N/A | 79% | 80% | 83% | 79% | 74% | 60% | **78%** |
| | **Online Purchase** | 43% | 68% | 69% | 68% | 67% | 65% | 41% | **67%** |
| | **Travel Reservations** | N/A | 50% | 72% | 64% | 64% | 59% | 60% | **63%** |
| | **Use Online Auction** | N/A | 26% | 29% | 25% | 20% | 18% | 6% | **24%** |
| | **Bank Online** | N/A | 38% | 50% | 44% | 37% | 35% | 22% | **41%** |
| **Content** | **Get News** | 76% | 72% | 76% | 75% | 70% | 74% | 68% | **73%** |
| | **Download Music** | 51% | 45% | 28% | 16% | 14% | 8% | 5% | **25%** |
| | **Download Video** | 31% | 27% | 22% | 14% | 8% | 8% | 1% | **18%** |
| **Usite Activities** | **Read Blogs** | 38% | 41% | 30% | 20% | 21% | 19% | 16% | **27%** |
| | **Write Blogs** | 19% | 20% | 9% | 3% | 9% | 3% | 4% | **9%** |
| | **Use a Photo Service** | N/A | 39% | 38% | 31% | 32% | 31% | 30% | **34%** |
| | **Rate a Person or Product** | N/A | 36% | 34% | 27% | 31% | 24% | 8% | **30%** |
| | **Search for a Person** | N/A | 31% | 31% | 23% | 23% | 24% | 29% | **27%** |

Source: Pew Internet & American Life Project, Generations Online, December 2005 and Piper Jaffray & Co.

Our own survey of online usage habits supports this view: Although email is still the dominant application of the Internet, Usite-related activities (such as reading and writing blogs) are becoming increasingly popular.

Exhibit 76

## PIPER JAFFRAY 2006 ONLINE MEDIA SURVEY: FREQUENCY OF INTERNET SERVICE USE

How Often Do You Use The Following Online Services?
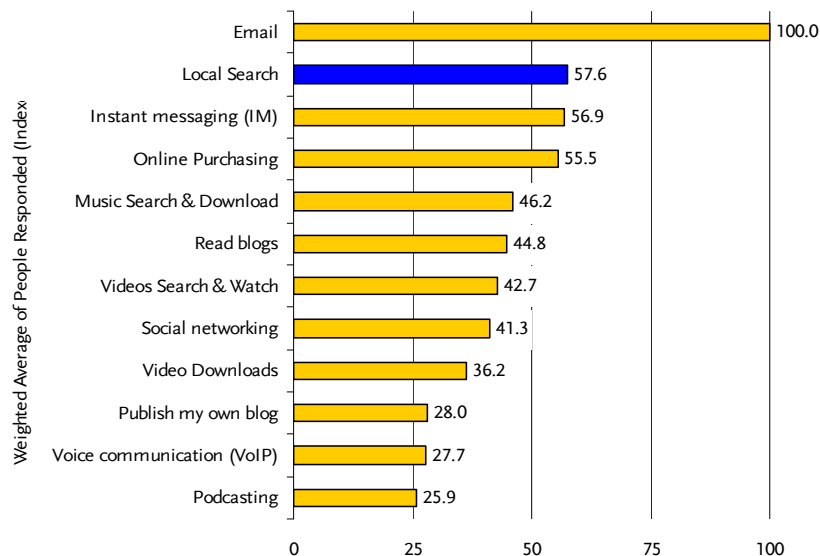


Source: Piper Jaffray & Co. 2006 Online Media Survey

The checking of news, blogs, weather, sports, videos, and email online has become as commonplace as the average American's historical habit of reading the newspaper or watching TV.

**Content Versus Utility: The Value Of Different Online Activities For Advertisers**

The wide variety of online activities offers different opportunities for advertisers to reach and impact consumers, with some activities hardly conducive for advertising, while others are very effective. We believe this distinction is critical in the final outcome of what portion of ad dollars will be spent online. Unlike TV, which has nearly 100% of its content monetizeable, a large part of the activities online are what we call utility functions – similar to the way a consumer may use a telephone or other device to get a task done, or to communicate. These activities, in our view, are very difficult to monetize.

Our research suggests that currently 25% of the activities performed online (measured by time spent) are what we would broadly call Content, similar to the content consumed on traditional media channels. By contrast, about 46% of the activities online are for what we have categorized as Utility, which includes email and other communications, as well as commerce and search. There is a third category, however, that we termed "Hybrid" as it involves both utility and content consumption, mainly through communitainment-type activities. This group falls in between content and utility in terms of its potential for monetization. This Hybrid segment is by far the fastest-growing segment; in just 18 months from April 2005 to October 2006, of the top 100 sites on the Internet, usage of Hybrid sites went from 3% to 24% of total online minutes. We believe the growth of online ad spending is largely dependent on the

growth of both main content categories as well as this new hybrid sector. Exhibit 77 below shows the percentage of these activities, as we measured in October 2006.

Exhibit 77

**TYPES OF SITES USED ONLINE - CONTENT, UTILITY, AND HYBRID**

Segmentation Of Internet Usage Based On Total Minutes Consumed Of The Top 100 Sites



April 2005

Hybrid
3%

Content
40%

Utility (email, communi- cations, commerce, etc.)
57%

October 2006

Hybrid
24%

Content
28%

Utility (email, communi- cations, commerce, etc.)
48%
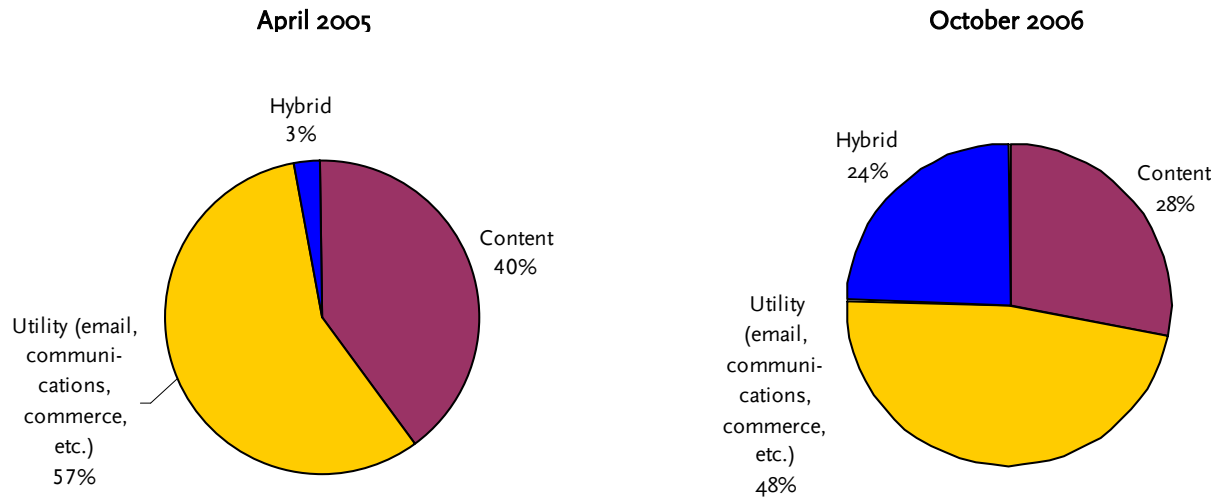
Source: comScore Networks, segmentation by Piper Jaffray & Co.

**Video Consumption Fueling Content Growth**

The rapid success of YouTube and its 100 million video streams per day is emblematic of the overall trend of online video consumption. We expect the video category to be singularly responsible for the vast majority of growth in the content segment. What types of videos are people watching online? Our recent survey shows news, movie previews, amateur videos, and music videos as the top four online video categories. A recent poll by AOL and the Associated Press (see Exhibit 78) also supports these findings, showing that news, television/movie clips, music videos, sports highlights, and amateur (user-generated) videos are the most popular video content categories.

Exhibit 78

**MOST POPULAR VIDEO CATEGORIES**

Percentage Of Internet Viewers That Have Viewed Online Video In A Given Category
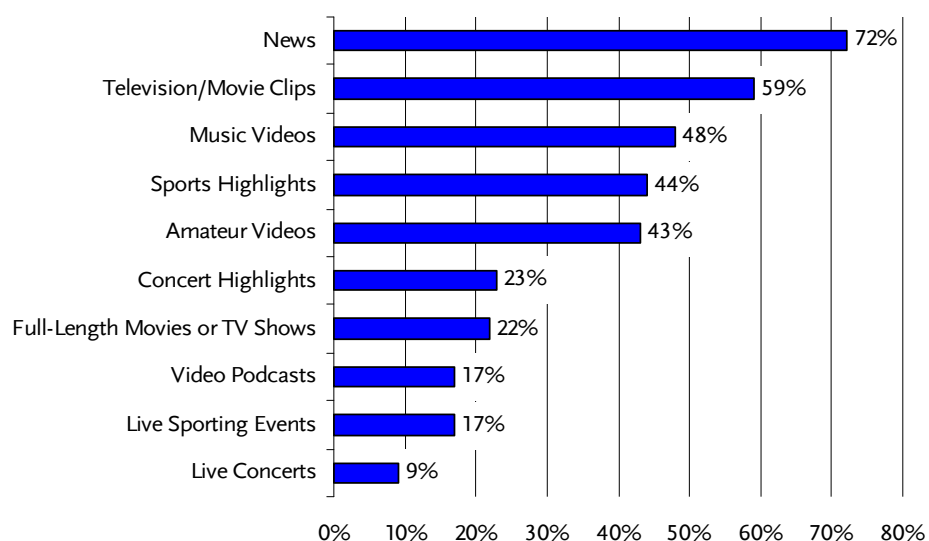


Source: AP-AOL Video Survey

We believe the type of Internet activity is important as certain Internet activities are more easily monetized through advertising. Specifically, content consumption is much more conducive to advertising than utility functions such as checking email or chatting on IM. As such, the proliferation of online video is a potentially lucrative opportunity for online advertisers, because it vastly increases monetizable inventory of Internet content. Google's recent acquisition of YouTube demonstrates the future value that Google places on the opportunity to monetize YouTube's large inventory of video content.

**[This page is left intentionally blank.]**

## CHAPTER 6

# *The Ad Inventory: Destinations And Services*

- Portals maintain the highest reach, but the fastest growing category of destinations is communitainment sites, such as MySpace and Facebook.

- The most valuable advertising for broad reach inventory is in the categories of Portals, Search, News, and Entertainment.

- The communities are the best new inventory for establishing close connection with users and creating engagement.

**The Eight Activity Groups On The Web**

For the purposes of assessing their usefulness for advertising, we divided all online activities into eight groups. These groups are shown in Exhibits 80 and 83, including the top 10 sites within each category, and the reach and time spent (page views) of each category. In order to best understand the suitability of each of these eight categories for advertisers, we must look at their key attributes—which we consider to be their size (reach), amount of time spent on the category (attention share), and their targetability. The last attribute, targetability, is a composite index of qualities that we consider the category possesses, which enables advertisers to engage the consumers with their message.

Targetability, **in this sense, includes user information, but also takes into account other factors such as whether the type of user activity revolves around content consumption or transaction/utility user functions. It also accounts for how deeply users engage with advertisers based on the type of content that is consumed in the category. For example, we believe news and weather sites, which in traditional media represent a core focus for advertisers, do not have high targetability in the new advertising regime because advertisers, in most cases, cannot integrate their brand or message effectively with the content.**

Exhibit 79

## THE EIGHT CATEGORIES OF ONLINE INVENTORY

An Index Of Size, Targetability, And Time Spent
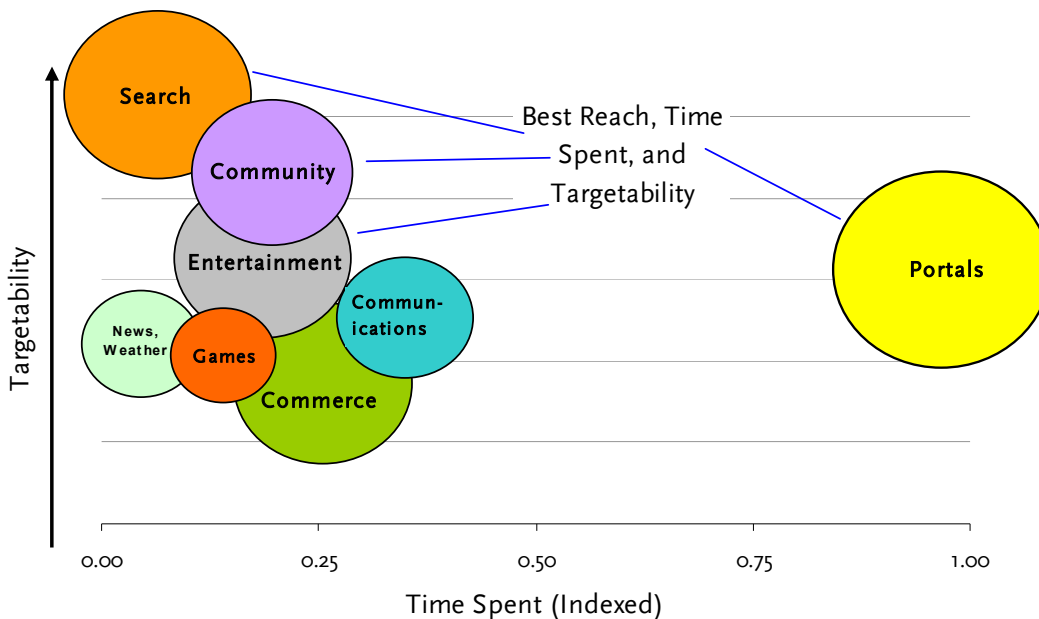


Note: Circle size denotes reach of each category.

Source: Piper Jaffray and Co.

In exhibit 79, we constructed a chart that incorporates the three metrics of reach, time spent, and targetability that clearly demonstrates portals' advantage in reach and time spent and thus are ideal for general brand advertising. We note that our classification of portal includes new networks, such as MySpace, which comprise a large part of the daily usage of many Internet users (many MySpace users will spend two to three hours a day on MySpace). Search, as expected, has the best targetability and also very high reach, but time spent on search is small. News, weather, and sports sites have both limited size and time spent, but they offer some targetability. By comparison, entertainment and community sites offer relatively large reach, good time spent, and good targetability. Finally, communications sites, despite their high reach and time spent, are relatively poor channels for brand advertising, in our opinion. Below, we describe each of these:

**Portals.** The most popular group in terms of reach is the portals. This is possibly the least cohesive of our eight categories, but we felt compelled to include it as portals still draw large amounts of traffic. However, most of this traffic then leaves to either specific areas of the portal or to other specialty sites. Yahoo! leads the portals, followed by MySpace (which we consider a portal), MSN, and AOL. We consider the activities that most users do on portals as highly general and varied. As such this category is best for reach, not targeting.

**Search.** Search as a category is the second largest in terms of reach. While the search category has pervasive reach, users do not spend much time on search sites, as the efficiency of search allows customers to immediately go to their target destination, using search as a fast navigation tool. Despite the limited time spent on search sites, search provides advertisers with the greatest targetability by providing relevant ads or search results in response to the user's query. As such, search's marketing value, beyond direct customer acquisition, is still very high, as advertisers can have the best impact for their brand when the users are looking for a product or topic related to the advertiser's brand.

*We believe communities, search, and entertainment should be the top three focus categories for advertisers*

**Commerce.** The reach and time spent on commerce sites are significant, but commerce sites in general are not conducive to advertising. Commerce sites are largely transaction sites and despite efforts by some sites, including Amazon, to turn the site to a multi-activity area, users go to those sites for one reason: to buy a product. It is similar to the way consumers go to a physical store. As such, the value of commerce sites for general advertising is highly limited and thus their targetability, beyond guiding a user to a specific area of the commerce site, is very low.

**Entertainment.** Entertainment sites have a strong position on the Web, much more so than in the traditional media, in our opinion. This is because on the Web, entertainment is heavily intertwined with other activities, especially communications, and is a core part of communitainment. The entertainment category enjoys very large reach (higher than communities and comparable to search), a relatively high time spent, and strong targetability. As such, we believe the entertainment category is one of the best areas for advertisers. In the entertainment category, we have included sites and networks that provide music, video, movies, or other types of entertainment (excluding pornographic content).

**Community.** Community sites that emphasize communication rather than content are becoming a cornerstone of Communitainment. A core functionality of these sites

includes areas where users gather to find friends and chat with them. Many of these sites have become full-fledged communitainment sites, while others are in the early stages of their development. In either case, we view the advertising value of this category as very high, but we also note that this is one of the more difficult categories for advertisers as it requires careful targeting and advertiser engagement. As such, while direct targetability of community members is easy, brand association is more difficult and requires more strategic thinking. Communities also have a high reach and strong time spent. Overall, we believe communities, along with search and entertainment, should be the top three focus categories for advertisers.

**Communications.** Communications consists primarily of email and instant messaging, which have become pervasive online activities. Despite the large amount of time spent on communications, we believe email and instant messaging are utility functions and are not very suitable for many types of branding. In general, when a user focuses on accomplishing a specific task, they are much less receptive to a commercial message, unless the message is integrated with the task, which is the case with communitainment and search. As such, we believe pure communication activities have relatively low targetability, and despite their average reach and high time spent, should be considered secondary inventory sources for the advertisers.

**News/Weather/Sports.** This category includes the traditional news sites, as well as the sports and weather sites. These categories currently garner a significant component of advertising dollars, but we believe that the targetability of this segment is not as high as communities or entertainment sites. As such, we believe this category will be used to supplement reach for general branding, but association of brand with the content will be difficult except in specialized areas.

**Games.** Games are a popular and relatively large category on the Internet, but they are most suitable for very specific types of advertising. We believe the targetability of these sites is limited because users are heavily engaged in game activity. Unless advertisers embed their message in the game or otherwise closely intertwine the brand within the game, the efficacy of ads will be very low. Games also have the smallest reach of all eight categories.

Exhibit 80 provides more granular detail about Internet activity and the most popular destinations within each category.

Exhibit 80

## THE EIGHT CATEGORIES OF ONLINE INVENTORY - PAGE VIEWS
(Millions)

| Category | Oct-06 | Oct-05 | Y/Y | Category | Oct-06 | Oct-05 | Y/Y |
|---|---|---|---|---|---|---|---|
| Portals | 113,564 | 103,097 | 10% | Communications (Email and IM) | 20,455 | 25,372 | -19% |
| Yahoo! Sites | 41,605 | 43,649 | -5% | Yahoo! Mail | 20,986 | 13,926 | 51% |
| MySpace.com | 37,919 | 11,552 | 228% | MSN Hotmail | 7,758 | 7,593 | 2% |
| MSN-Windows Live | 17,612 | 17,832 | -1% | AOL Email | 5,100 | 5,876 | -13% |
| AOL | 13,630 | 25,209 | -46% | Comcast.net WebMail | 1,372 | 1,166 | 18% |
| Lycos, Inc. | 325 | 491 | -34% | Google Gmail | 1,257 | 853 | 47% |
| Netscape | 254 | 1,059 | -76% | AIM.com/AIM App | 928 | 880 | 5% |
| Univision.com | 224 | 138 | 62% | Yahoo! Insider | 266 | 306 | -13% |
| iWon | 214 | 458 | -53% | Yahoo! Messenger | 60 | 9,113 | -99% |
| MyWay.com | 194 | 491 | -60% | MSN-Windows Live Messenger | 26 | 397 | -93% |
| Terra Networks | 72 | 37 | 95% | AOL Instant Message | 14 | 7,552 | -100% |
| | | | | *Average of Email and IM | | | |
| | | | | | | | |
| Community | 63,966 | 16,604 | 285% | Search | 14,749 | 14,869 | -1% |
| MySpace.com | 37,919 | 0 | N/A | Google Search | 6,092 | 6,666 | -9% |
| Facebook.com | 9,437 | 3,375 | 180% | Yahoo! Search | 2,782 | 2,175 | 28% |
| Disney Online | 991 | 550 | 80% | Ask Network | 1,757 | 1,858 | -5% |
| Nickelodeon Network | 520 | 293 | 78% | MSN-Windows Live Search | 1,020 | 1,443 | -29% |
| Yahoo! Member Directory | 291 | 440 | -34% | MySpace Search | 939 | 236 | 298% |
| iVillage.com: The Womens Network | 233 | 358 | -35% | AOL Search Network | 788 | 692 | 14% |
| Yahoo! Photos | 222 | 222 | 0% | Infospace Web Search | 124 | 165 | -25% |
| Yahoo! Geocities | 161 | 245 | -34% | QuickBrowserSearch.com | 99 | 155 | -36% |
| Lycos Tripod | 80 | 82 | -2% | Lycos Network Search | 43 | 78 | -45% |
| AOL Hometown | 37 | 63 | -42% | LookSmart | 18 | 17 | 6% |
| | | | | | | | |
| Commerce | 36,805 | 34,716 | 6% | Games | 10,282 | 12,037 | -15% |
| eBay | 10,615 | 10,995 | -3% | EA Online | 1,499 | 4,613 | -68% |
| Amazon Sites | 1,461 | 1,618 | -10% | WildTangent Network | 666 | 9 | NM |
| Wal-Mart | 853 | 941 | -9% | Yahoo! Games | 659 | 1,142 | -42% |
| Target Corporation | 578 | 552 | 5% | AOL Games | 492 | 959 | -49% |
| Apple Computer, Inc. | 455 | 267 | 71% | MSN Games | 285 | 349 | -18% |
| Ticketmaster | 355 | 443 | -20% | Atom Entertainment | 206 | 0 | N/A |
| Overstock.com | 284 | 340 | -16% | GameSpot | 171 | 140 | 21% |
| Best Buy Sites | 276 | 195 | 41% | IGN Entertainment - Games | 162 | 158 | 3% |
| Shopzilla.com Sites | 148 | 164 | -10% | MiniClip.com | 133 | 94 | 42% |
| Yahoo! Shopping | 62 | 66 | -7% | RealOne Arcade Sites | 43 | 88 | -51% |
| | | | | | | | |
| Entertainment | 28,035 | 23,173 | 21% | News/Weather/Sports | 9,593 | 9,606 | 100% |
| Viacom Digital | 3,018 | 0 | NM | Yahoo! Sports | 2,333 | 0 | N/A |
| YouTube | 1,530 | 10 | 15084% | ESPN | 1,149 | 0 | N/A |
| AOL Entertainment | 1,113 | 1,561 | -29% | Yahoo! News | 857 | 635 | 135% |
| CBS Corporation | 1,001 | 3,580 | -72% | CNN | 806 | 956 | 84% |
| Disney Online | 991 | 550 | 80% | NFL Internet Group | 745 | 0 | N/A |
| Gorilla Nation Media | 552 | 417 | 32% | AOL News | 738 | 212 | 348% |
| Yahoo! Music | 548 | 1,032 | -47% | FOX Sports on MSN | 680 | 0 | N/A |
| MSN Entertainment | 525 | 548 | -4% | Weather Channel, The | 662 | 524 | 126% |
| Real.com Network | 347 | 360 | -4% | Weatherbug Property | 631 | 893 | 71% |
| iTunes Software (App) | ... | 0 | N/A | MSNBC | 590 | 653 | 90% |
| | | | | **Average of News and Sports | | | |

Source: comScore Networks, October 2006 data

Our analysis of Internet usage patterns indicates that the portal category achieves the highest overall reach followed by search, commerce, entertainment, communication, community, news, games, health, and sports. While all of these categories are highly monetizable, we believe it is more difficult to monetize the commerce, community, and communication categories, as they do not center on content consumption, which we believe is the most highly monetizable inventory category. Within the portal category, Yahoo! remains the dominant player followed by MSN, AOL, and MySpace. Within search, Google leads followed by Yahoo!, Ask, MSN, and AOL. While portals and search achieve significant reach, we believe the Internet is becoming increasingly fragmented and that the long tail of Internet content and community-related sites will flourish. As such, while we expect brand advertisers to continue to look to the portals for advertising reach, we believe advertisers will increase their spending on ad networks, which achieve significant reach by monetizing the long tail of the Internet with efficiency.

**Best Category For Engagement: Communities And The Communitainment Sites**

While portals and news sites provide vast reach, the engagement level of users with these sites is typically limited. The content consumption on these sites obviously provides good "traditional" ad inventory, but users typically are not associating themselves in a particular way with these sites. By contrast, users are heavily involved in most community, Usites, and Communitainment types of activities, and this is where the advertisers have a golden opportunity to become part of the consumer's "friends," and where users will associate with certain types of online entertainment, content, or activity. Such an association, in our opinion, is one of the strongest marketing vehicles available to advertisers.

Exhibit 81

**REACH, ENGAGEMENT, AND MONETIZATION POTENTIAL INTERNET CATEGORIES**
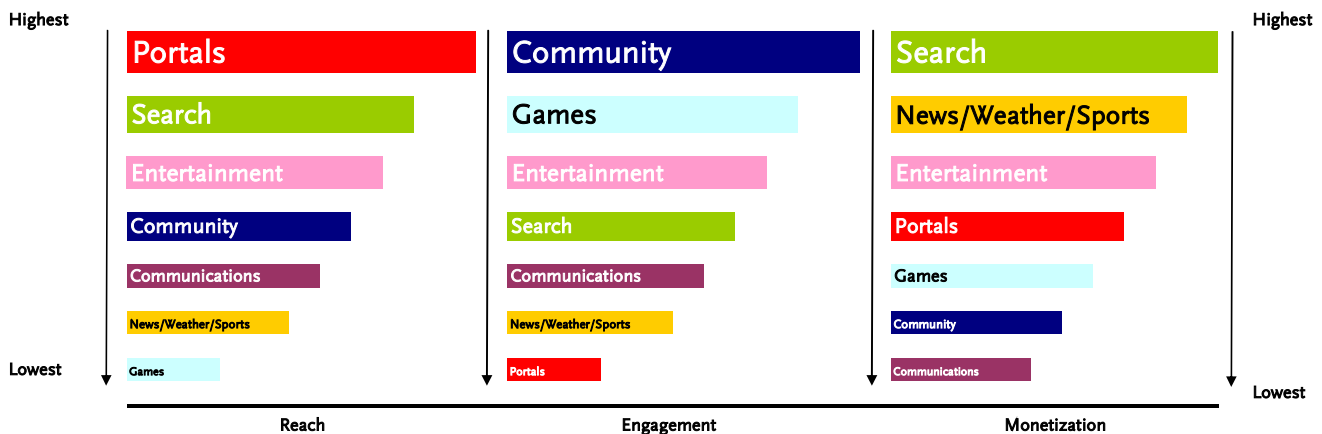


Source: Piper Jaffray and Co.

**The Big Inventory:
Top 20 Web
Destinations**

In this section, we will review and discuss the top 20 destinations on the Internet in the United States, which we call the Big Inventory, as we believe it represents approximately 30% of total online inventory in the United States. Exhibit 84 shows these destinations and their reach among Internet users. Yahoo! leads the way, followed by AOL, MSN, and Google. These four are members of the 100 Million Plus Club, each receiving more than 100 million unique visitors per month. Fox Interactive, at 74 million (up from 32 million in 2005) through MySpace, is rapidly closing in, but has not yet joined this club.

Top 10 U.S.
Publishers Generate
50% Of Global Ad
Revenues

Based on our estimates and published reports, we believe the top 10 publishers we listed in Exhibit 82 generate approximately $15.3 billion in global online advertising revenue (including search and display ads), which is about 50% of our estimated $31.2 billion revenues for the global online advertising market in 2006. Google, the largest player by far, is responsible for nearly 20% of global advertising revenues.

Exhibit 82

**REVENUE OF TOP 10 PUBLISHERS**

| Rank | Property | Unique Visitors | 2006 Estimated US Revenue (millions) | Percentage of Global Online Ad Spending |
|------|----------|-----------------|--------------------------------------|-----------------------------------------|
| 1 | Yahoo![1] | 131,443 | $4,560 | 15% |
| 2 | AOL[2] | 120,980 | $1,900 | 6% |
| 3 | MSN | 116,506 | $1,050 | 3% |
| 4 | Google[1] | 112,845 | $6,018 | 19% |
| 5 | Fox Interactive | 73,273 | $350 | 1% |
| 6 | Ask | 55,572 | $468 | 2% |
| 7 | Viacom Digital | 40,042 | $350 | 1% |
| 8 | NY Times | 39,242 | $250 | 1% |
| 9 | The Weather Channel | 32,606 | NA | NA |
| 10 | CNET | 31,969 | $379 | 1% |
| | Total of Top 10 Sites | | $15,325 | 49% |
| | Estimated Global Online Ad Spending | | $31,170 | 100% |

[1] Yahoo! and Google estimates are gross revenue before traffic acquisition costs
[2] AOL data is inclusive of Advertising.com revenue which is gross (before traffic acquisition costs) [3] Based on extrapolation from FY 2006 (June) results.

Source: Piper Jaffray & Co. and companies reports

*Google, the largest player by far, is responsible for nearly 20% of global advertising revenues*

The top 20 destinations listed in Exhibit 84 have all become highly popular sites—some over time like iVillage, others overnight, like YouTube. These sites drive the majority of their revenues from online advertising. As such, they are usually highly coveted inventory for the advertisers and the first sites that advertisers buy. Beyond the Big Inventory, the remaining sites represent about 59% of total online ad inventory. Although many of these sites are small and focus on niche audiences, some can be very valuable in that they could represent highly targeted or engaged users. Examples of these sites include Soccernet.com, dietfacts.com, and kayakonline.com, which cater to small but dedicated audiences that have identifiable consumer interests that marketers can target.

Exhibit 83

## REACH OF INTERNET CATEGORIES AND PROPERTIES
(Percentage, October 2006)

| Portals | 94 |
|---|---|
| Yahoo! Sites | 75 |
| MSN-Windows Live | 58 |
| AOL | 52 |
| MySpace | 32 |
| Lycos, Inc. | 15 |
| Netscape | 5 |
| iWon | 2 |
| MyWay.com* | 2 |
| Terra Networks | 2 |
| Univision.com | 1 |

*Average of Email and IM

| Search | 86 |
|---|---|
| Google Search | 58 |
| Yahoo! Search | 44 |
| Ask Network | 32 |
| MSN-Windows Live Search | 24 |
| AOL Search Network | 23 |
| MySpace Search | 14 |
| QuickBrowserSearch.com | 7 |
| Lycos Network Search | 4 |
| LookSmart | 4 |
| Infospace Web Search | 3 |

| Commerce | 82 |
|---|---|
| eBay | 47 |
| Amazon Sites | 30 |
| Apple Computer, Inc. | 19 |
| Wal-Mart | 16 |
| Target Corporation | 14 |
| Shopzilla.com Sites | 13 |
| Yahoo! Shopping | 9 |
| Ticketmaster | 8 |
| Overstock.om | 8 |
| Best Buy Sites | 8 |

| Entertainment | 81 |
|---|---|
| Viacom Digital | 21 |
| AOL Entertainment | 21 |
| Gorilla Nation Media | 15 |
| Disney Online | 15 |
| CBS Corporation | 14 |
| YouTube | 14 |
| Yahoo! Music | 13 |
| iTunes Software (App) | 13 |
| MSN Entertainment | 12 |
| Real.com Network | 12 |

| Community | 74 |
|---|---|
| MySpace.com | 32 |
| Disney Online | 15 |
| Yahoo! Geocities | 11 |
| iVillage.com: The Womens Network | 10 |
| Facebook.com | 9 |
| Lycos Tripod | 9 |
| Nickelodeon Network | 7 |
| Yahoo! Photos | 6 |
| AOL Hometown | 6 |
| Yahoo! Member Directory | 5 |

| Communications (Email and IM) | 60 |
|---|---|
| Yahoo! Mail | 46 |
| MSN Hotmail | 26 |
| AOL Email | 23 |
| AIM.com/AIM App | 17 |
| Yahoo! Messenger | 13 |
| Yahoo! Insider | 12 |
| MSN-Windows Live Messenger | 9 |
| AOL Instant Message | 9 |
| Google Gmail | 6 |
| Comcast.net WebMail | 4 |

*Average of Email and IM

| News/Weather/Sports | 55 |
|---|---|
| New York Times Digital | 25 |
| Weather Channel, The | 20 |
| Yahoo! News | 20 |
| MSNBC | 15 |
| CNN | 13 |
| AOL News | 12 |
| ESPN | 12 |
| Yahoo! Sports | 10 |
| FOX Sports on MSN | 9 |
| NFL Internet Group | 9 |

**Average of News and Sports

| Games | 48 |
|---|---|
| Yahoo! Games | 12 |
| AOL Games | 8 |
| EA Online | 8 |
| MSN Games | 6 |
| Atom Entertainment | 5 |
| IGN Entertainment - Games | 4 |
| RealOne Arcade Sites | 4 |
| WildTangent Network | 4 |
| GameSpot | 4 |
| MiniClip.com | 3 |

Source: comScore Networks and Piper Jaffray & Co.

Exhibit 84

## TOP 20 DESTINATIONS TRAFFIC DATA

| Rank | Property | Unique Visitors | Reach | Page Views | % of Total Internet - 2005 | % of Total Internet - 2006 |
|------|----------|-----------------|-------|------------|----------------------------|----------------------------|
| 1 | Yahoo! | 131,443 | 76% | 35,927 | 9% | 8% |
| 2 | AOL | 120,980 | 69% | 16,600 | 6% | 4% |
| 3 | MSN | 116,506 | 67% | 17,968 | 4% | 4% |
| 4 | Google | 112,845 | 65% | 13,387 | 1% | 3% |
| 5 | Fox Interactive | 73,273 | 42% | 41,450 | 0% | 9% |
| 6 | Ask | 55,572 | 32% | 1,711 | 0% | 0% |
| 7 | Viacom Digital | 40,042 | 23% | 3,527 | 0% | 1% |
| 8 | New York Times Digital | 39,242 | 23% | 481 | 0% | 0% |
| 9 | The Weather Channel | 32,606 | 19% | 599 | 0% | 0% |
| 10 | CNET | 31,969 | 18% | 644 | 0% | 0% |
| 11 | Disney Online | 25,049 | 14% | 1,067 | 0% | 0% |
| 12 | CBS | 23,164 | 13% | 740 | 0% | 0% |
| 13 | Lycos | 22,598 | 13% | 312 | 0% | 0% |
| 14 | Facebook | 19,429 | 11% | 9,064 | 1% | 2% |
| 15 | Gannet Sites | 18,167 | 10% | 429 | 0% | 0% |
| 16 | iVIllage | 17,686 | 8% | 195 | 0% | 0% |
| 17 | ESPN | 17,095 | 10% | 960 | 0% | 0% |
| 18 | EW Scripps | 16,235 | 9% | 439 | 0% | 0% |
| 19 | Cox Enterprises | 14,420 | 8% | 831 | 0% | 0% |
| 20 | WebMD | 13,552 | 8% | 168 | 0% | 0% |

Source: comScore Networks, December 2005, 2006 Data

**Yahoo! Inc. (YHOO)**

Business Overview



Yahoo! is the largest worldwide portal with 423 million unique users worldwide, as of December 31, 2006. The company reaches approximately 75% of the U.S. market and is the largest network in terms of unique visitors. Yahoo! also consistently leads in average time spent on its properties, primarily due to the popularity of Yahoo! Mail. Yahoo! Search, Local, News, Maps, Music, and Games also attract significant traffic. Yahoo! segments revenues into two distinct revenue streams: Marketing Services and Fees. Within Marketing Services, Yahoo! has two major sources of revenue: Advertising and Search. Advertising revenues are typically generated through the sale of display ads, rich media ads, sponsorships, and listing fees. Yahoo! Search is the second-largest search destination, in terms of total queries, after Google. Recently Yahoo! has pushed into user-generated content with its acquisitions of flickr and del.ici.ous, and its Yahoo! Answers and Yahoo!360 products.

Exhibit 85

## YAHOO! KEY TRAFFIC METRICS

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| Yahoo! Homepages | 89,298 | 51.4 | 3,624 | 25.7 |
| Yahoo! Mail | 78,914 | 45.4 | 18,031 | 287.8 |
| Yahoo! Search | 75,902 | 43.7 | 2,734 | 11.5 |
| Yahoo! Local | 15,764 | 9.1 | 78 | 3.3 |
| Yahoo! News | 33,848 | 19.5 | 928 | 25.3 |
| Yahoo! Maps | 18,005 | 10.4 | 284 | 10.7 |
| My Yahoo! | 24,735 | 14.2 | 603 | 23.1 |
| Yahoo! Music | 24,233 | 14.0 | 495 | 15.9 |
| Yahoo! Games | 23,155 | 13.3 | 660 | 78.6 |
| Yahoo! Geocities | 18,281 | 10.5 | 151 | 3.8 |
| Yahoo! Shopping | 19,210 | 11.1 | 88 | 2.4 |
| Yahoo! Sports | 15,335 | 8.8 | 1,949 | 95.7 |
| Yahoo! Finance | 9,532 | 5.5 | 406 | 31.2 |
| AT&T Yahoo! | 13,990 | 8.1 | 697 | 55.2 |
| Yahoo! Travel | 8,457 | 4.9 | 43 | 2.8 |
| Yahoo! Photos | 11,247 | 6.5 | 200 | 8.8 |
| Yahoo! TV | 7,589 | 4.4 | 94 | 8.6 |

Source: comScore Networks, October 2006 data

Search Overview

Yahoo! is the No. 2 search player with approximately 29% market share, as of December 2006. While Yahoo! search has underperformed relative to Google, we expect Yahoo!'s new search and advertising monetization platform, code-named Panama, to fully launch in Q107. We expect Panama to enhance Yahoo!'s ability to monetize search by maximizing total yield (click-through rate times cost-per-click) in determining the position of the ad on the page (Yahoo!'s current system is based only on bid price). This change should step up Yahoo!'s search revenue by increasing click-through rates, as more relevant ads get higher placement.

Exhibit 86

## YAHOO! U.S. SEARCH MARKET SHARE
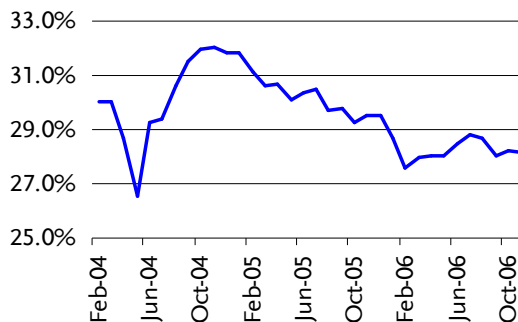


Source: comScore Networks

Size

We estimate that Yahoo! will generate net revenues of $5.3 billion and $2.1 billion in EBITDA in 2007. Of this $5.3 billion in revenue, we estimate $4.4 billion, or 83%, will

come through the marketing services line, of which approximately $1.8 billion will be core advertising and $2.4 billion will be search revenue.

**Competitive Position**

While we believe Yahoo! is the blue chip property on the Web, with the largest user base, Yahoo! is facing two important trends, both causing the company to lose market share. The first, the search monetization gap, is well understood, and we believe will be narrowed next year. The second, however, is a new trend where Yahoo!'s share of display ad dollars is also declining, primarily because, in our opinion, Yahoo! has not kept up with user trends. The increasing fragmentation of the Web and the growth of the social networking sites have proliferated over the past two years, and Yahoo! may have missed out on the chance to capitalize on these trends. The optimistic view would suggest that given Yahoo's wherewithal, brand, and global reach, it should be able to catch up with the industry. We cautiously share this view, but also believe a transition period, which may require some structural changes, could be ahead.

**AOL (TWX)**

**Business Overview**



AOL's key assets include AOL.com, AIM, MapQuest, AOL Video, and Moviefone. In October 2006, AOL had 120 million unique visitors, a reach of 69% and an average usage of 274 minutes per visitor. The use of AIM and AOL Mail drives AOL's high usage metrics. The company generates advertising revenue from the sale of banner ads on a CPM or sponsorship basis, as well as from the sale of paid-search and other PPC advertising on Advertising.com's network of Internet properties. Historically, dial-up access has generated the overwhelming majority of AOL's revenue, but AOL is experiencing significant declines in the number of subscribers due to the increasing penetration of broadband across the United States. As such, access revenues are rapidly declining. Given the expected continued decline in access subscribers, AOL is in the process of transitioning its business to focus on the online advertising opportunity. In order to attract additional users to its service, AOL recently launched a free version of its AOL.com.

Google Partnership

AOL's broad-based partnership with Google is central to the company's new, advertising-focused strategy. In late 2006, AOL announced an expanded partnership with Google that included Google's investment of $1 billion for a 5% equity stake in AOL. Key components of the strategic partnership included AOL's continued use of Google to provide search across AOL's network of properties, the use of Google's technology to sell search advertising directly to advertisers on AOL properties, $300 million in marketing credits for the promotion of AOL's content on Google properties, as well as $100 million of AOL/Google cosponsored promotion of AOL properties, and the integration of Google Talk and AIM messaging.

Search Overview

Despite AOL's large subscriber base and its partnership with Google, AOL's share of the search market has steadily declined since 2004, as its access members have churned.

Exhibit 87

**AOL U.S. SEARCH MARKET SHARE**
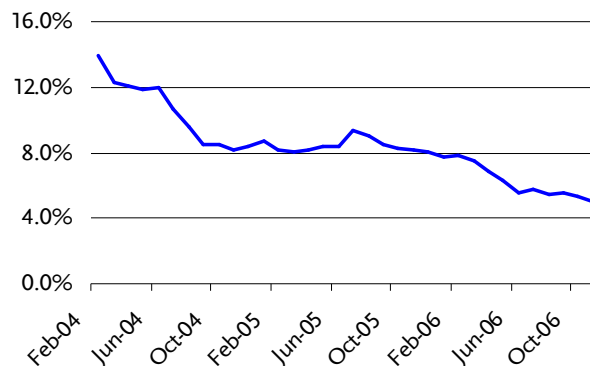


Source: comScore Networks

Size

In 2006, AOL reported total revenues of $7.8 billion (-5% year over year) and operating income before depreciation and amortization of $1.8 billion.

Competitive Position
And Outlook

While we believe AIM and AOL Mail remain popular communication tools for many Internet users, we expect AOL to continue to face significant challenges as its subscriber base continues to erode and the future of its free AOL.com portal is uncertain. AOL's previous value proposition, the so called "Walled Garden," is no longer relevant to the current Internet environment. We believe AOL needs to downsize its focus and specialize in certain areas and applications in order to provide a new compelling value proposition for users.

Exhibit 88

## AOL KEY TRAFFIC METRICS

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| Time Warner Network | 119,684 | 68.9 | 16,657 | 274.2 |
| AOL | 90,489 | 52.1 | 13,411 | 326.8 |
| AOL Homepages | 46,617 | 26.8 | 1,688 | 23.5 |
| Mapquest | 45,228 | 26.0 | 640 | 12.0 |
| MAPQUEST.COM* | 44,774 | 25.8 | 636 | 12.1 |
| AOL Email | 41,875 | 24.1 | 5,221 | 269.3 |
| AOL Search Network | 38,897 | 22.4 | 731 | 11.2 |
| AOL Screenname | 38,455 | 22.1 | 822 | 7.8 |
| AOL Entertainment | 35,970 | 20.7 | 1,208 | 53.9 |
| Mapquest.com Homepage | 34,698 | 20.0 | 102 | 1.8 |
| AOL Search | 33,901 | 19.5 | 662 | 11.7 |
| AIM.COM/AIM App | 28,970 | 16.7 | 945 | 335.5 |
| AOL Prop Email | 27,352 | 15.7 | 3,365 | 298.6 |
| AOL Welcome Screen | 26,807 | 15.4 | 1,158 | 30.6 |
| AOL.COM HomePages | 25,445 | 14.7 | 523 | 10.8 |
| AOL Prop Search | 25,089 | 14.4 | 485 | 12.6 |
| CNN | 21,913 | 12.6 | 757 | 43.0 |
| AIMTODAY.COM* | 21,526 | 12.4 | 532 | 14.4 |
| AIM Homepage | 20,846 | 12.0 | 359 | 11.2 |
| AOL News | 20,636 | 11.9 | 636 | 17.7 |
| AOL Instant Messenger (App) | 19,699 | 11.3 | ... | 457.4 |
| AOL.COM Email | 19,160 | 11.0 | 1,853 | 162.1 |
| AOL.COM Search | 18,875 | 10.9 | 169 | 4.2 |
| AOL Music | 18,014 | 10.4 | 390 | 18.1 |
| Moviefone | 13,542 | 7.8 | 212 | 6.5 |
| AOL Instant Message | 13,215 | 7.6 | 11 | 250.1 |
| AOL Games | 11,019 | 6.3 | 437 | 127.5 |
| AOL Money & Finance | 10,335 | 6.0 | 239 | 14.4 |
| AOL Living | 10,112 | 5.8 | 136 | 7.5 |

Source: comScore Networks, October 2006 data

**MSN (Subsidiary Of Microsoft Corporation – MSFT)**

Business Overview

MSN, a subsidiary of Microsoft Corporation (MSFT) is the third largest portal, most notably through the IE Explorer, which traditionally had defaulted to MSN, and through its 241 million Hotmail users. MSN had 117 million unique visitors in the United States in October 2006, and a reach of 67%. Although MSN trails Yahoo! and AOL in terms of average minutes per visitor, the popularity of Hotmail drives significant usage with average usage of 225 minutes per visitor in October 2006. Despite some strength in a few verticals, we believe MSN has failed to establish a distinct value proposition for users. Microsoft has committed strategically to invest heavily in MSN search and its Windows Live initiative, and we believe the future of MSN could be heavily impacted by the launch of Vista, Microsoft's new operating System, and MSN Live. In the best case scenario, through these new platforms MSN will be able to attract users by establishing itself as the key destination for specific services that are not easily available elsewhere.

Exhibit 89

**MSN KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| MSN - Windows Live | 98,615 | 56.8 | 16,381 | 196.9 |
| MSN - Homepage | 54,370 | 31.3 | 2,629 | 33.7 |
| MSN - Hotmail | 40,367 | 23.2 | 6,203 | 225.4 |
| MSN - Live Search | 41,575 | 23.9 | 990 | 8.5 |
| Live.com | 59,543 | 34.3 | 2,322 | 14.1 |
| MSNBC | 23,799 | 13.7 | 491 | 30.1 |
| MSN Music | 13,698 | 7.9 | 160 | 8.7 |
| MSN Movies | 11,165 | 6.4 | 202 | 9.3 |
| MSN Video | 13,250 | 7.6 | 46 | 3.6 |
| Fox Sports on MSN | 15,080 | 8.7 | 545 | 34.2 |
| MSN Money | 10,284 | 5.9 | 155 | 15.0 |
| MSN Games | 12,004 | 6.9 | 326 | 75.9 |

Source: comScore Networks, October 2006 data

Search Overview

MSN is the third largest search provider in terms of total number of search queries, but it is important to note the trend of declining market share at MSN Search over the last several years. Through 2005, MSN Search used Yahoo! as its paid search provider, but Microsoft recently launched its much-awaited internally developed search platform, AdCenter, which could eventually enable MSN to increase its display and search revenue by decreasing its reliance on third parties (in the near term, AdCenter search revenues will be lower than what MSN was getting from Yahoo!). We expect MSN Search to be promoted through Microsoft's Vista operating system, which may position Microsoft to gain some share over the coming years. We also expect AdCenter to differentiate itself from other search and advertising platforms by some of its demographic and behavioral targeting functionalities.

Exhibit 90

**MSN U.S. SEARCH MARKET SHARE**
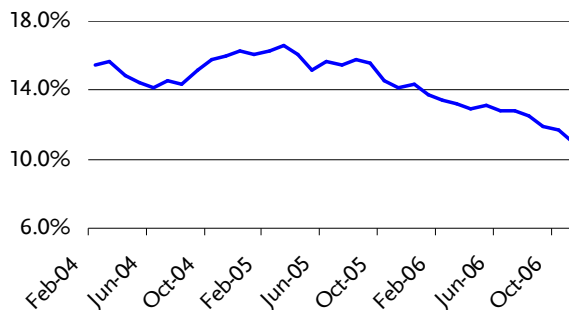


Source: comScore Networks

Competitive Position

While we believe Hotmail and Messenger will remain popular communication tools for many Internet users, we do not expect the launch of AdCenter to have a dramatic impact on the search competitive landscape. We believe advertisers will welcome an additional search platform to the market, and Microsoft may gain some share due to MSN search's integration with Vista, but it will be difficult for Microsoft to take significant share from Google and Yahoo! and change the overall competitive landscape. Microsoft is also attempting to rebrand its online image with its new Windows Live Website, which is currently in beta. As we noted earlier, we believe MSN needs a fresh new value proposition to users in order to maintain its market share. As it stands now, there is little differentiation between MSN services and those offered by other Websites, and importantly, MSN's brand recognition and brand association among Internet users is very low.

**Google Inc. (GOOG)**

Google is the world's most-used search engine, processing more than 3 billion searches for more than 100 million users a month in the United States alone, and with a search query market share of near 50% in the United States and a greater than 63% share worldwide. Google has built its clear dominance of the search industry on a combination of its superior search results and brand strength. While it is clear that these two strengths are linked, we believe over the last several years Google's brand strength has solidified its market dominance; "to Google" has become a recognized verb. We believe Google's portfolio of new products is creating a virtuous cycle, where brand affinity drives traffic to Google search. Please see Chapter 8 for a detailed Google profile.

---

**SIDEBAR**

**YOUTUBE (SUBSIDIARY OF GOOGLE INC. - GOOG)**

YouTube is the largest video sharing and viewing site on the Web. YouTube streams an average of 100 million user-uploaded video clips each day to more than 25 million monthly visitors, making it one of the top two video destinations on the Web. Although the majority of YouTube's streaming video content is user uploaded and some of it may violate copyrights of the original creators, the company has begun to pursue signing revenue share agreements with large media companies, including recently announced deals with NBC and Warner Music. Currently the site is monetized primarily by banner and sidebar image ads, but will likely see the bulk of its revenue in the future from video ads. YouTube was acquired by Google on October 9, 2006, for $1.65 billion. While YouTube will retain its distinct brand, the acquisition by Google should bring advertising expertise to YouTube, and should significantly increase the monetization of YouTube's inventory. A potential risk to YouTube is if the large media companies do not license their content and potentially form a video service of their own.

**Outlook.** We expect YouTube to continue to be a major destination for video content on the Web and to become an increasingly important site for advertisers. The increased inclusion of professionally created videos, which we believe is likely, should also increase the site's appeal for both broader audiences and advertisers.

**Fox Interactive Media
(Subsidiary Of News
Corporation - NWS)**

Business Overview

Through a series of savvy acquisitions, Fox Interactive Media has evolved from relative obscurity into one of the most popular collections of Websites in the world. Of particular note, News Corp.'s acquisition of Intermix and its MySpace subsidiary, the Web's premier social networking site, for $600 million propelled Fox Interactive to its current position as the Internet's preeminent site for young people. News Corp also acquired IGN Entertainment for $650 million, which secured its position as the leading interactive gaming destination. These acquisitions combined with News Corp's already substantial media assets (Foxnews.com, Scout.com, NYPost.com) comprise Fox Interactive Media's 74 million unique visitors, a reach of 43%, and an average usage of 200 minutes per visitor in October 2006. Exhibit 91 summarizes the key metrics for Fox Interactive's top seven properties.

Exhibit 91

**FOX INTERACTIVE TOP SEVEN PROPERTIES**

| | Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|---|
| 1 | MySpace.com (Social Networking) | 55,778 | 32.2 | 10,537 | 21.8 |
| 2 | IGN Entertainment (Gaming) | 12,424 | 7.2 | 233 | 8.9 |
| 3 | Intermix Media (Internet Marketing) | 6,891 | 4.0 | 133 | 7.9 |
| 4 | Foxnews.com (News) | 5,668 | 3.3 | 74 | 2.6 |
| 5 | Fox.com (TV Network) | 3,495 | 2.0 | 21 | 4.1 |
| 6 | Scout.com (Sports Publishing Company) | 1,915 | 1.1 | 53 | 6.8 |
| 7 | NYPost.com (News) | 1,598 | 0.9 | 18 | 3.9 |

Source: comScore Networks, October 2006 data

**MYSPACE**

MySpace is a social networking platform that allows users to meet and communicate through user-generated pages. The company's historical ties to the independent music scene provided MySpace with a kernel of content upon which the network effects of social networking could grow, bringing in more than 114 million registered member profiles in just three years from its founding in August 2003. Despite high traffic and usage, MySpace likely only generated less than $200 million in revenue in fiscal 2006 (June year end). Member-created content produces a large supply of advertising inventory, which until recently, had seen only limited monetization. Under Fox, however, MySpace has become a haven for alternative and "guerilla" marketing campaigns, particularly for the entertainment industry, which is eager to tap into the core youth demographic represented on the site. A recently announced deal with Google to provide syndicated advertisements in both MySpace's heavily used search function as well as contextual ads placed throughout the site should allow Fox to monetize more efficiently the site's enormous traffic, and carries with it a $900 million guarantee over three-and-a-half years.

News Corp executives have indicated they expect revenue for Fox Interactive to be in the range of $600 million-$700 million in 2007. We expect Fox Interactive to continue to gain market share and remain one of the top 10 destination networks on the Web. We believe News Corp. is also looking for global expansion of its internet properties and is likely to engage in potential acquisitions and/or partnerships in other countries, particularly in Asia.

**MYSPACE.COM KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| MySpace Search | 24,576 | 14.2 | 228 | 2.9 |
| MySpace Videos | 19,406 | 11.2 | 63 | 0.9 |
| MySPace Blogs | 16,088 | 9.3 | 146 | 2.6 |
| MySpace Music | 12,168 | 7.0 | 52 | 1.5 |
| MySpace Classifieds | 698 | 0.4 | 3 | 2.2 |
| MySpace Games | 439 | 0.3 | 5 | 5.6 |

Source: comScore Networks, October 2006 data

**Ask.com**

Ask.com, formerly known as AskJeeves, is an independent search engine that InterActiveCorp acquired in 2005 for $1.9 billion. Ask.com is the fourth largest search engine with approximately 6% market share in the United States. Despite its much smaller size compared to Google or Yahoo!, Ask is a significant player in search, with about $468 million in revenues in 2006, which includes both search (PPC) and display advertising revenues from its network of sites (our estimate). Over the years, Ask.com has a maintained a small but loyal following as one of the early search engines that some searchers have been using for many years. For many years, Ask heavily marketed its brand; the combination of its pseudo-natural language processing and its heavy marketing gained the company some market share in early years. After its acquisition by IACI, the new Ask.com dramatically reduced the number of paid listings on its search engine results page and moved away from its past focus on "natural language" search. Ask.com's organic search results are based on its Teoma Web-crawler (acquired in 2001), and the bulk of its sponsored links are provided through a partnership with Google. Ask.com has also developed its own advertising system, and some of the paid links are provided by the Ask.com network. The Teoma engine has received some praise in the industry for both features and relevancy. In 2004, Ask acquired Interactive Search Holdings—an owner of several destination sites including iWon, Excite, and My Way—for $343 million, which added some diversification to its revenue stream. Ask also operates a variety of popular Web destinations (such as Excite, MyWay.com, iWon.com, Bloglines, Evite, and several others) including country-specific search engines for the United Kingdom, Germany, Italy, Japan, The Netherlands, and Spain. In December 2006, Ask launched AskCity, a new local search service that integrates local information with a variety of InterActive properties such as TicketMaster, ServiceMagic, ReserveAmerica, and CitySearch, as well as other content/service providers such as Fandango, OpenTable, TripAdvisor, Yelp, and InsiderPages. AskCity is arguably one of the most advanced local search tools currently available.

Size And Outlook

We estimate Ask will generate approximately $609 million in revenue in 2007, which represents 30% y/y growth. We estimate that InterActive's Media and Advertising business segment, which comprises Ask and Citysearch, will generate $103 million in EBITDA in 2007, up from $61 million in EBITDA in 2006. We believe that under the corporate umbrella of InterActive, Ask has considerably improved the user experience of its search, which may lead to some share gains as searchers use Ask with increasing frequency. Also, Ask continues to innovate as demonstrated by AskCity and AskX. We expect Ask to continue to invest in AskCity, its local search platform, which is not only innovative, but also differentiates itself through the integration with InterActive's diverse portfolio of eCommerce and online properties.

Exhibit 92

**ASK.COM KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| Ask Search Sites | 45,696 | 26.4 | 1,108 | 11.0 |

Source: comScore Networks, October 2006 data

**SIDEBAR**

**CITYSEARCH (SUBSIDIARY OF INTERACTIVECORP - IACI)**

Citysearch is an operating company within InterActiveCorp's Media and Advertising segment, which also includes Ask.com. Citysearch provides local city guides with original content for major cities in the United States and internationally. Original content includes information about arts and entertainment events, bars and restaurants, community activities, shopping, as well as real estate-related and travel information. Citysearch generates revenue through the sale of local and national advertising, and to a lesser extent, from transaction fees from affiliates. Citysearch also generates revenue from enhanced listings in search results pages, targeted e-mail, and sponsorship packages. Local advertising is offered through a PPC model, where local businesses pay for the number of consumer connections made. Citysearch city guides also support online local transactions, including hotel reservations and matchmaking, ticketing, and travel-related services through affiliations with leading eCommerce companies. In October 2006, CitySearch had 12 million unique visitors, a reach of 7%, and average usage of three minutes per visitor. We estimate that Citysearch will generate approximately $60 million in revenue in 2006.

**Viacom Digital (Subsidiary Of Viacom - VIA)**

Viacom's many media holdings, including MTV, Nickelodeon Network, BET, Comedy Central, and Paramount, provide the backbone for an online presence that received nearly 40 million unique visitors in the United States in October 2006. Recent acquisitions include Neopets, a virtual youth community, and iFilm, a video entertainment site which showcases user and professionally generated content. Viacom Digital's presence is spread across targeted verticals, allowing for the company to be a top publisher of content across an array of targeted demographics. Although Viacom does not provide detailed financial information on its Internet properties, we can judge Viacom Digital's size from a series of metrics that suggest its more than 90 Websites worldwide have considerable scale. These sites generate revenue principally through advertising (both brand/banner and syndicated Google contextual ads), but also through eCommerce and subscriptions.

- Viacom Digital online advertising revenue grew 56% in 2005
- Viacom's Websites stream more than 200 million audio and video clips per month
- Through its MTV Networks mobile service, Viacom Digital streams more than 2 million video clips per month to mobile devices
- Neopets generates in more than 1 billion page views per week.
- Casual games on Viacom's Nickelodeon site were played more than 500 million times in the first eight months of 2006, up 71% year over year.

Exhibit 93

**VIACOM KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| MTV Networks Music | 13,262 | 7.6 | 151 | 9.4 |
| Nickelodeon Network | 12,027 | 6.9 | 578 | 53.8 |
| Neopets | 4,402 | 2.5 | 2,248 | 248.8 |
| IFILM.COM | 3,443 | 2.0 | 20 | 5.1 |
| BET.COM | 2,502 | 1.4 | 32 | 9.3 |
| Comedy Central | 2,107 | 1.2 | 19 | 7.3 |
| Paramount Online | 672 | 0.4 | 4 | 2.9 |
| THE-N.COM | 985 | 0.6 | 60 | 34.4 |

Source: comScore Networks, October 2006 data

Outlook

We expect Viacom to remain one of the top online networks and to continue expanding, particularly as rival media companies increase their online penetration.

**New York Times Co. (NYT)**

Business Overview

The New York Times

The New York Times operates a variety of online properties including NYTimes.com, IHT.com (International Herald Tribune), Boston.com (The Boston Globe), and 14 regional newspaper sites. In March 2005, the company acquired About.com for approximately $410 million. About.com operates as an online source for original consumer information and advice. The New York Times' portfolio of newspaper-related sites generates advertising revenue from the sale of display ads on a CPM or sponsorship basis. In October 2006, The New York Times had 42 million unique visitors, a reach of 25%, and an average usage of 14 minutes per visitor. About.com accounted for the vast majority of the company's Internet traffic. About.com generates revenues through display advertising relevant to the adjacent content on a page, CPC advertising, and eCommerce (including sales lead generation). About.com generated its revenues from the sale of advertisements (display and cost-per-click advertising). Cost-per-click advertising accounted for 53% of About.com's total advertising revenues.

Size

Internet advertising revenue for the New York Times increased by approximately 30% in November 2006 and was driven by strength in display and classified advertising. We note that the New York Times does not disclose the revenues for its digital division, with the exception of About.com, which was recently acquired. In the nine months ending September 30, 2006, About.com generated $57 million in revenue and $21 million in operating profit. Most recently, About.com's advertising business grew by approximately 44% in November due to increases in both cost-per-click and display advertising. Also, TimesSelect, a fee-based product on NYTimes.com, now has more than 537,000 subscribers, 37% of which are only online. TimesSelect has generated $8.9 million in revenues in 2006.

Competitive Positioning

As offline newspaper circulation continues to decline, the strategic importance of The New York Time's online properties will increase, and the company will focus on increasing traffic to its portfolio of newspaper-related sites and About.com. We expect the New York Times to leverage its powerful brand to monetize traffic to its sites. We also expect the New York Times to continue to make Internet-related acquisitions to take advantage of the online advertising opportunity.

Exhibit 94

**NEW YORK TIMES KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| NY Times | 42,664 | 24.6 | 560 | 13.8 |
| ABOUT.COM | 37,077 | 21.3 | 268 | 4.1 |
| The New York Times Brand | 9,548 | 5.5 | 153 | 25.1 |
| NYTIMES.COM | 9,256 | 5.3 | 150 | 25.7 |
| About Health and Fitness | 5,532 | 3.2 | 26 | 3.1 |
| About Food | 6,384 | 3.7 | 32 | 3.7 |
| About Entertainment | 4,285 | 2.5 | 16 | 1.7 |
| About Travel | 3,057 | 1.8 | 10 | 1.7 |
| Boston.com Sites | 3,251 | 1.9 | 95 | 51.7 |
| BOSTON.COM | 3,251 | 1.9 | 95 | 51.7 |
| About Education | 4,992 | 2.9 | 26 | 2.8 |
| About Home & Garden | 2,739 | 1.6 | 12 | 2.6 |
| About Parenting and Family | 2,795 | 1.6 | 17 | 3.0 |
| About Cities & Towns | 2,313 | 1.3 | 6 | 1.3 |
| About Style | 2,563 | 1.5 | 13 | 2.5 |
| About Computing and Technology | 2,299 | 1.3 | 8 | 1.3 |
| About Hobbies and Games | 2,423 | 1.4 | 13 | 2.5 |
| About Sports and Recreation | 1,484 | 0.9 | 7 | 2.2 |
| About Business & Finance | 2,134 | 1.2 | 9 | 3.4 |
| About Electronics and Gadgets | 2,453 | 1.4 | 12 | 2.5 |
| About News & Issues | 1,624 | 0.9 | 6 | 1.9 |
| About Careers | 771 | 0.4 | 5 | 3.7 |

Source: comScore Networks, October 2006 data

**The Weather Channel**



The Weather Channel operates Weather.com, the most popular weather site on the Internet. In October 2006, Weather.com had a reach of approximately 19% and average usage of approximately ten minutes per visitor per month. Weather.com also enjoys periodic traffic spikes during weather-related events like hurricanes, blizzards, and floods. The Weather Channel is owned by Landmark Communications, Inc., a Norfolk, Virginia-based, privately held media company, which also owns the cable channel, The Weather Channel.

Exhibit 95

**THE WEATHER CHANNEL KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| The Weather Channel | 32,215 | 18.5 | 592 | 10.4 |
| Weatherbug | 15,155 | 8.7 | 602 | 64.0 |
| Yahoo! Weather | 10,100 | 5.8 | 68 | 4.4 |
| AOL Weather | 4,075 | 2.3 | 28 | 6.7 |
| MSN Weather | 4,664 | 2.7 | 77 | 6.7 |

Source: comScore Networks, October 2006 data

Outlook

We believe Weather.com has the potential to remain one of the top properties and could expand its advertising operations, especially if it can add adjacent content and messages that are useful for the consumers. Expansion of service offerings through desktop tools, wireless interface, and other areas could also help The Weather Channel to expand its usage levels.

**CNET Networks (CNET)**

Business Overview



CNET operates a variety of vertically focused sites in the areas of technology, games and entertainment, business, and community. Its top online properties include CNET, WebShots.com, ZDNet, TechRepublic, mySimon, News.com, Download.com, Gamespot.com, and MP3.com. CNET's technology-focused properties (Cnet.com, ZDnet.com, and Techrepublic.com) provide advice on technology and consumer electronic products, reports on technology news, product reviews, and price comparisons. Download.com enables consumers to download software, music, and games. Gamespot.com is an online source for gaming information, reviews, guides, previews, and community. Mysimon.com is a shopping comparison site. In October 2006, CNET had 32 million unique visitors, a reach of 18% and an average usage of 20 minutes per visitor.

Size

For 2007 we estimate CNET will generate revenues of $433 million and $92 million in EBITDA, representing revenue and EBITDA growth of 12% and 14%.

Competitive Positioning And Outlook

We remain concerned with slowing growth at CNET's core property and potential erosion in its user base. While we believe CNET is correctly diversifying the business away from the core CNET.com site, this migration will likely take some time as the core CNET.com site likely still accounts for two-thirds or more of its media revenues.

Exhibit 96

**CNET KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| CNET | 31,636 | 18.2 | 707 | 20.3 |
| CNET Networks Entertainment | 15,300 | 8.8 | 363 | 29.0 |
| DOWNLOAD.COM | 9,234 | 5.3 | 85 | 8.0 |
| WEBSHOTS.COM | 6,152 | 3.5 | 181 | 12.0 |
| GameSpot | 8,654 | 5.0 | 291 | 46.7 |
| TV.COM | 6,187 | 3.6 | 63 | 5.6 |
| CNET.COM | 828 | 0.5 | 2 | 1.7 |
| GAMEFAQS.COM | 3,181 | 1.8 | 150 | 62.9 |
| CNET News.com | 1,510 | 0.9 | 5 | 1.8 |
| ZDNet | 1,494 | 0.9 | 6 | 2.8 |
| MP3.COM | 1,597 | 0.9 | 8 | 2.6 |
| MYSIMON.COM | 1,176 | 0.7 | 5 | 2.6 |
| CNET HomePage | 1,042 | 0.6 | 4 | 1.6 |

Source: comScore Networks, October 2006 data

**Disney Online (DIS)**

Business Overview

Disney Online manages the online presence of Disney's vast media properties, including ESPN and ABC. We believe online traffic measurement companies usually do not track all of Disney's properties as a single entity, so it is difficult to judge how many total unique visitors all of its sites generate. Given that the Disney branded Websites are targeted at young children and pre-teens, while ESPN is targeted at adult males, it is reasonable to assume most of the unique visitors to each would not be duplicated. Disney properties received visits from approximately 25 million unique visitors and generated more than 1 billion page views in October 2006.

Exhibit 97

**DISNEY KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| DISNEY.COM | 13,947 | 8.0 | 209 | 12.8 |
| ESPN | 18,576 | 10.7 | 940 | 37.6 |
| Disney ABC CNG - Kids TV | 15,352 | 8.8 | 661 | 58.1 |
| ABCNEWS DIGITAL | 8,573 | 4.9 | 129 | 16.9 |
| ABC.COM | 12,172 | 7.0 | 244 | 11.1 |
| Walt Disney Parks & Resorts Online | 3,811 | 2.2 | 76 | 12.6 |
| DISNEYSHOPPING.COM | 2,740 | 1.6 | 39 | 11.9 |
| Toontown | 1,953 | 1.1 | 66 | 15.4 |
| Buena Vista Online Entertainment | 1,345 | 0.8 | 7 | 3.0 |

Source: comScore Networks, October 2006 data

**CBS Digital Media Group (Subsidiary Of CBS Corporation - CBS)**



Through its CBS Digital Media Group, CBS Corporation operates a number of Internet properties, including CBS.com, CBSNews.com, CBSSportsline.com, and CWTV.com. The sites leverage the content of CBS and CW to create new advertising-supported online revenue streams. In October 2006, CBS's properties collectively had approximately 25 million unique visitors, a reach of 15%, and average usage of 32 average minutes per visitor. CBS's Internet properties derive revenue from a combination of advertising, sponsorship, and subscription services. In January 2006, CBS acquired CSTV Networks, a cable network and online business devoted to college athletics. Also, in January 2006, CBS announced a partnership with Google, whereby CBS began offering classic and prime time television shows for purchase on Google Video. CBS.com also offers Survivor online for a fee, and streamed the 2006 NCAA Division I Men's Basketball Championship. CBS Radio is also extending its station brands online through streaming, podcasting, and developing radio station Websites.

Exhibit 98

**CBS KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| CBS | 25,193 | 14.5 | 951 | 32.1 |
| CBS NEWS Digital | 7,738 | 4.5 | 61 | 9.2 |
| CBS Television | 4,480 | 2.6 | 60 | 12.4 |
| CBS.COM | 4,480 | 2.6 | 60 | 12.4 |
| CBS SportsLine | 7,049 | 4.1 | 614 | 81.2 |
| CSTV: College Sports TV | 7,373 | 4.2 | 151 | 10.6 |
| COLLEGESPORTS.COM | 6,932 | 4.0 | 135 | 9.9 |
| SPORTSLINE.COM | 6,095 | 3.5 | 599 | 91.5 |
| CBSNEWS.COM | 4,152 | 2.4 | 28 | 8.3 |
| CBS Local Stations Group | 4,171 | 2.4 | 33 | 8.9 |
| CBS Radio | 2,870 | 1.7 | 40 | 6.2 |
| PGA Tour | 533 | 0.3 | 10 | 22.9 |
| PGATOUR.COM | 524 | 0.3 | 10 | 23.2 |

Source: comScore Networks, October 2006 data

**Lycos (Subsidiary Of Daum Communications Corp.)**



Founded in 1995, Lycos was one of the original leading portals with an emphasis on community and search. Lycos acquired a number of properties throughout the late nineties, formed its own network and remained popular until the dot com bubble burst in 2000. In 2000, the Spanish portal Terra acquired Lycos for $1.2 billion. However, since 2000, the network has experienced a significant and continued decline in popularity and is now barely a top 20 destination. In October of 2004, Daum Communications Corp, a leading Korean portal, acquired Lycos from Terra for $95 million. Today, Lycos operates search, community, and technology lifestyle sites, including Lycos.com, Hotbot.com, Wired.com, Tripod.com (Website hosting and small business tools), and Angelfire.com (site building, blogs, photo albums, etc. for teens). Other Lycos products and sites include Lycos Mail, Lycos Games, Lycos Planet, Lycos Phone, and GetRelevant. In October 2006, Lycos had approximately 23 million unique visitors, a reach of 13%, and usage of six average minutes per visitor. Lycos.com is a wholly owned subsidiary of Daum Communications, a leading Internet portal and eCommerce destination in Korea with a growing presence throughout the Asian markets.

Exhibit 99

**LYCOS KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| Lycos.com | 6,578 | 3.8 | 101 | 8.1 |
| Lycos Tripod | 13,092 | 7.5 | 72 | 2.9 |
| Angelfire.com | 6,979 | 4.0 | 30 | 2.4 |
| Lycos Search | 4,540 | 2.6 | 17 | 1.4 |
| Lycos Mail | 260 | 0.2 | 38 | 45.4 |
| Whowhere.com | 295 | 0.2 | 0 | 0.7 |
| Hotbot.com | 150 | 0.1 | 2 | 3.9 |

Source: comScore Networks, October 2006 data

**Facebook**

Facebook is one of the largest and fastest growing social networking sites on the Web. Contrasting itself with MySpace, Friendster, and other social networking sites, Facebook describes itself as a "social utility," and its simple and clean look and strict user control supports this description. Unlike MySpace, where anyone can join and communicate with any other user in the system, Facebook allows each user to control access to his or her social network and requires authentication to join particular networks (e.g., schools or workplaces). This level of strict control and user verification has limited Facebook's growth compared to MySpace, but also provides Facebook with a perception of exclusivity that enhances the site's "stickiness" with users. In October 2006, Facebook had 17 million unique visitors, a reach of 10%, and average usage of 172 minutes per visitor. To date, however, Facebook has not heavily monetized its site, opting to only display one sidebar image advertisement per page, and no contextual cost-per-click advertisements. Facebook recently signed a deal for Microsoft to provide text-based contextual and syndicated search advertisements on Facebook.

Exhibit 100

**FACEBOOK KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| Facebook | 16,695 | 9.6 | 9,039 | 171.7 |

Source: comScore Networks, October 2006 data

Exhibit 101

## FACEBOOK HISTORICAL UNIQUE VISITORS
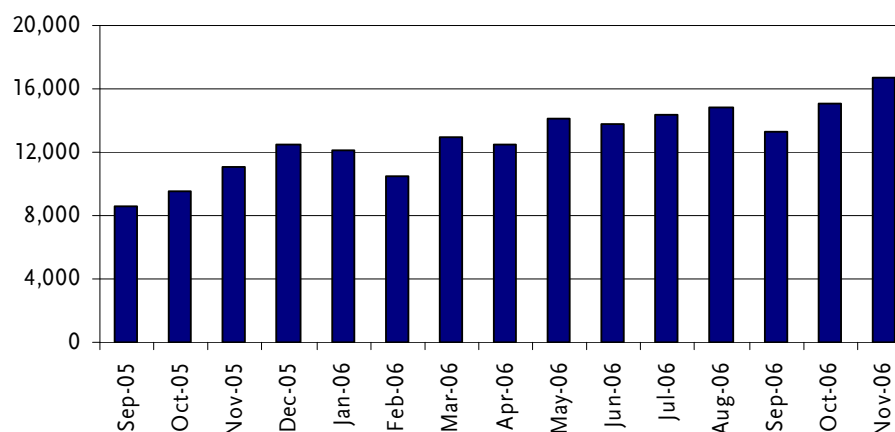


Source: comScore Networks, October 2006 data

**Gannett (GCI)**

Gannett operates more than 130 Websites in the United States, including USATODAY.com, one of the top newspaper sites on the Internet. In October 2006, Gannett had 20 million unique visitors, a reach of 12%, and average usage of 22 minutes per visitor. USA Today accounted for approximately 40% of Gannett's overall traffic, while Gannett's network of sites for local newspapers and television stations accounted for the remaining traffic. Gannett also owns a 42.5%, 42.5%, and 31.9% stake in CareerBuilder, ShopLocal, and Topix.net, respectively. A recent transaction with McClatchy valued CareerBuilder, ShopLocal, and Topix.net at $1.55 billion, $85 million, and $72 million, respectively.

Exhibit 102

## GANNETT KEY TRAFFIC METRIC

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| CareerBuilder.com | 14,846 | 8.5 | 340 | 16.4 |
| ShopLocal | 14,224 | 8.2 | 182 | 3.6 |
| USA Today | 9,500 | 5.5 | 113 | 11.9 |
| AOL Find a Job (CareerBuilder) | 740 | 0.4 | 7 | 8.5 |
| MSN Careers (CareerBuilder) | 750 | 0.4 | 5 | 4.8 |
| Topix.net | 4,283 | 2.5 | 18 | 6.0 |

Source: comScore Networks, October 2006 data

**iVillage (Subsidiary
Of NBC
Universal/General
Electric - GE)**

iVillage operates online properties that target women, teenage girls, and parents. iVillage offers unique content, community applications, tools, and interactive features. Its online properties include iVillage.com, HealthCentersOnline.com, GardenWeb.com, gURL.com, Promotions.com, Astrology.com, Seventeen.com, Redbook.com, MarieClaire.com, GoodHousekeeping.com, and Cosmopolitan.com. In October 2006, iVillage properties collectively had approximately 14 million unique visitors, a reach of 8%, and average usage of eight minutes per visitor. iVillage has content licensing agreements with MSN, Yahoo! Astrology, and XM Satellite Radio. In 2005, iVillage generated $91 million in revenue and $9 million in operating income. Almost 20% of iVillage's revenue is derived from Hearst, for which it manages sites for several Hearst magazines. In March 2006, NBC Universal acquired iVillage for $600 million.

Exhibit 103

**IVILLAGE KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| iVillage | 14,389 | 8.3 | 210 | 8.2 |
| iVillage.COM | 5,473 | 3.2 | 67 | 7.3 |
| iVillage Astrology | 2,210 | 1.3 | 43 | 9.9 |
| ASTROLOGY.COM | 2,210 | 1.3 | 43 | 9.9 |
| iVillage Health Network | 2,614 | 1.5 | 24 | 5.6 |
| Healthology | 718 | 0.4 | 4 | 2.7 |
| iVillage Pregnancy & Parenting | 884 | 0.5 | 7 | 4.2 |
| HEALTHOLOGY.COM | 547 | 0.3 | 3 | 2.3 |
| iVillage Health & Well-Being (Diet-Fitness) | 1,037 | 0.6 | 7 | 3.2 |
| iVillage GardenWeb | 956 | 0.6 | 3 | 4.0 |
| GARDENWEB.COM | 946 | 0.5 | 3 | 4.1 |
| HealthCentersOnline | 839 | 0.5 | 5 | 1.5 |
| CARE2.COM | 853 | 0.5 | 13 | 9.0 |
| iVillage Beauty & Style | 801 | 0.5 | 8 | 4.0 |
| SEVENTEEN.COM | 673 | 0.4 | 22 | 17.3 |
| PROMOTIONS.COM | 1,174 | 0.7 | 7 | 4.2 |
| Good Housekeeping Magazine | 608 | 0.4 | 3 | 3.1 |
| iVillage UK | 300 | 0.2 | 1 | 1.0 |
| iVillage.CO.UK | 300 | 0.2 | 1 | 1.0 |
| Cosmopolitan Magazine | 423 | 0.2 | 5 | 7.1 |
| HeartCenterOnline | 443 | 0.3 | 2 | 1.4 |

Source: comScore Networks, October 2006 data

**ESPN**

Launched in 1995, ESPN operates a portfolio of Internet sites including ESPN.com, the leading sports site on the Internet. The site includes sports news, statistics and analysis, audio and video programming, and fantasy sports. In 2005, ESPN.com launched ESPN Motion, a rich media video platform that streams video highlights and original programming. We expect ESPN.com to continue to enhance its rich media offering by expanding video content throughout its network. ESPN also operates ESPNradio.com, Soccernet.com, Eteamz.com, and Active.com among others. ESPN.com is a subsidiary of Disney.

Exhibit 104

**ESPN KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| ESPN Brands | 20,349 | 9.6 | 915 | 40.9 |
| The Active Network | 2,988 | 1.7 | 70 | 11.3 |

Source: comScore Networks, October 2006 data

## E.W. Scripps

SCRIPPS

E.W. Scripps is a diversified media company with interests in cable television, newspaper publishing, broadcast television, interactive media, and cartoon syndication. Its online properties include sites for The Food Network, HGTV, DIY Network, and Fine Living, as well as daily newspapers in 19 markets and 10 broadcast TV stations. E.W. Scripps' Interactive Media business segment includes Shopzilla, a comparison shopping engine, and uSwitch, a site that enables British consumers to compare and switch rates on gas, electric, home phone, broadband, credit card, and digital television services. E.W. Scripps acquired Shopzilla in 2005 for $525 million. E.W. Scripps also owns United Media, a worldwide licensing and syndication company that syndicates "Peanuts," "Dilbert," and approximately 150 other comics. United Media also operates Comics.com, Dilbert.com, and Snoopy.com

Size And Outlook

In the first nine months of 2006, E.W. Scripps' Interactive Media segment generated approximately $185 million in revenue (mostly from Shopzilla and uSwitch), and $39 million in operating profit.

Exhibit 105

**E.W. SCRIPPS KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| E.W. Scripps | 15,504 | 8.9 | 354 | 33.2 |
| FOODNETWORK.COM | 8,763 | 5.1 | 211 | 44.6 |
| HGTV.COM | 4,204 | 2.4 | 56 | 11.1 |
| DIYNETWORK.COM | 2,168 | 1.3 | 28 | 18.4 |
| Shopzilla | 22,087 | 12.7 | 148 | 2.6 |

Source: comScore Networks, October 2006 data

## Cox Enterprises

COX
ENTERPRISES, INC.

Cox Enterprises is a leading media company and provider of automotive services with 2005 total revenue of approximately $12 billion. Cox's online presence is mostly through its broadband ISP Website (cox.net), its more than 40 small newspapers, and its car Website, AutoTrader. As such, we believe Cox's presence in the broader ad market is limited. Major operating subsidiaries include Cox Communications, Inc. (cable television distribution, telephone, high-speed Internet access, and other advanced broadband services), Cox Newspapers, Inc. (newspapers, local and national direct mail advertising, and customized newsletters), Cox Television (television and television sales rep firms), Cox Radio, Manheim Auctions, Inc. (vehicle auctions, repair and certification services, and Web-based technology products) and Cox AutoTrader

(automotive publications and a majority stake in AutoTrader.com). In October 2006, Cox Enterprises had 14 million unique visitors, a reach of 8%, and average usage of 35 minutes per visitor. AutoTrader.com, Cox.net/Cox.com (broadband access portal), The Atlanta Journal Constitution, and Valpak.com accounted for the majority of Cox's Internet traffic.

Exhibit 106

**COX ENTERPRISES KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| AutoTrader.com | 4,950 | 2.9 | 239 | 29.6 |
| Cox.net | 3,591 | 2.1 | 383 | 68.4 |
| Cox Newspapers | 3,151 | 1.8 | 83 | 16.1 |
| The Atlanta Journal Constitution | 1,351 | 0.8 | 33 | 16.0 |
| Cox.com | 1,515 | 0.9 | 27 | 14.3 |
| Valpak | 549 | 0.3 | 5 | 4.2 |

Source: comScore Networks, October 2006 data

**WebMD Health Corp.
(WBMD)**

WebMD is a leading provider of online health information services to consumers, physicians, healthcare professionals, employers, and health plans through public and private online portals and health-focused publications. The WebMD Health Network consists of WebMD.com, Medscape.com, Medicinet.com, RXList.com, eMedicine.com, as well as third-party sites such as AOL's Health and Diet channel. WebMD.com offers consumers access to health and wellness news articles and decision support services to help them make informed healthcare-related decisions. The company generates revenue through the sale of advertising and sponsorships on its portfolio of companies. WebMD also provides private healthcare portals to a number of Fortune 500 companies. In addition to its online business, WebMD publishes offline publications such as The Little Blue Book, a physician directory, several reference books, and a consumer magazine. In October 2006, WebMD had 15 million unique visitors, a reach of 9%, and average usage of 10 minutes per visitor. The Thomson consensus estimate for WebMD 2006 revenue is approximately $250 million.

Exhibit 107

**WEBMD KEY TRAFFIC METRICS**

| Property | Unique Visitors | Reach (%) | Page Views | Average Minutes Per Visitor |
|---|---|---|---|---|
| The WebMD Health Network | 18,771 | 10.8 | 204 | 9.5 |
| WebMD Health | 15,051 | 8.7 | 179 | 10.8 |
| WEBMD.COM | 9,545 | 5.5 | 123 | 10.5 |
| MedicineNet | 3,384 | 1.9 | 22 | 10.6 |
| MEDICINENET.COM | 2,945 | 1.7 | 20 | 11.3 |
| EMedicine | 2,184 | 1.3 | 10 | 4.0 |
| EMEDICINE.COM | 1,406 | 0.8 | 4 | 3.7 |
| RXLIST.COM | 1,548 | 0.9 | 8 | 3.8 |
| EMEDICINEHEALTH.COM | 984 | 0.6 | 6 | 3.6 |
| Medscape | 1,317 | 0.8 | 7 | 4.1 |
| MEDSCAPE.COM | 1,317 | 0.8 | 7 | 4.1 |
| MEDTERMS.COM | 899 | 0.5 | 3 | 3.1 |

Source: comScore Networks, October 2006 data

**[This page is left intentionally blank.]**

# CHAPTER 7

# *The Advertisers*

- We estimate there are now close to 30,000 non-search advertisers online.

- About 45% of the advertisers are online merchants or properties, while 23% are traditional, offline merchants. The remaining 32% of advertisers are hybrid companies.

- Telecom, retail, and financial are the largest sectors of online advertisers, while the pet food/pet care sector has the biggest allocation of dollars on the Web (21%).

- Among large vertical industries, we believe automotive, medicine, and personal care sectors are significantly underpenetrated.

- We expect biggest growth to come from automotive, CPG, Pharmaceutical, and Healthcare sectors.

*The most difficult area for advertisers today is keeping up with the rapidly changing online usage patterns and formats*

The advertisers clearly play a major role in the direction of online advertising. While traditional advertisers were very hesitant to adopt online advertising in the beginning, with the increasing online penetration and increased Internet media consumption, most advertisers now view the Internet as a mass medium which cannot be ignored. We believe the most difficult area for advertisers on the Internet is keeping up with the rapid change in ad formats and consumer usage patterns. The consumer now has the power, and an advertiser cannot simply use banner ads or push-based advertising to influence behavior. In today's Internet, the advertiser must actively engage the user in order to create a brand impression. This engagement could include watching an online video, playing an interactive game, or publishing content. Additionally, with the increasing fragmentation of the Internet, advertisers must figure out how to reach the long tail of the Internet. Advertisers must also adapt to changing online ad formats in order to be successful. We believe Internet video ads could become a game changer for large brand advertisers, who are accustomed to the 15- or 30-second TV commercial. Today, we are very early in the adoption of video ads, which could drive the next big wave of advertiser dollars migrating online.

**Who is Advertising Online?**

In 2005, consumer, computing, and financial services represented the top three industry sectors in terms of the absolute dollar value of their online advertising spending. The consumer segment continues to experience the largest dollar increases as traditional Fortune 1,000 advertisers migrate online. As such, the consumer industry category accounted for 51% of advertising dollars in 2005 versus just 31% in 2000, as shown in Exhibit 108. Within the consumer category, retail, automotive, and leisure represent the largest sub-categories, as seen in Exhibit 109.

Exhibit 108

**VERTICAL MIX OF TOP ONLINE ADVERTISING CATEGORIES**
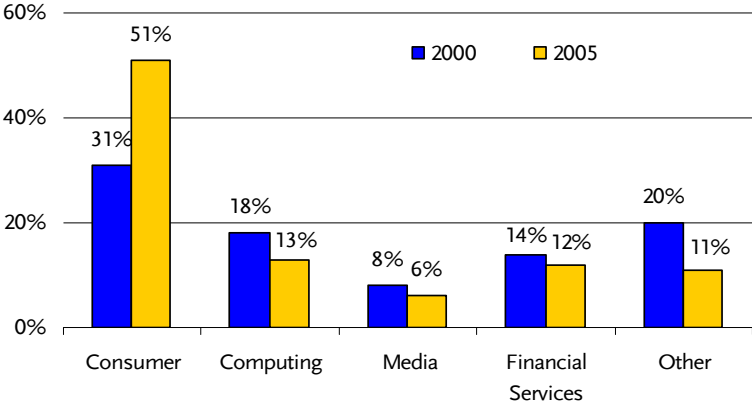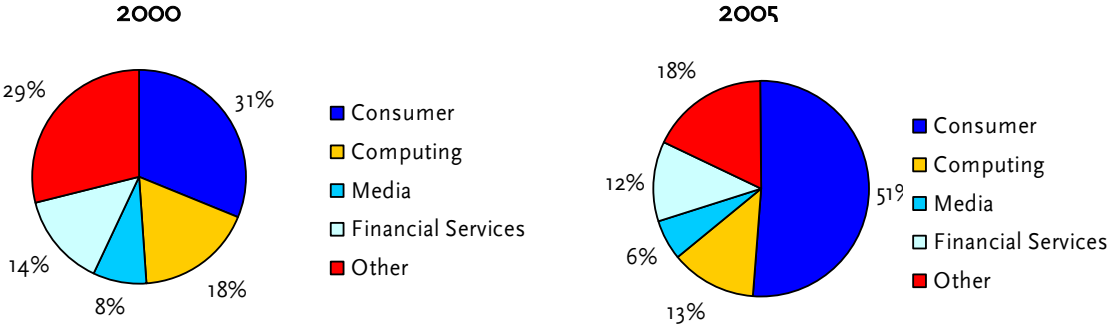


Source: Interactive Advertising Bureau

Exhibit 109

**SPENDING MIX WITHIN CONSUMER CATEGORY**
(2005)
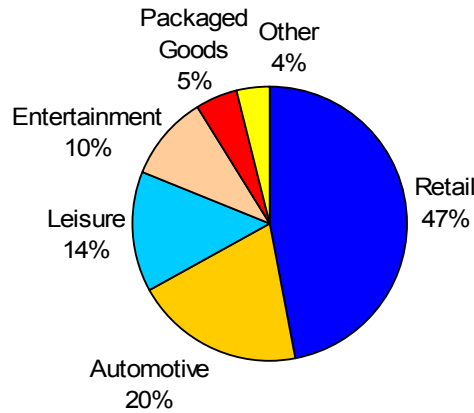


Source: Interactive Advertising Bureau

*Telecom, retail, and financial sectors are the biggest online advertisers.*

In Exhibit 110, we highlight the segments in which online advertising represents a significant portion of total advertising spending. We note that several industry segments have low levels of online spending as their businesses may not be as conducive to online marketing. In fact, there are several industry segments, primarily associated with the consumer packaged goods, which have extremely low levels of online spending. That said, we do believe the consumer packaged goods segment represents a potentially very large opportunity, especially if these players adopt the new video ad format. Exhibit 112 illustrates how financial services, retail, and new media segments dominate ad impressions, and confirms our belief that other verticals are somewhat underpenetrated. Exhibit 111 also details online advertising spending relative to advertising spending on traditional media by industry segment. The exhibit highlights the continued dominance of traditional media ad spending relative to online for most sectors.

Exhibit 110

## 2005 ONLINE ADVERTISERS BY CATEGORY

| Rank | Category | $ Mil. | Internet as a % of Segment Total | Rank | Category | $ Mil. | Internet as a % of Segment Total |
|---|---|---|---|---|---|---|---|
| 1 | Telecom, Internet, ISP | 1,525 | 15% | 16 | Pet Food and Pet Care | 120 | 21% |
| 2 | Retail | 1,035 | 6% | 17 | Movies, Video & Music | 116 | 2% |
| 3 | Financial | 1,032 | 12% | 18 | Food, Beverage & Candy | 109 | 1% |
| 4 | General Services | 715 | 9% | 19 | Personal Care | 79 | 1% |
| 5 | Media | 543 | 11% | 20 | Furniture, Appliances & Electronics | 79 | 4% |
| 6 | Airlines, Hotels and Car Rental | 513 | 9% | 21 | Real Estate | 70 | 3% |
| 7 | Automotive | 422 | 2% | 22 | Restaurants | 45 | 1% |
| 8 | Medicine | 390 | 5% | 23 | Beer & Wine | 43 | 2% |
| 9 | Computers & Software | 358 | 16% | 24 | Apparel | 27 | 1% |
| 10 | Education | 254 | 14% | 25 | Hardware & Home Building | 15 | 1% |
| 11 | Miscellaneous | 174 | 4% | 26 | Home Supplies & Cleaners | 14 | 1% |
| 12 | Government, Politics and Religion | 172 | 4% | 27 | Sporting Goods | 10 | 2% |
| 13 | Insurance | 162 | 6% | 28 | Gas & Oil | 8 | 1% |
| 14 | Direct Response | 154 | 3% | 29 | Shipping & Freight | 7 | 2% |
| 15 | Toys & Games | 123 | 10% | 30 | Cigarettes & Tobacco | 6 | 4% |
| | | | | | **Total** | **8,318** | |

Source: Advertising Age - 100 Leading National Advertisers Supplement

Exhibit 111

## 2005 DOMESTIC ADVERTISING SPENDING BY CATEGORY

| CATEGORY | Total ($ Mil.) | % Change | Magazine | Newspaper | Outdoor | TV | Cable | Radio | Internet | Internet as % of Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Automotive | 20,959 | -3.4% | 2,444 | 6,294 | 351 | 8,409 | 1,461 | 1,578 | 422 | 2% |
| Retail | 18,630 | -70.0% | 1,811 | 6,958 | 359 | 5,290 | 994 | 2,184 | 1,035 | 6% |
| Telecom, Internet, ISP | 9,896 | 4.0% | 855 | 2,159 | 219 | 3,360 | 980 | 798 | 1,525 | 15% |
| Financial | 8,477 | 8.2% | 1,295 | 1,832 | 246 | 2,337 | 948 | 787 | 1,032 | 12% |
| Medicine | 8,442 | 1.8% | 2,301 | 221 | 18 | 3,732 | 1,388 | 291 | 390 | 5% |
| General Services | 7,867 | 7.9% | 975 | 2,136 | 498 | 2,012 | 335 | 1,197 | 715 | 9% |
| Food, Beverage & Candy | 7,313 | 3.9% | 1,950 | 61 | 80 | 3,348 | 1,415 | 351 | 109 | 1% |
| Personal Care | 5,648 | 1.8% | 2,251 | 25 | 25 | 2,328 | 883 | 58 | 79 | 1% |
| Movies, Video & Music | 5,582 | 1.8% | 423 | 1,140 | 105 | 2,602 | 934 | 263 | 116 | 2% |
| Airlines, Hotels and Car Rental | 5,546 | 2.8% | 1,460 | 1,574 | 294 | 808 | 510 | 387 | 513 | 9% |
| Restaurants | 5,062 | 5.6% | 179 | 179 | 226 | 3,216 | 704 | 513 | 45 | 1% |
| Media | 4,912 | 12.6% | 1,739 | 1,253 | 124 | 273 | 58 | 780 | 543 | 11% |
| Government, Politics and Religion | 4,602 | -9.0% | 371 | 447 | 97 | 2,746 | 390 | 353 | 172 | 4% |
| Insurance | 2,894 | 16.2% | 280 | 289 | 34 | 1,235 | 501 | 331 | 162 | 6% |
| Apparel | 2,727 | 5.1% | 2,089 | 46 | 197 | 291 | 221 | 19 | 27 | 1% |
| Real Estate | 2,721 | 27.6% | 274 | 1,763 | 28 | 229 | 68 | 121 | 70 | 3% |
| Computers & Software | 2,303 | -8.3% | 1,239 | 211 | 186 | 197 | 195 | 76 | 358 | 16% |
| Beer & Wine | 2,208 | 80.0% | 513 | 73 | 7 | 763 | 392 | 238 | 43 | 2% |
| Furniture, Appliances & Electronics | 2,055 | -1.3% | 1,081 | 91 | 4 | 452 | 291 | 55 | 79 | 4% |
| Home Supplies & Cleaners | 1,861 | -6.1% | 344 | 7 | 62 | 999 | 488 | 37 | 14 | 1% |
| Education | 1,791 | 8.6% | 422 | 303 | 3 | 478 | 115 | 157 | 254 | 14% |
| Toys & Games | 1,297 | 15.7% | 245 | 5 | 7 | 310 | 602 | 9 | 123 | 10% |
| Hardware & Home Building | 1,039 | 2.6% | 556 | 82 | 0 | 177 | 165 | 37 | 15 | 1% |
| Pet Food and Pet Care | 576 | 26.8% | 144 | 3 | 44 | 215 | 86 | 8 | 120 | 21% |
| Gas & Oil | 545 | 28.2% | 95 | 70 | 4 | 132 | 87 | 109 | 8 | 1% |
| Sporting Goods | 533 | 7.4% | 377 | 18 | 1 | 77 | 40 | 8 | 10 | 2% |
| Office Equipment | 369 | 8.7% | 180 | 25 | 5 | 103 | 44 | 11 | 5 | 1% |
| Shipping & Freight | 359 | -7.2% | 77 | 16 | 1 | 164 | 42 | 49 | 7 | 2% |
| Cigarettes & Tobacco | 155 | -51.8% | 145 | 1 | 1 | 1 | 0 | 1 | 6 | 4% |
| Direct Response | 6,101 | 15.1% | 2,399 | 506 | 1 | 1,132 | 1,845 | 64 | 154 | 3% |
| Miscellaneous | 4,373 | 7.5% | 1,933 | 1,217 | 34 | 532 | 302 | 180 | 174 | 4% |
| Total | 146,844 | 3.0% | 30,447 | 29,003 | 3,529 | 48,043 | 16,453 | 11,046 | 8,323 | 6% |

Source: Advertising Age - 100 Leading National Advertisers Supplement

Exhibit 112

**ADVERTISING BREAKDOWN BY AD UNIT TYPES**
(By Impressions, November 2006)

| Industry | Sponsored Link (M) | Display (M)* | Total (M) |
|---|---|---|---|
| Automotive | 306 | 7,618 | 7,924 |
| Business to Business | 2,215 | 4,584 | 6,799 |
| Consumer Goods | 1,927 | 11,647 | 13,573 |
| Entertainment | 472 | 10,338 | 10,810 |
| Financial Services | 4,130 | 65,325 | 69,455 |
| Hardware and Electronics | 409 | 6,027 | 6,435 |
| Health | 1,113 | 4,555 | 5,668 |
| Public Services | 1,354 | 21,959 | 23,313 |
| Retail Goods and Services | 12,128 | 40,831 | 52,959 |
| Software | 824 | 3,514 | 4,338 |
| Telecommunications | 642 | 25,048 | 25,690 |
| Travel | 2,321 | 7,112 | 9,432 |
| Web Media | 13,045 | 51,075 | 64,120 |
| Total | 40,884 | 259,633 | 300,517 |

Source: Nielsen/NetRatings, 2006 and Piper Jaffray & Co.
* Display consists of flash, rich media, standard image, and standard image/text link ads.

Online Merchants
Still A Large Part Of
The Advertisers

Our analysis of the top 50 online advertisers by media value in April 2006 indicates that approximately 45% of the top 50 online advertisers are pure-play Internet companies while 23% are offline companies. The remaining 30% of the top 50 online advertisers are hybrid companies with both online and offline presences. We note that we do not believe that the list of top 50 advertisers is an accurate reflection of the dollars spent online, but more an indicator of total ad impressions.

Exhibit 113

**TOP 50 ADVERTISERS BY MEDIA VALUE**
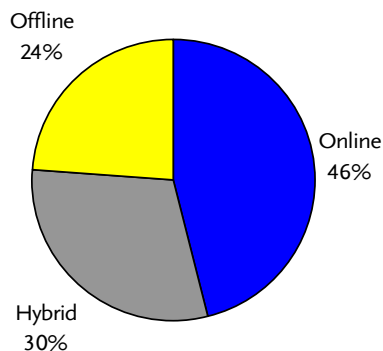


Source: TNS Media Intelligence and Piper Jaffray & Co.

**[This page is left intentionally blank.]**

# CHAPTER 8

# *The Golden Search*

- Five key trends in search today:
  1. Search is the new portal
  2. Search is becoming a branding tool
  3. Google's dominance is increasing
  4. Local search remains a looming opportunity
  5. New search technologies are likely to expand the field by broadening search applications

- Search is the second most commonly used application on the Web, with nearly 600 million searches daily, and search marketing globally is a $15.8 billion industry growing to $44.5 billion in the next five years.

- There are three types of search: navigational, informational, and commercial. Each represents about one-third of total search queries.

- We estimate U.S. and International search query volume CAGR of 12% and 23% (2006-2011); 77% of Internet users search at least once per day.

- Google controls approximately 60% of the worldwide search query volume and percentage of the total search marketing spend.

- Certain key international markets, including Japan, China, South Korea, and Russia, have developed around local players, who are unlikely to lose share to Google or other global players.

# PART I:
# THE FIVE KEY TRENDS IN SEARCH TODAY

**Trend One: Search, The New Portal**

*The tendency to search has continued to increase as search has provided answers to users' questions, queries, problems, and shopping needs, turning search into the New Portal.*

Over the past five years, search has gradually changed from a tool for finding Websites to what we consider to be the new navigational platform, or the modern portal. The tendency to search has continued to increase as search has provided answers to users' questions, queries, problems, and shopping needs. As such, many users are increasingly turning to search first when trying to accomplish a task online. Our 2006 Online Media Survey indicated that 41% of respondents use search to navigate to a Website. Interestingly, this represents a larger percentage than other navigational vehicles, such as bookmarks or typing a URL into a browser.

Exhibit 114

**SEARCH AS A NAVIGATION PLATFORM**

How do you most often navigate to a Website?
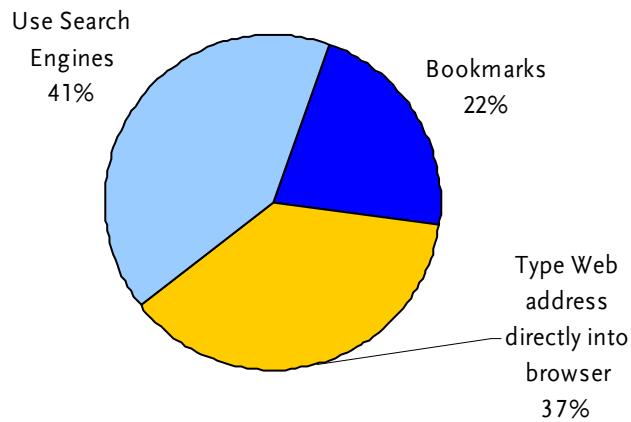


Source: Piper Jaffray & Co. 2006 Online Media Survey

We believe a key driver for this trend is the increasing efficiency of search, a trend that we called Googlism in our Golden Search Report in 2003 (see Sidebar on page 157). Googlism created both efficiency *and* trust, offering users a path of least friction for navigating online.

We consider all searches to fall into three broad categories:

1. Searching for navigation: Finding a Website
2. Searching for information
3. Searching for products and services

**SIDEBAR**

**GOOGLISM: THE RISE OF RELEVANCE**

Google has brought relevancy to the forefront of search and made the search experience easy, efficient, and fast. While portals and other search technologies all but abandoned the investment in, and development of, new search technologies, Google provided rebirth of search relevancy, at a time when other portals and search engines became more focused on other technological and commerce advancements. In fact, search was nearly declared dead only a few years ago, as the belief was that users are fairly knowledgeable as to which Websites have the information they need and are bound to go to the portal's various channels or specific Websites to get information. This was partly driven by massive advertising dollars that small Websites were spending to draw the consumers. Even search sites such as AltaVista, Ask Jeeves, and LookSmart were focusing more on the auxiliary services and monetization of the traffic by various partnerships and other offers, rather than core search technologies. As it turned out, consumer behavior didn't change with the proliferation of specialty Websites, and in fact, got more focused on a quick and relevant response to an inquiry: Users expect the Internet to be the provider of answers to simple queries, and they do not want to navigate through directory trees or channels or remember which Websites cover a given topic. This trend was nearly single-handedly embraced and answered by Google, which put a sharp focus on quick, relevant results. Typically, top relevancy search technologies would spider the Internet, indexing the results and running an algorithm for relevancy. Google added a twist: link analysis and its PageRank methodology. PageRank was the gating factor for relevancy. The basic premise was that Websites that are popular would link to other sites with similar content. The origin of this technology was innovative but not unique. Similar technologies were developed at various research centers but Google was the first to improve it and continuously add new relevancy features to keep results fresh. As a result of its success, Google was able to unseat the once behemoth Inktomi as the search provider for Yahoo!. This was a wake-up call to others, and now a number of search technology companies are racing to catch up with Google's relevancy.

While many companies have refocused spending on improving search relevancy, we believe Google is taking search to another level, attempting to gradually change user behavior to use search as the main interface to the Internet and the way to navigate through the Internet. Even without this goal, Googlism has clearly taken center stage and consumers will be the big beneficiaries of this new trend, as faster and more relevant searches make the Internet more useful. By Googlism, we are now referring not just to the company Google, but also to the trend we described here, which is increasingly encompassing a number of companies in the search space. We believe that the full success of Googlism will be the ultimate promise of the Internet: to put everything at one's fingertips.

Source: Golden Search, Piper Jaffray & Co., March 2003

**We estimate that each category is approximately one-third of the total search volume.** It is important to note that when you combine all three of these categories, search encompasses nearly everything that users want to do online. As such, we believe search and search engines have become the new portals. Searching for information, for example, is an extremely broad category, and it includes search as diverse as finding weather info to learning about celebrities, or getting an update on a disease.

Increasingly, it also includes checking flight information or sports scores, or finding what time it is in Beijing.

**Trend Two: Search Is Expanding Beyond Direct Marketing Use**

In the aftermath of the Internet bubble, when the brand advertising market seemed to be on its last legs, search rose to prominence, infusing the Internet ecosystem with new life and delivering measurable ROI to advertisers. The cost-per-click or CPC value proposition is simple: Advertisers pick a keyword and bid on how much the keyword is worth. When a user searches for a particular term or phrase, the list of advertisers appear according to the order of bidding and/or the relevancy of the results. In time, an advertiser will be able to track the level of sales made on a keyword by keyword basis. If the returns are profitable, the advertiser could increase its bid price and increase the likelihood its keyword term receives a click. In practice, the higher the rate of conversion (assuming a positive ROI), the more valuable that keyword term is to the advertiser.

While initially companies used search as a vehicle to sell products and services online, search has expanded to become a vehicle for brand awareness, lead generation, and traffic acquisition. Of these other marketing objectives, we believe using search to enhance brand awareness is potentially the most significant future contributor to the overall growth of the search market, and we expect brand marketers to increasingly use search for branding products and services. A recent survey by the Search Engine Marketing Professional Organization (SEMPO) confirms our expectation that brand marketers are increasingly using search to enhance brand awareness. According to the survey, 77% of companies with more than 500 employees are using search to increase and enhance brand awareness.

Exhibit 115

**WHY DO ORGANIZATIONS USE SEARCH MARKETING**

What is your company using search marketing to accomplish?
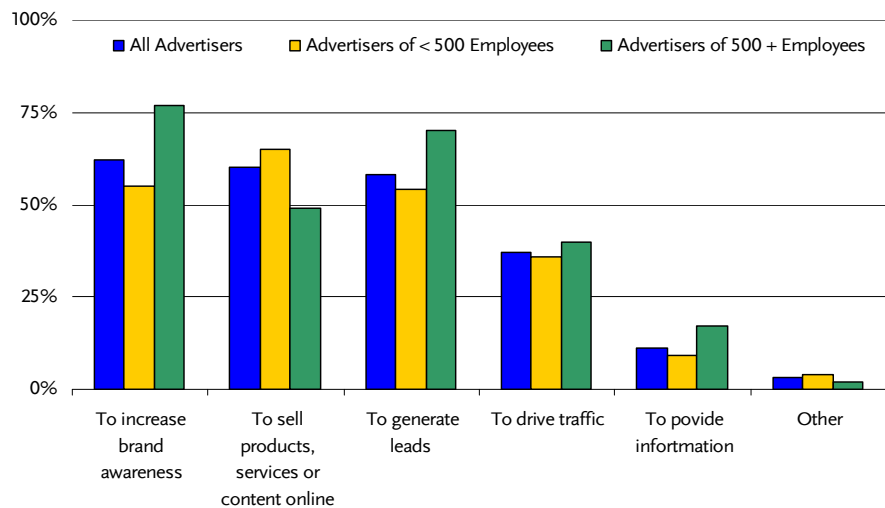


Source: Search Engine Marketing Association (SEMPO)

We believe the online search industry represents a major growth market, which we expect will reach approximately $44.5 billion in worldwide revenues by 2011, growing at a compounded annual rate of 23% from 2006 to 2011. The key driver of growth is the increased popularity of search as the most efficient way to find products and information, the rise of search as the best way for advertisers to find and acquire customers and the adoption of search advertising by brand advertisers.

**Trend Three: Google's Dominance And Market Share Gain Is Continuing**

Three years ago when we published our Golden Search report, we estimated Google's market share of U.S. queries to be 34%. Today, we estimate that Google's market share in 2006 is around 50% in the United States and 60% globally. We believe this trend will continue, although not at the same rate. There are four reasons we believe Google will continue to gain more market share:

1. Word of mouth and the popularity of "Googling" is creating more momentum for the site, causing people to increase their frequency of search on Google compared to other search engines they use.
2. Google's relevancy and ease of use continues to be the best in the industry. This is an important advantage that creates a virtuous cycle for Google. As the company is getting more searches and more revenues, it invests significantly more in its technology and search infrastructure. In our opinion, an even more important factor, however, in this virtuous cycle is Google's singular focus on user experience that is unmatched by any of its competitors. The combination of laser focus on user experience and significantly more resources creates an almost unfair competitive advantage that will be very difficult for others to overcome.
3. Once the habits of users become established, they are typically unwilling to change unless they are offered a major increase in value proposition. While in the past nearly all people considered that they have a number of choices for searching, increasingly users will equate searching with Google and will have little reason to change that behavior. This is likely to convert more searchers to use Google as their primary search engine.
4. Google's portfolio of products has created a virtuous cycle of brand affinity that has made Google synonymous with ease of use and efficiency, and has contributed to brand loyalty and increased search frequency (see Exhibit 116 and Exhibit and 127). Of the 61 products listed in this exhibit, we have highlighted 16, which we believe have either reached critical mass or are key initiatives for Google.

Exhibit 116

## GOOGLE PRODUCTS AND SERVICES

Highlighted Products Are Key Initiatives or Have Reached Critical Mass

| | | |
|---:|:---:|:---|
| Accessible Search | ⟶ | Search for the visually impaired |
| Alerts | ⟶ | Receive news and search results via email |
| Analytics | ⟶ | Track how visitors found and interact with your site |
| Apps for My Domain | ⟶ | Private labeled Gmail, Talk, Calendar, Creator and docs |
| Base | ⟶ | Post items individually or in bulk to be included in index |
| Blog Search | ⟶ | Search blogs |
| **Blogger** | ⟶ | **Blogging tools** |
| Books | ⟶ | Search books from a number of libraries |
| **Calendar** | ⟶ | **Organize schedule and share** |
| Catalogs | ⟶ | Search and browse mail-order catalogs |
| **Checkout** | ⟶ | **Online payment system for retailers and users** |
| Code | ⟶ | Download APIs and open source code |
| Code Search | ⟶ | Search public source code |
| Co-op | ⟶ | Contribute expertise to improve search |
| **Desktop Search** | ⟶ | **Search your own computer** |
| Directory | ⟶ | Browse the web by topic |
| **Docs and Spreadsheets** | ⟶ | **Online spreadsheet and word processor** |
| **Earth** | ⟶ | **Explore the world from your PC** |
| Enterprise | ⟶ | Google search for a large corporate network |
| **Finance** | ⟶ | **Find financial data and information** |
| Froogle | ⟶ | Comparison shopping |
| Froogle mobile | ⟶ | Search for products on your mobile phone |
| Glossary | ⟶ | Find definitions for words and phrases |
| **Gmail** | ⟶ | **Email** |
| Google Mini | ⟶ | Google search on a small corporate network |
| Government Search | ⟶ | Search U.S. government sites |
| Groups | ⟶ | Create mailing lists and discussion groups |
| **Homepage** | ⟶ | **Create a customized Google homepage** |
| Images | ⟶ | Search for images on the web |
| Labs | ⟶ | Try out new Google products |
| **Local** | ⟶ | **Find local businesses and services** |
| **Maps** | ⟶ | **View maps and directions** |
| **Maps for Mobile** | ⟶ | **View maps and directions from your phone** |
| Microsoft Search | ⟶ | Search Microsoft sites |
| **Mobile Search** | ⟶ | **Use Google on your phone** |
| News | ⟶ | Search thousands of news stories |
| News Archive | ⟶ | Search archived news stories |
| Notebook | ⟶ | Clip and collect information as you browse |
| Pack | ⟶ | A free collection of essential software |
| Page Creator | ⟶ | Easily create web pages |
| Patent search | ⟶ | Search seven million patents from the USPTO |
| Personalized Search | ⟶ | Get search results most relevant to you |
| **Picasa** | ⟶ | **Find, edit and share your photos** |
| Public Service Search | ⟶ | Search non-profit sites |
| Reader | ⟶ | Track favorite sites |
| Ride Finder | ⟶ | Find a taxi, limousine or shuttle in real time |
| Scholar | ⟶ | Search scholarly papers |
| Sets | ⟶ | Automatically create sets of items |
| SketchUp | ⟶ | Create 3D models for Google Earth |
| SMS | ⟶ | Use text messaging for quick info |
| Special Searches | ⟶ | Search within specific topics |
| Suggest | ⟶ | As you type, Google suggests in real time |
| Talk | ⟶ | Instant messaging and VoIP |
| **Toolbar** | ⟶ | **Add a search box to your browser** |
| Transit | ⟶ | Plan trips using public transit |
| Translate | ⟶ | View web pages in other languages |
| University Search | ⟶ | Search a specific school's website |
| **Video** | ⟶ | **Search for video content** |
| Web Accelerator | ⟶ | Speed up the Internet |
| Web Search | ⟶ | Search the Internet and Google ecosystem |
| Wi-Fi | ⟶ | Free Wi-Fi in Mountain View and San Francisco |

Source: Piper Jaffray & Co. and Google Websites

This is not to suggest that Google will be the only search engine or that it will have near 100% market share. In fact, we believe Google's market share could be topped at the 60%-70% range. Despite the factors we cited above, consumers always are eclectic in their personal choices, and there are limits to the power of any brand: As dominance grows, consumer backlash becomes almost inevitable and limits additional market share gains. Also, companies like Baidu.com, Inc. and Yandex have proven that Google's dominance is not unassailable, particularly in markets where other factors such as language, culture, and government intervention can favor a strong local search engine. We believe that given the inherent diversity that U.S. consumers generally seek, Google's market share is unlikely to exceed 70%, even in the best case scenario, and could stabilize well below that percentage.

**Trend Four: Local Search**

Based on our discussion with various industry sources, we believe local search already comprises between 10%-30% of the queries. Our 2006 Online Media Survey indicated that local search was the second most popular online service.

Exhibit 117

**LOCAL SEARCH IS SECOND MOST POPULAR SERVICE**

How often do you use the following online services?
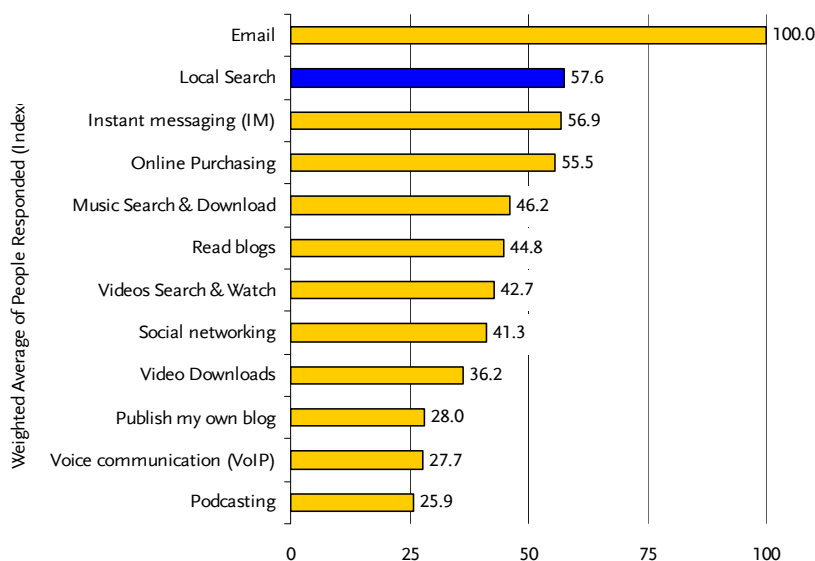


Source: Piper Jaffray & Co. 2006 Online Media Survey

*We consider a search to be local when the user's intent is to find a business listing or other information that is directly tied to a given geographic boundary.*

We consider a search to be local when the user's intent is to find a business listing or other information that is directly tied to a given geographic boundary. In most cases, users will include a city name or zip code or other geographical designation. We believe the vast majority of local searches are done in this manner, rather than using the local search sites, including the "local" or "map" tabs on the major search engines. Going forward, we expect this trend to gradually change with more traffic going to the "local" sites, but we note that the ease of searching for a local business in the main search engine will continue to attract most of the local search traffic. Local search, we believe, can ultimately comprise as much as 50% of total searches, as search becomes a

*Local search, we believe, can ultimately comprise as much as 50% of total searches*

tool for conducting everyday activities, beyond information and commerce applications. We also believe that local search is likely to move a significant part of eCommerce to the local merchants, as users will likely prefer to buy locally if they can quickly identify the best merchant in their locality.

As shown in Exhibit 118, we currently expect the total local advertising market to be approximately $4.5 billion, which represents 12% of the total local advertising market (classified and yellow pages only). We believe this is a market that can largely migrate online and would expect that we could see only having 70% or more market share over the next 10 years. These assumptions would suggest a potential local ad market of approximately $25 billion, just in the United States, and possibly twice that worldwide.

Exhibit 118

**TREMENDOUS OPPORTUNITY IN MIGRATION OF LOCAL AD DOLLARS**

| Offline Yellow Pages and Classifieds Market | $37 Billion | |
|---|---|---|
| | Millions of $ | % of Offline |
| Local Search | $989 | N/A |
| Online Yellow Pages | $800 | 5% |
| Classifieds | $2,800 | 16% |
| Current Total Online Local Ad Market | $4,589 | 12% |
| Potential Online Local Ad Market - 70% of Total | $25,900 | |

Source: Piper Jaffray and Co.

*The local search paradigm will eventually be entirely map-based, with a completely different user-interface, compared to today's Web-search page*

**The Local Search Interface.** The advances in mapping technologies, pushed forward by Google maps and satellite imagery, are now becoming an integral part of local search. We believe the final local search paradigm is likely to be quite different from the Web search interface, in that the users are likely to start with a map, rather than the blank page and a search bar. This type of interface could allow additional advertising opportunities, which (if done appropriately) could be welcomed by the users. The key here will be keeping the interface easy and simple to use. It is important to note that local search will also be tightly integrated with mobile applications. We believe the key players in local search are likely to be the existing dominant search engines: Google, Yahoo!, Ask.com, MSN, and AOL. While we believe there is potential for other local-specific search sites, we don't expect such specialty sites to garner a large market share.

The key trends to watch in local search are the following:

*With full local search, users should be able to find bakeries in their neighborhood if they type in "brownies"*

a.  **Completeness Of Data.** Basic Yellow Page listings are readily available to all players and comprise at least 90% of the listings offered by most local search engines. Yellow pages listings, however, are infrequently updated and lack key attributes such as hours of operations, products, keyword-based classifications, customer ratings, and other attributes. A key competitive differentiator for local search sites is the depth of the additional attributes that can be assigned to local business, allowing searchers, for example, to find the bakeries in their town if they type in "brownies," or nurseries and garden centers, if they type in "cherry tree." There is no easy or quick way of adding this information to business listings, and

most companies will need to have a combination of editors, user inputs, and self-service interfaces for businesses to update their listings. With more than 24 million businesses in the United States, this will be a difficult task for any company.

b. **Understanding And Matching Queries.** While consumers use the Yellow Pages in its limited way by referring to fixed categories, they use Web search in quite a different way, with a much more liberated keyword base. Keywords allow users infinite freedom—a freedom that is very difficult to manage when the index is not cataloged based on keywords but rather is based on business categories. As a result, successful local search engines will need to have an additional layer of "translators" that will map keywords to categories, at least until most businesses are indexed based on relevant keywords.

*We believe call-based interaction and tracking could ultimately account for 30%-50% of total local search listings.*

c. **Merchant Reviews.** Merchant ratings, either by users or by experts, are likely to play an important role in the success of local search business. We believe the ratings will, in fact, become a catalyst for many businesses to provide more information to the search providers and online sources, much as hotels have become actively involved in monitoring and correcting their reviews on sites such as TripAdvisor (industry reports suggest some hotels have gone beyond this and attempted to manipulate those reviews – an inherent flaw, in our view, for the user-based reviews). We believe rating-based listings will offer a significant advantage to the users over basic online yellow pages and are likely to be a key catalyst for pervasive user adoption of local search. We do not believe any local review site has yet cracked the code on this, and we expect the winning mode will be a combination of expert reviews, user reviews, and family/friend-based review sharing (similar to "tagging" on the Web search).

d. **Interface.** The last important factor for local search is the interface, which could allow users to make a phone call or request a call back directly (Google and a number of other search engines are now offering this - See Exhibit 119). The pay-per-call feature also offers a more familiar way for some local businesses to pay for search listings. We believe call-based interaction and tracking could ultimately account for 30%-50% of total local search listings.

Exhibit 119

## GOOGLE LOCAL SEARCH PAY-PER-CALL
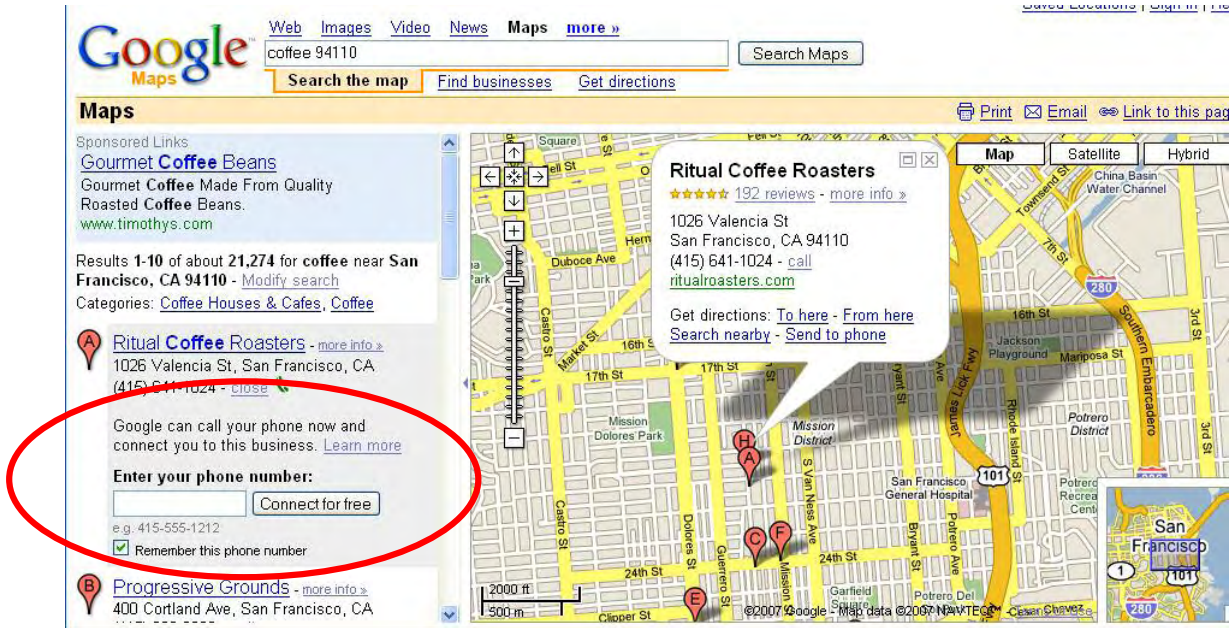


Source: Google Local. Reproduced with permission of Google Inc.

Exhibit 120

## ASKCITY LOCAL SEARCH
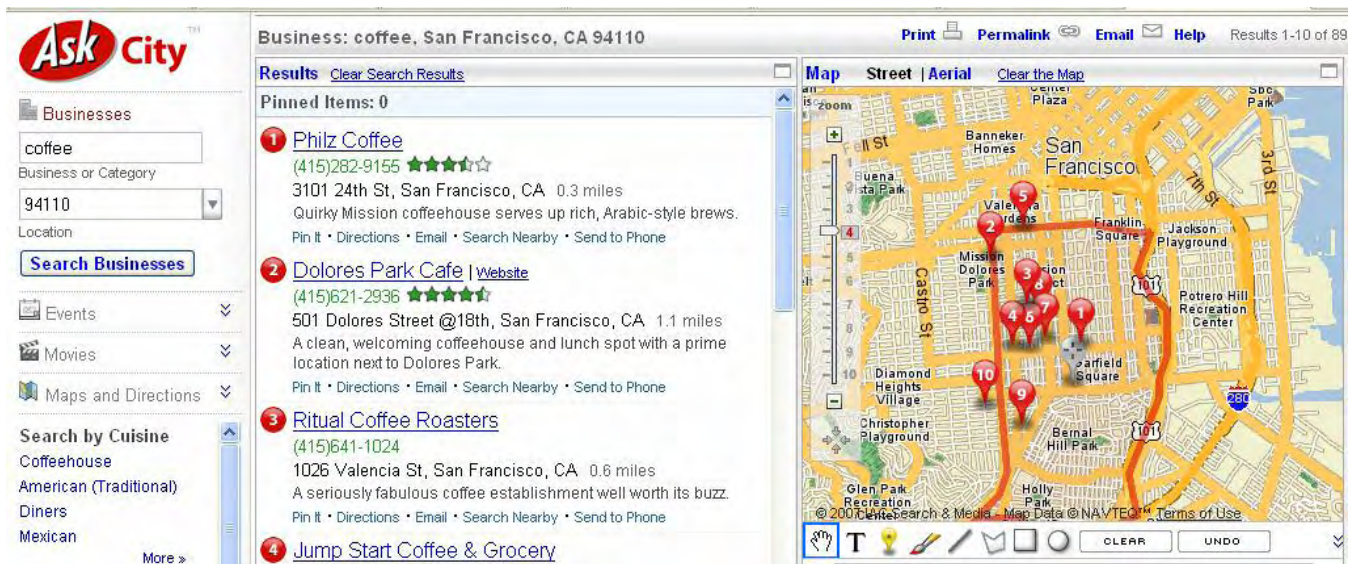


Source: AskCity.com. Reproduced with permission of IAC/InteractiveCorp.

**Trend Five: New
Search Technologies**

*The new meaning-based
search and matching
technologies will form the
new foundation of search
over the next decade.*

The final key trend in search is the evolving new technologies, most importantly in search methodology, and to a lesser extent, in the interface. There is a growing list of new search technology companies that are largely based on the concept of semantic search, or understanding the user intent, and understanding the meaning of information that is available on various Web pages. This is in contrast to somewhat blind, though highly sophisticated and complicated, matching of keywords, which does not require any "knowledge" on the part of the search engine. Nor does the search engine, for the most part, learn from any searches (there are, of course, exceptions, but those are largely based on the quantity of searches rather than their information content). We believe these new technologies will eventually form the foundation of search over the next two decades. In the near term, we do not expect major changes in the search landscape, as the scale of technological advances required to make a semantic search system work for general search is monumental. However, we do expect more vertically-focused applications of these technologies to emerge, for example in medical or legal fields, to become popular quickly.

---

**SIDEBAR**

**FIVE TRENDS IN SEARCH TODAY**

1. Search the New Portal

2. Search marketing is expanding to brand advertising

3. Google continues to gain share

4. Local search is growing and can be 50% of all searches

5. New, meaning-based search technologies are evolving and will become the foundation of new search in the next decade

PART II:
THE SEARCHERS

Search engine usage is an integral part of most people's Internet experience, with the top five search engines (Google, Yahoo!, MSN, AOL, and Ask) used by more than 80% of all Internet users, or nearly 130 million searchers. Demographically, search users are diverse and closely match the online population, but skew slightly wealthier and toward the middle of the age spectrum. Below we profile the demographics of the leading search engines. As one would expect, Google—the largest search engine—most closely matches the online population as a whole, while AOL skews toward older users.

Exhibit 121

**SEARCH DEMOGRAPHICS – A UBIQUITOUS MEDIUM**

|  | Google Search | Yahoo! Search | MSN Search | Ask.com Search | AOL Search | Online Population |
|---|---|---|---|---|---|---|
| Unique Users (in millions) | 93.0 | 55.1 | 40.2 | 38.8 | 25.3 | 157.1 |
| Audience Reach | 59% | 35% | 25% | 24% | 16% | 100% |
| Males | 50% | 49% | 48% | 47% | 43% | 48% |
| Females | 50% | 51% | 52% | 53% | 57% | 52% |
| **Age demographics:** | | | | | | |
| Under 18 | 18% | 13% | 12% | 17% | 14% | 20% |
| Adults (18+) | 82% | 87% | 88% | 83% | 86% | 80% |
| Users between 18 and 21 | 4% | 3% | 3% | 3% | 3% | 4% |
| Users between 21 and 34 | 17% | 18% | 14% | 15% | 12% | 17% |
| Users between 35 and 49 | 33% | 34% | 35% | 33% | 31% | 28% |
| Users between 50 and 64 | 22% | 25% | 28% | 25% | 28% | 23% |
| Users 65 and over | 6% | 7% | 8% | 7% | 13% | 9% |
| **Household income:** | | | | | | |
| Less than $25,000 | 5% | 6% | 5% | 8% | 6% | 6% |
| $ 25,000 - 49,999 | 19% | 22% | 21% | 24% | 22% | 23% |
| $ 50,000 - 74,999 | 27% | 28% | 27% | 26% | 26% | 27% |
| $ 75,000 - 99,999 | 21% | 19% | 20% | 19% | 19% | 19% |
| $ 100,000 - 149,999 | 17% | 16% | 16% | 14% | 17% | 16% |
| $ 150,000+ | 9% | 8% | 9% | 7% | 10% | 8% |
| No Response | 2% | 1% | 2% | 2% | 1% | 3% |

Source: Nielsen/NetRatings data, October 2006

According to Nielsen/NetRatings, U.S. Internet users performed more than 6 billion searches in October 2006, up nearly 19% year over year. The bulk of this search query growth is from a growing number of searches per user, currently a little more than 47

searches per user per month, up 12% from a year ago. Search users in the United States increased more than 6% in the last year.

Our own survey of online usage reflects an even greater prevalence of search among Internet usage, suggesting that 77% of Internet users search at least once a day and 38% search more than four times each day.

Exhibit 122

## 2006 ONLINE MEDIA SURVEY: SEARCHES PER DAY

How many Internet searches do you do each day?
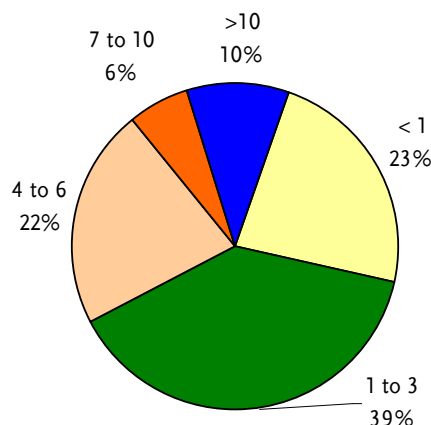


Source: Piper Jaffray & Co. 2006 Online Media Survey

*Nearly half of the 6 billion monthly searches in the United States are potentially monetizable.*

Search engines are quickly becoming the access point to information, with users often going so far as to type full URLs directly into search windows in order to navigate to sites. In the United States, we believe as many as 35% of all searches are commercially motivated and another 10% at least are tangentially related to commercial goods and services, **suggesting that approximately 45% of the estimated 6 billion monthly searches are potentially monetizable.**

Not only are users increasing their use of search, but as relevancy has increased and comfort with searching has grown, users are also increasing the complexity of their searches. According to OneStat.com, a Web analytics provider, use of three words in a search query has increased from 15% to 17%, while the number of searches conducted with a single keyword has declined from nearly 17% of all searches in 2004 to 11% in 2006 over the same period. The average English language search now contains approximately 2.3 words, up from 2.2 two years ago (see exhibit 123). We expect this trend to continue as familiarity with search engines increases and searching becomes a more integral part of the daily experience.

Exhibit 123

**KEYWORDS PER SEARCH TERM ON THE RISE**

Distribution Of Searches By Words Per Query
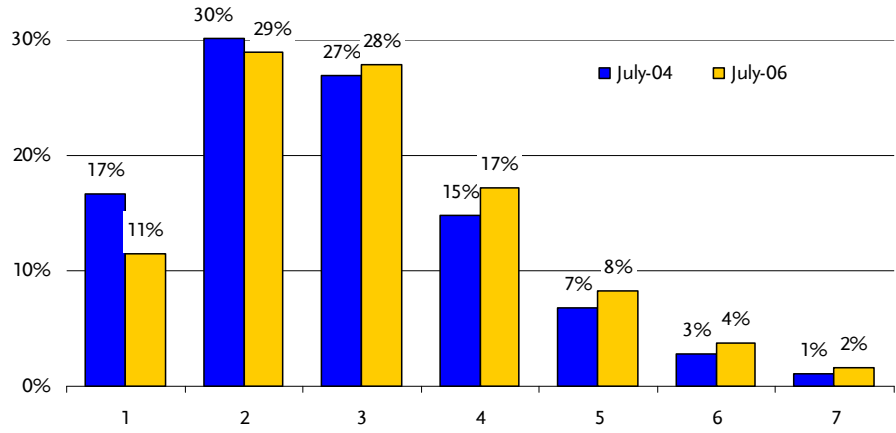


Source: OneStat.com

This highly diverse use of search is a result of the trend we identified as Googlism in our 2003 report, The Golden Search.

## PART III:
## THE SEARCH ENGINES AND OTHER SEARCH PLAYERS

*The virtuous cycle of relevancy, breadth, and, most importantly, the Google brand has driven Google's dominance.*

Worldwide Google dominates the search market in both query volume and search. However, no data provider gives what we believe to be fully consistent and accurate data on search market share, especially in international markets, but through a triangulation of a number of sources, we believe Google powers 50% of the United States, and 60% of global searches, showing particular strength in Europe. The virtuous cycle of relevancy, breadth, and—most importantly—the Google brand, has driven Google's dominance. We expect Google to continue to make incremental share gains before possibly topping off at around 70% of the total search volume. Google's market-leading monetization algorithms and its far larger universe of advertising customers enables the company to parlay this estimated 60% global market share into a 75% share of total gross 2006 search ad spend.

Yahoo!, as the second largest search provider, commands a market share of U.S. searches of between 24% (according to Nielsen/NetRatings) and 28% (comScore), at least double the share of the next largest search engine MSN. Yahoo!'s market share in terms of both query volume and search revenue has declined over the last year as Google's brand draws away users, and better monetization creates a growing percentage of total search ad spending. Yahoo! hopes to reignite user interest in its search service through social search (for example, Yahoo! Answers and del.icio.us), and also aims to close the monetization gap with its upcoming Panama search ad ranking engine.

Outside of the top two players, the global search market drops off quickly. MSN, AOL (powered by Google), and Ask.com round out the remainder of the top five players in the United States, but all have struggled to differentiate themselves (with Ask.com showing some success), and attract searchers in a nearly duopolistic market. Outside of the United States, however, several country-specific search engines have emerged and successfully challenged Google. Baidu in China and Yandex in Russia both have a commanding market share lead over Google and seem to be developing brands in their home countries that appear as unassailable in their home market as Google's brand is in the United States.

Exhibit 124

**U.S. SEARCH MARKET SHARE**

U.S. Search Market Share
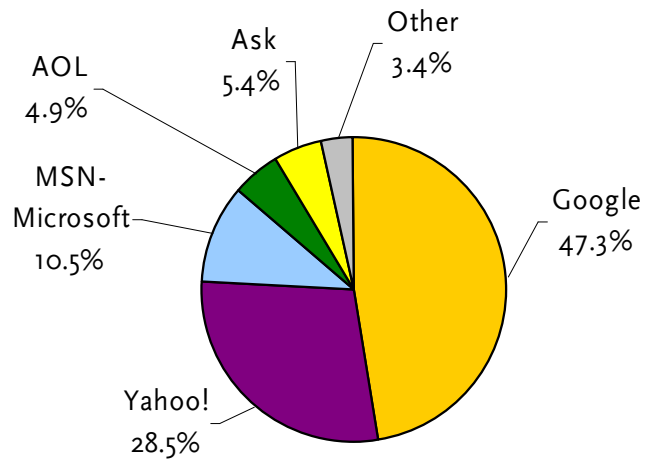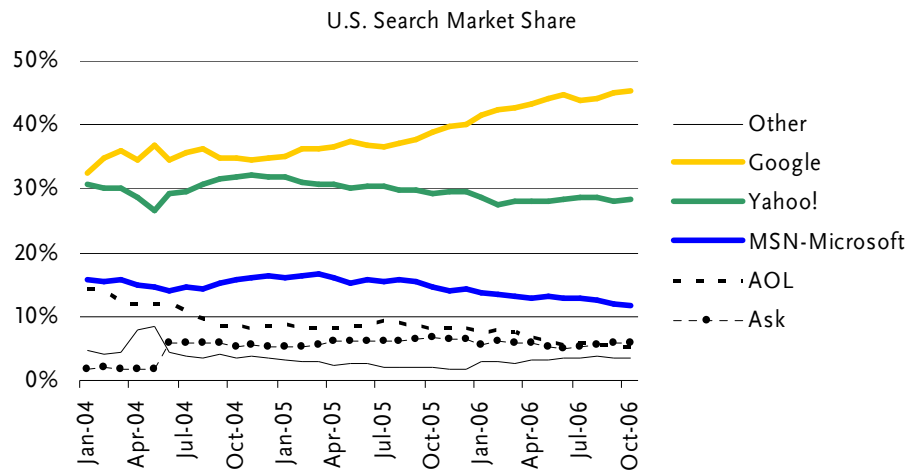


Source: comScore Networks, December 2006 QSearch Data

Exhibit 125

**SEARCH ENGINE USAGE**

| | Aggregate Data (in thousands) | | | | Per Searcher | | |
|---|---|---|---|---|---|---|---|
| | Unique Searchers | Searches | Page Results | Search Sessions | Searches | Page Results | Search Sessions |
| Google Search | 93,862 | 3,022,326 | 5,882,252 | 1,085,074 | 32.2 | 62.7 | 11.6 |
| Y/Y Growth | 19% | 23% | 17% | 28% | 4% | -1% | 7% |
| Yahoo! Search | 59,091 | 1,456,269 | 2,609,571 | 587,738 | 24.6 | 44.2 | 9.9 |
| Y/Y Growth | 9% | 30% | 23% | 28% | 19% | 13% | 17% |
| MSN/Windows Live Search | 35,170 | 538,594 | 931,347 | 242,850 | 15.3 | 26.5 | 6.9 |
| Y/Y Growth | -11% | -8% | -8% | -8% | 3% | 3% | 3% |
| AOL Search | 23,912 | 375,045 | 573,607 | 192,739 | 15.7 | 24.0 | 8.1 |
| Y/Y Growth | 0% | 2% | 17% | 5% | 1% | 16% | 5% |
| Ask.com Search | 19,491 | 168,076 | 344,949 | 54,671 | 8.6 | 17.7 | 2.8 |
| Y/Y Growth | 22% | 25% | 24% | 20% | 3% | 2% | 0% |
| **Total Search Market** | **128,385** | **6,087,700** | **11,333,101** | **2,189,560** | **47.4** | **88.3** | **17.1** |
| Y/Y Growth | 6% | 19% | 16% | 20% | 12% | 9% | 13% |

Source: Nielsen/NetRatings data, October 2006

Although the absolute values of worldwide market share data are questionable, we believe comScore is directionally correct when it shows Google commanding a larger percentage of the worldwide market than the U.S. search market.

Exhibit 126

**WORLDWIDE SEARCH MARKET SHARE**
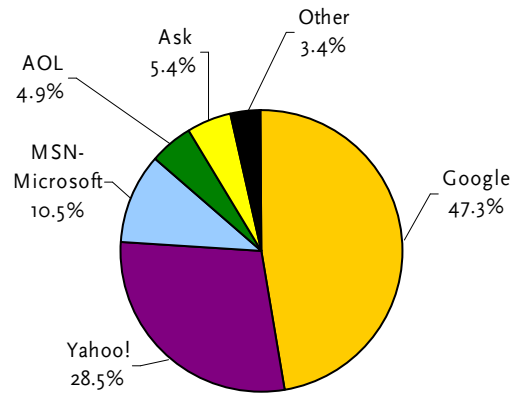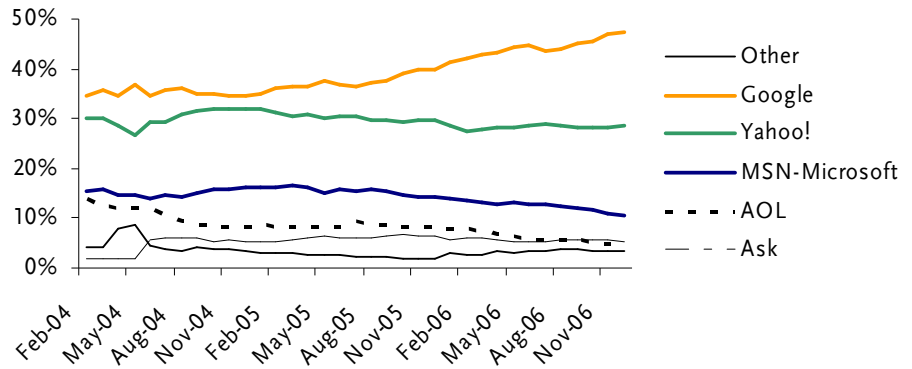




Source: comScore Networks, November 2006 QSearch Data

**The Search Engines**

Google (GOOG)

Google™

*The portfolio of non-search products creates more user activity within the Google network, resulting in more searches and more clicks, which, in turn, has attracted more advertisers.*

Google is the world's most-used search engine, processing more than 3 billion searches for more than 90 million users a month in the United States alone, and with a search query market share of almost 50% in the United States and a greater than 63% share worldwide, according to comScore Networks. Google's search engine has built its dominance of the search industry by a combination of its superior search results and brand strength. While it is clear that these two strengths are linked, we believe over the last several years as Google's market dominance has solidified, driven by the company's brand strength, "to Google" has become a recognized verb.

We believe that Google's robust growth is a result of the company's aggressive partnership strategy, product expansion beyond search, and exceptional monetization improvements. While Google's partnership strategy and monetization improvement trajectory are well understood by investors, we do not believe investors fully understand the impact of Google's non-search product extension strategy. We believe that Google's wide variety of non-search products creates a virtuous cycle of brand affinity that drives incremental search volume. Many of Google's non-search-related products, when first introduced, were thought to be unlikely to generate revenues anytime soon and, in fact, few have had even noticeable direct revenues. The combined synergistic effect of these products, however, is to create increasing growth in activity levels of users, increased user loyalty and, of course, additional users to the main monetization engine: Google search and the AdWords and AdSense search platforms. The portfolio of non-search products creates more user activity within the Google network, resulting in more searches and more clicks, which, in turn, have attracted more advertisers. We believe this strategy will enable Google to continue to grow at a much faster rate than its competitors, gaining market share again in 2007. Our 2006 Online Media Survey confirmed our belief that Google's non-search-related products are beginning to see increased user adoption and are helping the Google brand. Key survey findings include the following:

- 49% of respondents use at least one Google product other than Google search
- 25% use at least two Google products other than Google search
- Search is becoming the dominant navigation method
- Google dominates mind share

Exhibit 127

**GOOGLE USAGE GROWING BEYOND SEARCH**
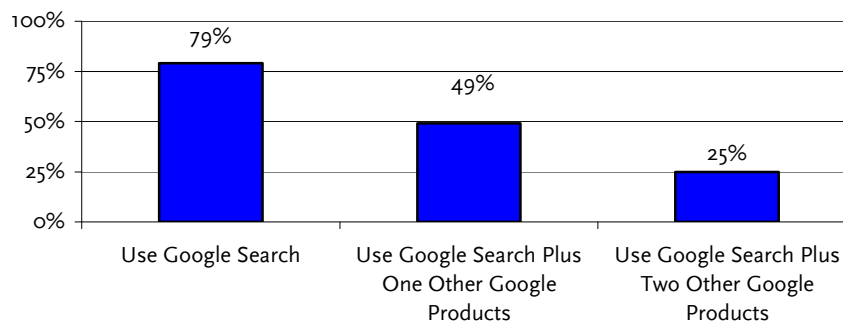


Source: Piper Jaffray & Co. 2006 Online Media Survey

Exhibit 128

## USAGE OF GOOGLE PRODUCTS



| | |
|---|---|
| Google search on google.com | 78.6% |
| Google Maps | 27.6% |
| Google Earth | 23.1% |
| Gmail | 13.1% |
| Google Toolbar | 12.8% |
| Google Video | 12.2% |
| Google News | 10.1% |
| Desktop Search | 8.9% |
| Froogle | 8.3% |
| Picasa | 4.2% |
| Gtalk (Instant Messaging) | 2.4% |
| Google Mobile | 0.6% |
| Blogger | 0.6% |
| Google Web Accelerator | 0.6% |
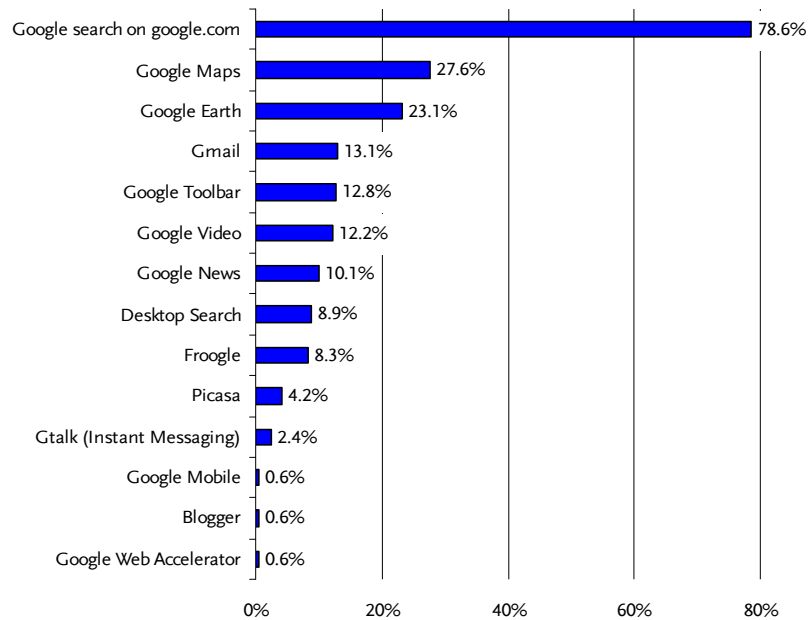
Source: Piper Jaffray & Co. 2006 Online Media Survey

Google's relevancy advantage was developed early as the company's two founders applied an algorithm, called PageRank, which evaluated the quality of a given page based on the pages linking to it. This algorithm quickly gave Google clear advantage over other search engines that, at the time, were relying upon either unscalable human-edited directories or less reliable meta-tag crawlers. Since then, Google has developed a vast number of additional technologies to assess more accurately the relevancy of a given Web page in comparison to a user's query. Google continues to use a proprietary variant of PageRank, which incorporates backlinks as well as other factors in determining the relevancy of a given page.

Although not the first to monetize its search engine through a cost-per-click (CPC) model, Google has captured an estimated 75% of the worldwide search and contextual advertisement spend. Google's revenue per search greatly exceeds that of its competitors through both substantially more global advertising customers (estimated at 800,000+) as well as better ad-ranking algorithms.

Google is a broad-based search engine and excels at most types of Web-based search. The company has added specialty search functions within its engine, giving users much of the functionality of shopping, image, and other vertical search engines. Google's one notable missing function is a true video search system that crawls the Web for available video content as opposed to searching a proprietary database as both YouTube and Google Video currently do. Google is spending heavily to address the large local market opportunity, and through its acquisition of Keyhole and its development of Google Maps and Google Earth is already one of the leading players.

We also believe that Google's portfolio of additional products (see Exhibit 116) has created a virtuous cycle of brand affinity that has increased search frequency on Google and contributed to Google's market share consolidation.

## Yahoo! (YHOO)

As the world's largest portal, Yahoo! has products that touch more than 500 million users worldwide each month. Yahoo! has leveraged this market reach into a solid second place position in the global search market, controlling approximately 25% of United States and 20% of worldwide search queries.

Although Yahoo! is one of the oldest search engines on the Internet, the current search function has little resemblance to the hierarchical directory that was originally developed by founders Jerry Yang and David Filo. As the number of Web pages proliferated and user demand increased for a more comprehensive search engine, Yahoo! switched to a crawler-based system in late 2002. Until 2004, Yahoo!'s organic search results were provided by its now arch-rival Google. Currently, Yahoo!'s organic search results are powered by technology acquired through its March 2003 acquisition of Inktomi, and through Altavista and AllTheWeb, which were acquired as part of Yahoo!'s October 2003 acquisition of Overture.

Yahoo! has monetized its search through the Overture system of CPC keyword ad sales. Overture was the pioneer of the sponsored search model, but limitations in Overture's ad ranking system have curtailed Yahoo!'s ability to make incremental improvements and allowed Google to open a wide gap in revenue per search.

### Panama

Yahoo! has known for some time that it must change to a similar yield management system, but dramatically changing the monetization engine for a system that generates two-thirds of the company's revenue and is used by hundreds of thousands of advertising customers is not an easy task. The company officially announced its new ad marketplace and monetization engine (dubbed Panama) in early 2006 and is expecting to launch the full system in early February 2007.

Panama's ad ranking system will be similar to Google's in principal, taking the click-through rate and other factors into account, and multiplying those by the maximum bid price to get an effective yield score. Although it will take time for the system to learn and refine its relevancy rankings, Panama should quickly enable Yahoo! to partially close the monetization gap with Google. The initial launch will only add simple and easily identifiable metrics into account such as click-through rate. Panama is built to be a very flexible platform, however, and will give Yahoo!'s search engineers numerous levers to adjust as the system and the advertisers learn.

## MSN Search (MSFT)

MSN has approximately 8% share of worldwide search queries and 11% of the U.S. market, according to comScore, placing them a distant third in the United States behind Google and Yahoo!. Until recently, MSN's search engine was powered largely by Yahoo!'s Inktomi division for algorithmic results, and by Yahoo!'s Overture for paid search results. In late 2004 and early 2005, Microsoft began to realize the importance of search, and MSN started developing its own engine, gradually switching from Yahoo! to using its own algorithmic search results. In early 2006, MSN also transitioned from Yahoo! syndicated sponsored links to its own advertising system, adCenter. Since then, MSN has invested in sophisticated search products through its MSN Live platform, with particular attention to the local search opportunity. Microsoft's adCenter search advertising platform has received praise from the search

engine marketing community for its rich feature set and technology (particularly its industry-leading demographic profiling), but adCenter has experienced slow adoption.

MSN hopes to leverage its traffic as one of the largest portals in the world, and Microsoft's position as the operating system on the vast majority of the world's desktops, into a leading search position. So far, however, its efforts have been largely unsuccessful as worldwide search query market share has decreased from near 15% in the beginning of 2004 to 9% now. With the launch of the new Vista operating system and its integrated desktop search functionality, MSN may see some bump in search query share, but we believe it is unlikely that MSN Search will be able to make any significant dent in Google's dominance, or Yahoo!'s market share, any time soon.

**SIDEBAR**

### SEARCH COMPETITION: BRAND VERSUS TECHNOLOGY

What Is Holding Back MSN's Market Share Growth?

We believe the key problem MSN faces is no longer lack of good search or advertising technology, as the company has addressed both of them, but lack of a solid brand affinity with users and a good value proposition for the searchers. In our opinion, while MSN search results are generally satisfactory, they fall short of Google's level of relevancy, and for MSN to gain any market share, it has to offer a significantly better search experience. Lack of a prior search brand with users makes this task especially important and difficult. We have evidence of this theory as we see Ask.com able to gain market share much more easily as it already has an established, albeit minor, brand with users. In other words, users can reasonably clearly articulate their reasons for going to Google, Yahoo!, and Ask, but there is no clear reason for them to use MSN Search. As such, the task ahead for MSN to gain market share is very challenging and could take many years before it can be successful.

### MSN'S CHALLENGE IN MAINTAINING SHARE
November 2005 – November 2006
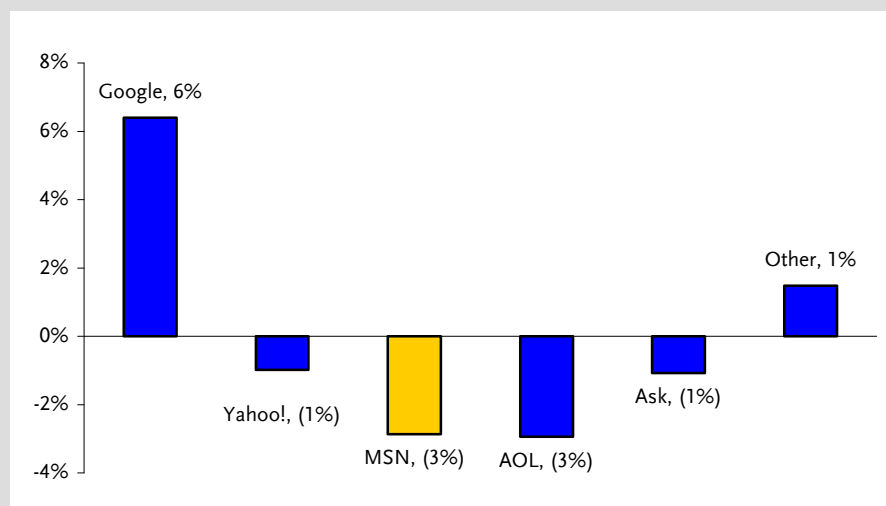


Source: comScore Networks

**Ask.com (IACI)**

Ask.com has approximately 3% share of worldwide search queries and 6% of the U.S. market (according to comScore), placing them fourth in search market share. The company was formerly Ask Jeeves, but when InterActive Corp. (IACI) acquired the search engine in early 2006, it was rebranded as Ask.com. Ask.com has a small but loyal following as one of the early search engines that some searchers have been using for many years. The key characteristic of Ask.com for its followers is that it is easier to use, although not necessarily more comprehensive, hence many Ask.com users also use Google or other search engines. Ask.com initially built its position on the character Jeeves, the mascot of Ask Jeeves, which provided the answers to users, as depicted in the picture of the English Butler holding a tray. The company also had very heavily marketed its brand in early years, and the combination of its pseudo-natural language processing and its heavy marketing gained the company some market share in early years, especially with school children. Post its acquisition by IACI, the new Ask.com dramatically reduced the number of paid listings on its search engine results page and moved away from its past focus on "natural language" search. Ask.com's organic search results are based on its Teoma Web-crawler (acquired in 2001), and the bulk of its sponsored links are provided through a partnership with Google. Ask.com has also developed its own advertising system, and some of the paid links are provided by the Ask.com network. The Teoma engine has received some praise in the industry for both features and relevancy. Recently Ask.com announced the launch of its AskCity local search product, which integrates data from InterActive Corp.'s CitySearch, TicketMaster, and Service Magic divisions. AskCity is arguably one of the most advanced local search tools currently available (see Exhibit 120). Ask.com's market share has maintained relatively stable for the last two years at near 6% of the U.S. search query share.

**AOL (TWX) Search**

AOL has approximately 3% share of worldwide search queries, and 5% of the U.S. market (according to comScore), placing it fifth in search market share. AOL's search function is largely powered by Google. As one of Google's oldest and most significant AdSense for Search partners, AOL serves both Google algorithmic search results and Google ads to its users, taking a large share of the revenue derived from clicks on the sponsored search ads. In late 2005, Google invested $1 billion for a 5% stake in AOL as part of a deal to strengthen its ties with AOL. We believe part of Google's motivation was to secure its search relationship and block out potential competition from Yahoo! and MSN. Beyond Google search results, AOL does have a vast library of Time Warner content that is searchable through its site and has a particularly robust video search system. Through its acquisition of Truveo, AOL now has a video crawler that provides AOL Video users with access to video content from throughout the Web. AOL Search, however, is rapidly losing query market share, most likely to its partner Google, from approximately 14% of the U.S. search market in January 2004 to about 5% in October 2006. Much of this loss of share is likely attributable to a loss of AOL access subscribers as the company has struggled to hold customers as broadband providers rapidly drop prices.

**Specialty Search Engines**

Shopping Search

Shopping search sites, such as Shopping.com (acquired by eBay), Shopzilla (acquired by E.W. Scripps Company), Nextag.com, and Pricegrabber (acquired by Experian Interactive) provide a targeted platform for product or merchant search. Their databases or indexes consist of the merchants they have compiled (who pay these sites for referral), and also the product lists that these merchants sell. The match is usually done on a product basis, but the listing is sometimes organized by how much each merchant is paying for the lead, similar to the paid listings model. In effect, these sites are a refined version of Google and Yahoo!, sometimes charging the merchants more than paid search providers because they further refine the consumer lead and, thus, increase their conversion rate.

Shopping search engines attract users who are specifically looking to buy a product. These sites drive users through traffic acquisition from distribution deals and arbitraging search keyword buys or through their own brand name (direct traffic). Once at the site, the shopping sites aggregate company-specific data on each merchant, such as price, shipping information, user reviews, and product specifications. The value proposition from a consumer's perspective can be enormous. Users can see the experience of past purchasers through the merchant ranking systems and compare the various store and product features through the data aggregation set. We believe shopping search, similar to paid listings, is a model that relies on scale. The more users, the higher number of "paid clicks" or targeted leads the company will provide to its advertising partners. Once the companies hit a level of scale where revenue exceeds cost, a disproportionate amount of the incremental revenues will fall to the bottom line. But a key factor for shopping search sites is also their customer acquisition costs. As nearly 50% of the traffic to most shopping comparison sites is acquired, the margin is highly dependent on what price these sites pay (usually to Google and Yahoo!) to acquire their traffic. Additionally, shopping engines face continued "feature creep" from search engines, particularly Google, as they increase the value they provide to searchers and advertisers by refining results and giving more detailed information back to the searcher, eliminating the need for a comparison engine. Google's Froogle shopping engine was the beginning of this trend, and the company's new Google Base system may pressure shopping comparison sites by allowing users to input, search for, and compare specific commercial products that merchants can enter free of charge into the system.

**Impact On Search Market.** The use of shopping search has increased over the past few years but has not impacted the overall growth of the search market. We expect shopping search to continue to grow, and we believe new, more innovative features and a more comprehensive index of products, merchants, and reviews are needed to gain a larger audience of users. In addition, we believe a good shopping search engine needs to have a robust search technology, something that most of the current shopping search engines are lacking.

Travel Search

In the broadest sense, all online travel sites, including the online travel agencies like Expedia, Orbitz, and Priceline, are travel search systems. These systems allow users to comb through massive databases of information, from the different carriers and hotels, to find availability and pricing. These systems, however, differ from online travel search engines in two important ways: (1) they do not search the Web looking for travel-related information, but instead send queries to proprietary databases; and (2) they generate revenue through an agency model, taking a commission for selling for sales completed on their sites. The online travel search sites such as Sidestep, Kayak, and Mobissimo search the Web and display search results from across many online travel agencies and resellers that most closely match the user's specified travel criteria. These travel search engines generate revenue by selling travel-related advertising inventory and by charging travel suppliers a lead generation fee when a qualified user clicks on a search result (see Chapter 14 for more discussion of the growing Lead Generation business model). Like shopping engines, travel search engines face two main challenges: (1) cost-effectively acquiring users, something that often requires the use of traditional search marketing; and (2) holding off Google's and Yahoo!'s inevitable pushes into providing travel-related search features (already partially implemented on Google).

**Impact on Search Market.** Travel search sites have increased in popularity, and their value proposition for users is clearly high: With one click, users can comb through a wide selection of options for travel, narrow their choice, or refine it to match their desired outcome. Travel search engines' business model, unlike the online agencies like Expedia, allows this value proposition because the travel search site can get paid on any referral and can offer all the choices to users. Despite these advantages, travel search engines have not yet captured a notable share of the market, but we believe their popularity is still growing, and this category should be watched carefully.

Exhibit 129

## EXAMPLE OF TRAVEL SEARCH SITE



Source: Kayak Website. Used by permission of Kayak.

| Video And Image Search | Video and image search are quickly gaining prominence as Internet users become more accustomed to searching for and consuming rich media and video. Rich media, however, presents a host of challenges for search engines wishing to provide relevant results for video and image searches, principally, the lack of identifiable data for spiders to crawl and algorithms to parse. Many video search sites such as Google Video, AOL Video, and YouTube solve at least some of these challenges by only searching their own proprietary database of videos, which are uploaded either professionally or by users through a controlled process with fields to enter relevant data. Video sites that allow users to search the Web for available video content, such as Yahoo!, MSN, and Blinkx, rely upon publisher- or user-entered meta-tags to give a text-based description of the rich media. Such tags, however, are easily manipulated and difficult to police, thus potentially skewing search engine results. Companies such as Google and Blinkx are working on pattern recognition algorithms and trying to employ speech recognition technology to attempt to build a scalable software solution that provides more relevant results. However, we believe deployment of robust systems that can scan and categorize even a small portion of the available rich media content on the Web is still years away. Others such as Truveo (acquired by AOL) are looking at the closed-caption text to index the video clips. Given the current limitations of true Web-crawler-based video search, users are likely to continue to use sites like Google Video and YouTube (now owned by Google) to search their vast libraries of user and professionally uploaded content. Currently these sites are monetized through a combination of pre-roll ads (including some music videos on AOL and Yahoo!), contextual ads, and revenue sharing from sales of access to premium content (Google). Video searches, at least initially, may be much less likely to be commercially oriented, so monetization may remain difficult. The notable exception for this is video search on movies where the entertainment industry can start monetizing the search page effectively. |
|---|---|

**Impact on Search Market.** We believe video search is likely to become part of the general search options, and the likelihood of dedicated video search sites gaining major market share is low. The key to success is the size of the index library and a strong indexing method.

| Job Search | Like travel search, job search engines are really meta-search tools, combing through the databases of online job classified sites like Monster.com and CareerBuilder, as well as smaller job lists from recruiter sites and newspapers to give users a more comprehensive view of the job market. The leaders in the space tend to be small, vertically focused companies such as Jobster, Indeed, and Dice (which further specializes in IT-related job searches). Near term, this market represents a significant opportunity for smaller, private start-ups because of the following: (1) The large search engines such as Google and Yahoo! have yet to integrate true vertical job search features within their engines; and (2) job searches tend to be highly monetizable, allowing for quick revenue generation through integration of Google's AdSense or Yahoo!'s YPN. Additionally, many job search sites are incorporating tools and services for corporate human resources departments, helping to manage and automate costly employee recruiting and retention functions. |
|---|---|

**Impact on Search Market.** Specialty job listing search engines are likely to remain independent for some time, because integrating a comprehensive job search engine seems to be low on Google's radar. Yahoo!'s recent agreement with a coalition of newspapers across the country to manage their job classifieds, however, may limit the

need for a true job search engine by aggregating a critical mass of the disparate data in one place.

**Blog Search**

As user-generated content has grown, the amount of information stored within blog postings has become significant. Several search engines including Technorati, IceRocket, Feedster, Google, and Yahoo! have invested in crawling the millions of blog pages available on the Web. As comfort levels with user-generated content continue to increase, and blogging becomes more and more mainstream, the need for search engines that crawl and analyze this huge inventory of Web pages will grow substantially. Blog searches, however, are unlikely to have a high percentage of commercially oriented or monetizable searches, and may find revenue generation difficult. More important to the broader search industry is the fact that a relatively large body of content is being added to the Web, with some structure around it, potentially making the blog information more easily indexable and categorizable. The challenge of blog search indexing, however, is that the content is highly dynamic and becomes stale quickly, forcing the search service to crawl frequently for changes. As blogs proliferate, we believe blog search results could enhance the user's search experience; and as such, it is important for the major search engines to have a robust blog search capability incorporated within the general search platform.

**Impact on Search Market.** Blog search is unlikely to be a significant distance vertical in the near or medium term, in our opinion. The viral spreading of blogs through links from related blogs will likely remain the primary source of traffic for this growing base of online content. Demands for real-time updates may limit this market to the largest search engines longer term, which may be able to eventually crawl and index these highly dynamic sites in near real time.

**Search Marketing Companies (SEMs)**

Search engine marketing companies (SEMs) help advertisers buy search advertising and use search engines to achieve their marketing goals. The SEMs drive traffic by optimizing a company's presence in algorithmic search, as well as sponsored search listings. These services are offered through a number of value-added services, including keyword optimization, search engine optimization, paid inclusion, feed management, and campaign management. We view SEMs as a crucial link in the search marketing industry, as they facilitate and optimize use of search engines as a marketing tool. It is important to note that a large part of this effort is still centered around search engine optimization, the original base of the industry, where the SEM will help improve the chances that a given Website is found through a search engine, thus providing free traffic. Many companies are now bringing SEM functions in-house, and some consolidation has occurred in the industry, particularly by the larger advertising agencies (such as Isobar Worldwide, a division of Aegis, which acquired iProspect in 2004). Please see the Advertising Services and Technologies chapter (Chapter 13) for a more complete description of the SEM industry, the key players, and the size of the industry.

## PART IV:
## SEARCH ADVERTISERS

*We believe there are currently approximately one million search advertisers worldwide.*

We believe there are currently approximately one million search advertisers worldwide. The majority of these companies advertise on Google. We believe Google has close to 800,000 advertisers, and the remaining 200,000 are local businesses in international markets such as South Korea, China, Japan, and Russia, where Google has only a small percentage of the total advertisers. In Google's traditional strongholds of North America and Europe, we believe that virtually all search advertisers are using Google (likely greater than 95%).

Initially, search marketing was nearly exclusively a medium for eCommerce companies looking for a measurable and inexpensive method of acquiring customers. Given the limited initial participation in search marketing, keyword pricing was low, allowing many of these early adopting eCommerce companies to receive disproportionately high ROIs on their search spending. Over the last several years, many large traditional brand marketing firms have begun to recognize the value of search, not only for customer acquisition, but also for branding. These new participants in search marketing are recognizing several important facts:

1. **Pull marketing has inherently higher branding value than push marketing.** Search marketing allows advertisers to get their message to consumers when they are looking for a product or service as opposed to traditional marketing, which interrupts media consumption and is often considered an annoyance.

2. **Search enables advertisers to associate a brand with a term, even a term that is traditionally associated with other companies or industries.** Brand advertisers can use search not only to put their brand in front of a potential customer when they are looking for a specific product, but also to associate their brand with a term. For example, a search on Google for "style" gives a predictable list of fashion-oriented advertisers, but could also show an advertisement from luxury car manufacturer Infiniti, thus attempting to equate the new Infiniti G35 with style. Additionally, through search marketing, advertisers can use terms associated with their competitor's brand, thus marketing to the most important target audience. For example, GM famously bought the search term "Pontiac" and combined the search campaign with a traditional television advertisement tie-in. More interestingly, however, is the presence of a Mazda search ad on "Pontiac" searches. This practice has raised legal concerns that were at least partially put to rest by the GEICO v. Google decision, which allowed search advertisers to purchase trademarked keywords on Google and other search engines, but forbade the use of someone else's trademarks in sponsored search ad titles or creative.

3. **Search is a highly measurable marketing tool.** Brand advertisers, although well acquainted with the limited visibility into the success of mass marketing campaigns, have quickly become interested with the instant measurability of search campaigns. Although brand advertisers do not usually sell directly, and thus are not able to calculate true ROIs, search does allow brand marketers to get instant feedback on number of impressions, click-through rate, and post click-through customer tracking.

The diversification of search has led to adoption by industries that are not traditionally direct marketers, such as the health, consumer goods, and public services, as seen in Exhibit 130. We noted that given that the data below in Exhibits 130, 131, and 132 is based on the month of November, it is not surprising that retail, travel, and Web media, including many shopping-oriented services, dominate the share of impressions in front of the holiday season.

Exhibit 130

**SPONSORED SEARCH ADVERTISING IMPRESSIONS BY INDUSTRY**
November 2006
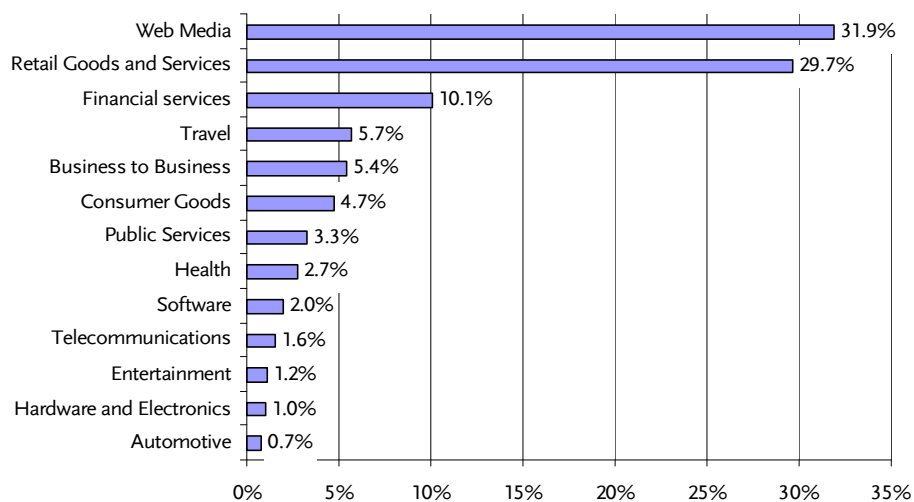


Source: Nielsen/NetRatings

When compared to the percentage of total online ad impressions, we can see which industries are adopting search marketing faster, and which industries are lagging. Industries such as Retail, Travel, Business to Business, and Web Media, which use search primarily for customer acquisition, are gaining a disproportionate share of search impressions compared to total online. Telecommunications, Financial Services, and Entertainment, however, are pushing more online ad spending to more traditional brand ad inventory. We expect as more brand advertisers realize the value of search advertising beyond direct marketing, these industries will look to increase their search impressions, providing an additional line of growth for the search industry.

Exhibit 131

**TOTAL ONLINE AD IMPRESSIONS VERSUS SPONSORED SEARCH IMPRESSIONS BY INDUSTRY**
November 2006
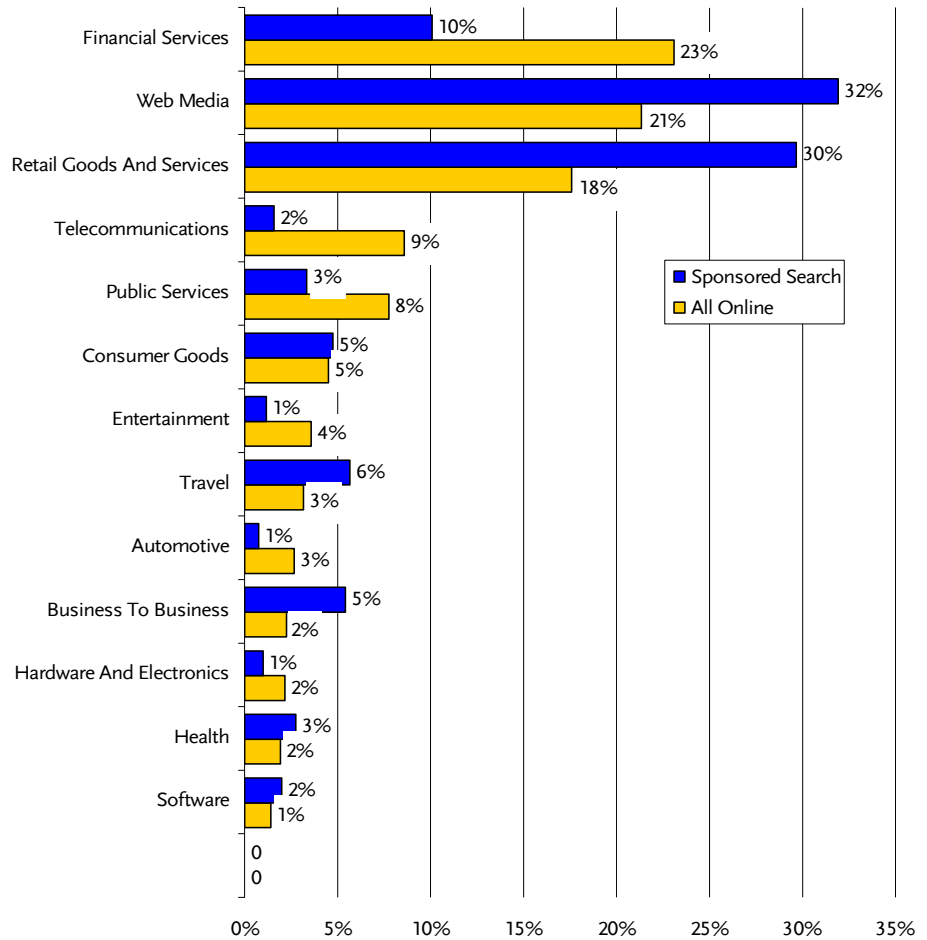


Source: Nielsen/NetRatings

As shown in Exhibit 132, the top 25 search advertisers are still dominated by direct marketers such as eBay, Amazon, and Orbitz, but the list also includes large brand advertisers such as Capital One Financial, Time Warner, and News Corp. Shopping search engines, especially during the holiday shopping season (e.g., NexTag.com, BizRate.com, and Shopzilla), have long been some of the biggest search buyers. eBay receives the largest number of search impressions and is likely the largest single search buyer, but it is important to take eBay's number of impressions in context: eBay buys search terms through an automated "portfolio approach" (for further explanation see Chapter 13 on search engine marketing agencies). eBay also owns Shopping.com, the largest shopping comparison engine, which, if broken out from the eBay numbers below, would likely be the second biggest search marketer.

Exhibit 132

## TOP 25 SPONSORED SEARCH ADVERTISERS
November 2006

| Company | Sponsored Link Impressions (M) | Change From Previous Month (%) | Industry |
| --- | --- | --- | --- |
| eBay Inc. | 3,068 | 4% | Retail Goods and Services |
| NexTag, Inc. | 706 | 3% | Web Media |
| GUS Plc. | 696 | -30% | Financial Services |
| Pickamortgage | 657 | -24% | Financial Services |
| Amazon.com, Inc. | 544 | -2% | Retail Goods and Services |
| Cendant Corp. | 522 | 139% | Travel |
| Target Corp. | 373 | 6% | Retail Goods and Services |
| BizRate.com | 372 | 7% | Web Media |
| Time Warner Inc. | 347 | -16% | Entertainment |
| Shopzilla International | 332 | -5% | Web Media |
| Wal-Mart Stores, Inc. | 318 | 286% | Retail Goods and Services |
| Yahoo! Inc. | 313 | 6% | Web Media |
| Capital One Financial Corp. | 296 | 9% | Financial Services |
| World Vision Inc. | 276 | -52% | Public services |
| InterActiveCorp | 254 | -21% | Web Media |
| Vonage Holdings Corp. | 250 | 57% | Telecommunications |
| Overstock.com | 211 | 15% | Retail Goods and Services |
| Eastman Communications Inc. | 199 | -7% | Web Media |
| Scottrade Inc. | 182 | 8% | Financial Services |
| cheapflights.com | 176 | 531% | Travel |
| GAIN Capital | 169 | 52% | Financial Services |
| The News Corporation Ltd. | 161 | 109% | Entertainment |
| Smarter.com | 160 | -8% | Retail Goods and Services |
| Orbitz | 157 | -49% | Travel |
| Business Financial Publishing | 153 | -21% | Financial Services |

Source: Nielsen/NetRatings, November 2006

# PART V:
# SEARCH TECHNOLOGIES AND MONETIZATION

Anatomy Of A
Search

Even though search engines like Google return search results in a fraction of a second, there are many complicated steps that the search engines follow to return the relevant listing results. When the search engine receives a query, it goes through the following steps:

- **Query Analysis.** The search engine must first analyze the search term to understand user intent. On multiple word queries, the various options must be considered (e.g., "printer cartridge," or "highest mountain," or "the economic impact of the war"). Next, search engines search for the spelling to see if there is a common error and suggest the correct word or phrase. The query analysis will also allow the search engine to classify the search term: commercial, information, technical, news, how to, etc. Of course, these are only guesses by the search engine, and if there is an ambiguous meaning, as often is the case, the search engine must rely on its history of searches and learned intelligence: What percentage of the time people mean Apple Computer when they type, "apple"; what percentage of the time people mean the first president when they type, "Washington." Lacking any knowledge, the search engine is likely to find an equal mix from all categories that the keyword can mean.

- **Index Look Up.** The next stage is to look up the index dictionary and find all the matching links that are compiled in the index's database. Each keyword will, of course, have many links associated with it, and the search engine is also likely to pick up multiple categories based on the search term analysis that it performed in the previous step. This stage, while seemingly simple, is still complicated because large indices have to be split into thousands of servers and fast and accurate collections of links can be difficult.

- **Organize And Present.** The final stage is to organize all the links that are found in the index, from the most relevant down. This is, of course, the critical step as many searches can have hundreds of thousands, if not millions, of links associated with them. This is where the static and dynamic rank of a page in relation to the keyword is evaluated and other relevancy checks are performed to put the best results on top and, or at least, on the first page. In addition, a significant number of complicated operations need to be performed to build the index prior to the search.

Crawlers

**The Search Index.** A key element of a crawler-based search technology is the index. The index is essentially a listing of all the Websites on the Internet with their appropriate IP address or, rather, as much of the Internet that the crawler has managed to examine. Creating a clean and useful index requires the search engine to not only crawl as many pages as possible, but also to execute the following:

1. **Eliminate duplicates** of the nearly 20 billion Web pages on the Internet; almost half can be duplicates, redirects, or otherwise useless pages;
2. **Perform link analysis** to establish what to index and in what order (how);
3. **Find the appropriate IP address** when the IP addresses are shared, and establish an accurate and recallable address for the page;
4. **Refresh the index** at least once a week, and with certain areas such as news sites, much more often;
5. **Eliminate spam pages;** and
6. **Establish page rank**—how relevant a given page is within its category.

**Speed.** Large search engines, such as Google and Yahoo!, have thousands of servers crawling the Web. Even then, it could take a month or so to refresh most of their indices. In the last three years the rate at which search engines refresh their data has increased dramatically, from once or twice a month to at least once or twice a week. Search engines have also begun to use more sophisticated segmenting in order to refresh highly dynamic pages (e.g., news and blogs) much more frequently than relatively static pages (e.g., corporate home pages).

**Capacity.** Creating and storing a copy of the entire Internet, which is essentially what a complete index does, is a gigantic task that requires massive storage capacity. To store 20 billion-30 billion pages (approximately the size of Google and Yahoo!'s indices), compressed to an average of ten kilobytes, would require 200-300 terabytes of storage capacity, at a minimum, and under perfect conditions. In reality, because many of the queries are served from memory, not disk, the server requirement to hold the entire Web index becomes significantly larger, running into several thousand servers.

Critical
Competencies

We believe there are **five key competencies** that determine the accuracy and success of a search engine—or how good a user experience it will provide (we note that relevancy is only one aspect of this.). These are as follows:

1. **Index Size And Coverage.** Who has the bigger index? has become a key factor, but it is important to note that index size should be evaluated based on both how many URLs are crawled or known versus how many are in the index. Poor de-duplication could artificially inflate the index size. Nonetheless, generally the bigger the index size, the better and, at a minimum, an index should have about one billion clean (de-duped) URLs. Coverage is another way of looking at how much of the indexable Web is covered.

2. **Freshness.** The age of each page that is in the index is also a critical factor, as is the de-duplication of similar pages (this is usually a separate step, but we include it here for simplicity). Most major search engines maintain multiple indices and use various levels of refresh and update to keep their index new. A critical factor, of course, is how often the index is refreshed—once a month is a good minimum.

3. **Scalability.** Even if a search engine has a good clean index of a decent size, it is still critical to have the capacity for significant increases in both the index size and the query volume, as the fast growth of the Internet is showing that both of these areas are growing rapidly.

4. **Relevance And Precision.** This is, of course, of paramount importance to the user. Excellence in relevancy comes down to how well a search engine understands the query and maps it to the most appropriate Web page. While some of this is core analysis, the rest relies heavily on statistics and techniques similar to collaborative filtering. Relevancy also improves with scale as the search engine can learn from a large number of queries.

5. **Features And Personalization.** Finally, as the search engines mature, we believe users will be looking more for personalization tools and ways to refine their search. This step could significantly increase the relevancy of the final search listing.

---

**SIDEBAR**

**LINK ANALYSIS AND PAGE RANK**

The idea of link analysis and page rank is now an established part of all search engines. At the basic level, a crawler can only reach a site if there is a link to it from at least one other site. The higher the number of links to a site, the more likely it will be found, and possibly, have higher page rank as well. Website owners, however, have also found the value of a link, and some have tried to create fictitious links to their site to increase their page rank and, thus, how often they are listed by the major search engines. In fact, the practice has become so serious that "link farms" are now an almost institutionalized form of spamming a site to the top. But the search engines have caught on to this practice, and usually penalize a site that uses bogus links by completely removing them from the index.

---

The value of link analysis now lies not just in how many links are coming to a site, but from where those links are coming. Not only reputable and established sites have a much higher weight on the link count, but the affinity of the linking site to the target site is also important. This is how clusters of similar sites are created. As an example, a site on volcanoes that has a large number of links from geological sites will rank higher than a site that may have a higher absolute number of links, but only a few from geological sites. The idea is that the "experts' sites" should have a higher weight. In fact, some search engines, such as Teoma (owned by Ask.com), even try to establish one or more authority sites in certain categories, with a link from these sites being highly prized.

**Social Search**

*Social search combines a manifestation of algorithmic search with human subjectivity which imbues social search with a community and viral component.*

*We believe social search services are an important component of our over-arching Communitainment trend.*

Social search is an emerging trend in the search landscape that primarily differentiates itself from algorithmic search in the way it determines search relevancy. Social search determines relevancy by taking into account user activity, user content contributions, tagging (associating an article, photo, or video with keywords that are searchable), and/or navigational interactions between users. Social search's approach to relevancy differs from algorithmic search, which primarily determines relevance by analyzing the text on a Web page and/or links to a Web page. Social search is in the embryonic stage of its development and has manifested itself in a variety of consumer-centric services that incorporate a combination of social bookmarking, content tagging, questions and answers, and algorithmic search. It is important to note that social search combines a manifestation of algorithmic search with human subjectivity that imbues social search with a community and viral component to the search engine. Importantly, as the size of the community of a social search engine becomes larger, the search results ostensibly should become more relevant as the social search service leverages the collective wisdom of the community or sub-segment of the community to optimize relevancy through a continuous feedback loop. Also, theoretically, social search engine search results can be more current, assuming significant user activity on the site, as the social search engine constantly incorporates user feedback into its algorithm to optimize relevancy. We believe social search services are an important component of our over-arching Communitainment trend. As such, we believe social search is an important emerging trend as users who become loyal users of social search engines are active participants in Communitainment and are spending more time on the Internet and less time with traditional media like TV.

Examples of social search include:

**Yahoo! Answers** – Yahoo! Answers allows users to ask questions to the Yahoo! Community that are then answered, indexed, and made searchable (see Exhibit 133).

**Eurekster** - Eurekster is a search engine that leverages the knowledge and behavior of communities to add weight and specificity to search results.

**Gravee** - Gravee is a community-powered, social search engine that personalizes results according to a user's interests based on bookmarks, tags, relevance voting, and the activity of other users with similar interests in addition to a proprietary relevance algorithm.

**Wink** - Wink is a social search engine that searches results other people have found to be the best results for particular queries.

**del.icio.us** - del.icio.us is a social bookmarking Website that allows users to store links for favorite articles, blogs, music, news, and other content.

Exhibit 133

**AN EXAMPLE OF SOCIAL SEARCH**

Yahoo! Answers Screen Shot



Source: Yahoo! Inc. Reproduced with permission of Yahoo! Inc. ā 2007 by Yahoo! Inc. YAHOO! and the YAHOO! logo are trademarks of Yahoo! Inc.

**SIDEBAR**

**TAGGING**

Tagging is the process by which a user associates an article, photo, image, or video with a keyword descriptor that is searchable. Tagging is most frequently used on user-generated content sites where a user provides a personal description of the content which allows the content to be easily categorized and then searched. Many Communitainment and Usites depend on tagging as a means for users to explore and find content. Tagging is inherently a flexible data categorization methodology, but it currently lacks the sophistication to determine semantic meaning of tag.

Examples of sites that utilize tagging are as follows:

**Flickr** - Flickr is an online photo management and sharing application. Flickr also enables users to organize photos through collaboration by allowing friends, family, and other contacts to add comments, notes and tags.

**del.icio.us** - del.icio.us is a social bookmarking Website that allows users to store links for favorite articles, blogs, music, news and other content.



Source: Yahoo! Inc. Reproduced with permission of Yahoo! Inc. ã 2007 by Yahoo! Inc. YAHOO! and the YAHOO! logo are trademarks of Yahoo! Inc.

## Search Monetization Methods

**Why Search Marketing Works.** Over the last six years, search has morphed itself from a loss leader that portals primarily thought of as a tool to drive traffic, into a monetization powerhouse, driving profitability and very high margin revenue. How did this happen? Quite simply, the success of search follows a very commonsensical observation: Customers tend to act on an offer when they are actively looking for a product or service. The corollary to this, of course, is that the offers are not very effective when the customer has no clear purchase intention. As a result, a banner ad on a news page is not very effective to get a customer to buy a DVD at that point. A DVD offer, however, in response to a keyword search for DVD, for example, provides an effective advertising medium with a high conversion ratio. In fact, we believe that 35% of searches are commercial inquiries (the intended purchase may be from an offline merchant, which in itself is another major growth opportunity for search). Another 10% or so are inquiries that can lead to purchase because of proximity of the product and the user's interests (a query of an artist or a sports team may well lead to related purchases even if the intent was informational). Our focus, however, is on the approximately 35% of queries that are commercial, and on how search engines and portals can introduce customers to merchants and produce an introduction fee.

## eCommerce: The Monetization Growth Driver

The early growth in search monetization was directly and proportionately tied to the growth of eCommerce. There were, of course, other factors that impacted the growth of search, most notably, the cost advantage that search has over other methods of customer acquisition. Overall, we believe merchants spend anywhere from 10% to 30% of the revenue they generate on marketing and advertising campaigns, and we expect that online merchants will follow a similar pattern. Although online customer acquisition is expected to be more efficient than all other channels, online customers still respond to the same key factors that they do in the offline world: brand, value, and price. We estimate that direct marketing is about 20% of the companies' advertising budget, and that while search is much more targeted than traditional direct marketing, we believe it is likely to get a similar share of the online marketing budgets. The exact counterpart of direct marketing, email, is a much smaller industry of only a few hundred million per year. In short, we believe because of potency and high ROI of search, online merchandisers and businesses are likely to use it more, at least in the 20% to 30% range of their marketing budgets, as a customer acquisition vehicle.

As we noted earlier in this chapter, the growth of search has now gone beyond eCommerce to include customer acquisition and branding for a wide range of companies. Over the next five years, we believe the biggest growth drivers for paid search will come from local opportunity, branding, and participation of large non-retail advertisers, such as automotive, pharmaceutical, and others.

**Smart Ranking**

**From Paid Ranking To Smart Ranking: The Advent Of Yield Management**

Goto.com, which later became Overture (acquired by Yahoo!) was the innovative company behind the creation of the paid search model and was the first search engine to use the cost-per-click auction model for advertisers. Overture filed a patent for this creation and was able to successfully defend it (Google and a few other search engines reached a settlement with Overture over patent violations, paying royalties to the company). Google, which had adopted the Overture model, later came up with an ingenious method of improving this model: An improvement that drove Google's large revenue per search advantage over Yahoo!. Google recognized that bid price was of little importance if an advertiser's search ad was never clicked on. Therefore, Google added yield-based ranking to its advertisement ranking algorithm, a system that effectively maximizes revenue per search based on a combination of per click price and how often on which an ad is clicked. This system, called AdRank, would place ads in an order based on both the maximum bid price and the ad's Quality Score, a computer-generated assessment of an ad's relevancy that, at least initially, was principally based on the click-through rate of the ad.

As Google's revenue per search surpassed Overture's, it became evident that this yield-based approach was fundamentally superior to Overture's maximum bid-price-based ranking. Advertisements that were the most relevant to a given keyword would naturally flow to the top as Google's millions of users voted with their clicks. Higher relevancy of sponsored links increased the likelihood of a user finding what he or she were looking for in a paid listing, and thus increased click-through rates in general.

Additionally, Google's yield-based system kept advertisers honest and eliminated many of the easiest methods advertisers had found for "gaming" the system. Instead of "spamming" irrelevant keywords hoping to get a few stray clicks, advertisers were given incentive in the AdRank system to focus their buys on keywords where they were relevant. Furthermore, advertisers recognized the need to improve their copy (the short text explaining the text-based ad), raising the quality of ads on the system.

Finally, by employing an internally definable Quality Score, Google's system was flexible. As Google's knowledge of the behavior of both its advertisers and its users grew, the company's ability to refine its Quality Score increased, allowing Google to constantly tweak the system for higher ad relevancy and monetization. Although how Google arrives at a final Quality Score is still a black box, it is clear that more than simple position normalized click-through rates are being taken into account. For example, in the summer of 2006, Google announced that an ad's Quality Score would take into account the quality of the landing page. Although seemingly a subjective factor, it is likely that Google is basing landing page "quality" on some objective and quantifiable criteria, such as percentage of back clicks after clicking on the ad to the search engine result's page. Though the exact changes to the Quality Score and the AdRank algorithm remain a mystery, their effects are not; Google's persistence at improving ad relevancy and quality have resulted in continuously surprising investors as revenue per search increases despite relatively stable keyword pricing.

Yahoo! has known for some time that it must change to a similar yield management system, but dramatically changing the monetization engine for a system that generates two-thirds of the company's revenue and is used by hundreds of thousands of advertising customers is not an easy task. The company officially announced its new ad marketplace and monetization engine (dubbed Panama) in early 2006 and expected to launch the full system in early February 2007.

**Panama's** ad ranking system will be similar to Google's in principal, taking the click-through rate and other factors into account and multiplying those by the maximum bid price to get an effective yield score. Although it will take time for the system to learn and refine its relevancy rankings, Panama should quickly enable Yahoo! to partially close the monetization gap with Google. The initial launch will only add simple and easily identifiable metrics into account, such as click-through rate. Panama is built to be a very flexible platform, however, and will give Yahoo!'s search engineers numerous levers to adjust as the system and the advertisers learn.

Average Click
Charge

As we noted earlier, the advertisers determine the price for each click based on the return received for each click. Different terms carry different bid prices from the advertisers, ranging from $0.05 to well over $50.00. The average click charge for the industry, we believe, is approximately $0.50.

Over the past 12 months, the click charges for Google have maintained relative stability. Although competition and demand had driven up prices in the past, savvier search marketing customers are learning to go further into the "Long Tail" of keywords where competition is lower. Long Tail keywords also tend to be the most specific and, therefore, most relevant terms for a given search, thus showing higher average click-through rates. Additionally these terms are more likely to lead to a conversion on the advertiser's site, because the more specific the keyword the likely more qualified the lead. This spreading into the Tail is beneficial to Google because although CPCs tend to be lower, relevancy and click-through rates tend to be higher. Exhibit 134 shows a sampling of some random keywords with approximate current prices. Exhibit 135 demonstrates how local targeting of keywords can create much more revenue for the search engines.

Exhibit 134

**SAMPLE OF CPC CHARGES ON SELECTED KEYWORDS**

| Keyword | Price for Top Position | Keyword | Price for Top Position |
|---|---|---|---|
| Safa | $0.10 | Coffee beans | $0.71 |
| Paris Hilton | $0.11 | Bose headset | $0.75 |
| Blood test | $0.11 | Audi A4 | $0.76 |
| Britney Spears | $0.12 | Diamond engagement ring | $0.91 |
| Gucci vintage | $0.15 | Burton snowboard | $0.91 |
| South African wines | $0.15 | Beach resort | $0.93 |
| San Francisco day care | $0.16 | Airline tickets | $0.95 |
| PlayStation 3 | $0.16 | Digital camera | $1.02 |
| Harry Potter books | $0.17 | Diamond earnings | $1.02 |
| Angelina Jolie poster | $0.18 | Engagement ring | $1.24 |
| China | $0.25 | New York spa | $1.50 |
| Xbox 360 | $0.27 | Financial advisor | $1.51 |
| Ski boots | $0.39 | Caribbean cruise | $1.61 |
| Louis Vuitton bag | $0.41 | Chinese Visa | $2.00 |
| Cellular phone | $0.42 | Personal injury attorney | $2.01 |
| MP3 Player | $0.44 | Los Angeles contractor | $2.01 |
| San Francisco restaurants | $0.44 | Eames chair | $2.07 |
| personal trainer | $0.44 | San Francisco contractor | $2.12 |
| iPod | $0.46 | 30 year fixed mortgage | $3.04 |
| Boston contractor | $0.51 | Private jet | $3.76 |
| eBay | $0.51 | Life insurance | $4.01 |
| New York restaurants | $0.51 | Chicago contractor | $5.01 |
| Contractor | $0.52 | Mortgage | $5.01 |
| Microsoft | $0.56 | Chicago personal injury attorney | $7.49 |
| Outdoor furniture | $0.59 | Car insurance | $10.01 |
| World of Warcraft | $0.62 | Mesothielioma | $38.88 |

Source: Yahoo! Search Marketing, January 26, 2007

Exhibit 135

**THE EFFECT OF LOCALIZATION ON SEARCH KEYWORD PRICES**

| Keyword | Price for Top Position | Keyword | Price for Top Position |
|---|---|---|---|
| **General term** | | **General term** | |
| Contractor | $0.52 | Personal injury attorney | $2.01 |
| **Local term** | | **Local term** | |
| Boston contractor | $0.51 | San Francisco personal injury attorney | $2.01 |
| San Francisco contractor | $2.12 | Los Angeles personal injury attorney | $5.00 |
| Los Angeles contractor | $2.01 | New York personal injury attorney | $7.03 |
| New York contractor | $1.91 | Chicago personal injury attorney | $7.49 |
| Chicago contractor | $5.01 | Boston personal injury attorney | $10.27 |
| | | | |
| **General term** | | **General term** | |
| Restaurants | $0.11 | dentist | $0.31 |
| **Local term** | | **Local term** | |
| Boston restaurants | $0.30 | San Francisco dentist | $1.02 |
| Los Angeles restaurants | $0.30 | Chicago dentist | $1.39 |
| Chicago restaurants | $0.32 | New York dentist | $3.69 |
| San Francisco restaurants | $0.44 | Boston dentist | $4.01 |
| New York restaurants | $0.51 | Los Angeles dentist | $5.00 |

Source: Yahoo! Search Marketing, January 26, 2007

# PART VI:
# SEARCH MARKET SIZE

Search is the second most popular application on the Web, behind only email. Our analysis suggests that globally there are more than 550 million searches performed daily on the Web. Internet users in the United States alone perform about 245 million searches per day. We believe about 35% of all Internet searches are commercial in nature (for example, looking for a product online, such as a book; or a type of service, such as online dating), and an additional 10% are non-commercial but monetizable (for example, showing travel-related sponsored links on searches looking for information about particular locations). This equates to about 110 million searches per day in the United States, which could be monetized in some form. To put this in perspective, the total daily references to Yellow Pages (a direct marketing channel we view as very similar to search advertising) in the United States is about 39 million. While the broad adoption and usage of the Internet has existed for less than six years, widespread Yellow Pages circulation has existed for more than 110 years.

We expect the global search market to increase by approximately 47% in 2006 to $15.8 billion, and continue to grow at a CAGR of 23% to $44.5 billion in 2011. Overall, we estimate the U.S. search market to grow by a CAGR of 17% from 2006-2011, and we estimate the International search market to grow by a CAGR of 31% over the same time period. In addition, we believe search, despite the gradual increase in average cost-per-click and the current penetration of advertisers, continues to represent one of the cheapest customer acquisition costs across all media. Search, we believe, is approaching a tipping point with large brand advertisers beginning to adopt search as a branding mechanism. For example, General Motors purchases keywords for several of its vehicle brands, and Clorox purchases keywords for many products in its brand portfolio. We expect other brand advertisers to follow the lead of companies such as Clorox and General Motors and begin to allocate brand advertising dollars to search. While we estimate Google to have 800,000 advertisers, we believe there is significant room left to grow both in the United States and internationally. We note there are currently more than 3.2 million advertisers in the U.S. Yellow Pages, and overall, there are about 10 million-12 million businesses in the United States alone, which we believe leaves ample room for increased pricing and monetization. In addition, we expect both local search and contextual to bring significant opportunity: Currently, we estimate contextual advertising will generate $1.4 billion in revenues by 2010, and while we do not have estimates for the nascent local opportunity, there is currently $16 billion spent on local Yellow Pages advertising in the United States alone.

Exhibit 136

## HISTORICAL AND PROJECTED PAID SEARCH MARKET

Global Search Market
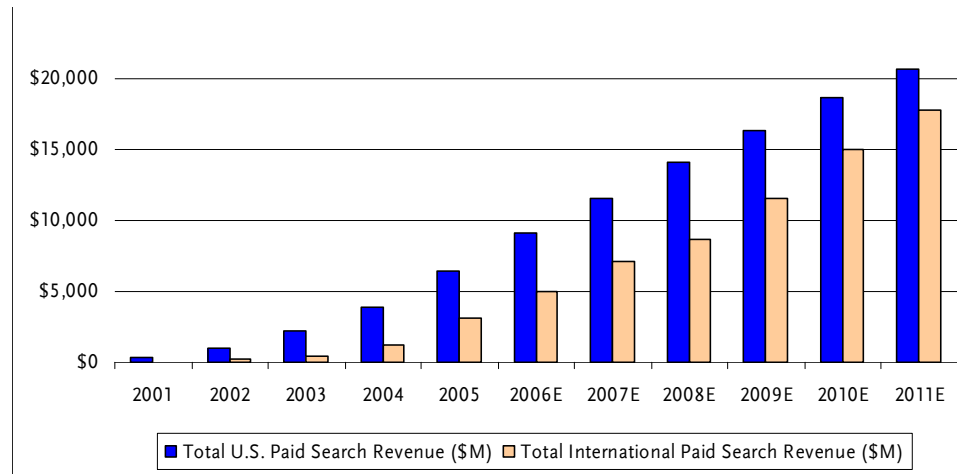


Source: Piper Jaffray & Co. estimates

---

**What Will Drive
Search Growth?**

Over the next five years, we believe search volume will grow at a compounded annual rate of 12% in the United States, and at about 23% internationally. The growth of search volume comes from several factors: The organic growth of Internet users, the increased usage of the Web as an information medium, increased adoption of the Internet as a commerce channel, and the early stage of the international markets, which creates high growth rates.

*As more businesses choose the Internet as a distribution medium, we believe search will be the principal method they use to find and acquire customers.*

The Web has grown robustly, not only in terms of number of absolute users, but also in terms of the number of Websites and the transactions that the Web has enabled. In less than 10 years, the Internet has grown from a tool that almost no one used, to one of the most widely used commerce, entertainment, and information mediums, rivaling the use of television and perhaps exceeding the use of the library as an information source. Clearly, Internet penetration in the United States (and a few other countries in Europe and Asia) is high relative to most other countries, and we believe the global market opportunity is still largely untapped and poised for sustained growth.

---

Broadbased
Acceptance Of The
Internet As A
Commerce And
Marketing Channel

The Internet has proven to be a very profitable and viable business channel for some industry groups. We believe the opportunity, however, is still in its infancy as the broader adoption among other large industry groups is still quite low (see below for further details). We expect many traditional businesses to become increasingly more active in using the Internet as a sales and marketing channel, driven primarily by the amount of time and money spent by consumers on the Internet. As more businesses choose the Internet as a distribution medium, we believe search will be the principal method they use to find and acquire customers. Continued increases in broadband adoption, in our opinion, will also continue to drive increased online commerce activities as consumers tend to use the Internet much more when they have a broadband connection, even for activities where the download speed is irrelevant.

Growth In
International
Markets

We believe the largest growth area, both from search query growth as well as monetization improvements, will continue to come from international markets. The international opportunity is still at its very early stages in most countries, as the number of users outside of the United States totals almost 850 million, or slightly less than 13% of the global population, versus the U.S. penetration rate of almost 70%. We detail the international market more thoroughly in the next section.

Growth In Local
Search

Local search will be a major growth driver of search advertising as it moves spending from the offline classifieds and directory markets, which currently dominate small business local advertising. The bulk of local small business advertising spending is done through Yellow Pages directories, a $16 billion market, and local classifieds, a $17 billion offline market showing no growth, compared with a rapidly growing $4.5 billion online market, which includes local search, online yellow pages, and online classifieds. Unlike TV and radio ads (which may see some shift toward online but continue to be major components of advertising allocation, directories, and classifieds), local advertising could eventually move almost entirely online. Currently, we believe local search advertising represents less than 10% of the U.S. search advertising market and a much smaller portion of the international market. Over the next five years, it is conceivable this percentage could double in the United States and triple internationally as local advertisers shift budgets away from offline media and localized search technology becomes more intuitive for consumers and advertisers alike.

The two major trends that are going to move local advertising online are as follows: (1) a more connected consumer using search as a first step in purchase decisions; and (2) simpler search marketing tools that make the change from directory-centric to search-centric advertising seamless.

Search is becoming the new portal for traditional Internet use, with more consumers beginning their online experiences at Google or an alternate search engine. Additionally, with the proliferation of new Internet-enabled mobile devices, consumers will soon be using search-enabled cellular phones for everything from walking directions to restaurant reviews.

Google and other search engines are developing tools that should eventually make search marketing so simple that even individuals using online classifieds will be able to quickly create a search marketing campaign. Google, for example, has a patent for an as yet unlaunched tool (sometimes called Google AutoMat) that would automatically develop algorithmically optimized search campaigns. This system could eliminate the need for small businesses to develop specialized search marketing knowledge. Finally, the development of click-to-call technologies and Pay-Per-Call models will help local businesses maintain their phone-based communications with customers and make the switch from directories to search marketing seamless.

## PART VII:
## INTERNATIONAL SEARCH MARKETS

*International markets, outside the United States, now comprise more than 65% of the total worldwide users.*

Internet population growth in international markets has occurred at a faster rate than in the United States; non-U.S. markets now comprise more than 65% of the total worldwide users. Given the vast footprint and the historical origin of the Internet in the United States, it is sometimes easy to overlook the much bigger potential opportunity worldwide. This is especially the case since the monetization of the Internet user base in the international markets is a very small fraction of the monetization in the United States. We note, however, that the growth rate of the monetization, particularly eCommerce, is much faster in the international markets than in the United States. Generally, international markets have lagged the United States by two to four years. As such, we can at least estimate the growth potential of these markets based on the market development in the United States. We note that our market sizing model analyzes the organic growth rate in these markets, but the historical U.S. growth rate provides a reality check. The bottom line is that the future of the Internet monetization lies beyond the borders of the United States. In the next five years, we believe Europe and Japan will increasingly gain significance for the Internet companies, while China and India may well dominate the markets in the next decade or so.

*In the next five years, we believe Europe and Japan will increasingly gain significance for the Internet companies, while China and India may well dominate the markets in the next decade or so.*

The growth of Internet revenues also depends on some traditional factors, such as transportation infrastructure (for eCommerce), commercial and economic strength of each market (for advertising and eCommerce), financial, banking and payment infrastructure (for eCommerce), and other factors. As a result, we are not projecting a proportional increase in monetization based on the usage – usage and access can be accomplished relatively easily even in the least developed areas. But we do note that some of the most advanced regions have very low monetization rates, and a relatively low penetration rate of Internet usage. Consider that Japan, with an economy that is 32% of the U.S. economy, has total online ad revenues of only 15%-20% of the United States', despite comparable Internet usage rates. Similarly, Europe, with a population greater than that of the United States, has only 35%-40% of the U.S. online advertising revenues.

The above macro factors, in our view, clearly point to a much greater opportunity for Internet revenues and eCommerce outside the United States, compared with the domestic opportunity. Search revenues, we believe, will follow a similar, and possibly more accelerated, path since search is a universal function and its usefulness transcends geographic boundaries.

**Key Search Players In The International Markets**

The international markets, for the most part, are best characterized by their level of concentration among the top portals. The U.S. model of the Big Three (Yahoo!, AOL, MSN, in portals) is rare, and each of the international markets has its own dynamic, usually with significantly more fragmentation. The notable exception is Japan; Yahoo! Japan is by far the most dominant player with 60%-70% market share, and enjoys a position that appears to be unique among all the major Internet markets.

Since publishing our Golden Search report three years ago, Google's growth has impacted the international markets most noticeably, particularly in Europe. With the

notable exceptions of China, Russia, South Korea, and Japan, Google has solidified its market dominance in most international markets.

## Europe

More than 75% of all Internet users in the United Kingdom and Spain use Google's search engine each month, while more than 60% of Internet users in Germany, France, and Italy search on Google each month. Additionally, Google is the number-one Website in all of these countries.

## India

In India, where Yahoo! still captures a slightly larger share of the total Internet users each month (64% for Yahoo! compared to 60% for Google), Google Search still holds a commanding lead of nearly 70%-80% market share. We believe Google Search is used by twice as many Indian users each month than Yahoo! Search and five times as many as Microsoft's MSN Search.

## Latin America

Although data from most countries in Latin America is difficult to obtain, we believe that the Central and South American search market largely mirrors its largest participant, Brazil. Each month, Google is visited by nearly 70% of Brazilian Internet users, and is the most popular Website in Brazil, likely benefiting partially from its popular Orkut social networking site. MSN is the second most popular site in Brazil and its search site, MSN Search, garners just over half as many monthly visitors as Google's. Yahoo! Search is doing surprisingly well with about 90% as many monthly visitors as MSN Search despite a much less popular portal (the sixth-ranked Website overall). According to a recent speech by an executive from Google Mexico, Google's market dominance in Argentina, Chile, and Mexico is even greater, serving more than 80% of the search-related page views in each country. According to Google, the total search marketing Latin America was $111 million, and is poised to triple in the next four years.

## Japan

Yahoo! has a clear lead in Japan, where a partially-owned subsidiary Yahoo! Japan is used by nearly 80% of Japanese Internet users each month, and 65% are using Yahoo! Japan's search function. Google, although fourth in Japan in total usage, is a solid second place in search with approximately 47% of the Internet population hitting Google's search site at least once a month. We note that Baidu recently announced its intention to enter the Japanese market.

Exhibit 137

**PERFORMANCE OF THE TOP THREE SEARCH ENGINES IN KEY INTERNATIONAL MARKETS**

| Japan | Unique Users (000s) | % of Internet Population | Traffic Rank Among All Web Sites | Germany | Unique Users (000s) | % of Internet Population | Traffic Rank Among All Web Sites |
|---|---|---|---|---|---|---|---|
| Yahoo! Search | 35,140 | 65% | 1 | Google Search | 21,907 | 68% | 1 |
| Google Search | 25,569 | 47% | 4 | MSN Search | 5,787 | 18% | 3 |
| MSN Search | 8,480 | 16% | 2 | Yahoo! Search | 4,759 | 15% | 7 |
| **Total Internet Users** | **54,075** | **100%** | | **Total Internet Users** | **32,177** | **100%** | |

| United Kingdom | | | | France | | | |
|---|---|---|---|---|---|---|---|
| Google Search | 23,581 | 80% | 1 | Google Search | 15,828 | 66% | 1 |
| MSN Search | 9,807 | 33% | 2 | MSN Search | 5,805 | 24% | 2 |
| Yahoo! Search | 9,129 | 31% | 4 | Yahoo! Search | 4,791 | 20% | 5 |
| **Total Internet Users** | **29,553** | **100%** | | **Total Internet Users** | **24,126** | **100%** | |

| India | | | | Italy | | | |
|---|---|---|---|---|---|---|---|
| Google Search | 10,197 | 52% | 2 | Google Search | 10,933 | 62% | 1 |
| Yahoo! Search | 5,053 | 26% | 1 | MSN Search | 4,220 | 24% | 2 |
| MSN Search | 2,044 | 10% | 3 | Yahoo! Search | 2,228 | 13% | 5 |
| **Total Internet Users** | **19,785** | **100%** | | **Total Internet Users** | **17,571** | **100%** | |

Source: comScore Networks data, October 2006

Certain markets have developed around strong local players that have so far held Google, Yahoo!, and MSN at bay. The U.S.-based players have experienced particular difficulty in China, Russia, and South Korea due to a combination of language and cultural differences. Below, we discuss these markets and the leading players in each market.

China

China's search market is dominated by Baidu with more than 60% market share compared to Google's less than 25% share. Yahoo! also experienced difficulty in China, with a market share of less than 10% and falling, despite merging its Chinese operations with local eCommerce company Alibaba. Baidu commands an even greater share of search marketing revenue with more than 100,000 advertising customers using its services.

Russia

Russia has two local players, Yandex and Rambler, which are capturing 64% and 53%, respectively, of monthly Russian Internet users. Yandex, Russia's leading search engine, has over 70% market share and more than two times the number of monthly Google users and four times as many as Yahoo!. MSN, Google and Yahoo! rank sixth, eighth, and 14th, respectively, behind mostly local Russian sites with the notable exceptions of Time Warner sites (ranked fifth) and Six Apart (ranked 10th), a U.S.-based blogging site. Outside of the successful local players, Google has a clear lead over the other global search sites, with approximately a little less than double the traffic of MSN Search, and more than three times the traffic of Yahoo! Search.

South Korea

**Top Search Engines:**

*Naver 70% market share*
*Daum 15% market share*

The South Korean market has also developed very differently from the rest of the world. One of the most connected countries in the world, South Korean search has been dominated by local players, but global players supply search monetization technologies. The top two search sites in terms of traffic and query volume are NHN's Naver and Daum Communications. Naver is the leading search engine in South Korea with close to 70% market share, according to some sources. Naver gained popularity in part by embracing social search, taking in user link suggestions and answers through its Knowledge iN portal. Despite a highly connected population, Korea had relatively few Korean-language Websites several years ago, making traditional Web-crawling and indexing ineffective for many searches. Through Knowledge iN, Naver was able to increase the total Korean-language content available by empowering user content generation, and then mine that content for relevant search results. Daum, Korea's second most popular search engine, is a more traditional portal, and controls approximately 15% of the search market in China. Until recently, however, both Naver and Daum were monetized through Yahoo! search ads. Although Naver recently signed an extension with Yahoo!, Daum recently switched ad partners to Google. According to Alexa, Naver, Nate.com, and Daum are currently the three top Websites in Korea, with Yahoo! fourth, MSN eighth, and Google 16th.

Although we believe that Google will continue to gain share worldwide as its size, relevancy, and brand continue to grow, we do believe that certain markets will remain dominated by strong local players. These local players, like Yandex and Baidu, better understand the population they are serving and, at least within their home countries, have the brand advantage over Google and other Internet multinationals.

**Major International
Search Engines**

Baidu.com, Inc.
(BIDU)

Baidu is by far the dominant search engine in China, commanding more than 60% of China's search query volume, and more than 80% of the search-related revenue. Baidu gained its market-leading position relatively quickly, despite entering a market already being served by much larger global rivals Google and Yahoo!. Baidu's success has come from a combination of better Chinese language parsing, which allows the company to better understand the intent of the searcher, and a sense of local pride, which has given Baidu an edge over global brands with the Chinese user. Although Baidu's revenue model is similar to Google's, Chinese search advertising has developed differently due to the limited eCommerce penetration. Most of Baidu's 100,000-plus advertisers are small local businesses using Baidu in much the same way as local businesses in the United States use the Yellow Pages.

Yahoo! Japan
(JP:4689)

*65% Share of Japan's
Search Market*

Yahoo! Japan is an independent publicly-traded company in which Yahoo! owns an approximately 30% share. With more than 33 billion page views per month, Yahoo! Japan is by far the most popular sight in Japan, combining Yahoo!'s technology with Japanese local expertise to create the most popular portal for Japanese users. Yahoo! Japan's search service controls an estimated 65%+ of the Japanese search market. Interestingly, however, the term "google" was the third most searched for keyword on the Yahoo! Japan system in 2006 (according to Yahoo! Japan's search word ranking). This suggests that although still not a significant threat in Japan, there is substantial interest in Google in Japan, and Google could grow as awareness increases.

Yandex

Yandex is the largest search engine and portal in Russia, offering services ranging from search and directory listings to email and free Website hosting. Although the Yandex search engine was officially announced in 1997, the company and management team have developed search technology since 1990, and it has used this long experience combined with its understanding of Russian semantics to become the dominant search site in Russia. Yandex became profitable in 2002 on revenues less than $2 million, selling targeted CPC advertisements to a combination of large multi-nationals, and small local Russian businesses. By 2004, Yandex's revenue had increased ten times. We estimate that Yandex's revenues in 2006 will well exceed $50 million. In Russia, like in China, global brand names such as Google and Yahoo! have limited power, and given Yandex's current commanding lead, we believe it is unlikely that these global players will have much success eating into Yandex's market share.

**CHAPTER 9**

# *How Big Can Online Advertising Become?*

- We expect total global online ad spending to reach $81 billion by 2011, growing at CAGR of 21% (2006-2011).

- In 2011, online ad spending is expected to be 11.4% of total ad spending in the United States.

- The potential is strong for online to be much larger than our estimates.

- We believe online can eventually be the second largest medium and much closer to TV's level.

- Video and communitainment will be the two major drivers of growth for faster online spending.

**Global Online
Advertising To Reach
$81 Billion By 2011.**

We expect global online advertising revenue to reach $81.1 billion by 2011, representing a 21% CAGR (2006-2011). On a more granular level, we estimate U.S. online advertising revenue to reach $42 billion by 2011, which represents a 17% CAGR (2006-2011). We also expect international online advertising revenue to reach $39.1 billion, which represents a 27% CAGR (2006-2011). We note that the growth in the international markets is more robust as the number of online users continues to grow at a more rapid rate internationally than the fairly mature U.S. market. Also, the adoption of online advertising as a major component of the advertising mix in some international markets appears to be occurring at a more rapid rate than in the United States. For example, online advertising comprises over 10% of total advertising spending in the United Kingdom, and could reach 20% by 2009. By comparison in the United States, online advertising represented approximately 6.6% of total advertising expenditures in 2006. We believe this is due to the larger revenue base in the United States, the continued dominance of TV advertising, and the cautious migration to online advertising by many brand advertisers.

Exhibit 138

**PIPER JAFFRAY & CO. GLOBAL ONLINE ADVERTISING REVENUE FORECAST**
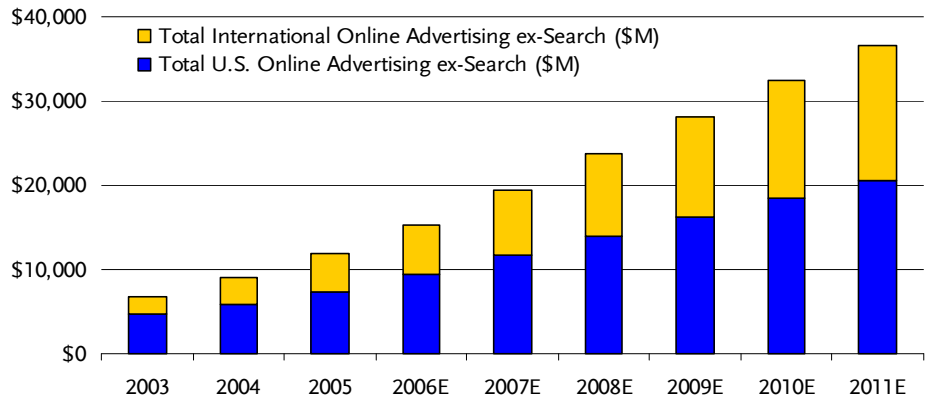


Source: Piper Jaffray & Co. estimates

**Global Branded
Advertising And
Global Paid Search**

We expect global branded advertising to reach $36.6 billion by 2011, which represents a 19% CAGR (2006-2011). We also expect global paid search revenue to reach $44.5 billion representing a 23% CAGR (2006-2011).

Exhibit 139

## PIPER JAFFRAY & CO. GLOBAL PAID SEARCH AND BRANDED ADVERTISING FORECAST
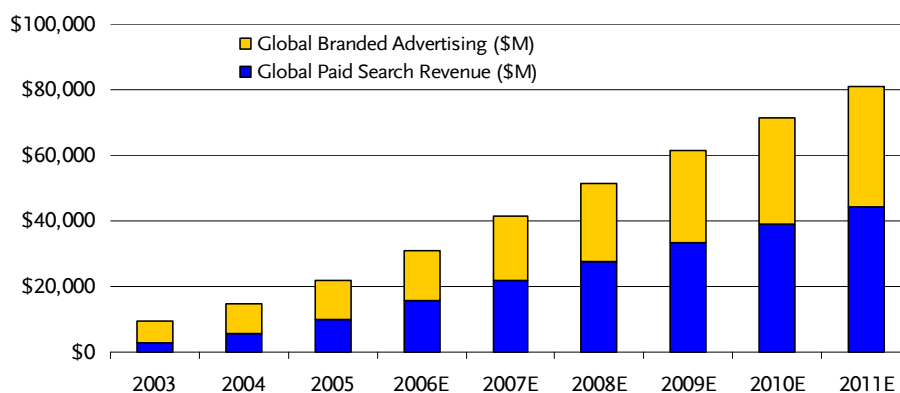


Source: Piper Jaffray & Co. estimates

**U.S. Online Advertising To Reach 11.4% Of Total Ad Budgets**

We expect U.S. online advertising revenue to reach $42 billion by 2011, representing 11.4% of total advertising budgets, up from approximately 6.6% of total advertising budgets in 2006 (see Exhibit 140). Within our U.S. online advertising estimate, we estimate U.S. online advertising, excluding search, to reach $20.5 billion in 2011, which represents a 17% CAGR (2006-2011). A 10% CAGR of page views from 2006-2011, coupled with monetization improvements, are the primary drivers of U.S. online advertising revenue, excluding search, growth. We also estimate U.S. paid search revenue to reach $21.5 billion by 2011, which represents a 17% CAGR (2006-2011). Growth in the number of searches and monetization improvements from contextual advertising and algorithm optimization are the primary drivers of our U.S. paid search growth.

Exhibit 140

**PIPER JAFFRAY U.S. ONLINE ADVERTISING FORECAST**
As A Percentage Of Total Advertising Spending
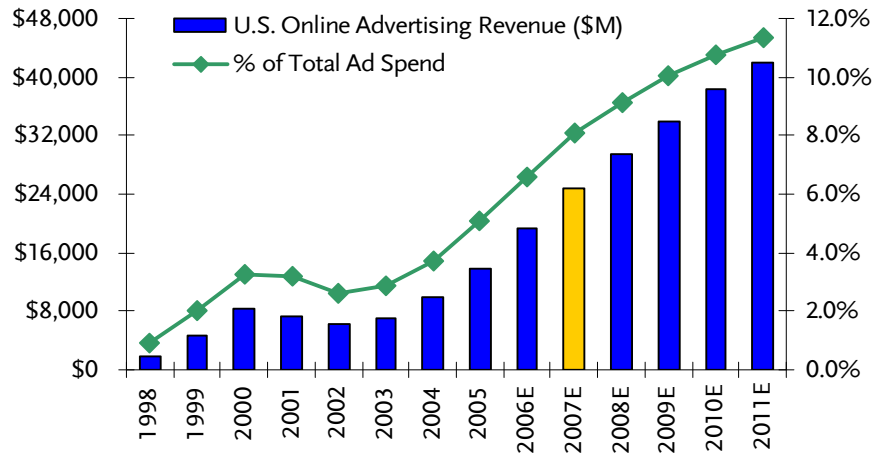


Source: Piper Jaffray & Co. estimates

**Global Paid Search Revenue To Reach $44.5 Billion By 2011**

We expect global paid search revenue to reach $44.5 billion by 2011, representing a 23% CAGR (2006-2011). Within our global search revenue estimate, we estimate that the U.S. paid search market will reach $21.5 billion by 2011, representing a 17% CAGR (2006-2011). We also estimate that international paid search revenue will reach $23 billion, representing a 31% CAGR (2006-2011). We note that the faster growth rate of the international search market is driven by an increase in the overall number of international Internet users coupled with monetization improvements (see Exhibit 141).

Exhibit 141

**PIPER JAFFRAY & CO. U.S. AND INTERNATIONAL SEARCH FORECAST**
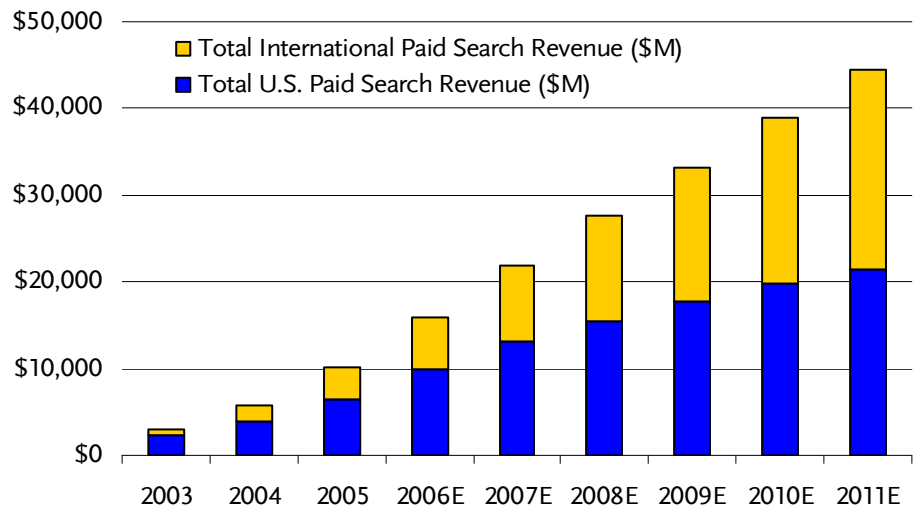


Source: Piper Jaffray & Co. estimates

As shown in Exhibit 142, we currently expect the total local online advertising market to be approximately $4.5 billion, which represents 12% of the total local advertising market (classified and yellow pages only). We believe this is a market that can largely migrate online and would expect that we could see having 70% or more market share over the next 10 years. These assumptions would suggest a potential local ad market of approximately $25 billion, just in the United States, and possibly twice that worldwide.

Exhibit 142

**TREMENDOUS OPPORTUNITY IN MIGRATION OF LOCAL AD DOLLARS**

| Offline Yellow Pages and Classifieds Market | $37 Billion | |
|---|---|---|
| | Millions of $ | % of Offline |
| Local Search | $989 | N/A |
| Online Yellow Pages | $800 | 5% |
| Classifieds | $2,800 | 16% |
| Current Total Online Local Ad Market | $4,589 | 12% |
| Potential Online Local Ad Market - 70% of Total | $25,900 | |

Source: Piper Jaffray and Co.

Exhibit 143

## PIPER JAFFRAY AND CO. GLOBAL ONLINE ADVERTISING ESTIMATES

2006-2011

| Global Online Advertising Market | 2001 | 2002 | 2003 | 2004 | 2005 | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2006-2011 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| U.S. Online Advertising Revenues ($M) | $7,404 | $6,229 | $6,982 | $9,824 | $13,956 | $19,324 | $24,696 | $29,478 | $33,952 | $38,233 | $42,004 | 17% |
| *% of Total U.S Ad Spend* | *3.2%* | *2.6%* | *2.8%* | *3.7%* | *5.1%* | *6.6%* | *8.1%* | *9.2%* | *10.0%* | *10.8%* | *11.4%* | |
| *Yr/Yr Growth* | | | *12.1%* | *40.7%* | *42.1%* | *38.5%* | *27.8%* | *19.4%* | *15.2%* | *12.6%* | *9.9%* | |
| International Online Advertising Revenues ($M) | $2,161 | $1,914 | $2,695 | $4,987 | $8,034 | $11,846 | $16,575 | $21,887 | $27,300 | $33,117 | $39,058 | 27% |
| *Yr/Yr Growth* | | | *40.8%* | *85.0%* | *61.1%* | *47.5%* | *39.9%* | *32.0%* | *24.7%* | *21.3%* | *17.9%* | |
| **Global Online Advertising Revenue ($M)** | **$9,566** | **$8,143** | **$9,677** | **$14,811** | **$21,990** | **$31,170** | **$41,271** | **$51,365** | **$61,252** | **$71,350** | **$81,062** | **21%** |
| *% of Total Global Ad Spend* | *2.2%* | *1.8%* | *2.0%* | *2.7%* | *3.9%* | *5.2%* | *6.5%* | *7.7%* | *8.8%* | *9.8%* | *10.6%* | |
| *Yr/Yr Growth* | | | *18.8%* | *53.0%* | *48.5%* | *41.7%* | *32.4%* | *24.5%* | *19.2%* | *16.5%* | *13.6%* | |

| Global Search Market | 2001 | 2002 | 2003 | 2004 | 2005 | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2006-2011 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total U.S. Paid Search Revenue ($M) | $475 | $1,103 | $2,258 | $3,952 | $6,556 | $9,896 | $13,061 | $15,501 | $17,678 | $19,750 | $21,519 | 17% |
| *Yr/Yr Growth* | | | *104.6%* | *75.0%* | *65.9%* | *50.9%* | *32.0%* | *18.7%* | *14.0%* | *11.7%* | *9.0%* | |
| Total International Paid Search Revenue ($M) | $30 | $246 | $690 | $1,767 | $3,584 | $5,937 | $8,818 | $12,174 | $15,515 | $19,173 | $22,962 | 31% |
| *Yr/Yr Growth* | | | *180.0%* | *156.1%* | *102.9%* | *65.6%* | *48.5%* | *38.1%* | *27.4%* | *23.6%* | *19.8%* | |
| **Global Paid Search Revenue ($M)** | **$505** | **$1,350** | **$2,948** | **$5,718** | **$10,140** | **$15,832** | **$21,879** | **$27,675** | **$33,193** | **$38,924** | **$44,482** | **23%** |
| *Yr/Yr Growth* | | | *118.4%* | *94.0%* | *77.3%* | *56.1%* | *38.2%* | *26.5%* | *19.9%* | *17.3%* | *14.3%* | |

| Global Online Advertising ex-Search | 2001 | 2002 | 2003 | 2004 | 2005 | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2006-2011 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total U.S. Online Advertising ex-Search ($M) | $6,929 | $5,126 | $4,724 | $5,872 | $7,400 | $9,428 | $11,635 | $13,976 | $16,274 | $18,483 | $20,485 | 17% |
| *Yr/Yr Growth* | | | *-7.8%* | *24.3%* | *26.0%* | *27.4%* | *23.4%* | *20.1%* | *16.4%* | *13.6%* | *10.8%* | |
| Total International Online Advertising ex-Search ($M) | $2,131 | $1,668 | $2,006 | $3,220 | $4,450 | $5,909 | $7,757 | $9,712 | $11,785 | $13,943 | $16,095 | 22% |
| *Yr/Yr Growth* | | | *20.3%* | *60.6%* | *38.2%* | *32.8%* | *31.3%* | *25.2%* | *21.3%* | *18.3%* | *15.4%* | |
| **Global Online Advertising ex-Search** | **$9,060** | **$6,793** | **$6,730** | **$9,092** | **$11,849** | **$15,337** | **$19,392** | **$23,689** | **$28,058** | **$32,426** | **$36,580** | **19%** |
| *Yr/Yr Growth* | | | *-0.9%* | *35.1%* | *30.3%* | *29.4%* | *26.4%* | *22.2%* | *18.4%* | *15.6%* | *12.8%* | |

Source: Piper Jaffray and Co.

**Online Spending
Levels Versus Web's
Share Of Media Time**

While we are ardent believers in the efficiency and reach of online advertising, we recognize that savvy marketers employ online advertising as a component of the overall marketing mix, and that optimized levels of online and offline advertising result in effective marketing. As such, we do not necessarily expect online advertising spending levels to be commensurate with the level of online media consumption vis-à-vis traditional media consumption, at least in the early years. We note this as a reminder that while online can garner a very large share of the total ad budgets, this growth has to come gradually with the changes in the efficacy and usage pattern of the online users: that is, what they spend their time on, not just how much time they spend online. Currently, online advertising accounts for approximately 6.6% of total advertising spending, while online media consumption accounts for 21% of overall media consumption. We expect the gap between the proportion of online advertising spending and online media consumption to narrow over time, even as online advertising and online media consumption continue to increase, and we would not necessarily rule out Online eventually getting a share of the market that is even bigger than its reach.

Exhibit 144

**INTERNET CONSUMPTION AND ADVERTISING SPENDING**
As A Percentage Of Total Media Consumption And Advertising

Media Consumption

Internet Ad Spending

Internet 21%

Other Media 79%

Internet 7%

Other Media 93%
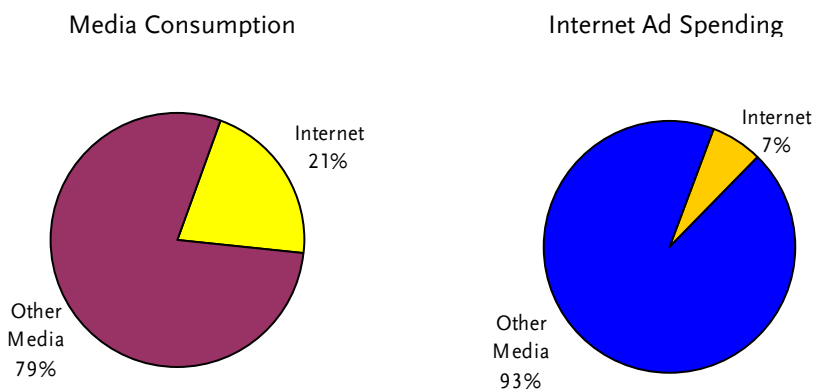
Source: Television Advertising Bureau, Nielsen Media Research, Advertising Age, and Piper Jaffray & Co. estimates

**Catalyst For Upside: How Online Spending Could Grow Much Faster Than Our Model**

The dominance of the Web over other types of media and its closing of the gap with TV will come when the Web is used heavily for content consumption, especially for watching videos. We believe the Web could have a major presence in living rooms next to the TV (or in combination with it). More importantly, the Web will eventually be with users when TV cannot be: while they are in transit, at work, and in other places. Beyond the content consumption pattern, we believe using the Web as a communitainment tool will eventually lend itself to much higher levels of ad spending. It is not simply the fact that the availability of video and communitainment will increase the time people will spend online. Rather, we believe these activities will most accurately reflect the general consumption patterns of consumers, showing their interests in various products and thus, allow marketers to accurately target consumers. The combined effect of more time and more targeting could result in some companies spending more than half their budgets on the Web, considering the vast majority of a target audience may best be reached and impacted on the Web.

**The Web, One Of The Fastest Growing New Media In History**

Comparing the growth of online advertising revenues with that of other new forms of media and advertising, we see that online is likely to be one of the fastest growing new segments that has ever evolved. Until now, Cable TV was the most successful new format developed, one that very quickly managed to shift market share from Network TV and also other types of media. Against this impressive performance, we believe the Web is likely to become the fastest growing segment, beating Cable TV's record, as shown in Exhibit 145. We have charted the growth for the first ten years of both Cable TV, and our projections for online advertising (1997-2007). With the obvious exception of the bubble years, which caused the subsequent correction, we expect online advertising growth path to be much more accelerated than the one followed by Cable TV. Exhibit 146 and Appendix I detail online advertising expenditures versus other traditional media.

Exhibit 145

**COMPARISON OF INTERNET VERSUS CABLE ADVERTISING**
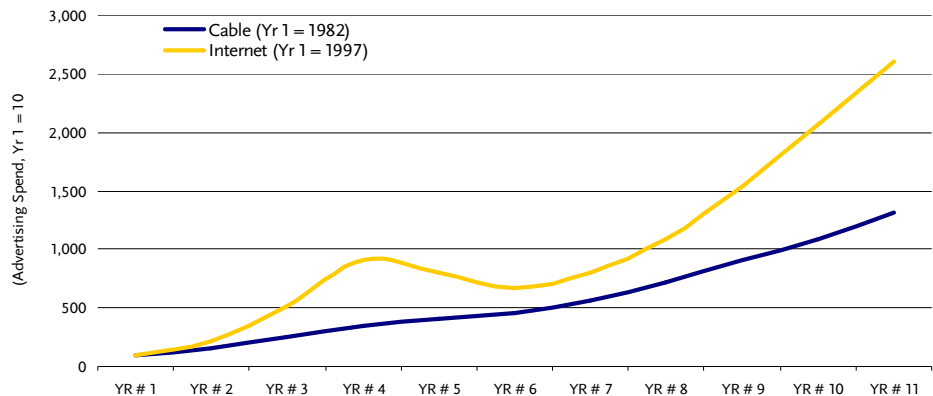


Source: Piper Jaffray & Co. estimates

Exhibit 146

**ADVERTISING EXPENDITURES ACROSS MEDIA**
1995-2005
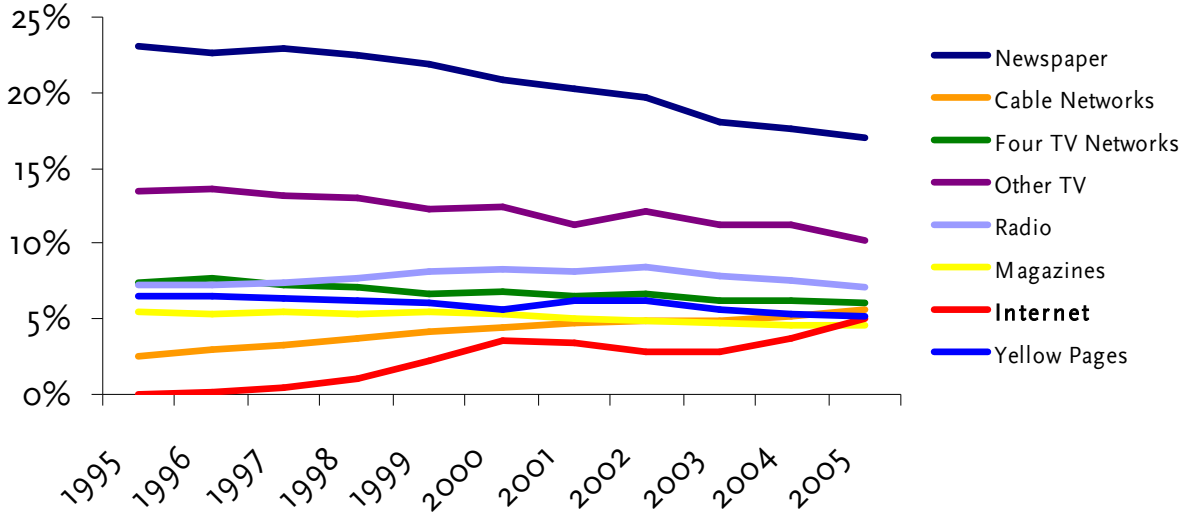
**TV Remains
Dominant
Advertising Platform**

Over the last few years, the acceptance of the Internet advertising's high ROI and consumer reach has become widespread among marketers of all stripes from large global brands to local classified advertisers. Online advertising spending, however, still lags other traditional media formats. In 2006, we estimate that online advertising comprised approximately 6.6% of total U.S. advertising spending, far below advertising spending levels of traditional advertising media, such as broadcast television, cable television, magazines, newspapers, and radio. Despite the diminishing effectiveness of TV advertising due to media fragmentation and simultaneous use, TV advertising still dominates the brand marketers marketing mix due to both its dominant reach and high average usage per day in the United States. In short, TV advertising is likely to still remain the biggest category of spending, at least in the near term, although we expect a marked decline in its share.

Exhibit 147

**2005 DOMESTIC ADVERTISING SPENDING BY CATEGORY**
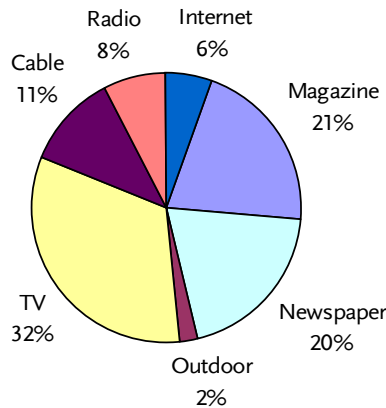


Source: Advertising Age and Piper Jaffray & Co. estimates

As a point of reference to TV's dominance, in 2005, global online advertising spending was only 15% of TV and 23% of print ad spending, as shown in Exhibit 149.

Exhibit 148

**WORLDWIDE ADVERTISING SPENDING BY MEDIUM**
(In Millions)
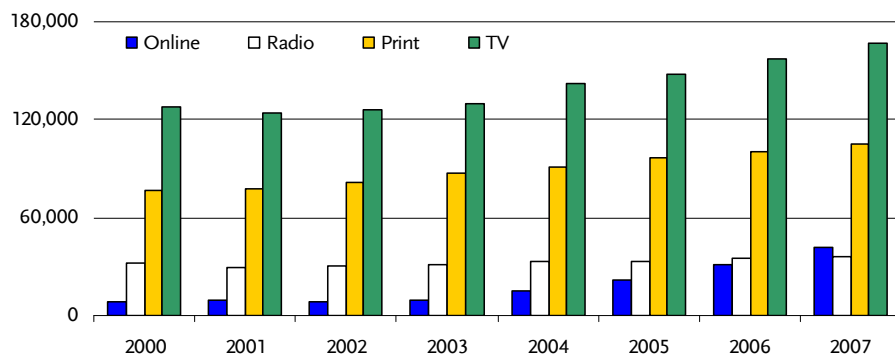


Source: ZenithOptimedia and Piper Jaffray & Co. Estimates

We believe, however, that over the next five years this spending imbalance will decrease rapidly as global online advertising spending grows from $31.2 billion (including search advertising) in 2006, to $81.1 billion by 2011, a CAGR of 21%, while TV advertising growth slows considerably, as shown in Exhibit 148.

Exhibit 149

**GLOBAL ONLINE ADVERTISING SPENDING**

As A Percentage Of TV Advertising
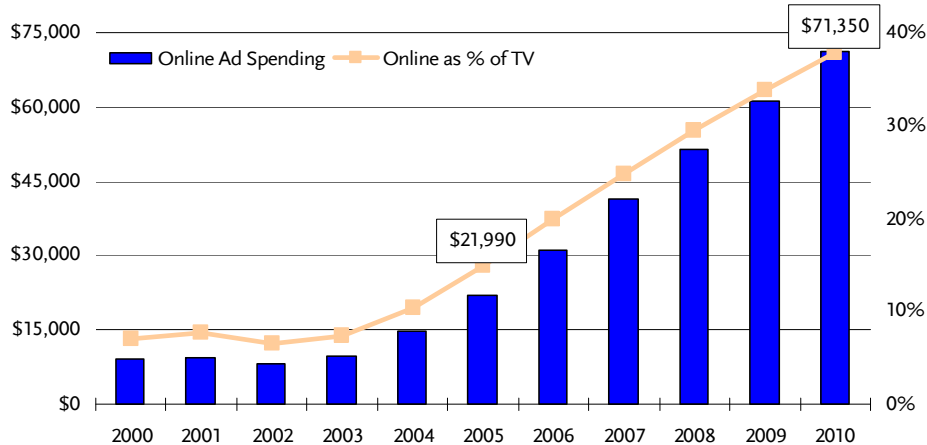


Source: ZenithOptimedia and Piper Jaffray & Co. Estimates

Even with this rapid growth in online advertising spending, total online spending will still be approximately 38% of TV advertising spending, but will likely surpass radio as early as 2007. Given the growth of the Internet within key consumer demographics, as well as the continued growth in both users and time spent online, it is likely that our current estimate of $81.1 billion in 2011 will turn out to be conservative.

[This page is left intentionally blank.]

## CHAPTER 10

# *Online Advertising Formats, Pricing, And Sectors*

- The most promising new formats are video and rich media ads, currently about one-third of display ad spending, poised to reach nearly 50% by 2011.

- Search represented 53% of format mix in 2006, up from 47% mix in 2005, and 40% in 2004. We expect search to continue to gain share within online ad budgets.

- We estimate that the U.S. display advertising market will reach $20.5 billion in 2011, which represents a 17% CAGR.

- We expect online classifieds (including jobs, autos, real estate) to continue to gain market share from traditional print classifieds, comprising 12% of online advertising by 2010.

- Google, Yahoo!, and Microsoft are likely to aggressively pursue the local advertising opportunity, specifically with local search.

**From Display To
Search**

Online advertising has undergone dramatic changes from format innovation (banners to search to rich media) and pricing evolution (CPM, CPC, and CPA). As online advertising has evolved, there has been a corresponding shift in where advertisers allocate their dollars. For example, in 2001, approximately 75% of advertising dollars were display ads, while only 4% of ad dollars went towards keyword search. Over the last several years, however, a dramatic shift has occurred, driven by the increasing efficiency of search marketing. In 2006, keyword search was the single largest category of online advertising, accounting for 53% of total revenue, while display ads as a percentage of dollars spent decreased from 75% in 2001 to 31% in 2005.

Since 1994, when the first banner appeared, several new advertising formats have emerged, gradually diminishing banner's prominence. We have segmented Internet advertising into five major categories: Display, Search, Classified, Email, and Wireless. Search is now the largest category in the market (53%), followed by Display Related (27%), Classifieds (14%), Lead Generation/Referrals (5%), and Email (2%). Additionally, while wireless advertising, also knows as the "third screen," is immaterial today, it represents a potentially large market longer term.

Exhibit 150

**2006 ESTIMATED AD FORMAT MIX**
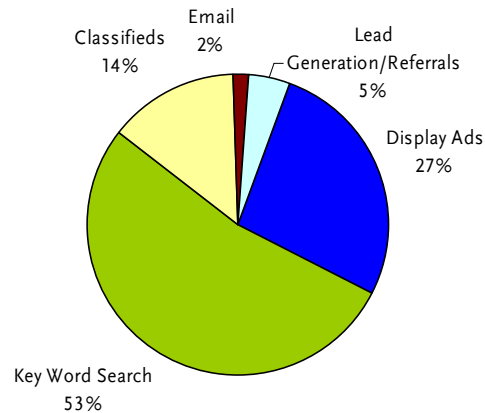


Source: Piper Jaffray & Co.

Exhibit 151

**2006 ESTIMATED AD FORMAT GROWTH**

| Ad Format | 2006 Y/Y Growth |
|---|---|
| Key Word Search | 51% |
| Lead Generation/Referrals | 30% |
| Classifieds | 20% |
| Email | 20% |
| Display Ads | 19% |

Source: Piper Jaffray & Co.

- **Display.** Graphical or text advertisements that present an advertiser's message to an end user in the form of a static or hyper-linked banner, a logo, or a text message. Display ads include banners, skyscrapers, interstitials, buttons, and rich media ads. Rich media ads can include dynamic motion, video, audio, and animation.
- **Search.** Search is a vehicle that provides an advertisement as a link to the advertiser's Website in response to a user's query, or next to relevant search results or content. Search advertisers typically pay a cost-per-click ("CPC"), whereby the advertiser pays only when a user clicks on the ad. While in the past direct marketers predominantly used search, brand advertisers are increasingly adopting search advertising. Search typically includes paid listings (paid search links), contextual search (ads that appear in an article), paid inclusion (guarantees the advertiser's Website is indexed by a search engine), and search engine optimization (optimizing a company's Website for natural or algorithmic search).
- **Classifieds.** Classified ads are essentially the same type of advertisements that appear in newspapers, except the Web is not constrained by physical inventory levels. Online classifieds are also easily searchable compared with their offline predecessors.
- **Email.** A form of direct marketing whereby an online marketer users email to acquire new customers and enhance or retain a customer relationship.
- **Wireless.** Wireless advertising, displaying graphical or text messages on mobile phones in response to some user action, is currently in the early stages of its market evolution. Advertising on the "third screen" represents a compelling and potentially large advertising opportunity given the widespread prevalence and reach of mobile phones and the potential for targeting amid demographic, contextual, and geospatial.

**Display Advertisements**

*Banner ads are now less than 20% of ad inventory.*

**The Traditional Banner Ad:** Banner advertisements were the earliest and one of the simplest forms of advertising on the Internet. While display advertising is most effective in building brand awareness, historically, banner ads were seen primarily as a direct-marketing vehicle, and the success of a campaign was measured only by the click-through rate. We believe that banner ads, the original staple of display advertising, now represent less than 20% of the total ad inventory. The most promising new formats of display advertising are rich media ads - streaming video ads, specifically. We believe streaming video ads are likely to become the dominant form of inventory in dollar terms as they are best able to engage the consumer. In the following section, we explore the various types of display advertisements.

Rich Media Ads: The
New And Improved
Banner Ad

Rich media advertisements leverage technologies such as Flash and Java to deliver ads, which include dynamic motion and features, such as video, audio, and animation. Some rich media advertisements are very much like television advertisements, with full video and audio, while other rich media ads lend themselves to user interaction such as interactive games. There are several key benefits of rich media ads. The most important benefit is that rich media ads are better able to engage the user and create a more lasting brand impression. Similar to a TV commercial, advertisers can use sound, animation, dynamic motion, and creative interactivity to communicate their message to a user and perhaps create a lasting brand impression with that user. As a result of the increased engagement of rich media ads, rich media ad formats achieve noticeably higher click-through rates than static display advertising providing advertisers higher ROI. We believe static display banners have click-through rates below 1%, while rich media ads have click-through rates of 2%-6%.

*Rich media ads can have click-through rates in the range of 2% to 4%, compared with less than 1% for traditional ads.*

Advertisers can also use a variety of engagement metrics to track a rich media ad such as display time, interaction rate, interaction time, video completions, average video time, and video pauses/rewinds/mutes to measure a consumer's interaction with the ad. These metrics can be used in conjunction with offline research to analyze traditional brand effectiveness, such as aided and unaided brand awareness and purchase intent. Dynamic Logic, a market research firm, has conducted numerous studies to assess the impact of online advertising. Its findings indicate that rich media ads create significantly greater increases in brand metrics than standard Web ads. Specifically, rich media ads increase a consumer's awareness of online ads, message association, aided brand awareness, brand favorability, and purchase intent compared with static ads.

Exhibit 152

## EFFECTIVENESS OF RICH MEDIA VERSUS STATIC DISPLAY ADS
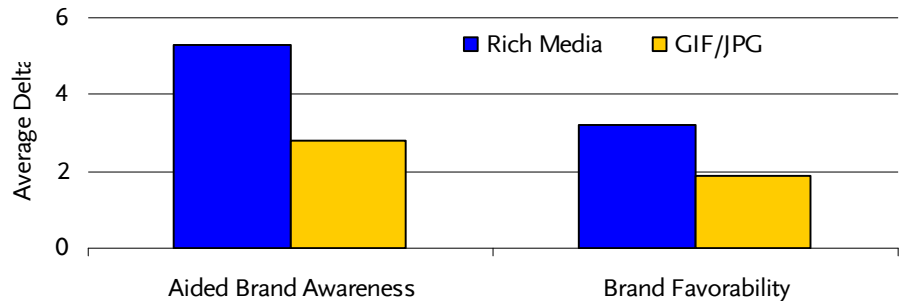


Source: Dynamic Logic MarketNorms

Display Advertising
Outlook

We estimate that U.S. display advertising market reached $9.4 billion in 2006, and will reach $20.5 billion in 2011, representing a 17% CAGR. We expect display advertising to continue to attract a larger share of advertising dollars as Internet media consumption increases and traditional advertisers increasingly utilize the Internet for brand building, aided by new formats such as video.

**Display Advertising Formats**

Banner

A banner is usually in the form of a box that contains graphics, text, and sometimes animation that is placed at the top or the bottom of a Web page. The most basic banner ads take the form of static image that links a user to an advertiser's Website. More often, banner ads take the form of rich media with dynamic audio and visual components. The Internet Advertising Bureau provides industry accepted specifications for size and pixel dimensions. Exhibit 153 displays the IAB standard size for banners.

Exhibit 153

**BANNER ADVERTISING**

Interactive Advertising Bureau Sizes

**728 x 90 IMU – Leaderboard**
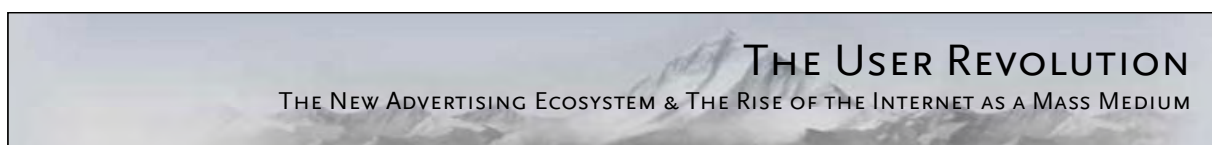


**468 x 60 IMU – Full Banner**
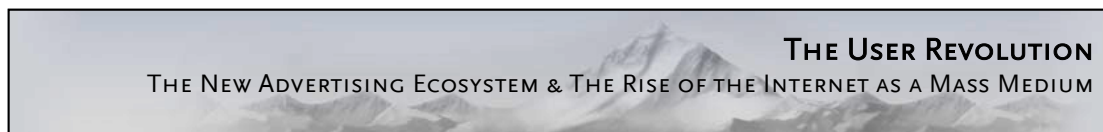


**234 x 60 IMU – Half Banner**
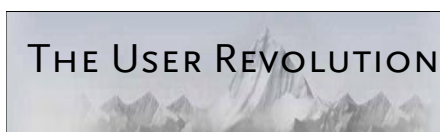


Source: Piper Jaffray and Co. IAB Ad Sizes are representative only and not exact sizes.

| Skyscraper | A skyscraper ad is a vertically placed graphical banner that runs on the right or left side of a Web page. The Internet Advertising Bureau provides industry accepted specifications for size and pixel dimensions, as we display in Exhibit 154. Skyscraper ads are typically more effective than banner ads and have become one of the most popular display formats. |
|---|---|

Exhibit 154

**SKYSCRAPER ADVERTISING**

160 x 600 IMU – Wide Skyscraper and 300x 600 – Half Page Ad



Source: Piper Jaffray and Co..  IAB Ad Sizes are representative only and not exact sizes.

| Text Ad | A text ad is typically a few words with a hyperlink that are contextually relevant to the content on a page. For example, if a user is on a page with a story about hiking, she may see a text ad for a sporting goods company. Text ads are typically sold through intermediaries today, dominated by Google through its AdSense, for content programming as well as the ad networks such as ValueClick. Some ad networks specialize in text ads, including Kanoodle and AdBrite. Text ads can be priced on a variety of pricing models, including CPM, CPC, or CPA. |

| Interstitial | An interstitial ad is a graphical ad that displays in a new browser window or an advertisement that loads between two content pages. Interstitial ads are a form of interruption marketing and the invasive nature of these ads has garnered the ill will of some consumers. Common interstitial ads include pop-ups, pop-unders, or a full page takeover ad. While interstitial ads have a much higher response rate than traditional banner ads, partly due to the interruptive nature of the ads, the role of interstitials as an advertising medium has diminished over time as a result of the widespread adoption of pop-up blockers in browsers. Interstitial ads also command higher prices due to the higher response rates. |

Exhibit 155

**INTERSTITIAL ADVERTISING**

**300 x 250 – Medium Rectangle**

**240 x 400 IMU – Vertical Rectangle**



Source: Piper Jaffray and Co.  IAB Ad Sizes are representative only and not exact sizes.

Pop-Ups

*Most consumers dislike pop-up ads, yet the ads continue to perform.*

Pop-up ads, first introduced in the early days of the Internet in 1997, proliferated by 2000, largely through the ads for the famous X-Cam brand Webcam. While pop-up ads seem to appear automatically when the users goes to a Website, in reality, a pop-up ad opens a new browser window which displays an ad. Pop-up ads generate higher click-through rates than static banner ads, but over time the invasive nature of pop-up ads created a backlash from consumers. Generally, most consumers dislike pop-up ads, yet the ads continue to perform. While there is still a significant amount of pop-up ad inventory, the effectiveness of pop-up ads have declined as a result of the integration of pop-up ad blockers in toolbars such as Yahoo! and Google's toolbars and browsers such as Internet Explorer and Firefox.

Exhibit 156

**EXAMPLE OF POP-UP ADS COVERING A DESKTOP**



Source: Wikipedia – search "pop-up"

Buttons

A button ad is a small graphical ad that is usually placed toward the middle of a page on either side of the featured content. The Internet Advertising Bureau provides industry accepted specifications for size and pixel dimensions, as shown in Exhibit 157.

Exhibit 157

**BUTTON ADVERTISING**

**120 x 90 – Button 1**          **120 x 60 IMU – Button 2**



Source: Piper Jaffray and Co.  IAB Ad Sizes are representative only and not exact sizes.

**Classified
Advertisements**

**Newspapers Dominate But Online Taking Share:** The traditional classifieds market continues to be dominated by the newspaper companies and yellow page directories, but online has taken significant market share across the various verticals, including recruitment, real estate, autos, and directory listings. The recruitment and autos categories have taken the most market share to date, which should continue given the much better user experience of online searches. Additionally, we believe the online directory market is ripe for increased online share given the diminishing usage of traditional yellow page directories and increased focus on this space from large Internet players including Yahoo! and Google. We believe local search, as well as Pay-Per-Call, will lead to significant share gains over the next several years. While some would consider eCommerce listings such as eBay listings as a classified listing, we believe eBay buyers and sellers view eBay as more of an eCommerce platform as opposed to a true classified site. We note that IAB includes eBay listing fees in their estimates for the classifieds market.

Exhibit 158

**PRINT AND ONLINE CLASSIFIED MIX**
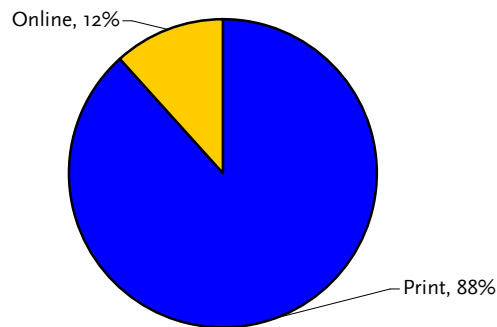


Online, 12%
Print, 88%

Source: Piper Jaffray & Co.

Newspaper Classified
Market Overview

*The longer-term trend of newspaper classified spending will continue to be marked by share losses as advertisers continue to migrate to the online channel.*

Newspapers' classified listings fees reached $17.3 billion in 2005, an increase of 4% over 2004, according to the Newspapers Association of America (NAA). Within newspapers' classifieds, the three largest categories are recruitment (30%), real estate (27%), and automotive (27%), according to the NAA. Other segments account for the remaining 17%. Through the first nine months of 2006, total newspaper spending remained flat versus 2005 driven by a 14% decline in autos, 5% decline in employment, and an 18% increase in real estate. We believe the longer-term trend of newspaper classified spending will continue to be marked by share losses as advertisers continue to migrate to the online channel, which we believe offers a much higher return and is where the majority of consumers now go to start a search. For example, according to Borrell Associates, 77% of home buyers use the Internet to search for a home, yet the Internet captured less than 18% of total real estate ad spending in 2006.

Exhibit 159

## 2005 NEWSPAPER CLASSIFIED BY SEGMENT
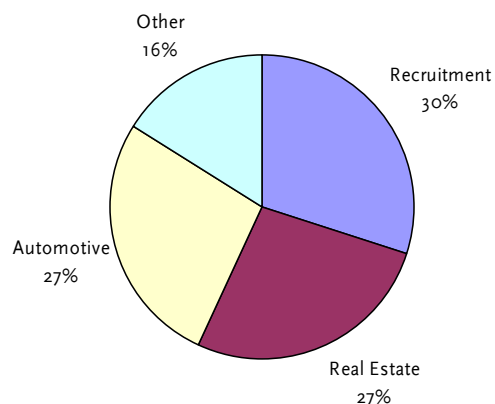


Source: Newspaper Association of America

*77% of home buyers use the Internet to search for a home.*

We believe these discrepancies will narrow over time as advertisers become more educated on the value and efficiency of online advertising. While the newspapers are very likely to have a major role in online classifieds listings, they will not necessarily have dominant online positions as they largely missed out on early market share gains, in our opinion. In the real estate, auto, and recruitment categories, Realtor.com (operated by Move, Inc.), eBay Motors, and Monster are considered the leading industry players. CareerBuilder, which is jointly owned by several of the largest newspapers, is likely the best positioned of the various newspaper Websites, and, in fact, has more traffic than Monster. Below in Exhibits 160, 161, and 162, we list the top online players in each of three key classifieds categories:

Exhibit 160

## TOP RECRUITMENT SITES

| Web Site | Unique Visitors (000) |
| --- | --- |
| CareerBuilder.com Job Search | 8,605 |
| Monster.com Job Search | 5,223 |
| Yahoo! HotJobs Job Search | 3,167 |
| Indeed.com Job Search | 2,213 |
| AOL Find a Job by CareerBuilder.com Job Search | 1,345 |
| MSN Careers by CareerBuilder.com Job Search | 1,118 |

Source: comScore Networks, October 2006

Exhibit 161

**TOP REAL ESTATE SITES**

| Web Site | Unique Visitors (000) |
|---|---|
| Move Network | 8,576 |
| AOL Real Estate | 4,598 |
| MSN Real Estate | 3,613 |
| Housevalues Sites | 3,381 |
| HOMEGAIN.COM | 3,251 |
| RENT.COM | 2,937 |
| Yahoo! Real Estate | 2,507 |
| REMAX International, Inc. | 2,211 |
| SERVICEMAGIC.COM | 2,176 |
| APARTMENTS.COM | 2,061 |
| ZILLOW.COM | 1,739 |
| Century 21 International | 1,653 |
| REALTYTRAC.COM | 1,636 |
| ForRent.com Sites | 1,490 |
| HOMES.COM | 1,427 |
| HPCInter@ctive | 1,310 |
| COLDWELLBANKER.COM | 1,174 |
| LoopNet Sites | 921 |
| HOMESCAPE.COM | 827 |
| Living Choices | 823 |
| ZIPREALTY.COM | 798 |

Source: comScore Networks, October 2006

Exhibit 162

**TOP AUTO SITES**

| Web Site | Unique Visitors (000) |
|---|---|
| eBay Motors U.S. | 13,652 |
| AutoTrader | 5,270 |
| Yahoo! Autos | 4,681 |
| AOL Auto | 4,659 |
| MSN Autos | 4,600 |
| CARS.COM | 3,641 |
| CARSDIRECT.COM | 2,064 |
| CARMAX.COM | 1,696 |
| Autobytel Inc | 1,662 |

Source: comScore Networks, October 2006

| Advantages Of Online Classifieds For Consumers And Advertisers | We believe there are numerous advantages to online classifieds ads, which helps the Web continue to gain significant market share from traditional print classifieds. These key advantages include the following: |

1) Virtually unlimited inventory and the ability to have a national database
2) Easily searchable database across a variety of user-defined fields
3) The ability to have full color pictures or virtual tours
4) Real-time updating of data

Additionally, online classified costs are often less expensive than print ads.

| Online Classifieds Market Size | We believe that because of its innate advantages, online classifieds ads will gain significant market share over the next few years. Borrell Associates estimates that total online real estate advertising represents 18% of total real estate advertising in 2006, versus 3.5% in 2001, and projects online will reach 32% by 2010. In the online recruitment category, IDC estimates that online will increase from 15% of the total recruitment classifieds market in 2006, versus 12% in 2004, and will reach 17% by 2009. While it is difficult to estimate an exact market size for the online classifieds market, we estimate the online classifieds in the core real estate, recruitment, autos, and other goods categories that are listed in newspapers, have obtained a low teens market share. Based on NAA estimates, we estimate $17 billion in newspaper classified spending in 2006 (flat with 2005); we believe this places the online classifieds market at approximately $2 billion (excluding directory revenues, which we will cover below). We believe the online recruiting category is the most penetrated online today, followed by autos and real estate. |

Exhibit 163

**U.S. ONLINE RECRUITMENT MARKET SIZE**
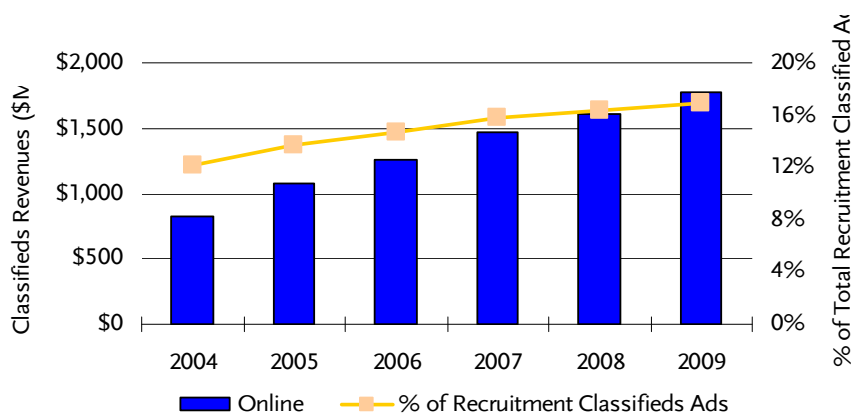


Source: IDC

The Rise Of
Craigslist And Other
Online Directories

Over the last few years, we have witnessed the emergence of several new players in the classifieds and directory segment. What is interesting is that these players are not the traditional newspaper or yellow pages sites, but rather communities and sites that have spread largely through viral marketing. We believe Craigslist is one of the best examples of this phenomenal growth. Founded in 1995, Craigslist provides local classified ads and forums for 450 cities worldwide, including listings for jobs, housing, goods and services, local activities, and romance. Craigslist receives approximately 3 billion page views per month and publishes 14 million new classified ads each month including approximately 750,000 new job listings. While Craig Newmark founded Craiglist in 1995, traffic over the last year has surged 75% through the expansion into new cities as well as viral marketing. We would also note that Craigslist only charges fees today on job listings and apartment listings in a limited number of cities. Although Craigslist is largely a destination for users to list items or services for sale, there is also a community aspect to Craigslist where users can chat, find activity partners or jobs, or use it for online personals. We also believe the fact that Craigslist is largely a free site is attractive to many users and a sort of rebellion against the entrenched establishment of listings players who charge for services, including companies like eBay, Match.com, Monster.com, and the Yellow Pages.

Exhibit 164

**CRAIGSLIST UNIQUE USER GROWTH**
September 2005 – November 2006
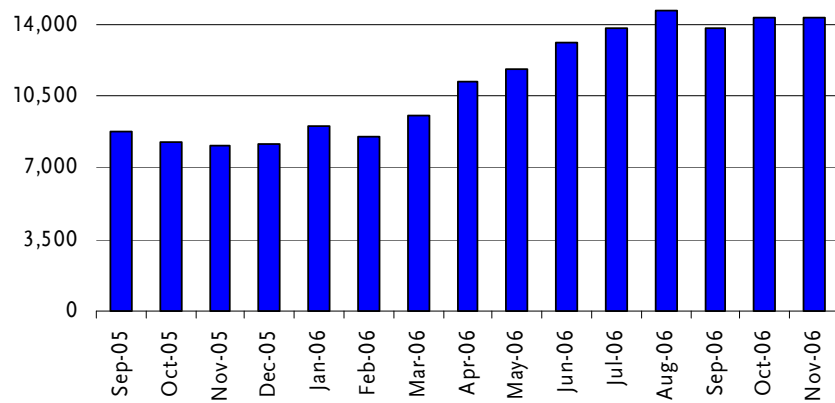


Source: comScore Networks, November 2006

There is also a new trend in directories with a heavy social element to them. The new popular directories leverage user-generated content with little to no professional reviews. An example of this new type of directory is Yelp.com, which has user-generated reviews in approximately 20 categories, including restaurants, shopping, beauty and spas, nightlife, and travel. Similar to Craigslist, Yelp has largely grown through viral marketing. Since February 2006, users have increased from approximately 200,000 to more than 700,000.

Directory Market
Overview

The traditional (offline) directory is dominated by incumbent local exchange carriers, which generated approximately $16 billion in revenue in 2005. Local advertisements from small and medium-sized businesses constituted approximately 85% of this revenue.

Exhibit 165

**U.S. ADVERTISING DIRECTORY MARKET SIZE**

|  | 2005 Revenue (billions) | Online Property |
|---|---|---|
| AT&T | $5.80 | Yellowpages.com |
| Directories Corp. (Verizon) | $3.40 | Superpages.com |
| R. H. Donnelly | $2.60 | Dexonline.com |
| Yellowbook | $1.50 | Yellowbook.com |
| Other | $2.60 |  |
|  | $15.90 |  |

Source: Directories Corp. (Verizon)

Exhibit 166

**TOP YELLOW PAGES ADVERTISERS**
In Millions

| | |
|---|---|
| ServiceMaster | $ 56.7 |
| State Farm Insurance | $ 39.2 |
| U-Haul | $ 30.9 |
| Unigroup | $ 20.9 |
| Roto Rooter | $ 20.1 |
| VHA | $ 19.1 |
| Ford Motor Company | $ 14.5 |

Source: Yellow Pages Association 2005

Exhibit 167

**MOST POPULAR YELLOW PAGES REFERENCES**

| Heading | Annual Usage (Mil.) | Heading | Annual Usage (Mil.) |
|---|---|---|---|
| Restaurants | 1,314.4 | Real Estate | 87.9 |
| Physicians & Surgeons | 1,172.9 | Glass - Auto, Plate, Window, etc. | 86.4 |
| Automobile Parts - New & Used | 566.5 | Hotels | 83.1 |
| Automobile Repairing & Service | 449.2 | Lumber - Retail | 81.8 |
| Pizza | 358.4 | Automobile Renting & Leasing | 80.3 |
| Attorneys/Lawyers | 311.5 | Landscape Contractors | 78.9 |
| Automobile Dealers - New & Used | 286.2 | Contractors - General | 78.4 |
| Dentists | 251.4 | Grocers - Retail | 78.4 |
| Hospitals | 245.2 | Airline Companies | 74.4 |
| Plumbing Contractors | 243.9 | Home Improvements | 67.6 |
| Beauty Salons | 233.3 | Roofing Contractors | 66.6 |
| Insurance | 223.4 | Electronic Equipment & Supply Companies | 62.2 |
| Department Stores | 221.9 | Sporting Goods - Retail | 61.6 |
| Veterinarians | 172.3 | Child Care Centers - Day Care | 58.9 |
| Banks | 150.7 | Government Offices - City, Village & Township | 56.7 |
| Florists - Retail | 148.8 | Employment Agencies | 54.5 |
| Theaters | 138.8 | Rental Service Stores & Yards | 54.2 |
| Tire Dealers | 131.8 | Appliance - HH, Major Service & Repair | 53.7 |
| Pharmacies or Drug Stores | 127.2 | Television - Cable, CATV & Satellite | 51.5 |
| Hardware - Retail | 119.2 | Pest Control/Exterminators | 51.3 |
| Schools - Academic & Elementary | 114.7 | Appliance - HH - Major Dealers | 50.9 |
| Churches | 108.5 | Government Offices - State | 50.9 |
| Carper & Rug Dealers | 101.6 | Automobile Body Repairing & Painting | 49.3 |
| Furniture -Retail | 91.2 | Taxicabs | 49.0 |
| Electric Contractors | 88.2 | Pet Grooming | 48.4 |

Source: Yellow Pages Association

Online Yellow Pages

While some online directories such as Yellowpages.com, Superpages.com, Dexonline.com, and Yellowbook.com have achieved a degree of success, we estimate that online properties only generate approximately 5%-10% of the total directory revenue. The majority of directory revenue is still derived from print advertising as many small and medium-sized businesses lack the resources to implement Internet marketing initiatives. According to the Yellow Pages Association, 3.2 million local and national businesses advertised in the Yellow pages in 2005. In addition, consumers referred to print Yellow pages 14.5 billion times while online Yellow Pages received 1.8 billion references by comparison.

Exhibit 168

**TOP ONLINE YELLOW PAGES**
(In Thousands, July 2006)

| | |
|---|---|
| Superpages.com | 12,893 |
| Yellowpages.com | 9,085 |
| Yellowbook.com | 3,918 |
| Dexonline.com | 2,669 |

Source: comScore Networks

Exhibit 169

**ANNUAL ONLINE AND PRINT YELLOW PAGES REFERENCES**
(In Billions)
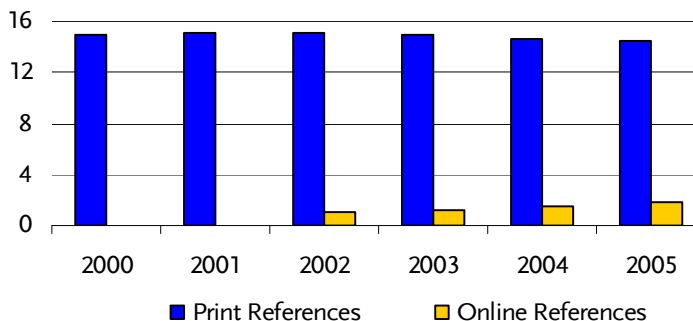


Source: Yellow Pages Association

**Taking Share From Offline Directories**

While the Internet yellow pages directory providers have proven adept at offering both fixed fee and performance-based advertising vehicles, we believe dominant players in the online directory sector will be the large Internet companies with a local search and directory offering. The search engines, however, are somewhat disadvantaged as the incumbent players each have large and distributed sales forces that maintain long-standing relationships with advertisers, which result in very high advertising renewal rates. As online search becomes more entrenched in online consumer behavior, we believe local search will slowly cannibalize some of the print portion of directory revenue, especially as the click-to-call model gains momentum. This belief is evidenced by the growing number of online Yellow Pages references: Online references increased by 20% in 2005, while print references remained relatively flat. As such, we expect Google, Yahoo!, and Microsoft to aggressively pursue the online yellow pages directory opportunity, which will become a core component of local search while the incumbent players continue to expand their online presences. We note that Google has aggressively pursued the local opportunity with its Local initiative and has dedicated significant resources to expand its ecosystem to include small and medium-sized businesses. Google has announced several partnerships to address the online marketing challenges of small and medium sized businesses including partnerships with Intuit, Salesforce.com, Netsuite, Verizon's Superpages.com, and BellSouth.

**Online Directory Outlook**

While Internet-based yellow pages directories accounted for $569 million in revenue in 2005, The Kelsey Group expects the market to reach $1.7 billion in 2010. We believe the online yellow pages market is likely to be dominated by the top search engines, but the market will be large enough to accommodate some smaller or specialized sites (such as AOL's MapQuest). Exhibit 170 lists the top online directories and local search providers.

Exhibit 170

**TOP ONLINE DIRECTORIES AND LOCAL SEARCH**

| Web Site | Unique Visitors (000) |
|---|---|
| Mapquest | 48,205 |
| Google Maps (includes Google Local) | 22,490 |
| SuperPages | 16,458 |
| Yahoo! Local | 15,688 |
| WhitePages | 14,863 |
| Citysearch | 12,556 |
| Yellowpages.com Network | 11,471 |
| Infospace Directories & Resources | 9,624 |
| AOL Member Directory | 8,784 |
| LOCAL.COM | 8,727 |
| Yahoo! Yellow Pages | 6,696 |
| Yellow Book Network | 4,452 |
| AOL Yellowpages | 4,029 |
| MSN Yellow Pages | 3,245 |

Source: comScore Networks, October 2006

**Email Marketing**

**Still A Major Category, Despite The Hit From Spam**. Email marketing took a big hit when spam became a widespread problem, and this eventually resulted in the passage by Congress of the CAN-SPAM Act. Permission-based email marketing, however, especially for customer retention and up-sell, has quietly continued to be a strong and effective marketing vehicle for companies, especially as online advertising costs continue to increase. The Direct Marketing Association (DMA) estimates that legitimate commercial email generated approximately $39 billion in sales in 2004. In 2005, the average response rate for email marketing campaigns was about 2.48%, a slight increase from 2.31% in 2004, according to DMA.

**The Spam Problem.** Unsolicited email marketing (or "spam") has emerged as a significant challenge to the overall evolution of not just email marketing, but also to the development of the Internet itself. According to IronPort Systems, a gateway security provider, 55 billion spam email messages were sent per day in June 2006, an 83% year-over-year increase, causing an incredible resource drain. In fact, according to the Messaging Anti-Abuse Working Group, abusive email comprises 80% of today's Internet traffic. In order to combat the proliferation of spam, especially pornographic spam, the CAN-SPAM Act was signed into law in 2003 and established standards for commercial email that included such requirements such as an opt-out option, a valid subject line, and a legitimate email address. Interestingly, while most spam originates in the United States, China has emerged as a major perpetrator of spam.

Exhibit 171

**SOURCE OF SPAM**

*We expect legitimate email service revenue marketing will approach $300 million in 2006, and could well exceed $500 million by 2010.*

|  | April - June 2006 | August 2004 |
|---|---|---|
| United States | 23.2% | 42.5% |
| China | 20.0% | 11.6% |
| South Korea | 7.5% | 15.4% |
| France | 5.2% | 1.3% |
| Spain | 4.8% | 1.2% |
| Poland | 3.6% | |
| Brazil | 3.1% | 6.2% |
| Italy | 3.0% | |
| Germany | 2.5% | 1.3% |
| UK | 1.8% | 1.2% |
| Taiwan | 1.7% | 0.0% |
| Japan | 1.6% | 2.9% |
| Other | 22.0% | 16.4% |

Source: Sophoslabs

**Email Marketing Outlook.** While the proliferation of spam has resulted in the widespread adoption of spam filters and email gateway filters, which sometimes block legitimate commercial email, we believe the low cost of email distribution and the potential to increase customer loyalty, drive incremental sales, and acquire new customers will continue to make email marketing an attractive component of the online marketers marketing mix. We expect email marketing spending will reach $297 million in 2006, an 18% increase from 2005, and is expected to reach $503 million by 2010.

## Wireless Advertising

*Click-through rates in mobile ads are 3%-5% compared with 1% on conventional display ads, according to Third Screen Media estimates.*

*While still in its very early stages, we believe that mobile advertising could reach more than $1 billion over the next five to seven years, as the 3G mobile networks become widespread.*

Wireless advertising is currently in the embryonic stage of its market evolution, but advertising on the "third screen" represents a compelling and potentially lucrative advertising opportunity, given the widespread prevalence and reach of mobile phones and the potential for targeting, rising demographic, contextual, and geospatial factors. There are currently about 35 million mobile Internet subscribers, out of 250 million total mobile subscribers in the United States. Despite general industry excitement about the long-term potential for wireless advertising, advertisers are only just beginning to experiment with the medium. The focus is currently to address issues such as user tolerance for mobile advertising, ad formats, and pricing models. While mobile carriers are interested in increasing ARPU through advertising, the priority of protecting the user experience and preventing customer alienation is resulting in a relatively cautious approach to mobile advertising. Carriers such as Verizon and Sprint are actively experimenting with mobile advertising, but their initiatives are a work in progress as they attempt to determine optimal ad formats and pricing models. Despite the experimentation and cautious approach, pricing trends for mobile campaigns reflect strong advertiser interest. According to Third Screen Media, a mobile advertising platform provider, the average price for a four to eight-week long campaign is now approximately $75,000-$150,000, an increase from $25,000 to $50,000 in 2005. In general, mobile ads cost $35-$50 per 1,000 page views. Although advertisers themselves are also trying to assess the importance of mobile advertising, forward-thinking advertisers are enthusiastic about the ability to target advertising on mobile phones, which contributes to higher click-through rates than conventional Internet display ads. Click-through rates in mobile ads are 3%-5% compared with 1% on conventional display ads, based on Third Screen Media estimates. Ovum, a mobile-focused research firm, estimates U.S. mobile advertising revenue in 2006 to be approximately $150 million, an increase from $45 million in 2005. While mobile advertising is a tiny sliver of overall advertising spending, we expect mobile advertising to maintain robust growth for many years to come. At this stage of market development, carriers and advertisers are experimenting with SMS, video, banner, sponsorship, idle screen, and in-game ad formats. We believe that over the next five to seven years, as broadband mobile networks proliferate, mobile advertisers could become a significant sector of the online ad market.

Exhibit 172

**EXXONMOBIL AND NAVY MOBILE ADS**



Source: Third Screen Media. Reproduced with permission of Third Screen Media.

Exhibit 173

**TOP MOBILE WEBSITES**
**June 2006**

| Site | Unique Visitors (000) | Reach of Subscribers |
|---|---|---|
| Yahoo Mail | 6,531 | 3.0% |
| Weather.com | 5,827 | 2.7% |
| ESPN | 5,345 | 2.5% |
| Google Search | 4,356 | 2.0% |
| Hotmail | 3,441 | 1.6% |
| Mapquest | 3,067 | 1.4% |
| AOL Mail | 2,907 | 1.4% |
| CNN | 2,799 | 1.3% |
| Yahoo! Weather | 2,740 | 1.3% |
| Yahoo! Search | 2,531 | 1.2% |

Source: Telephia

**Advertising Models
By Pricing Method**

Several pricing models have evolved to dominate the online advertising market. The biggest change over the last few years is the emergence of performance-based pricing, mainly composed of CPC pricing, due to the increasing popularity of paid search. CPM pricing has remained relatively stable in the 40%-50% range over the past few years and has actually seen resurgence over the last two years, driven by new interactive display ad formats, such as rich media and videos. Hybrid models have experienced the biggest areas of decline as advertisers move more toward a strict branding or strict performance pricing format. We think this is a positive trend as it reflects a trend of online spending, more closely mimicking offline media spending. Through the first half of 2006, 48% of advertising revenues were on a CPM basis, 47% on a performance basis (i.e., CPC/CPA), and 5% on a hybrid basis (i.e., has some display and performance features). This compares to 43%, 10%, and 47% in 2000.

Exhibit 174

**ONLINE AD PRICING MODELS**
(Percentage of U.S. Online Ad Revs By Pricing Model, 2000-1H06)
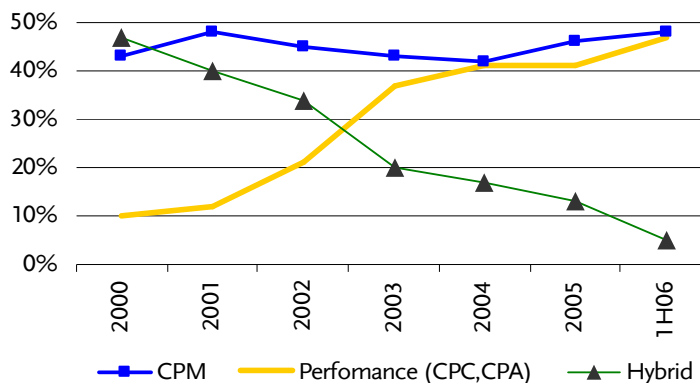


Source: Interactive Advertising Bureau

CPM (Cost Per
Thousand)

The CPM pricing model is commonly used for display and rich media advertising and is similar to the pricing model for offline media, where pricing is determined by broad audience exposure. For example, a $10 CPM means it costs $10 to show the banner on 1,000 page views. We believe high-quality inventory can command a $20 plus CPM for a static banner ad and $40 plus CPM for a rich media/video ad. We estimate a run of network CPM to be in the $0.50-$3.00 range. Exhibit 175 shows a sample of CPM rates for premium inventory, e.g., The Wall Street Journal, as well as some broad-based inventories, like MapQuest.

Exhibit 175

**EXAMPLES OF CPM RATES FOR PREMIUM SITE INVENTORY**

| | |
|---|---|
| Wall Street Journal | $65-$90 |
| MSN | $45-$70 |
| Chicgao Tribune | $20-$33 |
| MapQuest | $8-$15 |

Source: MSN.com, WallStreetjournal.com, Chicagotribune.com and MapQuest.com

Exhibit 176 shows a sample of the broader network inventory. We note that less-targeted networks could cost significantly less than the ranges listed in this exhibit.

Exhibit 176

**AD NETWORK CPM RATES**

| | Banner | Pop Under |
|---|---|---|
| Run of Network | $1.50-$2.50 | $8.50 |
| Average of Vertical Sites | $4.50-$7.00 | $12.56 |

Source: Tribal Fusion Website and Piper Jaffray & Co. estimates

**Cost Per Click (CPC)**

The CPC pricing model, which is also commonly referred to as PPC (Pay-Per-Click), is a performance-based advertising model that evolved from paid search. Within the CPC model, an ad may be viewed many times, but the advertiser only pays for the ad when someone actually clicks on it. As a result, the CPC model encourages publishers to display relevant ads that will illicit an actionable response from consumers. There are two types of CPC models:

> **Auction-Based CPC Model.** An auction-based CPC model combines CPC with a dynamic pricing that is set by the advertisers, not the publisher. The advertiser bids on how much the keyword is worth. When a user searches for a particular term or phrase, the list of advertisers appears according to the order of bidding. Overture created the first auction-based CPC model and holds a patent on the broad model. Given that keyword search competition is based on an open marketplace, one could see how pricing on highly profitable terms could increase rapidly. Depending on the search engine, minimum bids on a search term may start at $0.01 and may be as high as $50 or more for high-price products (such as private jets or malpractice lawsuits). The average CPC, based on our estimate, is still well below $1, likely in the $0.40-$0.60 range. Please see Exhibits 134 and 135 for a sample of cost-per-click for various key words.

*Cost-per-click in search can range from $0.10 to well over $50.00, taking full advantage of market-based and ROI-based pricing.*

> **Hybrid CPC Model.** The Hybrid CPC model combines bidding price with a number of other factors that are determined by the publisher, most notably the quality of the advertiser's message and the resulting likelihood that users will click on the ad. In other words, a combination of the bid price and the relevancy of the ad to the search query determines the position of the ad.

While Overture pioneered the basic auction CPC model, Google developed the Hybrid model and has enhanced it every year, generating significantly increased monetization, far beyond most estimates. As a result, the monetization gap between Google and Yahoo! has widened, promoting Yahoo! to develop its version of hybrid pricing, code-named Panama, which is expected to launch in early 2007.

**Pay-Per-Call (PPC)**

Similar to CPC, the Pay-Per-Call model is a performance-based advertising model, whereby search engines and directories can charge advertisers on a per lead basis. In the PPC model, ads are rendered with the company name, address, description, and a trackable toll-free number that redirects the consumer to an advertiser's actual phone number. Advertisers pay the PPC provider based on the actual calls made to the toll-free number. We believe PPC represents an attractive opportunity as only 42% of the 20 million small and medium-sized businesses (SMB) in the United States have a Website, and SMBs have demonstrated their willingness to pay for phone-based leads as evidenced by the approximate $16 billion in annual Yellow Page advertising spending. As such, we expect PPC to become a natural extension of local search and to expand the search marketplace to include merchants who do not have Websites or lack search marketing expertise. We believe pay-per-call has the opportunity to close the loop between online searches and offline buying.

**Cost Per Action (CPA)**

The CPA pricing model is a performance-based model commonly used by advertisers, whereby an advertiser only pays the publisher when a sale or lead or some other defined action is taken. The CPA model is attractive as a merchant only pays an affiliate when a specific result is achieved. Additionally, the merchant assumes little risk in their advertising as they set the price they are willing to pay for the action only. Virtually all direct marketing companies use some form of CPA marketing as a component of their online marketing mix. The two most common forms of CPA pricing are utilized in affiliate marketing as well as lead generation. We estimate that affiliate marketing is responsible for 10%-15% of all eCommerce revenues. Additionally, advertisers are increasingly turning to lead generation, given the fixed price nature and the ability for CPA agencies to generate significant numbers of leads for advertisers.

**[This page is left intentionally blank.]**

# CHAPTER 11

# *The Power Of Online Advertising*

- The Web offers three distinct advantages: Engagement marketing, measurability, and targeting

- The mainstreaming of the Web has made online a mass medium, allowing advertisers to reach target demographics quickly

- Advertising on the Web has proven to have a clear positive incremental impact on brand metrics

- There are some limitations to online advertising, such as the relatively manual process of buying inventory and control issues

**Engagement Marketing: The Competitive Advantage Of Online**

*Engagement marketing creates a two-way communication channel between the brand and the consumer.*

In traditional media, such as print and TV, information is pushed down to the consumer, and there is typically no way for the user to interact actively with the content. The Internet, however, requires active interaction with content, asking users to make more choices and engage deeply with the content. This leads to the potential of engagement marketing, where the advertiser can have the consumer involved in various stages of product promotion. Engagement marketing can take many forms including interaction with an online ad, Website interaction (e.g., customizing options for a new car purchase), taking a survey, search queries, and user-generated content—which is now gathering significant momentum. In these cases, the consumer actively engages with the brand, and the message becomes user-driven as opposed to advertiser-driven marketing. Over the last two years, we have witnessed a significant increase in the number of marketers who use engagement marketing campaigns. Two campaigns by traditional brand advertisers that stand out are MyCoke and M&M. On the MyCoke.com site, users can redeem Coke points for ringtones, music, and sporting events; users can also mix music, download screensavers, wallpaper, and videos, and chat with friends. Similarly, on the M&M's.com Website, users can personalize their M&M's, watch M&M videos and M&M commercials, play interactive games, download wallpaper and screensavers, and send animated M&M greeting cards. Such engagement campaigns enable advertisers to collect consumer registration data, which contributes to a continuous feedback loop whereby advertisers can offer relevant content and messaging and obtain feedback on product design and product attributes. Engagement marketing also allows consumers to become an integral contributor to creating the marketing message. Doritos' "Crash The Superbowl" ad competition best illustrates this aspect of engagement marketing.

The active decision-making process inherent in online media allows marketers to reach consumers when they are most receptive to marketing messages. While the Web was never a passive medium, the recent trends in user-generated content and user involvement in brand creation, characterized by what is often called Web 2.0, have made engagement marketing much more promising. As such, advertisers are increasingly adopting engagement marketing. The advertiser can also more effectively measure a consumer's interest in a product through such measurement techniques as length of time at the Website, number of page views, and frequency of Website visits.

**SIDEBAR**

**DORITOS:  CRASH THE SUPER BOWL**

Yahoo! and Doritos sponsored "Crash the Super Bowl," a site where people submitted homemade commercials that competed to be aired during Super Bowl XLI. Doritos selected five finalists, and users voted to determine which ad would be aired. Doritos also created a channel on YouTube to generate an online viral impact.
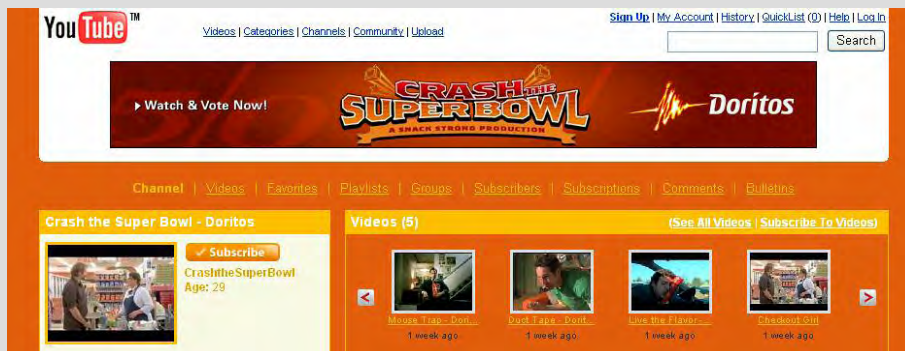


Source: YouTube
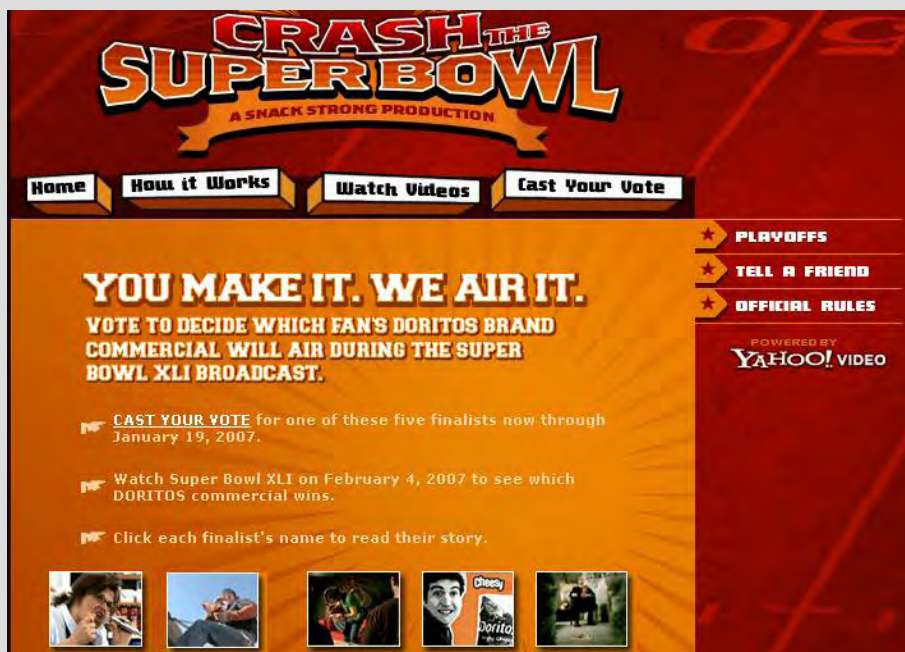


Source: Yahoo! Video.  Yahoo! Inc.  Reproduced with permission of Yahoo! Inc. 2007 by Yahoo! Inc. YAHOO! and the YAHOO! logo are trademarks of Yahoo! Inc.

Measurability

One of the clear strengths of online advertising, and what many advertisers perceive to be the "holy grail" of advertising, is the ability to accurately measure return on advertising spending. The Internet's potential to deliver this high degree of measurability is due to the Web's innate ability to track user actions such as a click, page views, or conversion to sale. The main reason for this tracking ability is that Web-based ads are **delivered directly to a user**, in real time, while most other types of advertising are delivered to a device or medium (TV, radio, magazine, etc.). This interactivity of the user and the advertiser allows not only for targeted ads, but also measurement of response. As a result, online advertising is usually able to provide real-time feedback on the success of a campaign, while in a typical offline campaign the advertiser may not understand the success of an ad for weeks following the campaign. The high degree of measurability of online advertising has changed the way marketers approach advertising. Hence, successful online marketers tend to be very strong in analytics and often have engineering or mathematics degrees as opposed to having pure marketing backgrounds.

*Unlike traditional advertising, Web-based ads are delivered directly to users, in real-time, offering a high degree of measurability.*

While the Internet is much more measurable than offline, it does not necessarily mean the Web is always more cost-effective. But the higher degree of measurability enables the advertiser to optimize a campaign and help eliminate wasted advertising dollars. The measurability of online advertising is an ever-evolving science, as there is no single, key metric that determines the ultimate success of a campaign. Tracking has evolved from eyeballs, to click-throughs, to actual sales. New forms of measurement are evolving, such as measuring consumer engagement as opposed to just page views. The emergence of paid search as an efficient advertising and customer acquisition method has infused marketers with a renewed analytical approach to marketing, and marketers are now demanding similar levels of analysis and accountability for dollars spent on other online and offline marketing channels. We believe online advertising's high degree of measurability and accountability will compel marketers to increase further their allocations to online advertising.

*Successful online marketers tend to be very strong in analytics.*

Targeting

In addition to its ability to measure and fine tune advertising campaigns in real time, the wide variety of vertical content available on the Internet combined with the widespread adoption of analytics has enabled an efficient system for ad targeting. There are several forms of targeting used by advertisers today, including:

- Geography
- Demographics
- Time of Day
- Content Channel
- Behavioral Analysis

While targeting is used by advertisers for offline campaigns as well, typically through the use of demographic data, the Internet's innate ability to track user actions enables advertisers to use more sophisticated targeting technologies. For example, a direct mail campaign could target a household by the geography, income, gender, subscriptions, etc.; however, much of this data may be stale, and the advertiser cannot react in real time. Through the use of online targeting, an advertiser is able to track a user's current actions and deliver an appropriate ad. Similarly, if a user has visited a number of auto sites, an auto advertiser could target that user on a general Website through the use of behavioral targeting, using cookies. While there is some risk that the use of cookie data may be regulated by legislators, we think this risk is small, and data stored in cookies must be differentiated from spyware. One of the best forms of targeting online is

through the use of paid search as an advertiser is showing an ad in direct response to a user query at a time when the consumer is receptive to an advertiser.

**The Added Benefit: The Web Is Now A Mass Market.** As discussed in detail in Chapter 3, the Internet is now a mainstream media and is the No. 1 media format at work and the No. 2 media format at home. Increasingly, the Internet has become integrated with the everyday life of consumers, which means that often the Internet as a media and advertising format is present when other forms of media are not present. As such, we expect the power of online advertising to continue to gain momentum as a result of the increasing ubiquity of the Internet as an advertising medium.

*Yahoo!, Google, and MSN together reach 120 million people every day, for a fraction of the cost that such reach can be achieved through TV or other channels.*

The mainstreaming of the Internet allows advertisers to reach a mass market. For example, brand advertisers could reach approximately 50 million consumers by advertising on Yahoo!'s main page, as Ford Motor company did with its successful F150 launch campaign. **Yahoo!, Google, and MSN together reach 120 million people every day, for a fraction of the cost that such reach can be achieved through TV or other channels.** However, the vast reach of Internet is not new, and it is not the main reason we believe the Internet is now mainstream: The amount of time spent on the Internet, and the level of people's interaction with the Internet, has evolved from checking the Internet once a day to online becoming a persistent media channel. This type of pervasive presence of the Internet in the daily life of people, as best documented by Ball State University's recent research (see Exhibits 57-59 and Exhibit 179), has been the major factor in elevating the Internet to its status as a pervasive media channel.

**Advertising Online Supports The Offline Campaign.** Research indicates that online advertising has a clear positive incremental effect on brand metrics. When evaluating the incremental effect of online advertising on brands, Dynamic Logic (a New York-based online marketing measurement company) found that online advertising increases metrics such as aided brand awareness, ad awareness, message association, brand favorability, and purchase intent. While TV and magazine advertising also have a positive incremental effect on brand metrics, online advertising often reaches consumers who are not reachable through traditional media formats, including the highly sought after at-work user. A recent study conducted by Ball State University's Center for Media Design indicates that the Internet has joined television and radio in achieving significant reach in all major day parts. In fact, as mentioned above, the Internet is the second leading medium at home and the leading medium at work. Furthermore, the Internet exhibits fewer age and gender differences in its reach compared with traditional media channels. This is especially true for the younger demographic, who have become particularly fickle in their media consumption habits and receptiveness to advertising on conventional media channels.

Exhibit 177

## INCREMENTAL EFFECT OF DIFFERENT MEDIA ON BRAND METRICS

Average Percentage Increase Over Control Group
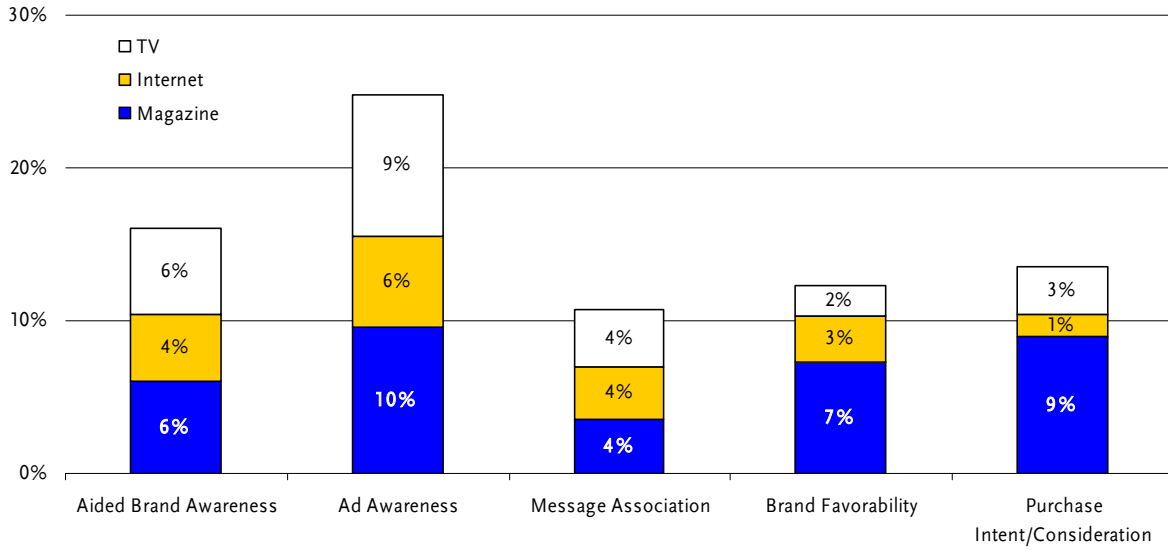


Source: Dynamic Logic

**The Dual Action Of Search And Display Ads Increases Online Efficiency**

In addition to search being a very efficient customer acquisition vehicle, research indicates that search campaigns in conjunction with display impressions leads to an incremental increase in conversions, showing an underlying synergy between search and display advertising. This synergistic relationship is a result of display advertising's ability to generate brand awareness. Also, previous exposure to display advertising may help win over undecided consumers during the search/eCommerce process, and display advertising may also influence consumers to use brand searches as a navigational starting point for eCommerce. This theory was confirmed by a recent survey by Atlas Digital Marketing, as shown in Exhibit 178.

Exhibit 178

**CONVERSION RATE COMPARISON OF SEARCH, DISPLAY, AND COMBINED**
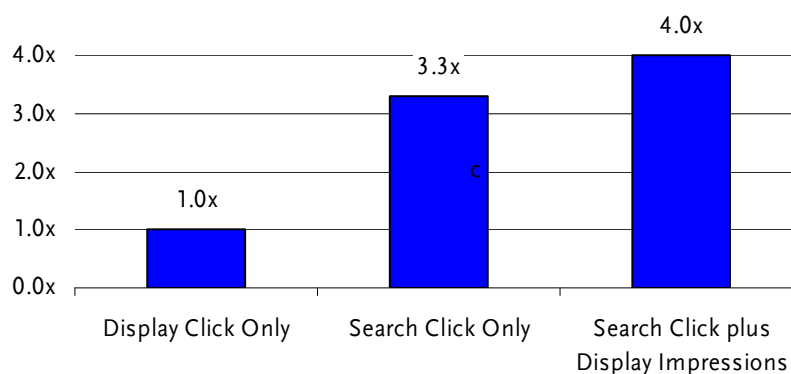


Source: Atlas Digital Marketing Insight

An Attractive Group: Internet Users Spend More

The recent Ball State study also found that Internet users are bigger spenders compared with the median population. The Web-dominant consumers tend to be in higher retail spending groups than TV-dominant consumers, and heavy Internet users tend to spend consistently over the population median compared with heavy TV users, as shown in Exhibit 179. The fact that Internet users spend consistently over the population medium clearly makes Internet users an appealing demographic for marketers and creates an additional advantage for using online advertising.

Exhibit 179

**SPENDING HABIT DEVIATION OF HEAVY USERS OF INTERNET AND TELEVISION**
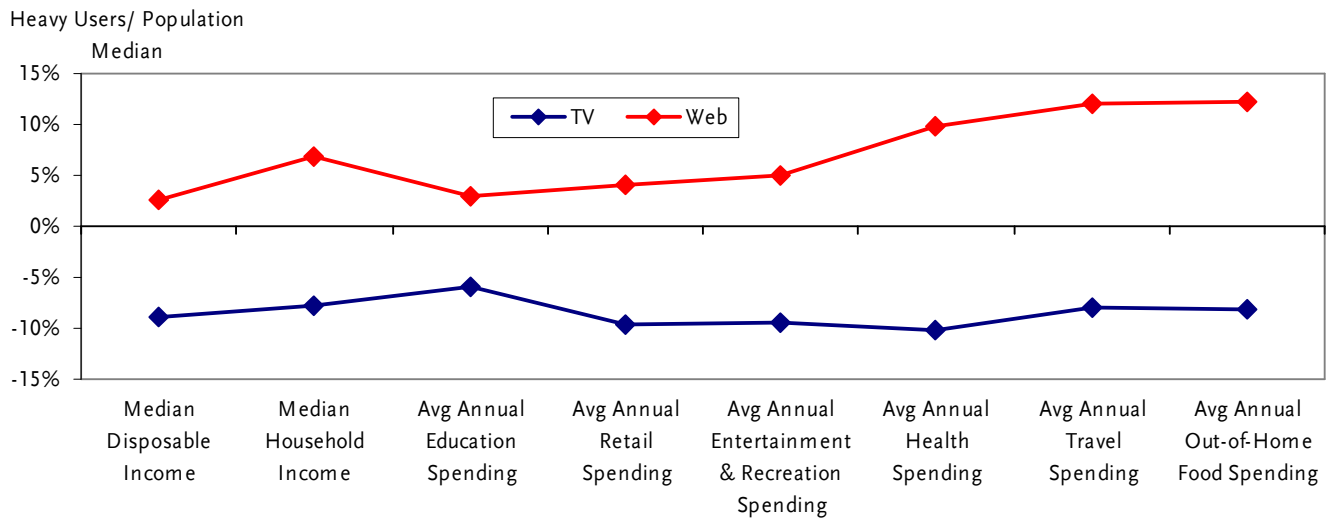


Source: Ball State University Center for Media Design - A Day in the Life: An Ethnographic Study of Media Consumption

**Limitations Of Online Advertising.** From our discussions with advertisers, agencies, and industry experts, there do not appear to be any structural limitations on the online advertising medium that may inhibit or undermine future growth. There are, however, some issues that are unique to online advertising that both advertisers and investors should be aware of, and these issues include the following:

- **Inventory shortages.** Over the last two to three years, there has been a shortage of premium inventory, including Yahoo! or MSN's front page or the home page of key vertical sites such as ESPN. While there is a shortage of premium inventory spots, based on our research and discussions with publishers and advertisers, we do not believe there is an overall inventory shortage. This is evidenced by a run of site inventory pricing, which has maintained relative stability over the past few years.

- **"Utility" aspect of Internet activity not conducive to advertising.** We believe many of the areas where people spend time on the Internet today, including email, instant messaging, and VoIP, may not be conducive to online advertising (please see Chapter 6 for a full discussion of various activities on the Web and their value to advertisers). While advertisers will continue to find ways to target these users,

we believe it could prove very difficult to reach users actively engaged in using Internet utility functions. Likewise, for publishers providing these tools (including the portals), it will prove very difficult to monetize these services without losing efficacy of the service, and hence alienating the users.

- **Effectiveness Of Usites For General Advertising.** User-generated content is clearly seeing high growth as evidenced by the strong rise of sites like MySpace and YouTube. While these sites are popular among users, their ability to deliver impactful advertisements may be limited. As we discussed in Chapter One, Usites can be strong advertising platforms, but only if the advertisers and their messages are carefully selected and are well integrated with the content of the site. Also, many Usites require a relatively ad-free or minimal presence of the ads for the site to be effective. Many Usites are designed to be interactive with user-generated content, and thus differ materially from a traditional online publishing model, where content is created by the Website (and users expect to see advertisements). Finally, the Usites tend to have a wide range of content quality with some content that could be objectionable to some groups, and certain advertisers may be reluctant to associate their brands with such content. Despite these challenges, the growing popularity of Usites and their important position in the long-term evolution of Internet media is likely to compel most advertisers to use these sites, although we expect advertisers to continue to tread slowly near term, resulting in very low prices for the Usite inventory.

- **Manual Media Buying Process.** Our discussions with advertisers, agencies, and media buyers indicate that the online media buying process is more manual than the offline media buying process, which results in a more people-intensive process. Online buying is a manual process in that rates are often negotiated over the phone versus offline media, which typically has standardized rates. The manual media buying process is a function of the medium's relative newness combined with the lack of pricing transparency for display advertising. While the online media buying process is relatively manual today, several companies are working to automate the process through the development of such things as online ad inventory auctions.

[This page is left intentionally blank.]

# CHAPTER 12

# *The Agencies And Their New Role*

- Agencies are rapidly evolving to become more complicated, technology-focused entities

- There is a continued horizontal integration within the agencies combining the best-of-breed offerings

- We expect large, multi-national traditional agencies to have eventually full interactive capabilities largely through acquisitions of pure-play agencies

- Current focus of agencies are in engagement marketing, user-generated content and viral marketing, and in Web-focused creative and video

**The Ad Agencies And The User Revolution**

The User Revolution has altered the landscape of advertising agencies nearly as much as it has changed the value proposition for advertisers. Fortunately for the advertising industry, many have embraced the new regime and evolved their business models and strategies to create campaigns based on the new rules: communitainment, Usites, fragmentation, and engagement marketing. For several years, however, the traditional agencies resisted these changes, and this gave a healthy time-to-market advantage to the pure-play agencies to capture market share.

The trend has now reversed, and the traditional, large holding companies that operate in all aspects of marketing and advertising have now become important players in the User Revolution and are taking market share back. We estimate large advertising holding companies generate more than 60% of total interactive agency revenues. Some of this has occurred through in-house development of interactive expertise, but a large component has occurred through the acquisition of pure-play interactive agencies, a trend which we believe will continue and will gain momentum. While there are highly successful but small pure play companies that could remain independent for many years, we believe the consolidation trend will result in large agencies gradually acquiring the best interactive agencies. This will make the market more difficult for the remaining interactive agencies, which will need to develop specialization to continue to succeed. Below, we discuss the key trends within the interactive agency landscape and interactive agency competencies as it relates to interactive agencies' role in the new advertising ecosystem.

**Current Themes For Interactive Agencies**

Horizontal Integration Of Agency Functions

We believe advertisers increasingly will look to interactive agencies that can provide a full suite of services, including media buying, creative, Web development, search marketing, and analytics. We believe such agencies are best positioned to provide a holistic view of an advertiser's campaign, which can lead to better insights into the effectiveness of a specific online channel, as well as the impact from performing a cross-channel campaign. We would note this is a longer-term trend, as advertisers today are for the most part still looking at best-of-breed solution providers, but we believe the longer-term trend is toward a full-service interactive agency, which can provide a multitude of services. As such, we expect to see agencies continue to enhance their current offerings or look to merge with other agencies that can provide complimentary services.

Engagement Marketing

While traditional media advertisers have used engagement marketing for years, we believe the Internet, as inherently an interactive medium, lends itself to a more engaging customer experience compared with traditional media. The first phase of the Internet, Web 1.0, essentially entailed consumers reading content passively. The new environment, which is sometimes broadly referred to as Web 2.0, is all about consumer interaction and user-generated content. As such, advertisers are increasingly adopting engagement marketing as a more effective strategy than traditional passive display advertising. Engagement marketing can take many forms, including interaction with an online ad, Website interaction (such as customizing a car), taking a survey, search queries, and user-generated content. The key is that the consumer is actively engaged with the brand, and the campaign is user-driven as opposed to advertiser-driven. The advertiser can also more effectively measure a consumer's interest in a product through techniques such as length of time at the Website, number of page views, and frequency of Website visits.

| | |
|---|---|
| **Increase in Web-Focused Content** | In the new Internet world, advertisers need to creatively produce Web-only video, games, or Websites that leverage the interactive and engagement features of the online experience. It is not enough anymore to simply take your offline marketing materials and display them online. As such, advertisers are increasingly investing in Web-only content. As an example, advertisers are investing in separate Web-only video production as they often are not able to take a TV commercial and move it online, either due to legal issues or different display formats (i.e., five-second video ad versus 30-second TV commercial). |
| **Next-Generation ROI Analysis** | In tracking conversions and attribution, advertisers and agencies primarily focus on the last ad that was displayed to determine attribution. This analysis, however, is not comprehensive as it does not take into account the impact of multiple ad formats. For example, someone who clicked on a search ad and converted may have also been influenced by a brand ad that they saw the day before. Whereas most advertisers would conclude that search drove the conversion and the brand ad was ineffective, this would be the wrong conclusion. Additionally, while direct marketing advertisers are able to calculate effectively the conversion rates and ROI of a direct marketing campaign, it has historically been relatively difficult for brand advertisers to measure any associated lift from their online advertising efforts. We think advertisers and agencies will invest increasingly in tools to better measure associated brand metrics, such as brand lift or awareness. |
| **Guerilla (Viral) Marketing**<br><br>*Successful interactive agencies need to develop strong capabilities in a viral marketing campaign.* | Guerilla marketing is designed to get the maximum marketing benefit on a very low budget. Guerilla marketing does not rely on traditional marketing methods, but rather on unconventional methods that are often stealthy. Over the last two years, advertisers have increasingly used guerilla marketing tactics, in large part to take advantage of the growth of social networking and user-generated content. A common guerilla marketing tactic used on the Internet is word of mouth or viral marketing. Common viral campaigns include the creation of amateur-looking Websites and user-generated content, including blogs and videos. Viral marketing contributed to the success of many of the largest and fastest-growing Internet companies, including Google, MySpace, and YouTube. While many advertisers and agencies will attempt guerilla marketing tactics, it is often very difficult to pull off a successful campaign, and for every campaign that is successful there are 10 others that fail. Successful interactive agencies need to develop strong capabilities in a viral marketing campaign. |
| **Market Size** | We estimate U.S. interactive agency revenues were $3.0 billion in 2006, representing 20%-25% year-over-year growth. Our estimate includes revenues for media planning and buying, Web development, and consulting services. We estimate global interactive agency services revenue was approximately $5.5 billion in 2006. |
| **Market Players**<br><br>*Nearly 60% of interactive agency revenues are produced by larger holding companies.* | Interactive agencies consist of both independent agencies such as aQuantive (Avenue A/Razorfish), as well as subsidiaries of the large holding companies such as Havas, Publicis (which recently acquired Digitas), Omnicom, WPP, and Interpublic. We estimate the holding companies represent approximately 60% of the total interactive agency revenues (or approximately 70% of the top 50 agency revenues). As can be seen from Exhibit 180, half of the top 50 interactive agencies are subsidiaries of the large holding companies. |

Exhibit 180

## TOP 50 GLOBAL INTERACTIVE AGENCIES (2005)

| Rank | Agency (affiliation) | Headquarters | 2005 Interactive Revenue | Percent Change | 2005 Employees |
|---|---|---|---|---|---|
| 1 | Euro RSCG 4D (Havas) | New York | 280,000* | 2% | 1170* |
| 2 | Grey Digital Marketing (WPP) | New York | 250,000* | 14% | 1150* |
| 2 | OgilvyInteractive (WPP) | New York | 250,000* | 16% | 1300* |
| 4 | Avenue A/Razorfish (aQuantive) | Seattle | 184,000 | 32% | 941 |
| 5 | Isobar (Aegis) | Boston | 175,000 | 75% | 1274 |
| 6 | Digitas (Digitas Inc.) | Boston | 155,000* | 46% | 700 |
| 7 | Tribal DDB (Omnicom) | New York | 150,000* | 50% | 610* |
| 7 | RMG Connect (WPP) | New York | 150,000* | NA | 750 |
| 9 | Wunderman Interactive (WPP) | New York | 135,000* | 99% | 500* |
| 10 | MRM Worldwide (Interpublic) | New York | 130,000* | 37% | 900 |
| 11 | R/GA (Interpublic) | New York | 112,000* | 40% | 453 |
| 12 | Agency.com (Omnicom) | New York | 94,500* | 29% | 450 |
| 13 | Modem Media (Digitas Inc.) | Norwalk, CT | 89,000* | 19% | 400* |
| 14 | FCBi (Interpublic) | New York | 85,000* | 55% | 470 |
| 15 | Media Contacts (Havas) | Boston | 70,000* | 11% | 350 |
| 15 | Organic (Omnicom) | San Francisco | 70,000* | 35% | 300* |
| 17 | Tequila (Omnicom) | New York | 65,000* | 4% | 450* |
| 18 | Nurun + Ant Farm (Quebecor) | New York | 61,000 | 33% | 560 |
| 19 | Draft Digital (Interpublic) | New York | 59,000* | 11% | 290 |
| 20 | Arc Worldwide (Publicis) | Chicago | 59,000* | 23% | 346 |
| 21 | Critical Mass (53% owned by Omnicom) | Chicago | 55,000* | 25% | 290 |
| 22 | Tocquigny | Austin, TX | 54,000 | 8% | 75 |
| 23 | AKQA | San Francisco | 52,000 | 24% | 351 |
| 24 | iDeutsch (Interpublic) | New York | 50,000* | 9% | 131 |
| 25 | Digital Impact (Acxiom) | San Mateo, CA | 48,000 | 9% | 275 |
| 26 | Blast Radius | New York | 43,000 | 13% | 350 |
| 27 | VML (WPP) | Kansas City, MO | 42,000* | 20% | 330 |
| 28 | imc2 | Dallas | 41,000 | 69% | 247 |
| 29 | Universal McCann Interactive (Interpublic) | New York | 40,000* | 23% | 185 |
| 30 | Planning Group (Sapient) | Miami | 39,600 | 41% | 162 |
| 31 | Slingshot | Dallas | 36,000 | 23% | 88 |
| 32 | IconNicholson | New York | 35,000 | 40% | 180 |
| 32 | Icrossing | New York | 35,000 | 159% | 200 |
| 34 | Starcom IP (Publicis) | Chicago | 34,000* | 36% | 150 |
| 34 | Click Here (Richards) | Dallas | 34,000 | 42% | 54 |
| 36 | OMD Digital (Omnicom) | New York | 32,000* | 28% | 110* |
| 37 | Atmosphere BBDO (Omnicom) | New York | 28,750* | 28% | 100 |
| 38 | Macquarium Intelligent Communications | Atlanta | 25,000 | 0% | 104 |
| 38 | MEC Interaction (WPP) | New York | 25,000* | NA | 120 |
| 40 | Medical Broadcasting Company (Digitas) | Philadelphia | 24,000* | 20% | 142 |
| 41 | Campbell-Ewald Digital (Interpublic) | Warren, MI | 23,500* | 18% | 81 |
| 42 | Refinery | Hatboro, PA | 23,000 | 51% | 154 |
| 43 | Genex | Los Angeles | 21,000 | 0% | 119 |
| 43 | Intercept Interactive | New York | 21,000 | 24% | 29 |
| 45 | Wirestone | Emeryville, CA | 20,400 | 16% | 118 |
| 46 | Risdall Advertising Agency | New Brighton, MN | 18,700 | 11% | 55 |
| 47 | Blue Dingo Dingo | New York | 17,500 | -5% | 57 |
| 48 | Resource Interactive | Columbus, OH | 16,100 | 17% | 92 |
| 49 | CMD | Portland, OR | 16,047 | 11% | 61 |
| 50 | Apollo Interactive | Los Angeles | 15,500 | 59% | 44 |

Source: Adweek, Piper Jaffray and Co.
*Estimated values.

**What Is An Interactive Agency Today?**

Interactive agencies offer four primary services to advertisers: Strategic Consulting, Media Planning and Buying, Website Development, and Analytics and Business Intelligence. Below, we will review each of these services offered within these segments. While some agencies offer all of these services under one roof, many agencies specialize in one or two of these segments. For example, one agency may focus on media planning and buying and data analysis, while another agency may focus solely on Website development. Additionally, while ad creative and analytics are critical to the success of the campaign and could be considered separate segments, they are typically used in connection with the primary services noted above.

Strategic Consulting

Strategic consulting typically involves 1) an analysis of a company's customer base, product, and competitive position; and 2) the formation of a plan to optimize the marketing budget. The analysis phase typically involves a competitive, audience, and industry analysis. Once the top-down and/or bottom-up analyses are conducted, the agency will also suggest which forms of marketing to employ (i.e., email, search, online branding, etc.) and the mix of each marketing channel.

Media Planning And Buying

Media planning and buying is composed of 1) the development of the media strategy and creative development; 2) the implementation of the campaign (media buying and ad serving); and 3) the campaign analysis/optimization. We would note that Media Planning and Buying encompasses a broad array of services, and often, there would be sub-segments within this group. Additionally, some agencies will specialize in one form of ad inventory, such as search, while others offer an all-in-one solution. In the planning phase, the agency will examine the client's objectives and outline a strategy to meet the client's goals, whether it is number of leads, reach, or frequency. Additionally, in conjunction with the media planning and buying, the creative team will develop the online creative ads (i.e., banner ads, rich media, and promotions). In the second phase, the agency will negotiate the advertising rates for ad placements and purchase the ad inventory, including search, display ads, email lists, and ad network inventory. The agency will also place the ads, typically through a third-party ad serving software platform, such as Atlas or DART. In the campaign analysis phase, the agency will analyze the data from the campaign (i.e., number of leads, brand lift) and utilize this data to provide insights into the current and future campaigns. Additionally, the agency will optimize the campaign based on data analysis, such as which sites or which ad creative performed the best.

Web Development

Web development in its broadest form refers to all areas of creating a Website, including Web design, content management, and back-end programming. Most interactive agencies focus on the design aspects of Web development as opposed to the back-end programming. Web development is used for a variety of customer goals, including an eCommerce platform, interactive marketing, intranets, and extranets. The Web development process typically includes a few phases including: 1) strategic planning—analyzing the company's audience and identifying customer goals; 2) mapping out the information architecture—organizing data and content (i.e., Websites, intranets) in order to improve usability and navigation; and 3) implementing the Web design—information architects, designers, and developers work together to implement the architecture as well as the look and feel of the Web pages. Once the site is designed, the agency will enhance or optimize the site to meet specific goals. In addition to Web

design, agencies will also provide Web content management tools to improve operational efficiencies.

| | |
|---|---|
| **Analytics And Business Intelligence** | Analytics and business intelligence are increasingly becoming competitive differentiators for the interactive agencies. Analytics are used across the interactive agency to support the strategic planning, media planning and buying process, and Website development. Hence, analytics encompasses many functions, including campaign analysis, Web analytics, cross-industry analysis, database analysis, targeting, and cross-media tracking. We believe agencies that have built robust data warehouses, analytics software, and reporting tools will likely be best positioned. |
| **How Advertisers Use Interactive Agencies** | Interactive Agencies will often specialize in one form of online marketing, such as online branding, performance-based marketing (search, direct response), or relationship marketing. |
| **Online Branding** | In online branding, the agency simply attempts to increase the brand awareness of the advertiser or a specific product. The agency will typically perform a brand image study, develop the creative, target the appropriate audience, then analyze and optimize the campaign. While an ROI is not as easy to determine for online branding, the agency will attempt to measure the campaign by measuring brand lift, and in some cases, tracking behavior (online or offline) from a brand campaign. Online branding could include outbound marketing such as display ads as well as Web design. Agencies also use viral marketing for branding, but this is very difficult to employ successfully. |
| **Performance-Based Marketing** | In performance-based marketing, advertisers are able to measure the performance of a campaign and determine an accurate ROI. Many advertisers prefer performance-based marketing due to the accountability of the marketing spend and the ability to target specific goals (i.e., cost per click, cost per action). Performance-based marketing includes direct marketing, direct response, search, lead generation, and online promotions. |
| **CRM/Relationship Marketing** | Relationship marketing is focused on customer retention as opposed to attracting new customers. The clear benefits to relationship marketing are that the cost to retain a customer is a fraction of that of acquiring a new customer. Additionally, as companies are analyzing the lifetime value of a customer, relationship marketing becomes critical to the analysis. Interactive agencies help advertisers develop relationship marketing campaigns including email, database mining, CRM software, cross promotions, and loyalty programs. |
| **Pricing Models** | Agencies use a multitude of pricing models, including fixed fees (e.g., in Web development projects), a retainer basis, variable fees (i.e., time and materials), or a combination of fixed fees and variable fees. |

# CHAPTER 13

# *Advertising Services And Technologies*

- Search engine marketing (SEM), Web analytics, and ad serving companies increase the efficiency of ad spending and improve the confidence of advertisers in the online medium

- We are still in the early stages of developing the best-of-breed technologies in serving and measuring the efficient marketing messages online

- The pattern of continued consolidation that is happening among agencies is likely to expand to the technologies and services sector, albeit in a later stage

## Technology And Services In The New Regime

The role of technology and services in the advertising world has traditionally been limited, and most platforms were commoditized early in their life in the traditional advertising world. In the online world, however, technologies and services companies became a crucial and visible component of the boom in online advertising. Correspondingly, many of these companies vanished when the dot com bubble burst, or otherwise were downsized significantly and compelled to change their business models (as was the case with the leader of this group, DoubleClick). With the User Revolution, the complexity of advertising campaigns—as well as the need for more detailed analysis—has provided new life to this group of companies. Search already created a new industry: the Search Engine Marketing Industry, which has become an integral component of the $15 billion search market.

Today, the technology and services companies are also experiencing a transformation partially due to the wave of consolidation. Also, services and technology companies are finding the need to expand their service offerings, much like agencies, to go beyond their core competency. In this chapter, we review three major groups in this industry, the Search Engine Marketing companies (SEM), the Analytics companies, and the Ad Serving companies.

## Key Themes

Search Engine Marketing (SEM) companies are experiencing the following key trends:

- Robust Search Ad Spend Driving Strong SEM Growth
- Increasing Search Complexity
- Integration of SEM Campaign
- Click Fraud

## Robust Search Ad Spend Driving Strong SEM Growth

Search remains the largest and fastest-growing online advertising channel due to its accountability and its high ROI. We expect total search spending to increase from $15.8 billion in 2006 to nearly $44.5 billion by 2011, a CAGR of 23%. We expect robust search growth to continue, driven by the following:

1. Increasing consumer usage of search driven by user growth, increasing online consumption, and increasing use of search as a starting point for navigation
2. Migration from offline direct marketing channels
3. Growth of local and vertical search
4. Increased usage by large brand advertisers.

We expect the rapid growth of search to fuel even faster uptake of SEM services as advertisers increasingly rely on third party experts.

## Increasing Search Complexity

Search engine innovations, such as the introduction of geographic and demographic targeting, have dramatically increased the complexity of search campaigns. While some advertisers still manage their keyword management on spreadsheets, we believe this is becoming increasingly difficult as advertisers are forced to bid on significantly more terms (often hundreds, thousands, or millions of terms), in order to maintain their search ROI. SEMs with automated software solutions have the ability to manage these complex campaigns and deliver positive ROI for clients.

| Integration Of SEM Campaign | For advertisers who use a variety of online marketing formats, we believe it is becoming increasingly important to integrate search marketing with other forms of online marketing. We believe this is important as advertisers take a closer look at attribution to find out from where the lead or conversion is actually coming. For example, if a consumer views a banner ad, and then a week later clicks on a search ad, the advertiser might believe the lead was solely from the search ad and discount the brand lift effect of the banner ad. |

| Click Fraud | Click fraud is one of the most talked about issues in online advertising today and is seen as one of the major threats to the growth of the paid search market. While we believe click fraud is largely a manageable issue, it nevertheless represents wasted ad dollars by advertisers. While there are no firm estimates of how much click fraud represents, the average is often reported in the 10%-15% range. Although the major search engines, including Google and Yahoo!, have systems in place to detect click fraud and rebate search dollars when click fraud does occur, there is likely to be a certain amount that the search engines do not detect. Additionally, the majority of advertisers do not have the ability or technologies to detect click fraud themselves. We believe search engine marketing agencies are better able to detect click fraud than are individual advertisers, especially with new tools that track click fraud, such as ClickTracks. |

*We believe search engine marketing agencies are better able to detect click fraud than are individual advertisers.*

**Search Engine Marketing (SEM) Functions**

Search engine marketing is the set of strategies used by advertisers to attract more visitors from search engines to their Websites. Search engine marketers drive traffic through two primary methods: 1) algorithmic search or organic search (the free listings on the left of the search page); and 2) paid placement (paid text ads on major search engines or through the search networks' affiliate sites). Search engine marketers also use paid inclusion (paying a fee to get in the index of a search engine) and feed management (indexing site to be included in comparison shopping engine). With the increasing importance of search, search engine marketing services have become a near-ubiquitous offering among interactive agencies. Search engine marketing agencies and technology platforms offer a number of value-added services, including:

- Campaign and Keyword Management
- Search Engine Optimization
- Paid Inclusion
- Feed Management

**Campaign and Keyword Management.** Keyword management, often known as bid management or Pay-Per-Click management, is the process of optimizing a paid search campaign on search engines such as Google or Yahoo!. The SEMs help advertisers determine the most appropriate search keywords to bid on and how much to bid for each keyword. Most tools on the market today use a rules-based approach to campaign management, focusing on individual terms that are preselected and applying rules to manage bids and placement. More advanced tools expand on this approach by adding a broader portfolio-based analysis of keyword buying. Portfolio analysis optimizes based on the keywords that are delivering the best overall results for the campaign as opposed to optimizing each word independently.

**Search Engine Optimization.** Search engine optimization (typically known as Organic or Natural SEO) attempts to improve a Website position or ranking in major search engines including Google and Yahoo!. This is typically achieved through analyzing and updating the Website's HTML code and architecture and improving the site content, such as selecting relevant content related to a site. An agency typically tries to identify which factors influence the rankings of the major search engines, such as external links, content relevancy, and keyword phrases. According to a December 2005 SEMPO study, 80% of advertisers surveyed are engaging in search engine optimization, and slightly more than 76% of advertisers are engaged in paid search advertising.

**Paid Inclusion.** Paid inclusion is where a Website can pay the search engine to have its Web pages included in its search index in exchange for a fee (usually either a maintenance fee or a per click fee). While paid inclusion does not guarantee placement, it does guarantee the page will be included in the index of Websites the search engine analyses. The actual placement is still dependant on whether or not the Website is deemed relevant by the search engine. Some search engines, including Google, do not allow paid inclusion.

**Feed Management.** The submission of a database of Web pages to a comparison shopping engine or a similar search site is termed "feed management." Feed management typically involves the SEM receiving raw unstructured data from a Website and converting it into customized data feeds for the shopping engine. Feed management is important to advertisers as it ensures accurate display and inclusion of a retailer's information in a comparison shopping engine. Similar to paid inclusion, feed management does not guarantee any specific ranking.

Exhibit 181

## ATLAS SEARCH PLATFORM





Source: aQuantive, Inc.. Reproduced with permission of aQuantive, Inc.

Market Size

We estimate the U.S. market for SEM agencies and technologies was approximately $500 million in 2006, growing 30% plus. Our estimates include paid placement, paid inclusion, and SEO services and technologies. According to SEMPO (Search Engine Marketing Professional Organization), SEM agencies generated $345 million in fees in 2005, consisting of 47% from SEO, 40% from paid placement, 10% from technology, and 3% from paid inclusion. SEMPO also estimated that companies that provide search software, such as Atlas Search, generated approximately $33 million in fees in 2005. We believe the global market for SEM agencies and technology services could be 1.5 times the U.S. market, or approximately $750 million. Additionally, according to a SEMPO survey, approximately two-thirds of advertisers planned to manage their paid placement spending in-house in 2006. The survey found larger advertisers (500 or more employees) were more likely to use agencies (53% indicated they would manage all in-house). Similar trends were found for SEO and paid inclusion services. We believe that as search engine marketing becomes increasingly complex, advertisers big and small will increasingly use agency and technology solutions.

Exhibit 182

**SEM REVENUE MIX**
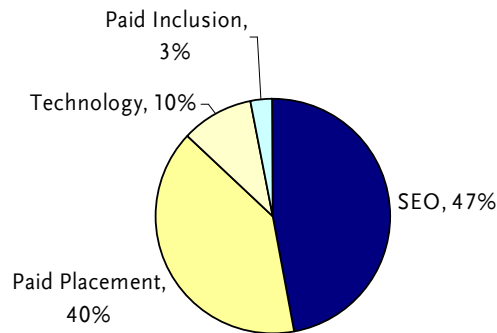


Source: Search Engine Marketing Professional Organization, 2005

SEM Market Players

The vast majority of SEM dollars go through the interactive agencies (both independent and holding company owned) as well as SEM specialists such as iCrossing and Efficient Frontier. Key technology vendors in the space that license out SEM solutions include Altas OnePoint (owned by aQuantive), BidRank, and Send Traffic. Web analytics players, including WebSideStory and Omniture, are also investing in SEM solutions. The technology vendors' solutions typically offer keyword bid management and detailed reporting and analysis. Exhibit 183 lists the top 20 SEMs and their relative size in revenue and employee base.

Exhibit 183

## 2005 TOP 20 SEARCH ENGINE MARKETING AND OPTIMAZATION COMPANIES

By Revenue and Employee Base

| Agency | Revenue | % Change | Employees |
|---|---|---|---|
| Performics | $57 | 28% | 230 |
| iCrossing | $46 | 100% | 240 |
| iProspect | $23 | 59% | 115 |
| SendTec | $20 | 44% | 125 |
| 360i | $19 | 33% | 103 |
| Efficient Frontier | $14 | NA | 80 |
| AvenueA/Razorfish | $12 | 116% | 843 |
| Impaqt | $11 | 110% | 61 |
| Did-It Search Marketing | $10 | 106% | 105 |
| Acronym Media | $10 | 125% | 56 |
| Search Engine Optimization | $8 | 315% | 65 |
| Reprise Media | $7 | 300% | 56 |
| Oneupweb | $7 | 163% | 40 |
| Resolution Media | $7 | 100% | 40 |
| Search Agency | $5 | 400% | 30 |
| FathomSEO | $5 | 100% | 35 |
| Outrider | $4 | 52% | 50 |
| Red Door Interactive | $3 | 150% | 35 |
| Enquiro | $2 | 20% | 20 |
| Kinetic Results | $1 | NA | 8 |

Source: Ad Age. Only agencies whose primary discipline is search are included.

Pricing

SEM service pricing typically includes both fixed and variable components. Common pricing models include a percentage of the search spending, a markup on the per-click fee, or a simple time and materials basis. Performance bonuses are also common. A typical fee for SEM agencies providing key work management services is in the range of 15%-20% of marketers' search spending. We believe this margin is likely to decline as competition increases and marketers increase the overall dollar allocations to search, hence receiving volume discounts. SEM technology solutions are typically priced on a fixed and variable basis depending on factors such as the size of a campaign and the number of seat licenses. For example, Atlas search charges based on the number of keywords, keyword reviews, and the number of page views for tracking and reporting.

| **Web Analytics –**<br>**Key Trends** | • Expansion Beyond Core Analytics<br>• Migration To More Customized And Robust Analytics<br>• Multi-Channel Analytics And Distribution<br>• Benefiting From Growth Of Online Advertising And eCommerce |
|---|---|

| Expansion Beyond Core Analytics | Web analytics is evolving from an online marketing point solution to a strategic online marketing platform that integrates analytics with a variety of additional online marketing capabilities such as site search, bid management, content management, behavioral targeting, affiliate marketing, and email marketing. In broadening the scope of functionality, analytics applications are evolving to become a central hub to measure and optimize the entire digital marketing life cycle. As a result of this evolution, the industry is in the process of simultaneously broadening the definition of analytics through organic product extensions and corporate consolidation. Also, while analytics companies are extending their functionality to incorporate other digital marketing functionalities, companies from the more traditional enterprise software space (ERP, CRM, and BI) are extending their functionality to incorporate analytics and digital marketing functionalities. We believe this expansion beyond core analytics will be crucial for the market players looking to differentiate themselves in what many see as a very competitive market. |
|---|---|

| Migration To More Customized And Robust Analytics | While the majority of analytics solutions in the market today are one-size-fits-all software solutions, we believe the market will become increasingly fragmented with more customized and robust offerings. For example, Visual Sciences (acquired by WebSideStory) offers real-time analysis of massive data sources beyond Web traffic. The Visual Sciences solution currently offers productized versions targeted at email analytics, call center analytics, and Web analytics; the product can also be applied to analyze other high-volume transaction data such as travel, credit card, network security, and financial transactions. |
|---|---|

| Multi-Channel Analytics And Distribution | The Web analytics market is evolving to enable businesses to collect multi-channel (online and offline) customer data and behavior, including call center and point of sale information, which eventually will provide companies with a single and holistic view of its customers behavior. While the Web remains the central focus of analytics companies, analytics solutions are evolving to be able to analyze and optimize consumer interactions through other digital channels including mobile, video, and VOD. |
|---|---|

| Benefiting From Growth Of Online Advertising And eCommerce | The Web analytics market's growth is generally tied to the growth of the online advertising and eCommerce markets. We expect U.S. online advertising to grow at a CAGR of 17% from 2006-2011, driven by numerous long-term growth drivers, including increasing Internet usage, adoption of broadband and newer and more targeted advertising formats. We believe the adoption of Web analytics has generally lagged adoption of online advertising. However, we believe the increased focus on ROI, given the increasing costs of online advertising and desire to increase site conversions, is driving robust demand for Web analytics services. We estimate the overall market for Web analytics is growing north of 25% in 2006. Additionally, this increased attention to ROI has created demand for more sophisticated second-generation Web analytics applications. |
|---|---|

Market Size

We estimate the global market for Web analytics services was approximately $417 million in 2006 and will reach $1 billion in 2011, representing a CAGR of 19%. Additionally, we expect continued consolidation and market share gains by the leading players, including Omniture, WebSideStory, Web Trends, and Coremetrics. Hence, we estimate the top four players accounted for 59% of the market in 2006 and will account for 75% of the market by 2011.

Exhibit 184

**WEB ANALYTICS MARKET SIZE**
(In Millions)
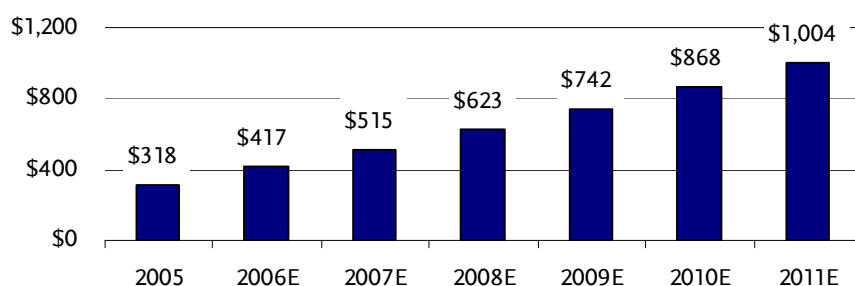


Source: Piper Jaffray & Co.

Market Players

The Web analytics market today is made up of four larger players (Coremetrics, Omniture, Webtrends, and WebSideStory) as well as a number of other players. We estimate the four largest players constitute approximately 60% of the market. Google also offers an analytics product for free, which is tightly integrated with its search advertising platform—but we do not believe Google Analytics in its current form is a threat to the high end of the market. In fact, we believe Google Analytics may increase the ultimate analytics market size as it introduces search advertisers to analytics and provides a migration path toward more sophisticated solutions.

Key Functions Of
Web Analytics

According to the Web Analytics Association, "Web Analytics is the objective tracking, collection, measurement, reporting, and analysis of quantitative Internet data to optimize Websites and Web marketing initiatives." Web analytics allows online marketers to optimize their online marketing initiatives to attract more visitors, retain customers, and increase sales conversions. More recently, Web analytics has been evolving from an online marketing point solution to a strategic online marketing tool that integrates analytics with a variety of additional online marketing capabilities such as site search, bid management, content management, behavioral targeting, affiliate marketing, and email marketing. The Web analytics market is also evolving to enable businesses to collect multi-channel customer data and behavior, including call center and point-of-sale information, which eventually will provide companies with a single and holistic view of its customers' behavior. A recent study by the Search Engine Marketing Professionals Association indicated most companies use analytics to track increases in traffic volume, conversion rates, click through rates, ROI, cost per click, CPA, and total number of online sales.

Web analytics enables companies to perform the following functions:

- Track the performance of online marketing initiatives, such as pay-per-click key word buys, banner ads, emails, and affiliate marketing programs
- Track how a visitor navigates a Website
- Analyze conversion by product, price, customer source, search word, navigational path
- Analyze abandonment trends
- Identify the referral source of site traffic
- Analyze internal site search conversion
- Measure the effectiveness of any process, such as the checkout process
- Identify online processes that have high abandonment rates
- Identify products that are viewed by the same visitors, and correlate the data with browsing behavior and sales conversions
- Analyze how visitors navigate through a site, identify the pages they view most frequently, and correlate the data with sales conversions

Exhibit 185 shows a screenshot of WebSideStory's Analytics package with some of the above metrics.

## Pricing

Pricing can vary widely depending on the scope of analytics services offered and the number of add-on solutions. In general, a basic enterprise analytics solution can be as little as $5,000-$10,000 but can reach into the hundreds of thousands for more customized and complex enterprise offerings. We note that WebSideStory's average price is approximately $35,000—whereas its Visual Sciences solution, which offers more customized and robust analytics solutions, averages approximately $200,000.

Exhibit 185

## WEBSIDESTORY HBX ANALYTICS DASHBOARD



Source: WebSideStory Inc. Reproduced with permission of WebSideStory Inc.

| | |
|---|---|
| **Ad Serving**<br><br>Trends In Ad Serving Sector | • Move Toward Integrated Platform<br>• Video Ad Serving Gaining Traction<br>• New Interactive Forms Of Ad Serving<br>• Optimization Technologies Increasingly Important |
| Move Toward Integrated Platform | Advertisers and publishers are increasingly looking at tools that can provide a single platform across their various online marketing efforts. For the advertiser, this may include an integrated platform for display ads, search engine marketing, and Web analytics. For example, Atlas found that an advertiser can achieve improved search conversions if the consumer is exposed to a display ad. A key driver of the move to an integrated platform for advertisers is the desire for an advertiser to attribute a conversion to the correct marketing method and understand which marketing method or combination is driving a specific result. Similarly, publishers want to be able to integrate analytics, yield management, and behavioral targeting into one platform. |
| Video Ad Serving Gaining Traction | With the increasing penetration of broadband in the United States, video downloads and streaming video consumption are mainstream. According to comScore, 64% of U.S. Internet users watched video streams in August 2006. While video downloads increased significantly over the last year, video advertising appears very promising, and we believe video ads will represent a significant amount of display advertising in the years to come. Many agencies and advertisers expect 2007 to be a breakout year for video advertising. |
| New Interactive Forms Of Ad Serving | We believe we are at the beginning phase of ad delivery to alternative channels, including on-demand TV, cell phones, portable media devices, or in-game advertising. We believe these devices and channels could be the next big wave of interactive advertising along with video, and it will be critical for technology companies to have solutions available when these channels begin to show increased adoption. We note that aQuantive invested in an On Demand ad serving solution, but we do not expect this to generate significant revenues anytime soon. |
| Optimization Technologies | Advertisers and publishers are placing increasing emphasis on optimization technologies. For the advertiser, optimization technologies offer the potential for higher conversion rates and ROI. For the publishers, increased optimization can drive higher CPM rates and, thus, revenues. A basic form of optimization is creative optimization, where the advertiser tests and optimizes different creative ads to see which ad or set of ads generates the best results. |
| Ad Serving Market Size | We estimate the global online ad serving market was approximately $350 million in 2006, representing approximately 30% year-over-year growth, with approximately 50% from the advertiser side and 50% from the publisher side. |
| Market Players | DoubleClick and 24/7 Real Media on the publisher side, and DoubleClick and Atlas (owned by aQuantive) on the advertiser side, dominate the ad serving market. Other key players include Falk (owned by DoubleClick), Mediaplex (owned by ValueClick), |

and Accipiter (recently acquired by aQuantive). Key video ad serving players include Eyeblaster, Pointroll, and Motif/Klipmart (owned by DoubleClick).

## How Ad Serving Works

Ad Serving refers to the technology that places ads on Websites. Ad serving technology vendors provide the software (license or hosted), which enables an advertiser/agency to place ads, and enables the Web publisher to receive ads. Additionally, many ad serving companies also provide advertising tools to help publishers and advertisers automate the advertising process.

## Publisher Side Ad Serving

For the Website or publisher, ad serving technology is essentially a rules-based system that attempts to optimize the ads that run across the Website in order to maximize revenues for the publisher. These rules could include time of day, the location of the user, whether the user is a new or previous customer, as well as more complex analysis including behavioral analysis and conversion tracking. Ad serving technologies for publishers typically include inventory management/forecasting, targeting capabilities, and reporting and analysis tools.

## Advertiser Side Ad Serving

For advertisers, ad serving tools enable the advertisers to 1) plan the campaign; 2) execute the campaign (deliver the ads); and 3) analyze the results and optimize the campaign. Ad serving tools for advertisers typically include planning, trafficking, ad serving, tracking, reporting, and analytics. As can be seen in Exhibit 186, aQuantive's Atlas Suite of solutions provides campaign planning, media buying, creative management, message delivery, and data collection, as well as analysis and optimization across a variety of inventory formats (Web media, rich media, search, Website).

Exhibit 186

**ATLAS AD SERVING PLATFORM**
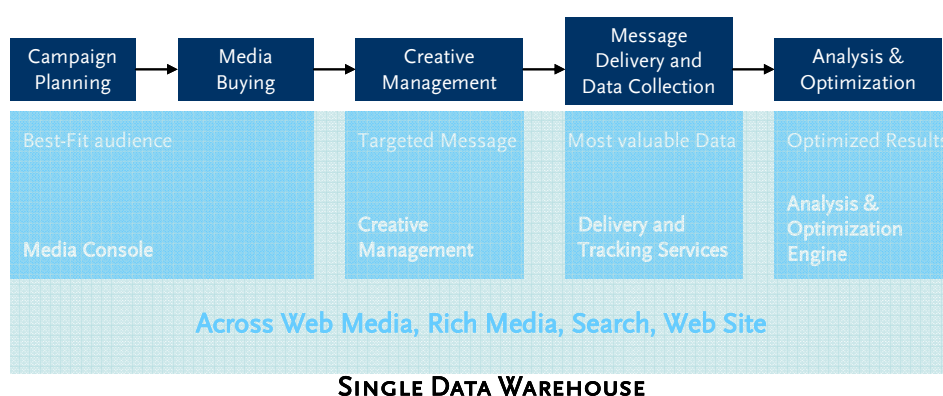


Source: Company Website

Pricing

Pricing for ad serving can vary widely depending on a number of factors including the volumes delivered and the robustness of the ad serving platform (i.e., amount of analytics, forecasting tools). In general we believe basic display ad pricing is in the $0.05-$0.15 range, and pricing for rich media ad serving is in the $1-$2 range. While prices will likely continue to decline, we believe pricing declines have moderated, and in fact a higher mix of rich media ad serving is likely increasing the overall CPM rates.

**CHAPTER 14**

# *The Role Of The Intermediaries: Ad Networks And Lead Generation*

- Ad Networks are experiencing increased demand due to growing Internet fragmentation and desire for more targeted inventory

- Affiliate Marketing remains a vital customer acquisition channel for advertisers because of its high ROI and proven effectiveness

- Advertisers are increasingly relying on lead generation agencies to deliver high volumes of leads combined with the attraction of fixed lead prices

- Analytics and targeting technologies such as behavioral marketing are driving increasing usage of network and lead generation-based models

**Ad Networks**

The ad network is an intermediary that aggregates or purchases advertising inventory (i.e., banner ads, text links, and rich media slots) from a number of Websites and sells this inventory to advertisers or agencies. The ad networks group the different Websites into a number of verticals or content channels, typically 10-20, depending on the content of the site. Examples of different content channels include sports, technology, gaming, men's interest, women's interest, and teens. In addition to content channels, the ad networks will also target specific users based on a number of other factors including geographic, demographic, time of day, and behavioral analysis. The ad networks also offer a number of value-added services to advertisers including strategy, media planning, creative, optimization, campaign management, and reporting.

Key Advantages To Using Ad Networks

Advertising Networks fulfill a valuable role in the online advertising market for both advertisers and publishers. Ad networks enable advertisers to reach thousands of smaller publisher sites without having to form direct relationships. If an advertiser wants to run a large branding campaign, an ad network can fulfill the advertiser's reach and frequency targets and complement the advertisers branding on the key portals and large vertical sites. For smaller publishers, typically beyond the first few hundred, ad networks provide a cost-effective method to sell their ad inventory without having to hire their own sales force. The larger sites, including the portals, also use the ad networks to sell run-of-site or remnant inventory. Below we highlight some of the key benefits to using an ad network:

- **Reach.** Ad networks can be used for brand marketing to reach millions of consumers across multiple verticals. For example, an auto manufacturer launching a new car may want to maximize its branding impact by using ad network inventory in addition to large portals and vertical sites. While the top portals and vertical sites often experience inventory shortages, there is often no shortage of ad network inventory.
- **Pricing.** Ad network inventory is often priced at a fraction of that of the large portals or vertical sites. A typical ad network CPM is $1-$2 compared with $8-$10 or more from a portal or large vertical.
- **Targeting Across The Network.** Ad networks can be used by advertisers to target specific content channels that may not exist with the large vertical sites. Additionally, improved targeting technologies such as behavioral analysis should increase the value of the network to advertisers.
- **Optimization.** Optimization technologies enable the networks and the advertiser to analyze which sites or offers are performing the best and to shift impressions to those areas that are performing the best. By contrast, when an advertiser contracts for inventory with a specific vertical site, it would be much more difficult to adjust the campaign once it has begun.

| | |
|---|---|
| **Key Themes For Ad Networks**<br><br>Ad Networks Increasing Importance | During the first phase in the evolution of the ad network industry, the networks received a relatively bad reputation. The original ad networks were focused on scale only, recruiting as many publishers as possible, without regard for quality of the publisher. The first ad networks also lacked solid targeting technologies and provided little site transparency to the advertiser. We believe the second phase of the ad network industry corrected many of these issues, with the networks providing better quality sites, increased transparency, and better targeting technologies (such as behavioral analysis). Given the advances made by the ad networks, we believe they are experiencing increased adoption by larger advertisers and many brand advertisers, and we believe will increasingly become a standard component of an online campaign. Additionally, as inventory on the portals or large vertical sites becomes tighter, we believe the advertisers will increasingly seek out the ad networks, which can meet their reach and frequency targets. Finally, with the advent of behavioral analysis, advertisers can serve ads in specific verticals (e.g., auto) on essentially any site. |
| Targeting Technologies | The ad networks are making progress in increasing their value to the advertiser through improved targeting methods. There are several forms of targeting used by ad networks today, including geography, demographics, time of day, content channel, and behavioral analysis. The big focus today on targeting is behavioral analysis. There are essentially two types of behavioral analysis:<br><br>1. **Cookies**. An Internet user's actions are tracked through the use of cookies, and ads are served to the user based on the type of content that he or she is viewing or has viewed. For example, someone who is on an auto site and then moves to a news site may be served an auto ad.<br>2. **Purchase Intent**. Purchase intent targeting tries to identify and target a consumer based on the stage of the purchase cycle in which the consumer is.<br><br>Improved targeting technologies enable the advertisers to generate a higher ROI while also enabling the publishers and networks to earn higher fees. According to a recent report by JupiterResearch, 88% of advertising agencies that have used any type of behavioral targeting in the past 12 months are "very or somewhat" satisfied. For the ad networks, better targeting technologies could help increase pricing given the potential for higher conversion rates and ROI to the advertiser. There are a number of companies that specialize in analyzing user behavior on the Internet (such as Revenue Science and Tacoda), and these companies will often partner with the ad networks or build their own network. |
| Networks Diversifying | In the early days of online advertising, most networks focused on one model and one pricing model, either CPM or CPA. Increasingly, we are seeing networks diversify in order to offer a more complete set of solutions to meet advertiser and publisher demands. For example, ValueClick now offers a CPA network in addition to CPM with its acquisition of WebClients in 2005. |
| Optimization Technologies | We believe optimization technologies used by the networks to maximize the performance of a campaign will become an increasingly important factor for advertisers when choosing an ad network. Optimization technologies enable the networks and the advertiser to analyze, ideally in real time, what sites or offers are performing the best, and to shift impressions to those areas that are demonstrating the |

best ROI. Additionally, we expect reporting and analytics solutions to increase in importance. For example, tools that enable a large brand advertiser to measure brand lift effectively could encourage more brand advertisers to utilize ad networks.

## Brand Advertisers Increase Their Spending With Networks

We believe more than 80% of the dollars spent on the ad networks are currently spent by direct response marketers. However, brand advertisers—including some of the largest advertisers—are beginning to increasingly use the ad networks. We believe brand dollars will increase on the networks as inventory on the top publishers becomes tighter. The key for the ad networks will be to have a trusted network of publishers, which they can offer to the brand advertisers, given that the brand advertisers are very protective of their brands.

## Demand For Transparency

There is increasing demand among advertisers, especially the brand advertisers, for increased transparency of the ad networks publishers. The ad representation firms offer the highest degree of transparency today as they disclose exactly what sites they represent. We believe greater transparency could also be a catalyst for more brand dollars shifting to the networks.

## Competitive Concerns Remain

We believe the level of competition is currently healthy in the ad network space. Exhibit 187 lists the leading ad networks, their size, and focus areas. The market is currently represented by a few larger players, including Advertising.com and ValueClick, as well as many smaller networks. A key concern for investors is if the arbitrage opportunity, and thus the gross margins of the networks, will shrink from current levels. We believe gross margins today for the ad networks range from 20%-50%. While we would expect margins to decline over time, we do not foresee any big near-term risks to margins. The biggest concern for the current players is if a larger player, including Google, were to gain increased traction and price very aggressively in order to gain share. That said, we do not believe the ad network space is a zero sum game, nor do we believe it will be dominated by two players as we have seen in search.

| Pricing Models | While price is typically on a CPM basis, pricing can also be on a CPC or CPA basis. We believe an average CPM price for remnant or run-of-site inventory is in the $1-$2 range, whereas more targeted verticals could be in the $3-$10 range. In Exhibit 187, we show a rate card from Tribal Fusion, which we believe to be fairly representative for CPM pricing. CPC prices are typically below $1, with average CPC rates in the $0.30-$0.40 range. CPA pricing can also very widely depending on the offer and the conversion rates; it is not uncommon to see CPA rates of $50 or more, however. |
|---|---|
| Market Size: $1.5 Billion | While market size is very difficult to estimate for the ad network segment, given that most of the companies are private and there are many companies, "quasi-networks," we estimate ad network inventory could represent 10% or more of total global display advertising. Based on our 2006 global display estimates of approximately $15 billion, we believe the ad network market could be at least $1.5 billion. |
| Market Players | The ad network space is very fragmented, with a large handful of large players, including Advertising.com and ValueClick, and a large number of smaller players. Additionally, as we will examine below, there are three main classifications of ad networks: Dynamic Network (e.g., Advertising.com, DrivePM); Traditional Ad Networks (ValueClick, 24/7 Real Media); and Site Representation (Specific Media, Winstar Interactive). In Exhibit 188, we rank the leading ad networks according to monthly impressions. |

## LEADING AD NETWORKS

| Company | Impressions (monthly - millions) | No. Of Affiliates | Targeting Types: (i.e. Geographic, Demographic) | Pricing Model | Web Site |
|---|---|---|---|---|---|
| Advertising.com | 40,000 | 3,000 | Behavioral, branding metric, connection, content category, demographic, language, SIC code | CPA, CPC, CPM, hybrid | www.advertising.com |
| ValueClick Media | 24,000 | 13,500 | Category, sub-category, geographic, connection, daypart, behavioral | CPA, CPC, CPM | www.valueclickmedia.com |
| Casale Media Network | 20,000 | 6,500 | Retargeting, channel, site, geographical, conversion performance, badwidth, day part, ISP | CPM, CPC, packages | www.casalemedia.com |
| Tribal Fusion | 17,000 | 1,000 | Channel, sub-channel, site-specific, geographic, behavioral, connection, day part | CPM | www.tribalfusion.com |
| Adbrite | 13,000 | 18,000 | Site-specific, country, DMA Geo-targeting, keywords | CPM, CPC | www.adbrite.com |
| RealTechNetwork | 12,600 | 4,100 | Behavioral, contextual, geographic, DMA, day part, channel, domain, keyword, frequency | CPM, CPC, hybrid | www.realtechnetwork.com |
| 24/7 Real Media | 11,000 | 885 | Content, behavior, geography, keyword, frequency, domain, day part, bandwidth | CPM | www.247realmedia.com |
| Azoogle | 10,000 | 13,000 | Affiliate Manager works closely with affiliate to select the offers that will perform best. | CPA | www.azoogleads.com |
| Gorilla Nation Media | 9,000 | 450 | Geolocation, frequency, site, day-part, browser, behavioral | CPM | www.gorillanation.com |
| CPX Interactive | 7,500 | 2,500 | Connection, day/time, browser, operating system, country/DMA target, channel, domains, languages | CPM, CPA, CPC, hybrid | www.cpxinteractive.com |
| VIZI Media | 7,100 | 1,000 | ISP/connection, day/time, browser, operating system, channel, country/DMA target, domains, languages | CPM, CPC, dynamic | www.vizimedia.com |
| Blue Lithium | 6,000 | 1,000 | Behavioral, content category, geography, connection speed, demographis, browser, language, day part | CPC, CPA, CPM | www.bluelithium.com |
| DrivePM | 5,700 | 250 | Behavioral variables, client site visits/conversions, demographics/psychographics | CPA, CPM, hybrid | www.drivepm.com |
| myGeek | 5,500 | 150 | Keyword, site-specific, traffic source, day part, category | | www.mygeek.com |
| Ad Pepper Media | 5,400 | 1,375 | Behavioral , contextual, site-specific, geo-targeting, content channels | CPC, CPA, CPM | www.adpepper.com |
| Burst Media | 5,200 | 3,400 | Geography, time of day, demographics, conetxtual, site, content channel, behavioral | CPC, CPM | www.burstmedia.com |
| Vendare Media-TMP | 5,100 | 900 | Behavioral, branding, connection speed, content category, demographic, geographic, language | CPC, CPA, CPM | www.vendaremedia.com |
| Revenue.net | 5,000 | 1,000 | Channel, content, keyword, geo-targeting, demogrphic, day part, browser, bandwidth, OS, ISP | CPC, CPA, CPM | www.revenue.net |
| SpecificMedia | 5,000 | 450 | Behavioral, contextual, demographic, prediction, DMA selects, line speed, day part, custom | CPM, CPC, CPA | www.specificmedia.com |
| TACODA | 5,000 | 3,000 | Behavioral, daypart, geolocation | CPM | www.tacoda.com |
| Addynamix.com | 4,800 | 900 | Content channel specific, target audience, geo-targeting, platform targeting | CPM | www.addynamix.com |
| Vizimedia | 4,000 | 50 | Geotargeting, behavioral | CPM | www.vizimedia.com |
| Netshelter | 3,600 | 150 | Site-specific, channel specific, target audience, geo-targeting, platform targeting | CPM | www.netshelter.net |
| AdTegrity.com | 3,500 | 450 | Channel, sub-channel, site, country, state, city, browser type, day part | CPC, CPM, dynamic CPM | www.adtegrity.com |
| Euroclick | 2,400 | 685 | | CPM, CPC, hybrid | www.euroclick.com |
| ContextWeb | 2,000 | 1,000 | Content | | www.contextweb.com |
| MaxOnline | 1,900 | 1,760 | Geographic, Pixel Tracking, Technographic, Day part | | www.iac.com |
| ClickDiario | 1,000 | 1,000 | Geography, IP, Site, Channel, Daypart | CPM, CPC, CPL, CPA | www.clickdiario.com |
| Tremor Network | 800 | 300 | Contextual, channel, geography, day part, browser type, operating system, and connection | | www.tremornetwork.com |
| Undertone Networks | 700 | 350 | Connection, Day Part, Demographic, Frequency, Site-Specific, Content, Geographic, Behavioral | | www.undertonenetworks.com |
| BlogAds | 300 | 1,100 | Content | | www.blogads.com |
| Active Athlete | 100 | 50 | Demographic, Geographic and Behavioral | | www.activeathlete.net |
| Federated Media | 65 | 30 | Content category, site | | fmpub.net/about |
| Third Screen Media | 50 | 25 | Geography, demographics | | www.thirdscreenmedia.com |
| Pheedo | 35 | 9,000 | Keyword, category, geo by city and demographic. | | www.pheedo.com |

Source: Company reports, MediaPost, iMedia Connection, ComScore MediaMetrix

**Ad Network Business Models**

The ad networks typically take on one of three business models: dynamic network, the traditional ad-network, and ad representation.

Dynamic Network Model

Under this model, the ad network will buy inventory from the publisher's sites in advance at a specified rate, group the inventory and select the best types for each advertiser, and resell the inventory to an advertiser or agency at a higher price. Given that there are no assurances this inventory can be resold or resold at a profit, this model presents the most risk for the ad network. The ad networks under this model may obtain preferential inventory from the publishers as the ad network guarantees payment. These networks include Advertising.com and DrivePM (owned by aQuantive). While the lead generation companies often use the at-risk model as well, we would not consider them a pure ad network model as they typically buy inventory from wherever they can (including email and search) in order to drive leads with little value-add in the process.

Traditional Ad Networks

In a the traditional ad network, the network contracts with the publisher to sell inventory at a certain price but does not guarantee that the inventory will be sold. Essentially, an ad network will represent all or part of a publisher's inventory and agrees to pay the publisher a fixed percentage or revenue share. The ad network under this model would typically pay a higher price for this inventory than a network that guaranteed payment, but does not assume the risk for unsold inventory. ValueClick, 24/7 Real Media, Casale Media, Tribal Fusion, and Burst Media are examples of the traditional ad-network model. We note that these networks also group their inventories and add value to them, but the process is not as complicated as the value-added groups.

Ad Representation

The third business model, which may not be considered a true network model, is the ad representation model. Under this model, the ad representation company will typically represent all or a majority of the ad inventory from a group of sites and will receive an agency commission for selling the inventory. The ad representation company essentially serves as an outsourced sales force. The margins are also typically lower for the ad representation companies, in the 20% range, given that these sites are often larger and there is less risk to the ad network. For the publisher, ad representation can offer higher ad rates than working with the other network models. Additionally, the ad representation companies typically only work with the larger publishers (usually in the top 1,000). Ad Representation companies include Winstar Interactive, Specific Media, and Gorilla Nation Media.

Exhibit 188

**TRIBAL FUSION RATE CARD**

| Location of Ad | Size of the Ad | | | | |
|---|---|---|---|---|---|
| | 468x60 | 120x600 | 728x90 | 300x250 | Pop Under |
| Run of Network | $1.00 | $1.75 | $1.75 | $2.50 | $8.50 |
| Arts & Enteratinment | $3.00 | $4.00 | $4.00 | $4.50 | $11.00 |
| Automotive | $3.00 | $4.00 | $4.00 | $4.50 | $11.00 |
| Business | $4.00 | $5.00 | $5.00 | $5.50 | $12.00 |
| Consumer Electronics | $4.00 | $5.00 | $5.00 | $5.50 | $12.00 |
| Dating | $4.00 | $5.00 | $5.00 | $5.50 | $12.00 |
| Digital Photography | $7.00 | $9.00 | $9.00 | $10.00 | $14.00 |
| Extreme Sports | $7.00 | $9.00 | $9.00 | $10.00 | $14.00 |
| Information Technology | $6.00 | $8.00 | $8.00 | $8.50 | $13.50 |
| Investing | $5.00 | $7.00 | $7.00 | $7.50 | $13.00 |
| Parenting | $5.00 | $7.00 | $7.00 | $7.50 | $13.00 |
| PC/Console Games | $5.00 | $7.00 | $7.00 | $7.50 | $13.00 |
| PDA | $7.00 | $9.00 | $9.00 | $10.00 | $14.00 |
| Real Estate | $5.00 | $7.00 | $7.00 | $7.50 | $13.00 |
| Shopping | $3.00 | $4.00 | $4.00 | $4.50 | $11.00 |
| Technology | $4.00 | $5.00 | $5.00 | $5.50 | $12.00 |
| Teen | $4.00 | $5.00 | $5.00 | $5.50 | $12.00 |
| Travel | $4.00 | $5.00 | $5.00 | $5.50 | $12.00 |
| Winter Sports | $7.00 | $9.00 | $9.00 | $10.00 | $14.00 |
| Women | $4.00 | $5.00 | $5.00 | $5.50 | $12.00 |

Source: Tribal Fusion

| **Affiliate Marketing** | Similar to Search Engine Marketing, advertisers are increasingly outsourcing the |
| --- | --- |

**Affiliate Marketing**
Rise Of Affiliate
Marketing Agencies

Similar to Search Engine Marketing, advertisers are increasingly outsourcing the management of their affiliate programs to third-party affiliate agencies. As the affiliate channel becomes an increasingly important channel for advertisers, we believe the advertisers will see the benefits of outsourcing, including best-of-breed management techniques and management stability. Several affiliate agencies were created over the last year to take advantage of this new opportunity.

**Key Themes In
Affiliate Marketing**

- Increasing Paid Search Costs Could Increase Value Of Affiliate Marketing
- Arbitrage Opportunity For Affiliates Likely To Decline
- Concerns Over Affiliate Defection To Paid Search
- Increasing Presence Of Sub-Affiliate Networks
- Rise Of Affiliate Marketing Agencies

Increasing Paid
Search Costs Could
Increase Value Of
Affiliate Marketing

We believe many advertisers, especially niche eCommerce merchants, are experiencing high paid search costs, and thus seeing their ROI diminish. Some eCommerce companies have even noted that paid search has become unprofitable today. While we do not think this has become a widespread issue, the rising search costs could lead advertisers to consider increasing their use of affiliate marketing. Affiliate marketing may be more attractive to advertisers given its relatively fixed ROI nature.

Arbitrage
Opportunity For
Affiliates Likely To
Decline

We believe many, if not a majority, of the affiliate Websites ("publishers") in the market today have essentially built a business model solely based on affiliate marketing fees. Many affiliates are essentially running an arbitrage model, by which they try to acquire traffic at a lower rate than they can earn on commissions. We believe many of these "arbitrage affiliates" are using organic or paid search to acquire traffic to their sites today. The large search networks such as Google and Yahoo! may choose to further crack down on sites that are trying to game the system, essentially indexing many sites without having any real content on these sites. For example, Google recently instituted a quality score on Websites: Sites with no real content will receive a low quality score. The effect of this is that affiliates with low quality scores will be forced to pay a higher fee and will move lower in the paid search rankings. Additionally, with paid search costs likely to rise, it could become more difficult for the affiliates to acquire traffic profitably.

Concerns Over
Affiliate Defection
To Paid Search

We believe concerns will continue over Web publishers ("affiliates") dropping affiliate marketing in favor of paid search (e.g., Google AdSense). Paid search is very effective for many publishers and typically converts at higher rates than affiliate marketing, albeit at a lower payout rate. We believe publishers with strong content should continue to do better with affiliate marketing given the higher payout rates. Sites that have little or no content, however, will often find it more effective to use paid search. Additionally, we believe many publishers will continue to use numerous forms of advertising on their sites, including display ads, paid search, affiliate marketing, or other performance-based ads.

Increasing Presence
Of Sub-Affiliate
Networks

A sub-affiliate is essentially a network made up of a super-affiliate (large publisher) and participating group of sub-affiliates (smaller publishers). The super-affiliate solicits CPA offers and promotes them to the sub-affiliates. The super-affiliate benefits as they

can earn additional fees from the leads brought in from the sub-affiliates. The sub-affiliates may choose to work with a super-affiliate as they can often receive a better commission because of the super-affiliate's higher volume. From the advertiser's perspective, the sub-affiliate model can be beneficial as a super-affiliate is incentivized to market the advertiser's offer to other affiliates. On the negative side, however, the advertiser has less control over which publisher sites the ads are seen on, and the super-affiliates may be recruiting low-quality affiliates.

## The Role Of Affiliate Marketing

Affiliate Marketing is a performance-based network that enables advertisers or merchants to generate sales or leads through a network of Web publishers (affiliates). The attraction of affiliate marketing to the advertiser is that the advertiser only pays when a specific action is taken, typically a purchase or other specific action by the customer. A Web publisher (affiliate) decides which offers to post on its site, and then the merchant will allow or disallow that publisher to post its offer. The advertiser pays variable fees to the affiliate, typically a percentage of revenues from a transaction (eCommerce advertiser) or as a lead generation fee (credit card advertiser). Affiliates can also receive volume bonuses for generating more business for the advertiser. The advertisers' affiliate campaign is run by an affiliate manager or increasingly outsourced to an affiliate agency. Additionally, while many advertisers use one of the established affiliate networks such as Commission Junction of Linkshare, some large merchants, such as Amazon, have created their own affiliate networks.

## Market Size - $300 Million

While difficult to estimate a true market size for affiliate marketing, we believe it could represent 10%-15% of total eCommerce sales. We believe net revenue paid to the affiliate networks is approximately 20%-25% of the total advertiser spending on the affiliate channel. Under these assumptions, we believe affiliate network agency fees are approximately $300 million on a global basis. We expect the overall growth of affiliate marketing to approximate eCommerce growth (we estimate 22% U.S. eCommerce growth in 2006).

## Market Players

In the United States, the affiliate market is fairly concentrated among three networks: Commission Junction (owned by ValueClick), Linkshare (owned by Rakuten), and Performics (owned by DoubleClick). We believe these three players likely represent 80% or more of the affiliate network revenues. In Europe, the largest player is TradeDoubler, followed by Commission Junction.

## Pricing

The Affiliate Networks are typically paid a fixed fee and a variable fee, which is usually based on a percentage of commissions paid to affiliates. A typical fee to the affiliate network is approximately 20%-25% of the commission value. For example, on a $100 eCommerce purchase, the Website would generate $10 in commission (assuming 10% commission rate), and the network would generate approximately $2-$3 in fees.

**How Affiliate
Marketing Works**

The Affiliate Marketing networks are the intermediaries that provide the technology and services to connect the advertisers with the publishers. The affiliate marketing networks provide tools to accomplish the following:

1.  Enable advertisers to manage the offers made to the affiliate partners

2.  Track the traffic, leads, and sales that these offers deliver to the advertiser

3.  Report on the effectiveness of the offers and specific partners

4.  Track the commissions owed to the various affiliates

Advertisers can use these tools to form their own private-labeled networks or use the publishers within one of the third-party affiliate networks (e.g., ValueClick, LinkShare).

**Key Benefits of Affiliate Marketing**

Low-Risk Customer Acquisition

In an affiliate marketing program, an advertiser will generally pay a percentage of sales or a lead generation fee. We believe this payment structure is attractive to advertisers, as the advertiser only pays when a sale or lead is generated, and the advertiser decides what the customer acquisition cost will be. In contrast, in a search marketing campaign, there is more risk associated with acquiring customers as there are more unknowns (including click-through-rates to conversion, constantly changing search prices, and the potential for click fraud).

Efficient Distribution

Affiliate marketing programs enable advertisers to place ads on thousands of Websites without having to contact each publisher themselves. The Commission Junction network, for example, has more than 50,000 publishers. The affiliate marketing networks also provide efficiencies as they help to automate the process, including billing and relationship management.

Benefits To Publishers And Consumers

The publishers can earn substantial commissions from eCommerce operations without having to provide any of the typical eCommerce functions, such as fulfillment or customer service. Some affiliates also create value for consumers as they will often provide useful user reviews of products and services. The affiliates that earn the greatest commissions are typically the ones that offer the most relevant content and best user experience.

**Lead Generation**

Key Trends In Lead
Generation

- Advertisers Increasingly Using Lead Generation Agencies
- Analytics And Creative Optimization Driving Higher Volumes Of Leads
- Quality Just As Important As Quantity
- Heightened Focus On Compliance

Advertisers
Increasingly Using
Lead Generation
Agencies

Our research indicates advertisers are increasingly relying on lead generation agencies due to the ability of the agencies to deliver greater volumes of leads today, combined with the attraction of fixed lead prices. Additionally, a lead generation program can often be far more costly for an advertiser to run on its own, as the advertiser would need to test different lead generation strategies across a number of vertical sites or networks to gain sufficient data.

Analytics And
Creative
Optimization Driving
Higher Volumes Of
Leads

The increasing use of analytics and targeting technologies, such as behavioral marketing, has driven increases in the number of leads that can be generated. Additionally, increased focus on optimizing the creative for a lead generation campaign increased conversion rates.

Quality Just As
Important As
Quantity

While initially lead generation agencies would try to deliver the most number of leads, irrespective of quality, we believe there is an increased focus in delivering higher-quality leads. This is important as low-quality leads are not as profitable a relationship for the advertiser. To ensure quality leads, agencies are using such tools as predictive modeling, field validation, and rules-based filters.

Heightened Focus On
Compliance

We believe one of the early concerns from advertisers with the lead generation agencies was how, and from where, they generated leads. For example, if an agency used many pop-up ads, this could create a negative brand image for the advertiser. Increasingly, we believe the agencies work to protect the advertisers' brand and focus on ensuring campaign compliance with regulations such as the CAN-SPAM Act.

How Lead
Generation Works

Lead generation is the process by which an advertiser can acquire a prospective consumer, using various channels such as a prior sale, a customer's email address, phone number, or from filling out a registration form. According to the Online Lead Generation Association, "Online lead generation—also known as co-registration—involves the permission-based matching of consumers with marketers." Lead generation on the Web is typically run by a specialized agency that delivers qualified leads to an advertiser. To generate leads for the advertiser, the agency will create a Website to qualify consumers or create a publisher network, often consisting of thousands of publishers from which to drive leads. The agencies acquire traffic from several online media formats, including display ads, email, search, and co-registration. Some agencies will also buy inventory from the ad networks. Most agencies guarantee leads to an advertiser at a fixed price and keep the difference between what they can sell the leads for and the cost to acquire the leads.

Exhibit 189

**HOW ONLINE LEAD GENERATION WORKS**

**1. Offer on Publisher**
Consumer views & clicks on a publisher partner's Web site.

**2. Client's Registration**
Consumer registers for offer on client's custom registration page.



Source: ValueClick

| Strong Value Proposition For Advertisers And Publishers | Advertisers find the lead generation model attractive as it generates leads at a fixed price and the advertiser is not responsible for wasted ad spend. The advertiser can manage to a cost-per-lead basis. For the publishers, online lead generation can offer significant revenues, often much higher than other forms of online advertising. |
|---|---|
| Market Size: $1 Billion | IAB estimates lead generation and referral revenues accounted for 6% of 2005 total U.S. online ad revenues, or approximately $750 million. This was up significantly from the 3% (or approximately $300 million) in revenues in 2004. We believe the lead generation market increased at least 30% in 2006, equating to a U.S. market size of $1 billion. |
| Market Players | Online lead generation is a very fragmented industry. Many of the lead generation agencies specialize in a particular vertical or a few verticals in order to provide a better offering to the advertisers. Lead generation companies that specialize in a specific vertical include HouseValues (real estate agents), Lending Tree (mortgage brokers), and BankRate (mortgages and other financial instruments). More diversified lead |

generation agencies include AzoogleAds, WebClients (ValueClick), CoregMedia, Adteractive, and QuinStreet.

Pricing

Pricing for leads can vary widely and typically depends on how difficult it is to acquire the lead, or the cost and time involved to deliver the leads. Agency margins can also vary widely depending on the mix of leads generated through their own sites versus publisher sites and the cost to acquire the leads. On average, we believe an agency's contribution margins (gross fees minus costs to acquire lead) are in the 20%-30% range.

**[This page is left intentionally blank.]**

# CHAPTER 15

# *The History Of Online Advertising*

**The Five Key Periods In The Ten-Year History Of Online Advertising**

- Beginning Of Online Advertising (1994-1998)

- The Boom Period (1999-2000)

- The Bust And The Aftermath (2000-2002)

- The Recovery In Online Ad Spending And Birth Of Search (2002-2004)

- The New Growth Period (2004 – Present)

In 1994, the first advertisement appeared on the Web, marking the beginning of the online advertising world, which we estimate reached $19.3 billion in 2006 in the United States alone. The Internet advertising world can be broken into five distinct eras:

## First Era: The Beginning Of Online Advertising (1994-1998)

The beginning of online advertising was marked by experimentation and pioneering by advertisers, publishers, and ad serving technologies—both in terms of ad formats and ad delivery technologies. DoubleClick, one of the first ad serving technologies, launched its DART system in 1995. The first online display ad was an AT&T ad that appeared on Hotwire.com, a property that Lycos eventually acquired. The ad was a 468 x 60 banner that was placed online on October 25, 1994. Soon after the first online ad appeared, the first major change to online advertising came in 1996, when Hewlett-Packard embedded Pong (the first video arcade game) into a banner ad—creating one of the first interactive ads on the Internet, ushering in a new era of interactive rich media advertising. From the beginning, advertisers, agencies, and publishers realized that advertising online was both very different from traditional media, and perhaps more compelling. In no other media channel could advertisements be targeted and measured the way they could online. As with many technological innovations, however, the medium was misunderstood for a long period: Traditional advertisers and agencies would wait on the sidelines until the effectiveness of the medium was proven many years later.

## Second Era: The Boom Period (1999-2000)

*The most important contribution of the boom period was the development of many technologies to target and deliver ads.*

The frenzy that led to the Internet bubble was a rush by thousands of advertisers, many of them online businesses, to get consumers to click. While traditional advertisers in key verticals such as autos, consumer packaged goods, and financial services remained skeptical of the click, the influx of capital from the dot com boom drove pricing to irrational levels, guaranteeing that these cash-laden advertisers would remain in more traditional media, where standards abound and pricing was rational. At the height of this era, Internet spending reached $8.2 billion, a figure that would not be reached again until four years after the bubble burst. Yahoo!'s revenue in the fourth quarter of 2000 reached $311 million, the highest ever until then, and a figure that Yahoo! was not able to exceed until the second quarter of 2003, ten quarters later. The most important contribution of the boom period was the development of many technologies to target and deliver ads. Many advertisers, however, were alienated by the extremely low effectiveness of the online ads, their high prices, and the difficult process of buying online ad inventory.

## Third Era: The Bust And The Decline (2000-2002)

*It took four years to recover from, and then exceed, the dot com levels of spending in online advertising.*

Beginning in the second half of 2000, the dot com money that drove the bubble in online advertising began to dry up as the stock market collapsed and the economy began to decline into recession. The Nasdaq peaked in March, 2000 at 5,049 and did not bottom until October 2002, at approximately 1,100. As one dot com after another went bankrupt, so too did the online advertising dollars, causing a dramatic fall in online ad dollars. From 2000-2002, online advertising dollars declined from $8.2 billion to $6.2 billion, a decline of 32%. What made the decline even more pronounced was that many of the large publishers attempted to disintermediate the large advertising agencies by going direct to the advertiser. As the market entered an uncertain economic climate, the agencies were not interested in supporting an unproven new media channel.

**Fourth Era: The Recovery Period: Search Comes To The Rescue (2002-2004)**

Post-bubble, Internet advertising was in rapid decline with the exception of search, which was just beginning to show its high levels of efficiency. Because of its measurability and very high ROI, the U.S. search market quickly grew from $475 million in 2001 to $2.3 billion in 2003. By late 2002, we witnessed the beginning of a recovery in the overall advertising market. Advertisers and agencies increasingly realized the value of online brand advertising, especially for hard-to-reach demographics such as working adults or teens. Additionally, more traditional advertisers (such as consumer packaged goods companies) began to adopt online advertising and are largely driving the growth of display advertising today. Yahoo! also started to see growth, while AOL continued to suffer from declines. In 2003, we finally saw an overall increase in total online ad spending for the first time since 2000. The recovery period extended until 2004, when additional online inventories became popular and Yahoo!'s early resurgence was followed by MSN and vertical sites, then eventually by AOL, and finally by the smaller sites and the networks. At the same time, the role of the agencies in accepting the online inventory increased, albeit slowly and often reluctantly, as it became clear that online advertising is effective and as consumers increasingly spent more of their time on the Internet.

**Fifth Era: The New Growth Period: 2004-Present**

*The hallmark of the New Growth Period is the full integration of the Web as part of the media mix.*

Since 2004, we have witnessed rapid adoption of the online medium by advertisers and an increasing sophistication of the agencies and advertisers in using the Web as part of an overall marketing campaign or even as the central focus of the campaign. The New Growth period is also marked by a noticeable improvement in the efficacy of the broad online inventory with companies like Advertising.com and others offering highly targeted and very effective inventory to many advertisers. Increasingly, advertisers (including traditional consumer packaged goods advertisers) embraced the Internet as a branding mechanism and a vehicle to launch new products successfully. The hallmark of the New Growth Period is the full integration of the Web as part of the media mix, followed by the increasing position of online marketing, whereby it is now taking dollars at the expense of other mediums. Finally, search has become an important marketing tool and now roughly equals brand advertising in total spending. In the New Growth Period, Internet users have started to take more control of content creation, becoming an active participant in creating content, as opposed to just passively reading content. This increase in user-generated content has served to transform the way advertisers are approaching online advertising: Advertisers must now look to engage the user and often use a form of "viral" marketing to build brands online. Finally, with the increase in broadband adoption, starting in mid-2005, advertisers increasingly began adopting streaming video ads, which we believe will be the prevalent form of display advertising in the future.

**Key Milestones In
Online Advertising**

Exhibit 190

**THE FIRST ONLINE AD: AN AT&T AD ON HOTWIRED.COM**



Source: Wikipedia – search "banner ad"

- **1994 (April) – David Filo And Jerry Yang Created The Yahoo! Directory.** The directory was unique in that in utilized human descriptions for each URL.

- **1994 (March) – The Green Card Spam.** The era of online mass marketing perhaps began with the first commercial spam campaign on March 5, 1995, in which two lawyers sent bulk posting on Usenet to advertise immigration legal services. The campaign became know as the "Green Card Spam."

- **1994 (July) – Lycos Launched.** Lycos was known for its large catalog size.

- **1995 (July) – InfoSeek And Netscape Change To A CPM Model.**

- **1994 (October) – The First Banner Ad.** The first online display ad was an AT&T ad that appeared on Hotwire.com, a property that Lycos eventually acquired. The ad was a 468 x 60 banner that was placed online on October 25, 1994.

- **1995 – Craigslist Founded.** Craigslist was founded by Craig Newmark as a site telling people about interesting events in San Francisco. The site evolved to become a classified listing site in the Bay Area and only began to expand to other cities in 2000.

- **1995 – LookSmart Founded.** LookSmart, along with Inktomi, created the paid inclusion model.

- **1995 (August) – Microsoft Launched MSN Online Service.**

- **1995 (December) – AltaVista Launched.** AltaVista developed some unique features including natural language search.

- **1996 (April) – Yahoo! IPO.** On April 12, 1996, Yahoo! issued 2.6 million shares at $13 a share, raising $33 million. Shares increased by 153% on the first day of trading.

- **1996 – Banner Ads Get Interactive.** Hewlett-Packard embedded Pong, the first video arcade game, into a banner ad—creating one of the first interactive ads on the Internet, and ushered in a new era of interactive rich media advertising. To Hewlett-Packard's surprise, the Pong ad reportedly achieved click-through rates of 4%-8%, significantly higher than the conventional click-through rate of 1%-2% for static banner ads.

Exhibit 191

**ONE OF THE FIRST INTERACTIVE ONLINE ADS: HEWLETT PACKARD'S PONG AD**



Source: Hewlett-Package Co.  Used with permission.

- **1996 (December) – IAB Established Standards.** The Interactive Advertising Bureau, IAB, published the first voluntary guidelines for banner advertising.

- **1997 (April) – Ask Jeeves Launched Natural Language Search Engine.** The company acquired Teoma search technology in 2001. InterActiveCorp acquired the company in March 2005 and changed the name to Ask.com, dropping the "Jeeves" mascot.

- **1997 (May) – Amazon IPO.** On May 17, 1998, Amazon issued 3 million shares at $18 a share, raising $54 million. Shares increased by 63% on the first day of trading.

- **1998 – GOTO Launched Pay-Per-Click Search Model.** Now called Overture and owned by Yahoo!, GoTo's model was based on an auction system whereby advertisers would bid on keywords when users executed a search. The company experienced success; but eventually GoTo's lack of direct traffic, margin compression, and competition from Google led to the company's sale to Yahoo! in July 2003.

- **1998 (September) – Google Founded.** Google was incorporated in 1998 and was answering 10,000 search queries each day while still in beta mode.

- **1998 (September) – eBay IPO.** On September 24, 1998, eBay issued 3.5 million shares at $18 a share, raising $63 million. Shares increased by 163% on the first day of trading.

- **1999 (April) – Yahoo! Acquired Broadcast.com For $5 billion,** representing one of the last overvalued eyeball acquisitions of the boom era.

- **2000 – Google AdWords Launched.** Initially priced on a CPM basis, Google transitioned to its current auction model—which is based on price and relevancy—in February 2002. AdWords has gained significant market share due to its high relevancy, monetization rates, and Google's gains in search share.

- **2000 – Pop-Up Ads Proliferate.** Pop-up ads, first introduced in the early days of the Internet in 1997, proliferated by 2000, largely through the ads for the famous X-Cam.

- **2000 – Traditional Retailers Move Online**. In the wake of the dot com bust, traditional retailers from Wal-Mart to Best Buy to The Gap move aggressively online.

- **2001 (February/August) – IAB Issued New Ad Unit Guidelines.** Expanding on the ad formats beyond traditional banners, the new standards, which followed formats already in use by some companies, were called Interactive Marketing Units (two vertical units and five large rectangular units) and rich media ads.

- **2002 (January) – IAB Issued Guidelines For Measurement.** The guidelines detailed advertising campaign measurement and reporting of interactive advertising data.

- **2000-2003 – The Bust.** Beginning in the second half of 2000, the dot com money that drove the bubble in online advertising began to dry up as the stock market collapsed and the economy began to decline into recession.

- **2003 – Search Market Exceeded $1 Billion.** The U.S. paid search market reached $2.2 billion in 2003, up from $956 million in 2002.

- **2003 (July) – Yahoo! Acquired Overture.** Yahoo! acquired Overture for $1.6 billion.

- **2003 – Google Launched AdSense.** Google introduced AdSense for content, an advertising syndication program that enabled site owners to display targeted text ads adjacent to content.

- **2003 (March) – Piper Jaffray & Co. Published Golden Search Report.** The report, the first comprehensive survey of the search market, predicted that the search market would reach $7 billion by 2007, an estimate that was far ahead of other expectations yet proved to be highly conservative.

- **2004 (March) – InterActiveCorp Acquired Ask Jeeves For $1.85 billion.

- **2004 (April) – Google Launched Gmail.** Google released Gmail, a free email service, which marked Google's first major product expansion beyond its core search platform.

- **2004 (April) – Google IPO.** On August 19, 2004, Google issued 19.6 million shares at $85 a share in a Dutch auction IPO raising $1.7 billion. Shares increased by 18% on the first day of trading.

- **2005 (July) – News Corp. Acquired MySpace for approximately $580 million,** marking the first major acquisition of a controversial and emerging online property by a traditional media company.

- **2005** (**August**) – **Yahoo! Invested in Alibaba.** Yahoo! invested $1 billion in cash for a 40% stake in Alibaba, a Chinese eCommerce company

- **2005** (**September**) – **eBay Acquired Skype For $2.6 billion.** The market reacts negatively to the acquisition, sending the stock down.

- **2005** (**December**) – **Google And AOL Expand Strategic Alliance.** Google and AOL renewed their strategic alliance, which also included a $1 billion investment by Google for a 5% stake in AOL.

- **2006 – Video Proliferates.** Driven by high broadband penetration rates, video proliferated in 2006 as CBS streamed the NCAA tournament, and FIFA streamed World Cup highlights. For the first time, the major TV networks began streaming prime time TV shows online for free, supported by limited advertising. User-generated video sites such YouTube and Google Video became highly popular destinations.

- **2006** (**August**) – **MySpace Taps Google For Search.** Fox Interactive Media selected Google to power search on MySpace.com. Under the terms of the agreement, Google guaranteed payment of $900 million over three years as long as Fox Interactive Media achieves certain traffic commitments.

- **2006** (**October**) – **Google Acquired YouTube for $1.65 billion,** marking the first major non-technology acquisition by the company. The acquisition was viewed as an inflection point by many in the media industry.

- **2006 – U.S. Search Market Reached $9.9 Billion.** We estimate that the U.S. search market reached $9.9 billion in 2006.

Exhibit 192

## PIPER JAFFRAY & CO. ONLINE ADVERTISING TIMELINE



**1995**
- Amazon.com launched
- Craigslist founded
- Start of online social networks (Classmates.com)
- Ad dollars begin moving online
- eBay founded
- SSL 3.0 Released by Netscape

**1996**
- Hewlett Packard debuts its "Pong" ad, the first interactive ad
- Yahoo! IPO

**1994**
- First large-scale spam sent to 6000 bulletin boards, reaching millions of people
- Pizza Hut offered online ordering
- Shopping malls arrive on the Internet
- First banner ad appeared on hotwired.com for AT&T
- Beginning of Spyware
- Beginning of Affiliate Marketing
- Spread of WWW

**1990** - Emergence of search engines

**1990** - Tim Berners-Lee wrote "The WorldWideWeb browser" using a NeXT computer

**1991** - Start of WWW

**1993** - Term "Spam" started

**1980** - Beginning of online games

**1984** - Domain Name System (DNS) introduced

**1986** - The Term "Internet" emerged

**1971** - Beginning of e-mail

**1972** - First computer-to-computer chat takes place at UCLA

**1978** - First e-mail spam

**2000**
- dot com crash
- Start of pop-up blocking in browsers
- First anti-spyware program, OptOut launched
- Traditional retailers begin to move more aggressively online
- Google introduced AdWords

**1999**
- First peer-to-peer file sharing software, Napster, launched
- Start of Pay-Per-Click Advertising (GoTo)
- Yahoo! acquired Broadcast.com
- Victoria Secret fashion show stalls Internet

**1997**
- "Internet Official Protocol Standards"
- Ask Jeeves launched; Amazon IPO

**1998**
- GoTo (Overture) and Google Founded
- eBay IPO

Legend: US Online Advertising Revenue (in billions) | % of Total Ad Spend

Source: Piper Jaffray estimates, DoubleClick "The Decade in Online Advertising", Wikipedia, company Websites, and Hobbe's Internet Timeline

**2006**
- Proliferation of online video
- MySpace taps Google for search
- Google acquired YouTube
- U.S. search market exceeds $9 billion

**2005**
- YouTube founded
- Online ad spend nearly 5% of ad budgets
- News Corp. acquired MySpace
- IACI acquired Ask Jeeves
- Google AOL expand partnership
- Yahoo! invested in Alibaba
- eBay acquired Skype

**2004**
- Google IPO
- Emergence of Facebook
- Online ad spend approached $10 billion

**2003**
- eCommerce generated $12.2 billion in 2003, in U.S.
- U.S. search market exceed $1 bullion
- PJC published Golden Search Report; estimated search market would reach $7.0 billion in '07
- Click Fraud becomes a concern for advertisers
- Yahoo acquired Overture
- Google launched AdSense offering contextual advertising
- Emergence of MySpace
- Congress passed CAN-SPAM Act of 2003

**2002** - Having your own Blog becomes hip

**2001** - Spread of online pop-up ads

% of Total Ad Spend

12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%

2001  2002  2003  2004  2005  2006E  2007E  2008E  2009E  2010E  2011E

[This page is intentionally left blank.]

**APPENDIX I**

# *Estimated Annual U.S Advertising Expenditures 1995-2005*

Exhibit 193

# ESTIMATED ANNUAL U.S ADVERTISING EXPENDITURES

1995-2005

| | Newspaper | Cable Networks | Four TV Networks | Other TV | Radio | Magazines | Internet | Direct Mail | Yellow Pages | Misc. | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1995 | 36,092 | 3,999 | 11,600 | 21,120 | 11,338 | 8,580 | | 32,866 | 10,236 | 20,943 | 156,774 |
| 1996 | 38,075 | 4,911 | 13,081 | 22,965 | 12,269 | 9,010 | 267 | 34,509 | 10,849 | 22,560 | 168,496 |
| 1997 | 41,330 | 5,901 | 13,020 | 23,873 | 13,491 | 9,821 | 907 | 36,890 | 11,423 | 23,940 | 180,596 |
| 1998 | 43,925 | 7,188 | 13,736 | 25,437 | 15,073 | 10,518 | 1,920 | 39,620 | 11,990 | 25,769 | 195,176 |
| 1999 | 46,289 | 8,874 | 13,961 | 26,050 | 17,215 | 11,433 | 4,621 | 41,403 | 12,652 | 28,490 | 210,988 |
| 2000 | 48,670 | 10,444 | 15,888 | 28,914 | 19,295 | 12,370 | 8,225 | 44,591 | 13,228 | 32,083 | 233,708 |
| 2001 | 44,305 | 10,325 | 14,300 | 24,581 | 17,861 | 11,095 | 7,404 | 44,725 | 13,591 | 29,895 | 218,082 |
| 2002 | 44,102 | 10,790 | 15,000 | 27,068 | 18,877 | 10,995 | 6,229 | 46,067 | 13,776 | 30,730 | 223,634 |
| 2003 | 44,939 | 12,288 | 15,525 | 27,722 | 19,493 | 11,765 | 6,982 | 49,061 | 13,914 | 46,500 | 248,189 |
| 2004 | 46,703 | 13,873 | 16,458 | 29,562 | 19,779 | 12,121 | 9,824 | 52,240 | 14,035 | 49,879 | 264,474 |
| 2005 | 47,408 | 15,865 | 16,880 | 28,381 | 19,950 | 12,859 | 13,956 | 56,627 | 14,272 | 52,373 | 278,571 |
| 2006E | | 18,210 | | | | | 19324 | | | | |

## Year-Over-Year Growth

| | Newspaper | Cable Networks | Four TV | Other TV | Radio | Magazines | Internet | Direct Mail | Yellow | Misc. | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1996 | 5.5% | 22.8% | 12.8% | 8.7% | 8.2% | 5.0% | | 5.0% | 6.0% | 7.7% | 7.5% |
| 1997 | 8.5% | 20.2% | -0.5% | 4.0% | 10.0% | 9.0% | 239.7% | 6.9% | 5.3% | 6.1% | 7.2% |
| 1998 | 6.3% | 21.8% | 5.5% | 6.6% | 11.7% | 7.1% | 111.7% | 7.4% | 5.0% | 7.6% | 8.1% |
| 1999 | 5.4% | 23.5% | 1.6% | 2.4% | 14.2% | 8.7% | 140.7% | 4.5% | 5.5% | 10.6% | 8.1% |
| 2000 | 5.1% | 17.7% | 13.8% | 11.0% | 12.1% | 8.2% | 78.0% | 7.7% | 4.6% | 12.6% | 10.8% |
| 2001 | -9.0% | -1.1% | -10.0% | -15.0% | -7.4% | -10.3% | -10.0% | 0.3% | 2.7% | -6.8% | -6.7% |
| 2002 | -0.5% | 4.5% | 4.9% | 10.1% | 5.7% | -0.9% | -15.9% | 3.0% | 1.4% | 2.8% | 2.5% |
| 2003 | 1.9% | 13.9% | 3.5% | 2.4% | 3.3% | 7.0% | 12.1% | 6.5% | 1.0% | 51.3% | 11.0% |
| 2004 | 3.9% | 12.9% | 6.0% | 6.6% | 1.5% | 3.0% | 40.7% | 6.5% | 0.9% | 7.3% | 6.6% |
| 2005 | 1.5% | 14.4% | 2.6% | -4.0% | 0.9% | 6.1% | 42.1% | 8.4% | 1.7% | 5.0% | 5.3% |

## Percent Of Total

| | Newspaper | Cable Networks | Four TV | Other TV | Radio | Magazines | Internet | Direct Mail | Yellow | Misc. | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1995 | 23% | 3% | 7% | 13% | 7% | 5% | 0% | 21% | 7% | 13% | 100% |
| 1996 | 23% | 3% | 8% | 14% | 7% | 5% | 0% | 20% | 6% | 13% | 100% |
| 1997 | 23% | 3% | 7% | 13% | 7% | 5% | 1% | 20% | 6% | 13% | 100% |
| 1998 | 23% | 4% | 7% | 13% | 8% | 5% | 1% | 20% | 6% | 13% | 100% |
| 1999 | 22% | 4% | 7% | 12% | 8% | 5% | 2% | 20% | 6% | 14% | 100% |
| 2000 | 21% | 4% | 7% | 12% | 8% | 5% | 4% | 19% | 6% | 14% | 100% |
| 2001 | 20% | 5% | 7% | 11% | 8% | 5% | 3% | 21% | 6% | 14% | 100% |
| 2002 | 20% | 5% | 7% | 12% | 8% | 5% | 3% | 21% | 6% | 14% | 100% |
| 2003 | 18% | 5% | 6% | 11% | 8% | 5% | 3% | 20% | 6% | 19% | 100% |
| 2004 | 18% | 5% | 6% | 11% | 7% | 5% | 4% | 20% | 5% | 19% | 100% |
| 2005 | 17% | 6% | 6% | 10% | 7% | 5% | 5% | 20% | 5% | 19% | 100% |

Source: Piper Jaffray & Co, Newspaper Association of America, Yellow Pages Association of America, National Cable and Telecommunications Association and Robert J. Coen, Universal McCann

# APPENDIX II

# *2006 Piper Jaffray Online Media Survey*

Key Takeaways From Our Survey

- Consumers Watching Less TV; Simultaneous Internet And TV Usage Is Widespread

- Social Networking Site Usage Is Broad-Based Across Most Demographics

- Google Dominates Search Mind Share; Google's Non-Search Products Gaining Popularity

- Yahoo! And Ask.Com Showing Better-Than-Expected Search Strength

- Search Is Becoming A Navigation Method

- More Than 90% Of The Internet Users Are Heavy Or Moderate Users

- YouTube And TV Network Sites Most Popular Video Destination; TV Usage Is Declining

## KEY TAKEAWAYS FROM OUR SURVEY

**Pervasive Internet**

**More than 90% Of The Internet Users Are Heavy Or Moderate Users.** According to our survey, the Internet has become an important aspect of consumers' everyday lives, as most respondents consider themselves moderate to heavy Internet users. Fully 92% of all respondents were heavy or moderate users. Heavy users (defined as more than three hours a day) were 48% of the total, while moderate users (defined as one to three hours a day) were 44%. Communication, news, and research/eCommerce were the most valuable aspects of the Internet. Drilling down to specific applications, email, local search, instant messaging, and eCommerce were the most popular online activities

**TV Or Not TV**

**Consumers Watching Less TV; Simultaneous Internet And TV Usage Is Widespread.** Our survey indicated 42% of respondents watch less TV than they did two years ago. This is contrary to data available from Nielsen, which indicates TV usage remains stable or is actually increasing. Also, 32% of respondents indicated they simultaneously use the Internet while they watch TV, and 52% of DVR users skip all ads.

**Social Networking**

**Social Networking Site Usage Is Broad.** Based on our survey, 30% of the respondents indicated they use social networking sites. Of those who use social networking, 57% use MySpace, 14% use Facebook, and 13% use Yahoo!360. Out of those who said they do use social networking sites, 30% are age 35+, and 70% are between the ages of 18 and 34. 75% of total social networking users indicated the top reason for using the site is to communicate with friends; only 45% said that it is for the purpose of online dating. Furthermore, MySpace is the most popular social networking site across all age groups, Facebook appears to appeal to a younger demographic, and Yahoo!360 is more popular among a slightly older demographic.

**Search**

**Search Becoming A Navigation Method.** A surprising 41% of our survey respondents use search as a method to navigate to a Website, compared with 22% who use bookmarks, and 37% who type the Web address directly into the browser.

**Google**

**Google Dominates Search Mind Share; Non-Search Products Gaining Popularity.** 52% of the survey respondents indicated Google was the best search engine, while 19% indicated Yahoo! was the best. 55% of respondents indicated they use Google most frequently for search, and 37% indicated they use Yahoo! most frequently. While search obviously is the most popular Google product, 28% of respondents use Google Maps, 23% use Google Earth, 13% use Gmail and Google Toolbar, and 12% use Google Video. In all, 49% of our respondents use at least one Google product other than Google search, and 25% use at least two Google products other than Google search.

**Beyond Google**

**Yahoo! And Ask.com Showing Better-Than-Expected Search Strength.** About 37% of the users in our survey consider Yahoo! their primary search engine, a figure that was higher than our expectations. An additional 22% of the respondents said they often use Yahoo!. Also, while a very small percentage (4%) cite Ask.com as their primary search engine, more than 50% of the respondents at least sometimes (includes "Primary," "Often," and "Sometimes" usage) use Ask.com—more than the group who said the same about AOL search.

**YouTube**

**YouTube And TV Network Sites Most Popular; TV Usage Declining.** Regarding online video, 44% of the survey respondents watch online videos on YouTube, and 41% watch online videos on a TV network's site, which indicates the increasing popularity of TV network sites as destination properties. Interestingly, 70% of the survey respondents indicated they are willing to watch commercials before watching an online video (assuming the videos were free), and nearly 80% said they would not pay for watching videos online.

**Survey Details**

Internet Usage
Patterns

**92% Of Respondents Are Moderate Or Heavy Internet Users.** 48% of the survey respondents indicated they are heavy Internet users (three or more hours per day), and 44% indicated they are moderate users (one to three hours per day). Only 8% of respondents categorized themselves as light Internet users (less than one hour per day). The mean hours spent online based on our survey was 2.4 hours per day online with a standard deviation of 0.63 hours.

Exhibit 194

**INTERNET USAGE**

How Would You Characterize Your Internet Usage?
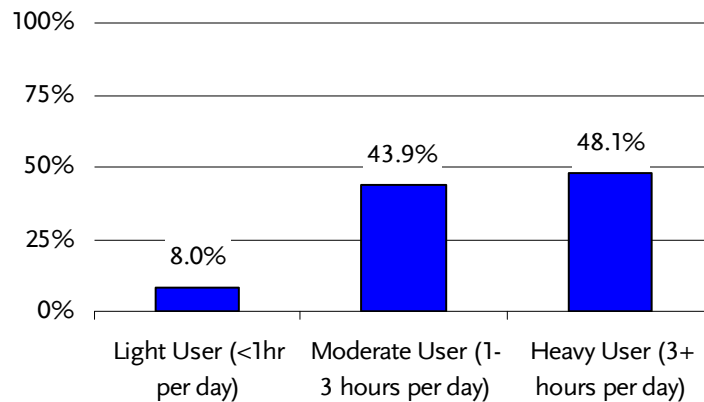


Source: Piper Jaffray & Co. 2006 Online Media Survey

**Communication And News Are The Most Valuable Aspects of the Internet.** Our survey indicated communication and news are the most valuable aspects of the Internet, followed by research/eCommerce. Also, email remains the Internet's killer application in terms of frequency of use, followed by local search, instant messaging, and eCommerce. Our survey confirmed our belief that local search represents a significant growth opportunity for the search market in terms of query growth and monetization improvements.

Exhibit 195

## MOST VALUABLE ASPECTS OF THE INTERNET

What Is The Most Valuable Aspect Of The Internet For You? (Please Rank From One to Six with Six Being The Most Important)



Weighted Average of People Responded (Indexed)
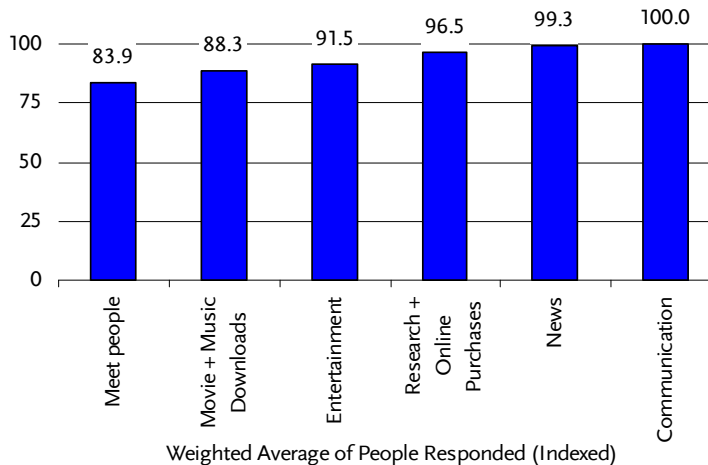
Source: Piper Jaffray & Co. 2006 Online Media Survey

Exhibit 196

## MOST POPULAR INTERNET SERVICES

How Often Do You Use The Following Online Services?



Weighted Average of People Responded (Indexed)
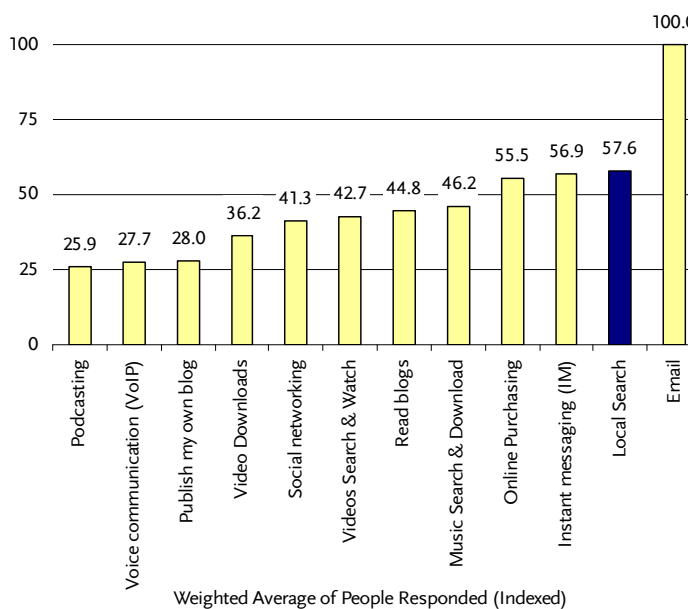
Source: Piper Jaffray & Co. 2006 Online Media Survey

**Social Networking**

**MySpace Dominates Social Networking Mind Share.** 30% of our survey respondents indicated they use online social networking sites. Of those who use social networking sites, 57% use MySpace, 14% use Facebook, and 13% use Yahoo!360. According to the survey, 60% of the social networking users were age 18-34, while 30% were 35-49.

Exhibit 197

**SOCIAL NETWORKING POPULARITY**

Do you spend time on social networking sites like MySpace, Facebook, Friendster, Bebo, etc?

Do you spend time on social networking sites like MySpace, Facebook, Friendster, Bebo, etc?

Friendster 5%
Other 5%
Xanga 4%
Bebo 2%
Piczo 0%
Facebook 14%
Yes 30%
No 70%
Yahoo360 13%
MySpace 57%
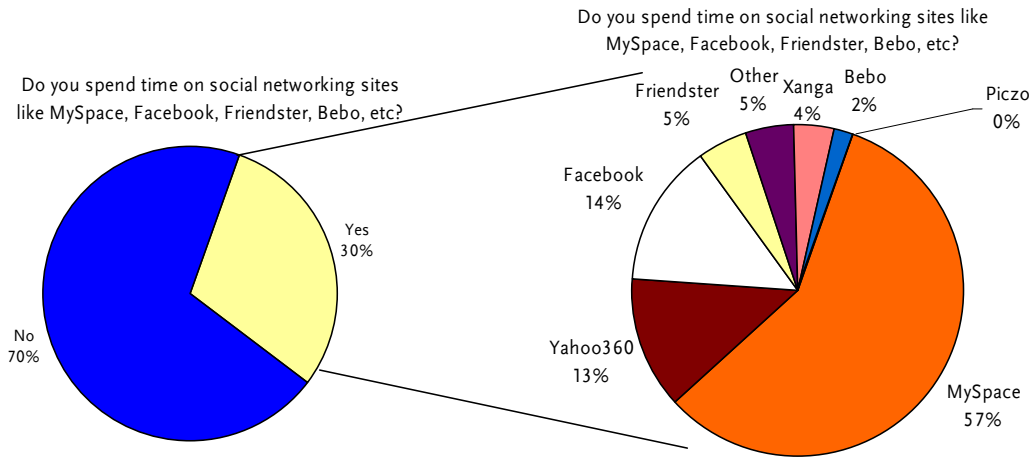
Source: Piper Jaffray & Co. 2006 Online Media Survey

**Communication Is Most Important Social Networking Site Feature.** 75% of the social networking site users indicated they use the site to communicate with friends and family. 60% indicated they use it to share and download music, and 59% indicated they just use it to browse other people's sites and read blogs. 49% of respondents indicated they use social networking sites for online dating.

Exhibit 198

**POPULARITY OF ACTIVITIES ON SOCIAL NETWORKING SITES**

**Social Networking Site Demographics.** While social networking sites are more popular among younger users, usage occurs across nearly all age groups. 74% of 18-24 year olds use social networking sites, compared with 53% of 25-34 year olds. In the 35-44 year old group, 21% use social networking sites, while in the 45-54 year old group only 11% use social networks. In the 55 or older group, a surprising 7% use social networking sites.

**Online Video And
Advertising**

**YouTube And TV Network Sites Are Popular.** Regarding online video, 44% of the survey respondents watch online videos on YouTube, and 41% watch online videos on a TV network's site, which indicates the increasing popularity of TV network sites as destination properties. 78% of the 18-24 year old respondents use YouTube. Usage is less concentrated, however, in older demographics. 60% of 25-34 year olds use YouTube, 43% use TV network sites, and 32% use Google Video. Among 35-44 year old respondents, 37% use YouTube, 40% use TV network sites, 37% use MSN video, and 23% use Google Video and Yahoo! Video. Among 45-54 year olds, 47% use TV network sites, 22% use YouTube, 25% use Google Video, 26% use Yahoo Video, and 28% use MSN video. Among the 55 or older demographic, only 11% use YouTube, 33% use TV network sites, 22% use MSN video, and 22% used Yahoo! Video.

Exhibit 199

**POPULARITY OF ONLINE VIDEO SITES**

Where Do You Go To Watch Video Content Online? (Percentage of Total)



Source: Piper Jaffray & Co. 2006 Online Media Survey

**News, Movie Previews, And Amateur Videos Most Popular.** Among respondents who do watch videos online, 51% indicated they watch news, 41% indicated they watch movie previews, 38% indicated music and amateur videos, and 26% indicated TV shows. We note this year marks the first year the TV networks began using the Internet as a distribution channel, and the 26% is an impressive indication of the potential popularity of viewing TV shows online.

Exhibit 200

**VIDEO CONTENT WATCHED ONLINE**

What Type Of Video Content Do You Watch Online?
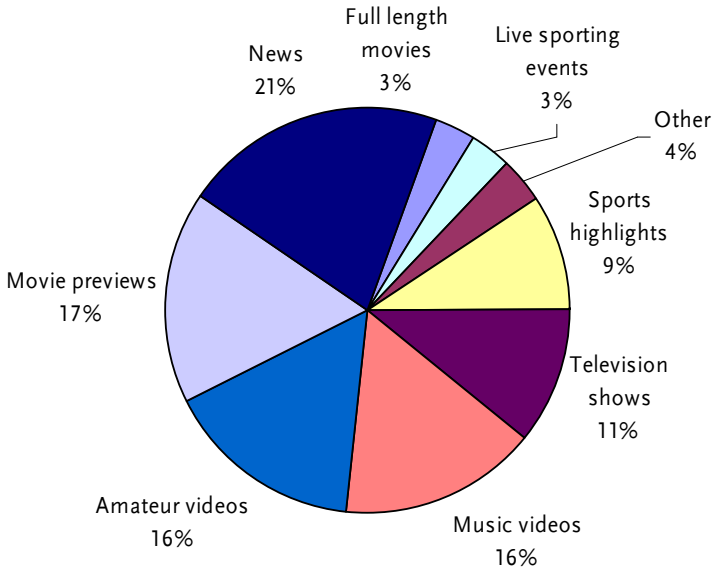


Source: Piper Jaffray & Co. 2006 Online Media Survey

**TV Usage Declining.** Contrary to data from Nielsen, which indicates TV usage is stable or increasing, our survey indicated 42% of respondents are watching less TV than they did two years ago. According to our survey, 55% of 18-24 year olds, 35% of 25-34 year olds, 42% of 35-44 year olds, 33% of 45-54 year olds, and 55% of 55 or older watch less TV now than two years ago.

Exhibit 201

**TV VIEWING TRENDS**

Do You Watch More/Less/Same Amount of TV then Two Years Ago?
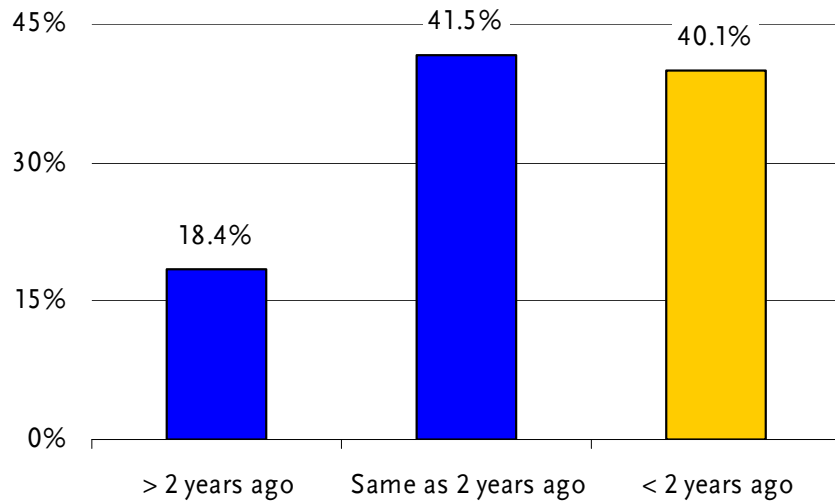


Source: Piper Jaffray & Co. 2006 Online Media Survey

**Simultaneous Internet And TV Usage.** 17% of our survey respondents indicated they always surf the Internet at the same time as watching TV, while 15% and 26% indicated that they usually or sometimes surf the Internet at the same time as watching TV. Simultaneous Internet and TV usage is more prevalent among younger users. 40% of 18-24 year olds, 36% of 25-34 year olds, 30% of 35-44 year olds, 27% of 45-54 year olds, and 13% from the 55 or older demographic indicated they usually or always watch TV and use the Internet at the same time.

Exhibit 202

**SIMULTANEOUS INTERNET AND TV USAGE TRENDS**

How Often Do You Surf The Internet At The Same Time As Watching TV?
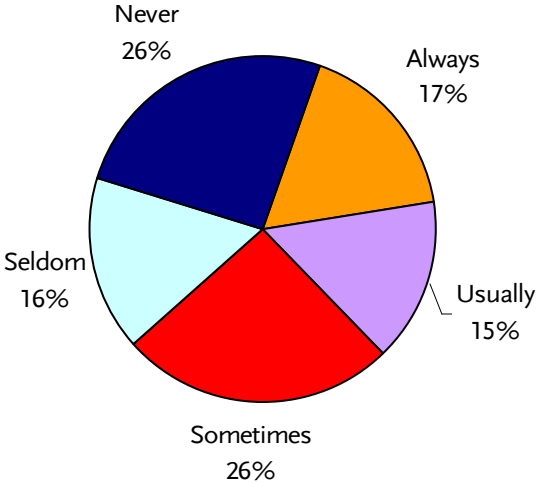


Source: Piper Jaffray & Co. 2006 Online Media Survey

**Limited Ads Tolerable But Paid Online Videos Are Not.** Approximately 40% of our survey respondents indicated they are willing to watch limited commercials before an online video (assuming the online video is free), and approximately 80% indicated they are not willing to pay for online videos.

Exhibit 203

## ACCEPTANCE OF ADVERTISING PRIOR TO ONLINE VIDEOS

Are You Willing To Watch Ads Online?
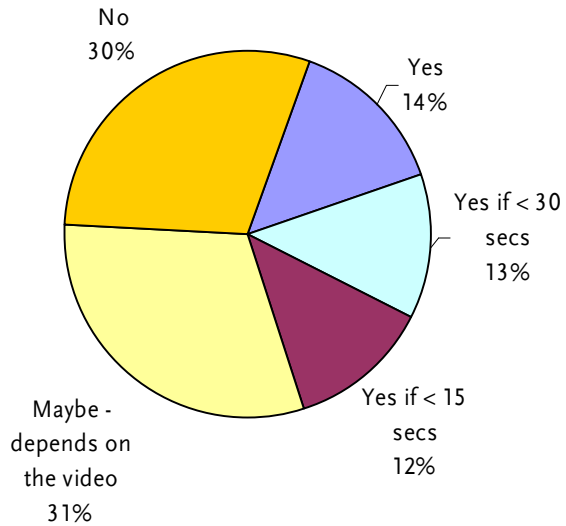


Source: Piper Jaffray & Co. 2006 Online Media Survey

Exhibit 204

## WILLINGNESS TO PAY FOR ONLINE VIDEOS

Are You Willing To Pay To Watch Your Favorite Video Content (TV Shows Or Movies) Online?
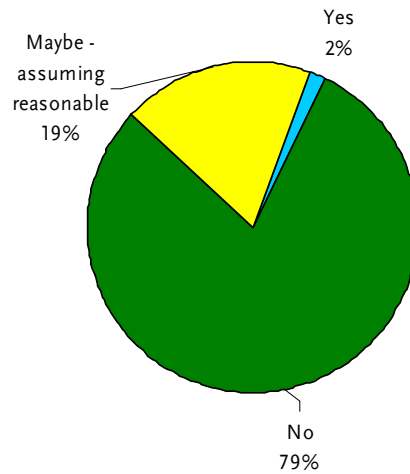


Source: Piper Jaffray & Co. 2006 Online Media Survey

**DVR Penetration Of 23%; 52% Of Users Skip All Ads.** Approximately 23% of our survey respondents own Tivo or a Digital Video Recorder (DVR), and 52% of those indicated that they skip all ads.

Exhibit 205

## DVR PENETRATION AND AD SKIPPING BEHAVIOR
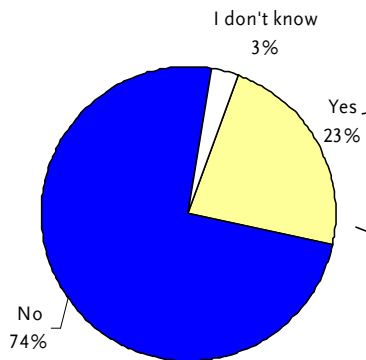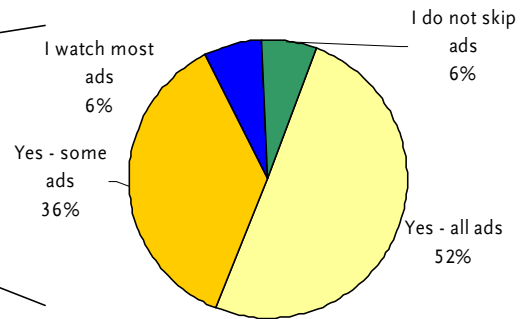


Source: Piper Jaffray & Co. 2006 Online Media Survey

**Search**

**Google Dominates Search Mind Share.** 52% of the survey respondents indicated Google was the best search engine, while 19% indicated Yahoo! was the best. 55% of respondents indicated they use Google most frequently, and 37% indicated they use Yahoo! most frequently.

Exhibit 206

**BEST SEARCH ENGINE**

Which Search Engine Do You Think Is The Best?
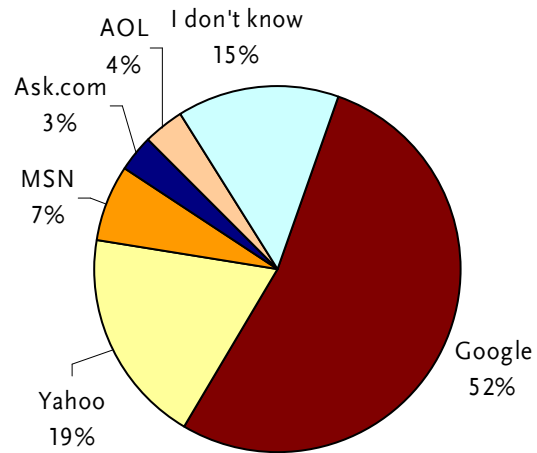


Source: Piper Jaffray & Co. 2006 Online Media Survey

Exhibit 207

## MOST FREQUENTLY USED SEARCH ENGINE

Please Rank The Following Search Engines On How Frequently You Use Them
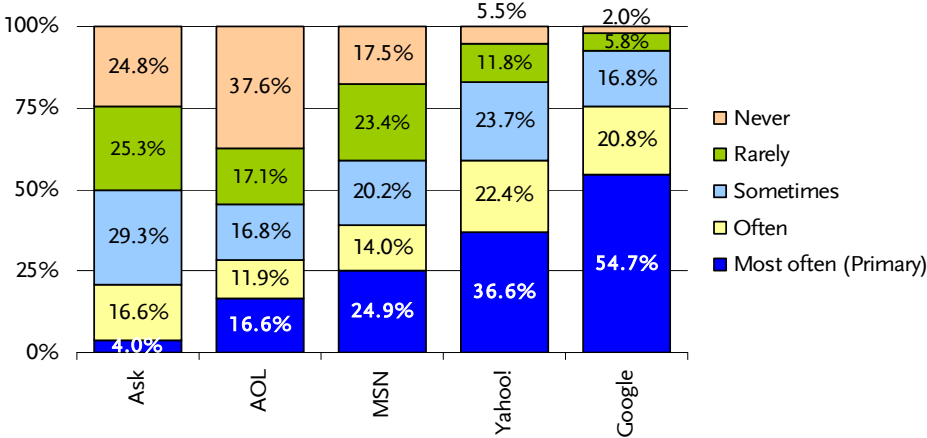


Source: Piper Jaffray & Co. 2006 Online Media Survey

**Google Popular Across Age Groups.** When segmented by age, Google remains the preferred search engine. 52% of 18-24 year olds, 54% of 25-34 year olds, 48% of 35-44 year olds, 58% of 45-54 year olds, and 51% of the 55 and older demographic indicated Google is the best search engine. 29%, 22%, 21%, 14%, and 14% indicated Yahoo! respectively.

**Google More Popular Among Heavy Users.** When segmented by Internet usage pattern, 41% of light users, 50% of moderate users, and 57% of heavy users indicated Google is their preferred search engine.

**Google Popularity Increases With Education Level.** When segmented by education, 17% of respondents with some high school education, 40% of respondents with high school education, 55% of respondents with two-year college education, 67% of respondents with four-year college education, and 67% of respondents with masters degrees believe Google is the best search engine.

**Google Products Gaining Traction.** Obviously, search remains the most popular Google product, but other Google products are gaining some traction. 28% of our survey respondents indicate they use Google Maps, 23% use Google Earth, 13% use Gmail and Google Toolbar, 12% use Google Video and 10% use Google News.

Exhibit 208

**USAGE OF GOOGLE PRODUCT PORTFOLIO**

Please Select All Of The Following Google Products That You Use
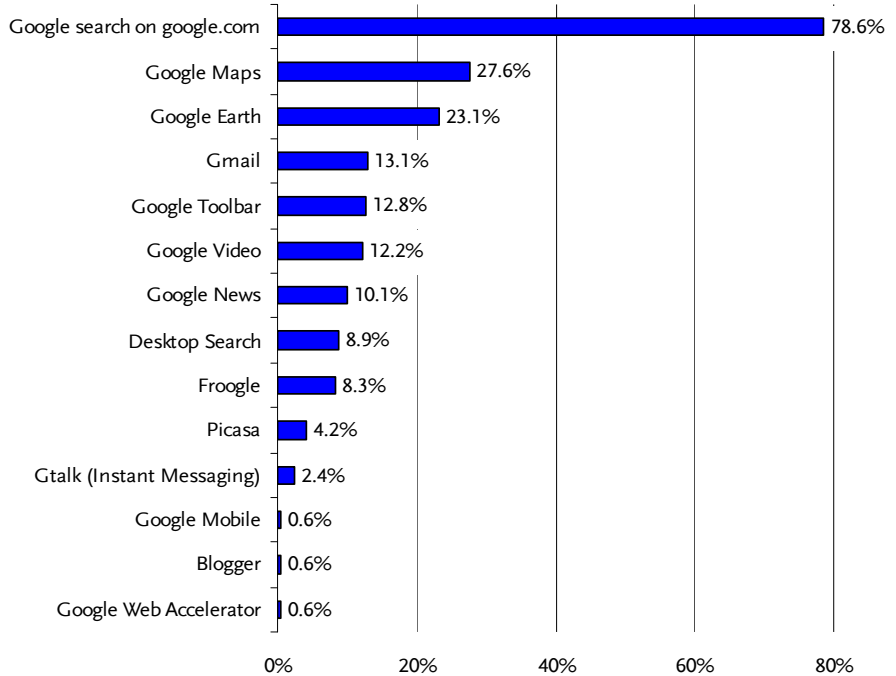


Source: Piper Jaffray & Co. 2006 Online Media Survey

**Search Becoming A Navigation Method.** 41% of our survey respondents use search as a method to navigate to a Website compared with 22% who use bookmarks and 37% who type the Web address directly into the browser.

Exhibit 209

**SEARCH AS NAVIGATION METHOD**

How Do You Most Often Navigate To A Website?
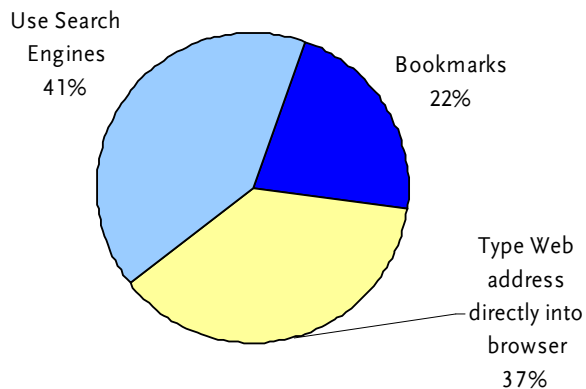


Source: Piper Jaffray & Co. 2006 Online Media Survey

**Searches Per Day.** 10% of our survey respondents execute more than ten searches per day, 6% execute seven to ten searches, 22% execute four to six searches, 39% indicate one to three searches, and 23% execute less than one search per day.

Exhibit 210

## NUMBER OF SEARCHES PER DAY

How Many Internet Searches Do You Do Each Day?
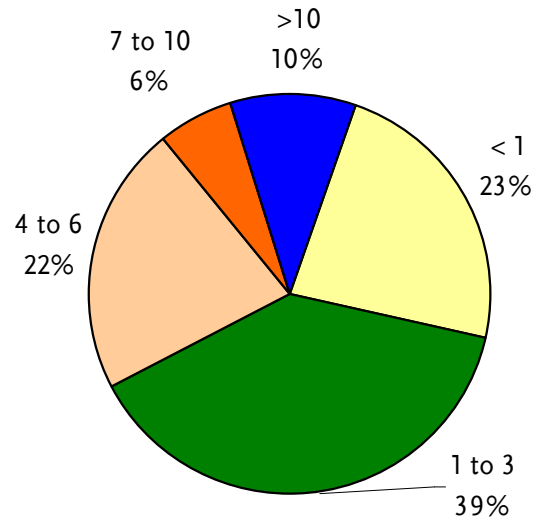


Source: Piper Jaffray & Co. 2006 Online Media Survey

**Ask.com Popular Among Heavy Search Users:** 55% of our users who conduct at least four searches a day indicated that Ask.com is their most-used primary search engine, followed by Google (44%), Yahoo (40%), AOL (33%), and MSN (31%).

Exhibit 211

## PRIMARY SEARCH AND NUMBER OF SEARCHES

Please Select All Of The Following Google Products That You Use
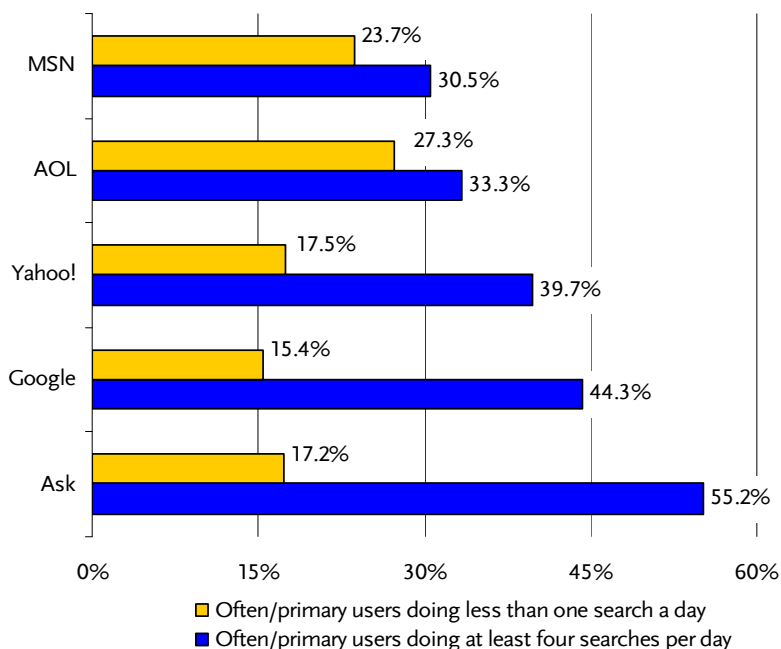


Source: Piper Jaffray & Co. 2006 Online Media Survey

**Survey Methodology
And Demographics**

In November 2006, we launched our 2006 Piper Jaffray Online Media Survey to 337 Internet users from 46 states and from a cross-section of socioeconomic groups. The survey was administered by a third party for Piper Jaffray. Men represented 163 of the respondents, and women represented 174 of the respondents. The median annual household income was approximately $52,500. Ages 25- 54 comprised nearly 80% of our survey respondents, and the median age was approximately 49.5, which indicates our survey skewed toward an older online population. Approximately 35% of the survey respondents had a high school education, while 24% had a four-year college degree. The charts that follow show the demographics of our respondents in more detail:

Exhibit 212

**RESPONDENTS BY ETHNICITY**
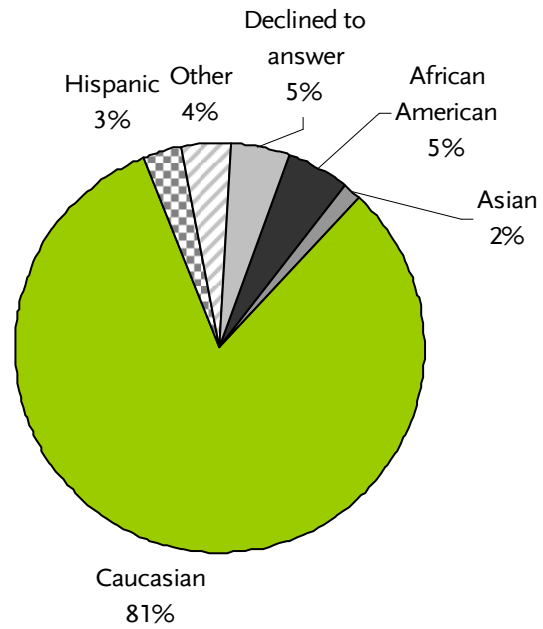


Source: Piper Jaffray & Co. 2006 Online Media Survey

Exhibit 213

**RESPONDENTS BY AGE**
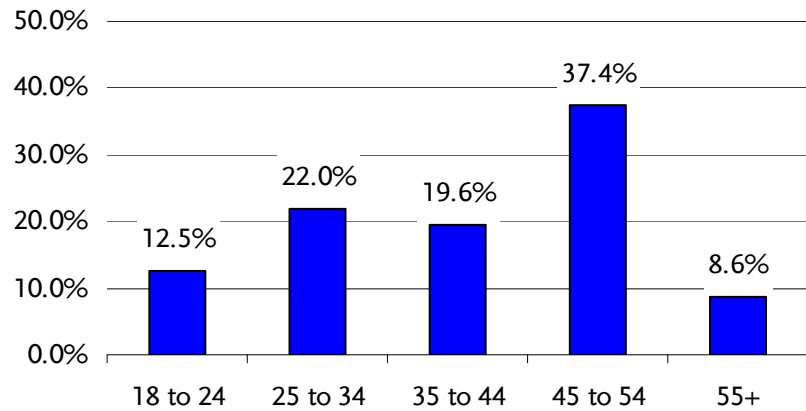


Source: Piper Jaffray & Co. 2006 Online Media Survey

Exhibit 214

**RESPONDENTS BY EDUCATION**
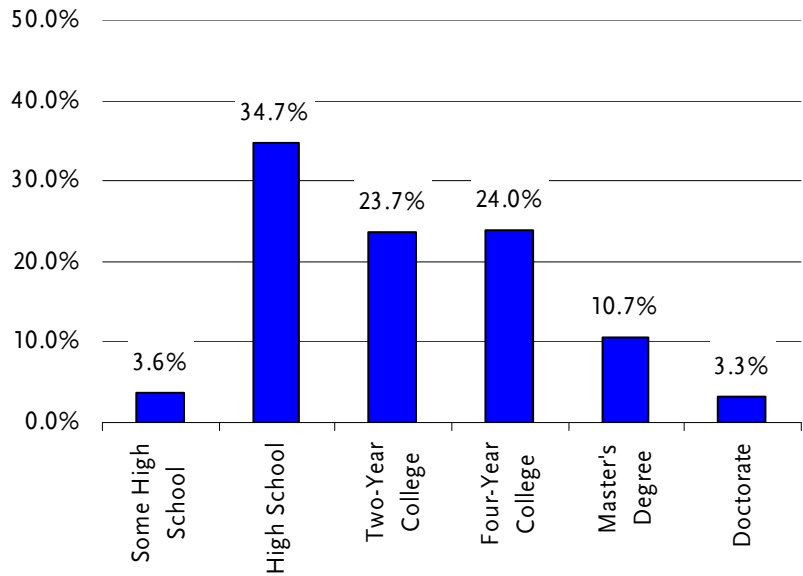


Source: Piper Jaffray & Co. 2006 Online Media Survey

Exhibit 215

**RESPONDENTS BY HOUSEHOLD INCOME**
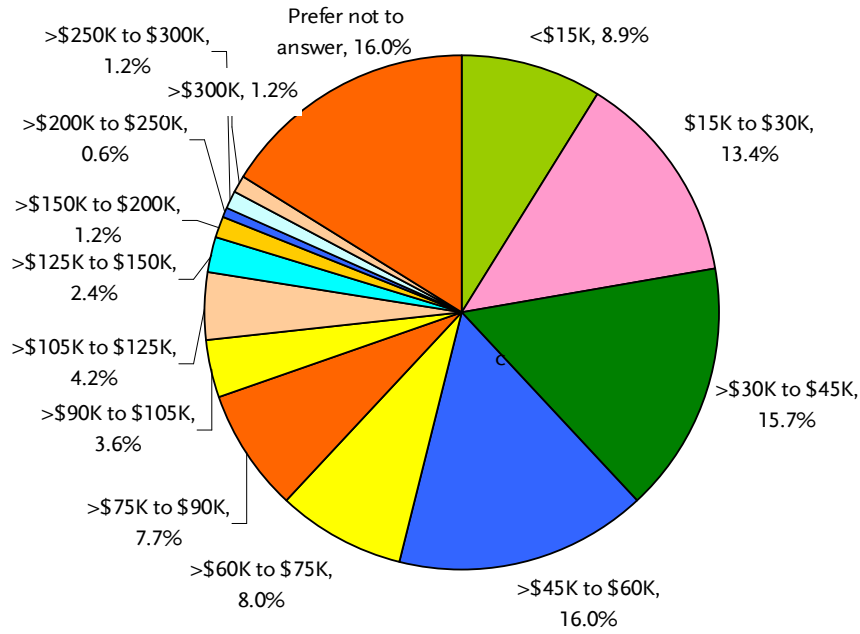


Source: Piper Jaffray & Co. 2006 Online Media Survey

Exhibit 216

**RESPONDENTS BY GENDER**
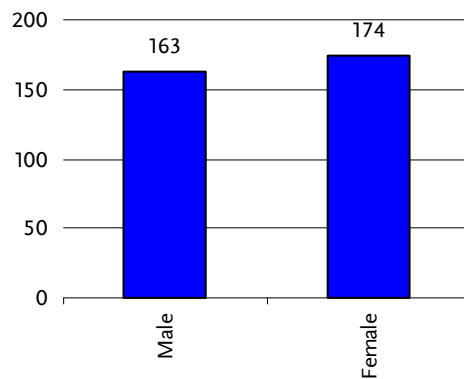


Source: Piper Jaffray & Co. 2006 Online Media Survey

Exhibit 217

**RESPONDENTS BY GEOGRAPHY**
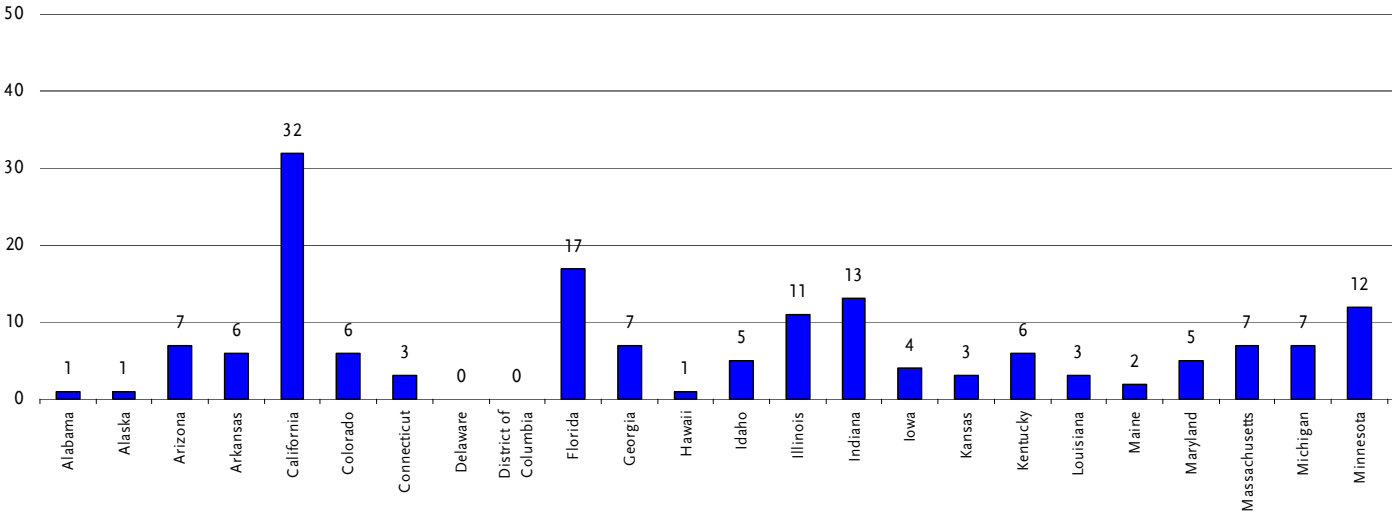


Source: Piper Jaffray & Co. 2006 Online Media Survey

# RESPONDENTS BY GEOGRAPHY (CONTINUED)
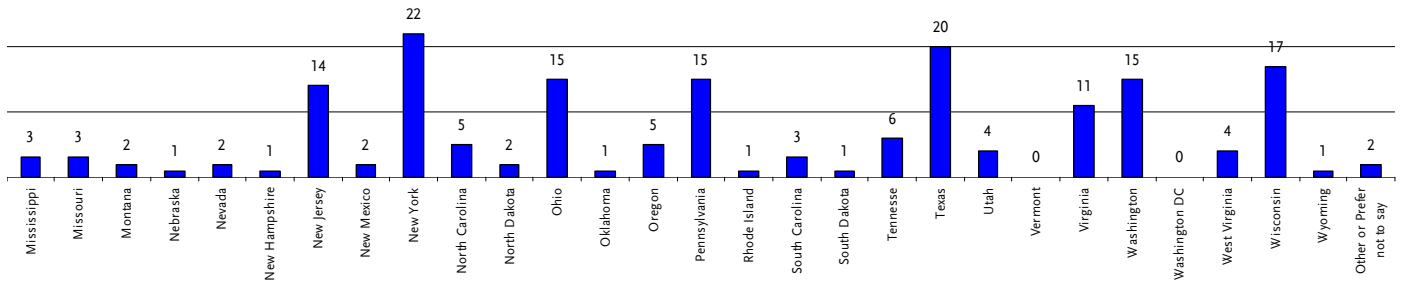


Source: Piper Jaffray & Co. 2006 Online Media Survey

**[This page is left intentionally blank.]**

# APPENDIX III

# *List Of Companies*

| **Ad Networks (21)** | 24/7 Real Media Inc. (TFSM) |
| --- | --- |
| | Adbrite |
| | Ad Pepper |
| | Advertising.com (subsidiary of Time Warner Inc. – TWX) |
| | BlueLithium, Inc. |
| | Burst Media |
| | Casale Media ™ Inc |
| | CPX Interactive |
| | DRIVEpm (subsidiary of aQuantive, Inc. – AQNT) |
| | ePilot (subsidiary of Interchange Corporation) |
| | Federated Media Publishing |
| | Gorilla Nation Media |
| | Miva Inc. (MIVA) |
| | RealTechNetwork Corporation |
| | Right Media |
| | Specific Media, Inc. |
| | TACODA, Inc. |
| | Tribal Fusion |
| | ValueClick Inc. (VCLK) |
| | Vendare Media Corporation |
| | Vizi|Media |
| **Ad Serving (11)** | 24/7 Real Media Inc. (TFSM) |
| | Accipiter Solutions, Inc. (subsidiary of aQuantive, Inc. – AQNT) |
| | Atlas (subsidiary of aQuantive, Inc. - AQNT) |
| | DoubleClick Inc. |
| | Eyeblaster, Inc. |
| | EyeWonder, Inc. |
| | Mediaplex, Inc. (subsidiary of ValueClick Inc. –VCLK) |
| | Podbridge, Inc. |
| | PointRoll, Inc. (subsidiary of Gannett Co., Inc. – GCI) |
| | Unicast by Viewpoint (subsidiary of Viewpoint Corporation) |
| | ZEDO, Inc. |
| **Affiliate Marketing (12)** | Affiliate Fuel LLC |
| | AffiliateFuture Inc. |
| | clickXchange Corporation |
| | Commission Junction, Inc. (subsidiary of ValueClick Inc. – VCLK) |
| | DarkBlue Sea Limited |
| | Digital River oneNetwork (subsidiary of Digital River Inc. – DRIV) |
| | IncentAClick Media Group Inc |
| | LinkShare Corporation (subsidiary of Rakuten, Inc.) |
| | Performics Inc. (subsidiary of DoubleClick Inc.) |
| | Pulse 360, Inc. (subsidiary of Seevast Corporation) |
| | ShareASale.com |
| | TradeDoubler AB |

| **Lead Generation (8)** | Adteractive, Inc. |
| | AzoogleAds.com Inc. |
| | Datran Media Corp. |
| | Housevalues Inc. (SOLD) |
| | Netblue, Inc. (subsidiary of Vendare Media Corporation) |
| | Q Interactive (subsidiary of Landmark Communications, Inc.) |
| | QuinStreet, Inc. |
| | WebClients, Inc. (subsidiary of ValueClick Inc. – VCLK) |

| **Agencies (23)** | Agency.com Ltd. (subsidiary of Omnicom Group Inc. – OMC) |
| | AKQA |
| | Arc Worldwide (subsidiary of Publicis Groupe SA – PUB) |
| | Avenue A | Razorfish (subsidiary of aQuantive, Inc. – AQNT) |
| | Carat Fusion (subsidiary of Aegis Group PLC) |
| | Critical Mass (majority owned by Omnicom Group Inc. – OMC) |
| | Digitas/Modem Media (subsidiary of Digitas Inc. – DTAS; acquired by Publicis Groupe SA – PUB) |
| | RSCG Worldwide, Inc. (subsidiary of Havas – Euronext Paris: HAV.PA) |
| | DraftFCB (subsidiary of Interpublic Group of Companies, Inc. – IPG) |
| | Grey Interactive Worldwide (subsidiary of WPP Group plc – WPPGY) |
| | Media Contacts (subsidiary of Havas – Euronext Paris: HAV.PA) |
| | Mediasmith, Inc. |
| | MRM Worldwide (subsidiary of McCann Worldwide) |
| | Nurun + Ant Farm (subsidiary of Quebecor) nurun | ant farm interactive, AKA Nurun Inc. (TSX: NUR, subsidiary Quebecor Media Inc.) |
| | Ogilvy Interactive Worldwide (subsidiary of WPP Group plc – WPPGY) |
| | Organic (subsidiary of Omnicom Group Inc. – OMC) |
| | R/GA (subsidiary of Interpublic - IPG) |
| | RMG Connect (subsidiary of WPP Group plc – WPPGY) |
| | Tequila (subsidiary of Omnicom Group Inc. – OMC) |
| | Tribal DDB Worldwide (subsidiary of Omnicom Group Inc. – OMC) |
| | Wunderman Interactive (subsidiary of WPP Group plc – WPPGY) |

| **Destination And Services (82)** | Eighty-Three Degrees, Inc. / 30 Boxes |
| | Ajax 13, Inc. |
| | AOL (subsidiary of Time Warner Inc. – TWX) |
| | AtomFilms (subsidiary of Viacom Inc. – VIA) |
| | BallBug |
| | Bankrate Inc.(RATE) |
| | Bebo |
| | Bloglines (subsidiary of IAC/InterActiveCorp – IACI) |
| | CBS Corp. (CBS) |
| | Citysearch (subsidiary of IAC/InterActiveCorp – IACI) |
| | Classmates.com (subsidiary of United Online – UNTD) |
| | CNET Networks Inc. (CNET) |
| | CoComment |
| | Control Room |
| | Cool Hunting |
| | Cox Enterprises |
| | Craigslist |
| | Daily Candy |
| | del.icio.us (subsidiary of Yahoo! Inc. – YHOO) |
| | Demand Media, Inc. |

digg Inc.
edgeio
Evoca LLC
Facebook
FeedLounge, Inc.
Findory.com Inc.
Flavorpill Productions LLC
Flickr (subsidiary of Yahoo! Inc. – YHOO)
FreeWebs
Fox Interactive Media (subsidiary of News Corp –NWS)
Gannett Co., Inc. (GCI)
Glam Media, Inc.
Gothamist LLC
Goowy Media, Inc.
Gritwire (Dizpersion Technologies, Inc.)
HuffingtonPost.com, Inc.
iVillage Inc. (NBC Universal – General Electric Co./GE)
JamBase, Inc.
Jigsaw Data Corporation
JotSpot (acquired by Google Inc. –GOOG)
Judy's Book, Inc.
Kaboodle, Inc.
The Knot, Inc. (KNOT)
La La Media, Inc.
Last.fm Ltd.
LinkedIn Corporation
LoopNet, Inc. (LOOP)
Lycos Inc. (subsidiary of Daum Communications Corp.)
The ManiaTV! Network
Meetup Inc.
Mercora, Inc.
Mobber.com, LLC
Move, Inc. (MOVE)
Monster Worldwide Inc. (MNST)
MSN (subsidiary of Microsoft Corp. – MSFT)
MySpace (subsidiary of News Corporation – NWS)
NewsGator Technologies, Inc.
Newsvine, Inc.
New York Times Co. (NYT)
Pandora Media, Inc.
Photobucket Inc.
PlanetOut Inc. (LGBT)
Plaxo, Inc.
Rojo Networks, Inc.
SimpleFeed, Inc.
Six Apart, Ltd.
Slide, Inc.
StumbleUpon
Thrillist.com
Topix LLC
Tribune Interactive (subsidiary of Tribune Co. – TRB)
Viacom Digital (subsidiary of Viacom Inc. – VIA)
WebMD, Inc. (subsidiary of WebMD Health Corp. – WBMD)
The Weather Channel Interactive, Inc. (subsidiary of Landmark Communications)

WebShots (subsidiary of CNET Networks Inc. – CNET)
Wikipedia Foundation
Xanga
Yahoo! Inc. (YHOO)
Yelp
YouTube (subsidiary of Google Inc. – GOOG)
Yoono SAS
Zimbra, Inc.

**Mobile (25)**

4INFO Inc.
AdMob, Inc.
Bango.net Limited
Enpocket
Greystripe, Inc.
Groove Mobile
Hands-On Mobile, Inc.
Infospace Inc. (INSP)
Hungama Mobile (subsidiary of The Hungama Network)
July Systems, Inc.
JumpTap
mBlox Inc.
Medio Systems, Inc.
M:Metrics, Inc.
MobiTV, Inc.
Modeo LLC (Crown Castle International Corp. – CCI)
Mogmo (subsidiary of TaMeJ Software)
Motricity, Inc.
Nellymoser, Inc.
NeoMedia Technologies, Inc.
Obopay, Inc.
Sennari, Inc.
Soapbox Mobile, Inc.
Third Screen Media
Zingy, Inc.

**Search (46)**

A9.com, Inc. (subsidiary of Amazon.com Inc. – AMZN)
Accoona
AlltheWeb (subsidiary of Yahoo! Inc. – YHOO)
AltaVista (subsidiary of Yahoo! Inc. – YHOO)
Ask.com (s subsidiary of IAC/InterActiveCorp – IACI)
Business.com, Inc.
Clusty (subsidiary of Vivísimo, Inc.)
Eurekster, Inc.
Feedster, Inc.
Gigablast, Inc.
Google Inc. (GOOG)
Gravee.com
hakia, Inc.
HotBot (subsidiary of Lycos, Inc./Daum Communications Corp.)
IceRocket
Indeed
Infospace Inc. (INSP)
Jookster Networks Inc.
Jux2

KartOO
Kayak.com
Lexxe Pty Ltd (ACN: 117 090 454)
Local.com Corporation
LookSmart Ltd. (LOOK)
Lycos, Inc. (subsidiary of Daum Communications Corp.)
Mamma.com Inc.
Marchex, Inc. (MCHX)
Mobissimo
MSN (subsidiary of Microsoft Corp. – MSFT)
Netscape Communications and Weblogs, Inc. (subsidiary of the AOL Network owned
and operated by AOL, LLC/Time Warner Inc. – TWX)
Oodle, Inc.
Otavo
PodZinger (subsidiary of BBN Technologies Corp.)
QIXO,Inc.
Riya
Rollyo
SideStep, Inc.
Simply Hired, Inc.
Snap.com
Technorati, Inc.
Textmap (subsidiary of CaseSoft)
Trulia, Inc.
Wikio
Wink Technologies, Inc.
Yahoo! Inc. (YHOO)
Zillow.com

**SEM (21)**

360i LLC
Atlas Search (subsidiary of Digital Marketing Technologies, subsidiary of aQuantive,
Inc. – AQNT)
Authenticlick
Click Forensics, Inc.
24/7 Search (subsidiary of 24/7 Real Media, Inc. – TFSM)
Did-it Search Marketing
Efficient Frontier Inc.
Enhance (subsidiary of Marchex, Inc. – MCHX)
Fathom Online, Inc.
goClick.com, Inc.
iCrossing
IMPAQT
iProspect
MarketLeap.com, Inc. (subsidiary of Acxiom Digital, formerly, Digital Impact)
MoreVisibility
Performics Inc. (subsidiary of DoubleClick Inc.)
Range Online Media
Refinery, Inc.
SendTec, Inc.
SiteLab International Inc.
WebMama.com Inc.

| **Video (41)** | ABC, Inc. (subsidiary of Walt Disney Company – DIS) |
| | Amazon unbox (subsidiary of Amazon.com, Inc. – AMZN) |
| | AOL Video (subsidiary of Time Warner Inc. – TWX) |
| | blinkx.com |
| | Bolt Media |
| | Break.com |
| | Brightcove, Inc. |
| | CBS.com (CBS Broadcasting Inc., subsidiary of CBS Corp. - CBS) |
| | CinemaNow, Inc. |
| | Current TV, LLC |
| | CNN (subsidiary of Time Warner Inc. – TWX) |
| | Dailymotion.com |
| | ebaumsworld.com |
| | FireAnt.tv (subsidiary of Mycelia Networks, Inc.) |
| | Fox Interactive (subsidiary of News Corp. – NWS) |
| | Google Video (subsidiary of Google Inc. – GOOG) |
| | GoFish |
| | Grouper Networks, Inc. (subsidiary of Sony Corp. – SNE) |
| | GUBA, LLC |
| | Heavy |
| | ifilm.com (subsidiary of Viacom Inc. – VIA) |
| | The Internet Archive |
| | iTunes (Apple Inc. – AAPL) |
| | Metacafe, Inc. |
| | Movielink, LLC |
| | MTV Networks (subsidiary of Viacom Inc. – VIA) |
| | Multiply |
| | MySpace Video (subsidiary of News Corp. – NWS) |
| | NBC.com (subsidiary of NBC Universal/General Electric Co. – GE) |
| | Netflix, Inc. (NFLX) |
| | Putfile |
| | Revver, Inc. |
| | ROO Group Inc. |
| | Tagworld |
| | TopTVBytes |
| | Networks, Inc. |
| | VideoEgg, Inc. |
| | Vimeo |
| | vMix Media Inc. |
| | Yahoo! Video (subsidiary of Yahoo! Inc. – YHOO) |
| | YouTube (subsidiary of Google Inc. – GOOG) |
| **Web Analytics (11)** | ClickTracks Analytics, Inc. |
| | Coremetrics, Inc. |
| | Elytics, Inc. |
| | Fireclick (subsidiary of Digital River, Inc. – DRIV) |
| | Nedstat |
| | Omniture Inc. (OMTR) |
| | SageMetrics Corporation |
| | Unica Corporation |
| | Google Analytics (formerly Urchin, subsidiary of Google Inc. – GOOG) |
| | WebSideStory Inc. (WSSI) |
| | WebTrends Inc. |

**Selected International Companies (11)**

Allyes AdNetwork
Baidu.com, Inc. (BIDU)
Focus Media Holding Ltd. (FMCN)
Mixi
Oak Pacific Interactive
Rambler Media Group
Rediff.com Incia Ltd. (REDF)
Sify Limited
SINA Corp. (SINA)
Sohu.com, Inc. (SOHU)
Yandex

# AD NETWORKS

| | |
|---|---|
| **24/7 Real Media Inc. (TFSM)** | www.247realmedia.com<br>New York, New York<br>David Moore, Chairman and CEO<br><br>24/7 Real Media provides ad network and site representation services. The company's network provides access to more than 117 million unique monthly users across more than 800 Websites. 24/7 provides extensive targeting including targeting based on content, demographic and psychographic characteristics, and selection by geography, day part, bandwidth, and frequency. |
| **Adbrite** | www.adbrite.com<br>San Francisco, California<br>Iggy Fanlo, CEO<br><br>Founded in 2002, AdBrite provides both text ads as well as interstitials ads. As of January 2007, the company was serving approximately 800 million ads across more than 36,000 sites each day. |
| **Ad Pepper** | www.adpepper.com<br>London, United Kingdom<br>Ulrich Schmidt, Chairman and CEO<br><br>Founded in 1999, Ad Pepper Media is an international interactive media, direct marketing, and technology solutions sales and service organization. The firm delivers advertising formats and marketing solutions from branding to lead generation, customer acquisition, and customer relationship management programs. Ad Pepper's network consists of more than 15,000 sites that generate more than 10 billion ad impressions per month. Ad Pepper Media presently markets its services and marketing solutions in more than 50 countries through 19 branch offices in 12 European countries and in the United States. |
| **Advertising.com (Subsidiary Of Time Warner Inc. – TWX)** | www.advertising.com<br>Baltimore, Maryland<br>Lynda M. Clarizio, President<br><br>Founded in 1999, Advertising.com is considered the largest ad network in terms of both unique visitors and revenue. Advertising.com conducts strategic direct-response and brand marketing campaigns that guarantee bottom-line results for its clients. Advertising.com is largely considered an arbitrage network as it typically buys inventory forward and resells the inventory to advertisers or agencies. For advertisers, Advertising.com offers a variety of performance-based marketing solutions including brand marketing, behavioral marketing, search marketing, database marketing, promotional marketing, and video marketing. For publishers, Advertising.com offers |

several different networks including performance, branded, affiliate, and behavioral. Advertising.com was acquired by AOL in 2004.

## BlueLithium, Inc.

www.bluelithium.com
San Jose, California
Gurbaksh Chahal, Founder and CEO

Founded in 2004, BlueLithium's network consists of more than 1,000 sites and reaches more than 100 million unique users globally (75 million in the United States). BlueLithium provides a variety of ad network solutions, including contextual and behavioral, targeting technologies and real-time campaign optimization. BlueLithium's proprietary software optimizes an advertiser's campaign in real time, evaluating 14 performance criteria. BlueLithium's targeting solutions include AdPath for behavioral targeting and AdMetro for local market targeting. BlueLithium also offers a video streaming network called AdRoll and a lead generation service called LeadVance.

## Burst Media

www.burstmedia.com
Burlington, Massachusetts
G. Jarvis Coffin III, President and CEO

Founded in 1995, Burst Media is an online network that allows publishers and advertisers to reach Internet users across 3,400 sites. The company offers both ad sales and production support to an online community forum. Burst Media's Burst Network helps publishers generate revenue, while providing advertisers with access to a vast audience that can be finely targeted and segmented. Burst Media also offers Burst Direct, a program that enables advertisers to deploy online campaigns across sites, and Burst AdConductor, a suite of ad management solutions that helps Web publishers forecast, target, serve, track, and report the performance of their online advertising campaigns. Through its technology division, Burst markets its ad management solution, AdConductor ™, to Web publishers.

## Casale Media ™ Inc.

www.casalemedia.com
Toronto, Canada
Joseph Casale, Founder, President and CEO

Casale Media is one of the largest online media networks encompassing more than 6,500 publisher sites, which reach more than half of the U.S. Internet audience and more than 170 million unique users worldwide across 200 countries. The company's network is primarily used across three areas: direct response campaigns, branding campaigns, and brand response campaigns. The company's campaign delivery technology, AdGlobal™, can dynamically pinpoint a specific audience with a wide variety of user-targeting filters such as content interest, geographic, time of day, and bandwidth.

| **CPX Interactive** | www.cpxitneractive.com |
|---|---|
| | Long Beach , New York |

Founded in 1999, CPX Interactive network spans 3,500 Websites and serves more than 9 billion impressions per month. CPX offers targeting across a number of filters including geo-targeting, time of day, day of week, frequency, channel targeting, and browser type.

| **DRIVEpm (subsidiary of aQuantive, Inc. – AQNT)** | www.drivepm.com |
|---|---|
| | Seattle, Washington |
| | Brian P. McAndrews, President and CEO, aQuantive, Inc. |

DRIVEpm is a performance-based ad network. By employing sophisticated arbitrage technology, DRIVE attempts to eliminate much of the waste in online campaigns, and thus return a higher ROI for advertisers. DRIVE offers all of its clients two programs: Selector Program (priced on a fixed CPM basis, advertisers reach only key target segments), and Performance Program (advertisers pays only for results, based on bounties that the advertiser sets). DRIVE's Selector™ program allows advertisers to define their target audience and only reach that target across the Internet. Drive Selector offers simultaneous targeting across multiple publishers, multiple advertisers, and multiple targeting variables including behavioral, demographic, psychographic, and technical variables. In DRIVE's Performance Program, ads run with the top 250 Internet publishers and advertisers pay only for results (e.g., sign ups, orders, etc.) based on the bounties the advertiser sets. Drive's Performance Program enables the advertisers to specify two out of three key program metrics including success measure (e.g., CPM, CPC, CPA), price paid for success, and volume. DRIVE offers its inventory on both a CPA and targeted CPM basis.

| **ePilot (subsidiary of Interchange Corporation)** | www.epilot.com |
|---|---|

ePilot is the advertising network arm of Interchange. ePilot offers a network of more than 300,000 advertisers and more than 300 distribution channels.

| **Federated Media Publishing** | www.federatedmedia.net |
|---|---|
| | John Battelle, Founder and Chairman |

Federated Media connects independent Website publishers with advertisers. Authors include sites such as BoingBoing, Digg.com, GigaOm, MobileCrunch, TechCrunch, VentureBeat, Newsvine, and many more. Investors include the Omidyar Network, The New York Times, and JP Morgan Partners.

**Gorilla Nation Media**

www.gorillanation.com
Los Angeles, California
Brian Fitzgerald, President

Gorilla Nation Media is an online ad sales representation firm that handles the media sales for more than 250 highly trafficked Websites in different content verticals. Gorilla Nation Media is a one-stop shop for advertisers and agencies looking to build brand awareness through rich media and high-impact ad units across targeted content categories.

**Miva Inc. (MIVA)**

www.miva.com
Fort Myers, Florida
Peter Corrao, CEO

Founded in 1995, MIVA is an independent performance marketing network and eCommerce solution provider. MIVA has three divisions: MIVA Media, MIVA Direct, and MIVA Small Business. MIVA Media division provides performance marketing services, Pay-Per-Click, and Pay-Per-Call services. In addition, it offers solutions for publishers including private branded toolbars, configurable algorithmic search, contextual capabilities, and expandable banners. MIVA Direct division provides desktop consumer software, such as toolbars, and various search-related applications. MIVA Small Business division develops integrated online marketing and business solutions based on the MIVA Merchant eCommerce platform including storefronts, payment processing, logistics management, and professional services.

**RealTechNetwork Corporation**

www.realtechnetwork.com
Congers, New York

Founded in 2004, RealTechNetwork is composed of more than 5,200 publishers across 15 content channels. The company offers a variety of targeting methods including geo-targeting, channel targeting, behavioral targeting, and streaming media targeting.

**Right Media**

www.rightmedia.com
New York, New York
Michael Walrath, Founder and CEO

Founded in 2003, Right Media is an online ad network that offers an open, auction-based platform for more than 11,000 advertisers, publishers, and networks. Right Media is privately funded and based in New York, with offices in London, Eugene, San Francisco, and Tallahassee. In October 2006, Yahoo! invested in Right Media.

**Specific Media, Inc.**

www.specificmedia.com
Irvine, California
Tim Vanderhook, Co-founder, President and CEO
Chris Vanderhook, Co-founder, COO
Russell Vanderhook, Co-founder, SVP

Founded in 1999, Specific Media's network is composed of more than 450 name brand publishers and delivers nearly 80 million monthly unique visitors. The company

partners with highly trafficked, household name brand sites. Specific Media offers a variety of targeting technologies including demographic, behavioral, contextual, geographic, and retargeting. Specific Media Performance is a pay-for-performance-based network that drives leads, sales, or other direct marketing objectives on a no-risk basis for advertisers.

**TACODA, Inc.**

www.tacoda.com
New York, New York
Curtis G. Viebranz, CEO
Dave Morgan, Founder and Chairman

Founded in 2001, TACODA is a leading behavioral targeting advertising network that reaches more than 3,000 Websites and 140 million unique visitors per month across 31 discrete audience segments. Through AudiencePoint, advertisers can target audiences against one or more of TACODA's standard behavioral segments including Leisure Traveler, Music Lover, and Health Enthusiast.

**Tribal Fusion**

www.tribalfusion.com
Emeryville, California
Dilip DaSilva, President and CEO

Founded in 2001, Tribal Fusion is a leading site representation company and online network that serves 18 billion monthly impressions and reaches 160 million users per month. The firm offers site-specific, channel-wide, and run-of-network placements. Tribal Fusion is part of the Exponential Network, which includes Tribal Fusion, FullTango™ (a performance marketer focused on CPA advertisers), and LeadGenuity™ (lead generation in select industry verticals).

**ValueClick Inc.
(VCLK)**

www.valueclick.com
Westlake Village, California
James R. Zarley, Chairman and CEO
David A. Yovanno, General Manager, ValueClick Media

Founded in 1998, ValueClick Media was among the first online advertising networks and the sole business of ValueClick before its public filing in 2000. Today, ValueClick Media is one of the largest ad networks (ranked second by our estimates after Advertising.com) reaching more than two-thirds of the U.S. Internet audience (131 million unique visitors) across more than 13,500 publishers and 18 primary content channels. ValueClick's media division includes all display advertising, lead generation, and email marketing solutions for advertisers and publishers.

**Vendare Media
Corporation**

www.vendaremedia.com
El Segundo, California
Linda Fayne Levinson, Executive Chairman

Vendare Media is an online media and performance-based marketing company that offers brand marketing, direct marketing, and search programs. Vendare Media's ad network, TrafficMarketplace, optimizes an advertiser's campaign across 16 content channels and reaches 90 million unique users in the United States and 120 million unique users worldwide. Vendare media offers its services on a CPC, CPA, CPM,

revenue share, and hybrid pricing. Founded in 1999, Vendare Media is majority-owned by Idealab.

**Vizi|Media**

www.vizimedia.com
New York, New York
Pesach Lattin, Chief Executive Officer, Founding Partner
Andrew Moskowitz, President, Founding Partner

Vizi|Media is an interactive advertising representation company with a collection of more than 20 media properties across several verticals. The company offers solutions for both direct marketing and brand marketing, as well as dynamic targeting and video advertising technologies.

# AD SERVING

| | |
|---|---|
| **24/7 Real Media Inc. (TFSM)** | www.247realmedia.com<br>New York, New York<br>David Moore, Chairman and CEO<br><br>24/7 Real Media's Technology Solutions segment includes online advertising and analytics software licensed to customers on a hosted or ASP basis. Open AdSystem platform is the foundation of the company's proprietary technology offering. Open AdSystem is a format-agnostic advertising delivery engine capable of delivering virtually all types of ad formats across the Internet and on other interactive platforms. Insight XE is a Web analytics application that helps Web publishers measure, analyze, and understand the behavior of visitors to their sites in natural language. |
| **Accipiter Solutions, Inc. (subsidiary of aQuantive, Inc. – AQNT)** | www.accipiter.com<br>Raleigh, North Carolina<br>Brian Handly, CEO and Co-founder<br>Jeff Wood, VP Sales and Account Management and Co-founder<br><br>Accipiter, founded in 1996, provides ad management and behavioral targeting technologies. Accipiter's products provide campaign management and optimization, inventory forecasting, up-to-the-minute reporting, audience targeting, and the ability to deliver and track any rich media format—all in real time. Accipiter's AdManager allows publishers to increase targeting capabilities, speed ad delivery, and monitor and control inventory projections in real time. Accipiter has more than 350 customers worldwide and has more than 50 billion online ads served each month. Atlas, the technologies business unit of aQuantive, announced the acquisition of Accipiter for approximately $30 million in December 2006. |
| **Atlas (subsidiary of aQuantive, Inc. – AQNT)** | www.aquantive.com<br>Seattle, Washington<br>Brian P. McAndrews, President and CEO, aQuantive, Inc.<br>Karl Siebrecht, President, Atlas<br><br>aQuantive's technology platform, Atlas, offers digital marketing technology solutions for advertising agencies, enterprise marketers, and publishers. Atlas provides advertising agencies and enterprise marketers with online advertising campaign management, rich media, search engine marketing, and Website optimization tools and services through its proprietary Atlas Digital Marketing Suite. Atlas Publisher is a technology product that enables select publishers to increase revenue by utilizing lower value and remnant inventory. Atlas Digital Marketing Suite includes a variety of technologies and services to help plan, manage, view, and optimize campaigns including: Atlas Media Console, a comprehensive end-to-end solution for managing Internet advertising; Atlas Rich Media, a full-featured set of rich media technologies and services; Atlas Search, an integrated search marketing and online campaign management toolset; Atlas Site Optimization, a Web analytics tool; and Atlas |

Publisher, a highly-scalable ad serving solution focused solely on helping publishers maximize revenue and lower costs associated with performance-focused advertisers.

**DoubleClick Inc.**

www.doubleclick.com
New York, New York
David Rosenblatt, CEO, DoubleClick

Founded in 1996, DoubleClick provides a suite of products for agencies, Web publishers, and marketers. DoubleClick's core technology offering, the DART platform, provides technology solutions for the buy-side and sell-side of digital marketing. On the buy-side, DoubleClick serves the needs of agencies, advertisers, and marketers with MediaVisor, DART for Advertisers, DART Search, DART Motif (rich media ad serving), Klipmart (online video advertising and management solutions) and strategic services. On the sell-side, DoubleClick serves the needs of Web publishers, networks, and media Websites with DART for Publishers, DART Sales Manager, DART Enterprise, DART Adapt, DART Motif, DART Motif for Flash-in-Flash, Klipmart solutions, and strategic services. Media Visor is a hosted, Web-based media planning, buying, and campaign management workflow solution. DART for Advertisers is a Web-based ad management and serving application for targeting, serving, and analyzing online campaigns. DART for publishers is a hosted, Web-based ad management and serving application for effectively monetizing a publisher's advertising inventory.

**Eyeblaster, Inc.**

www.eyeblaster.com
New York, New York
Gal Trifon, Co-founder and CEO
Ofer Zadikario, Co-founder / Vice-President, Research and Development

Founded in 1999, Eyeblaster offers integrated digital marketing services and technology through a suite of products that allow the creation, delivery, and management of interactive communications. Eyeblaster's product suite includes: Advertising Campaign Manager (digital ad server designed specifically for the generation, delivery, and management of campaigns), Rich Media Platform (Eyeblaster's flagship platform for campaign implementation and creative tools for agencies, advertisers, and publishers to create and manage all popular rich media formats), eb.search (manage search campaigns), and eb.in-games (platform for in-game ad solutions).

**EyeWonder, Inc.**

www.eyewonder.com
Atlanta, Georgia
John Vincent, CEO

Founded in 1999, EyeWonder is a provider of online video and rich media advertising products and services with video, in-page to transitional, in-game and in-application ad formats.

| **Mediaplex, Inc. (subsidiary of ValueClick Inc. – VCLK)** | www.mediaplex.com<br>Westlake Village, California<br>James R. Zarley, Chairman and CEO<br>Tom A. Vadnais, President (U.S.) and General Manager, Mediaplex |
|---|---|
| | Founded in 1996, Mediaplex offers technology infrastructure tools and services that enable advertisers and advertising agencies to implement and manage their own online display advertising and email campaigns and assist online publishers with management of their Website inventory. Mediaplex is based on the MOJO® technology platform, which has the ability to automatically configure messages in response to real-time information from a marketer's enterprise data system and to provide ongoing campaign optimization. Mediaplex's products are priced primarily on a CPM or email delivered basis. Mediaplex's solutions span three primary categories: third-party ad serving, publisher ad management, and email campaign management. MOJO® Adserver allows users to configure Web advertising campaigns, serve the campaigns, and report results from campaigns through to conversion. MOJO® Publisher is an ad management technology solution for Websites and networks that enables Websites and networks to implement, sell, and manage advertising inventory on their properties. |

| **Podbridge, Inc.** | www.podbridge.com<br>Mountain View, California<br>Murgesh Navar, CEO |
|---|---|
| | Podbridge, Inc. is a podcast audience measurement and ad network service. The company provides measurement of podcast audiences and provides advertisers with dynamic ad insertion and rotation in podcasts. The company is funded by Mayfield and Worldview Technology partners. |

| **PointRoll, Inc. (subsidiary of Gannett Co., Inc. – GCI)** | www.pointroll.com<br>Conshohocken, Pennsylvania<br>Christopher Saridakis, CEO<br>Keith Gelles, CTO and Co-founder |
|---|---|
| | PointRoll, a wholly owned subsidiary of Gannett Co., creates rich media technology. PointRoll's proprietary technology platform, "The Boys" (FatBoy, TomBoy, BadBoy, TowelBoy, and PaperBoy), provides a full range of marketing solutions that include comprehensive service support and extensive data reporting capabilities. PointRoll works with more than 800 advertisers, and its technology is accepted by thousands of online publishers including Yahoo!, MSN, and AOL. |

| **Revenue Science** | www.revenuescience.com<br>New York, New York<br>Bill Gossman, President and CEO |
|---|---|
| | Revenue Science is a leading provider of behavioral targeting solutions for brand and direct response advertising. Revenue Science reaches roughly 85% of the U.S. Internet audience—and more than 100 million users worldwide. Clients include Nordstrom, T-Mobile, and Nasdaq, and its partners include Insight Express, Nielson/NetRatings, and Operative. |

**Unicast by Viewpoint (subsidiary of Viewpoint Corporation)**

www.unicast.com
New York, New York
Jason McKay, VP
Michael Hannon, Director of Ad Operations

Unicast provides ad delivery technology for broadband including transitional, in-page, pre-roll, and over-the-page formats. Unicast's platform provides integrated tracking, reporting, scheduling, and campaign management for in-page, expandable, and over-the-page rich media units, transitional and pre-roll formats, and non-rich media units. Unicast brought the first-ever rich media ad unit, the Superstitial®, to market in 1998 and was acquired by Viewpoint Corporation in January 2005.

**ZEDO, Inc.**

www.zedo.com
San Francisco, California
Roy de Souza, CEO and Co-founder

ZEDO is an Internet ad serving company with advertiser and publisher solutions. Third Generation Ad Serving™ for advertisers is a Web-based advertising management solution providing campaign management, targeting and delivery, and reporting and data analysis. Third Generation Ad Serving™ for publishers is a fully featured ad serving platform to enable the publisher to schedule and manage campaigns, deliver impressions, monitor performance reports, and manage advertiser accounts. Zedo technology serves more than 6 billion ads a month.

## AFFILIATE MARKETING

**Affiliate Fuel LLC**

www.affiliatefuel.com
Santa Monica, California

Affiliate Fuel is an affiliate marketing firm that specializes in performance marketing and focuses on helping advertisers and publishers work together to create promotions. The company works closely with advertisers, evaluating their creatives and landing pages so that interested visitors will convert into leads. The company uses a variety of ad formats to generate leads including interstitials, graphics-driven ads, targeted emails, and search engine traffic.

**AffiliateFuture Inc.**

www.affiliatefuture.com
New York, New York

Affiliate Future is a global affiliate marketing firm. For merchants, AffiliateFuture offers a program add on to the site. A program is a combination of a banner or text, an offer of commission, or a link to the Merchant's site upon where an affiliate would subscribe to the program offered by the Merchant. AffiliateFuture's current clients include Deep Discount DVD, Details for Men, Babesta.com, and CellaDerm.

**clickXchange Corporation**

www.clickxchange.com
Huntington Beach, California

Founded in 1999, clickXchange offers performance-based online affiliate marketing programs that work with the company's marketing partners to develop and implement response-oriented marketing programs. The customers pay a fixed, predetermined fee only when a measurable action occurs. clickXchange offers both advertisers and affiliates control of their advertising campaigns as well as reporting of results. Results are carefully tracked and reported in real time to optimize marketing efforts.

**Commission Junction, Inc. (subsidiary of ValueClick Inc. – VCLK)**

www.commissionjunction.com
Santa Barbara, California
James R. Zarley, Chairman and CEO, ValueClick Inc.
Tom Vadnais, General Manager, Commission Junction

Founded in 1998, Commission Junction, a ValueClick company, is a global leader in the online advertising channels of affiliate marketing and managed search. Commission Junction provides a suite of services that enable an advertiser to manage and optimize an ongoing affiliate marketing program including: recruiting affiliate publishers to join the advertiser's program; managing the various offers made available to affiliates; tracking and measuring online consumer traffic and desired actions (e.g., leads, sales); analyzing the effectiveness of individual offers and affiliates; and tracking and processing the payments due to each affiliate for the desired actions they enable across the advertiser's program. The Commission Junction Marketplace provides a Web-

based interface to access information, analyze results, and manage programs for success in real time.

**DarkBlue Sea Limited**

www.darkblue.com
Brisbane, Queensland, Australia

DarkBlue is an Australia-based affiliate network. The company's current clients include PythonMedia.com and TrimLife. The DarkBlue affiliate network serves more than 1 billion impressions per month and has an impressive base of more than 12,000 quality affiliates.

**Digital River oneNetwork (subsidiary of Digital River Inc. – DRIV)**

www.onenetwork.digitalriver.com
Eden Prairie, MN
Joel A. Ronning, Chief Executive Officer, Digital River Inc.

Founded in 1994, Digital River is a global leader in eCommerce outsourcing. Digital River's affiliate marketing network, oneNetwork, provides clients with a network of more than 21,000 software/shareware publishers, 20,000 physical goods companies, and 600 online retailers.

**IncentAClick Media Group Inc**

www.incentaclick.com
San Diego, California

IncentAClick helps marketers by building brands, creating awareness, generating leads, establishing relationships, and driving sales through Web marketing across high-quality media properties. The company offers customized results with a seven-day ROI guarantee to all clients including advertisers, publishers, and agencies.

**LinkShare Corporation (subsidiary of Rakuten, Inc.)**

www.linkshare.com
New York, New York
John Kim, Chief Executive Officer
Stephen Denton, President

Founded in 1996, LinkShare Corporation is a leading affiliate marketing company, providing technology solutions and services and the distribution network for e-retailers to create, manage, and optimize affiliate marketing programs. LinkShare also offers performance-based search marketing services and tools to track the ROI of any kind of online partnership. LinkShare is a wholly owned subsidiary of Rakuten, one of the world's largest and most comprehensive Internet service companies. Rakuten is publicly traded and headquartered in Japan.

**Performics Inc. (subsidiary of DoubleClick Inc.)**

www.performics.com
Chicago, Illinois
David Rosenblatt, CEO, DoubleClick
Stuart Frankel, President, Performics
Chris Henger, Vice President, Affiliate Marketing

Performics, the performance-based marketing division of DoubleClick, provides online marketing services and technologies for leading multi-channel marketers including

Affiliate Marketing, Search Engine Marketing, Data Feed Marketing, and Online Lead Generation programs. Performics' Affiliate Marketing Services are powered by a proprietary tracking and reporting platform, ConnectCommerce. Performics was founded (as Dynamic Trade) as an affiliate marketing company in 1998 and was acquired by DoubleClick in 2004.

**Pulse 360, Inc.
(subsidiary of
Seevast Corporation)**

www.pulse360.com
New York, New York

Pulse 360 provides content-targeted sponsored links for advertisers and monetization tools, such as contextual, behavioral, geo and demographic targeting for publishers. The company was previously part of Kanoodle. Pulse 360 is now an independent operating unit of Seevast (formerly Kanoodle).

**ShareASale.com**

www.shareasale.com
Chicago, Illinois

ShareASale is an affiliate marketing agency that offers merchants the ability to advertise online through a network of affiliate partners. For the affiliates, ShareASale offers them the opportunity to sell advertising on their sites.

**TradeDoubler AB**

www.tradedoubler.com
Stockholm, Sweden
Martin Henricson, Chief Executive Officer

Founded in 1999, TradeDoubler is a European provider of online marketing and sales solutions. Through TradeDoubler's Affiliate Program, the company provides solutions for advertisers to invite, manage, and remunerate thousands of Websites across Europe; utilise search keyword marketing and email marketing; and gain exposure on TradeDoubler's performance-based marketing portal. TradeDoubler's solution is an outsourced solution, which also provides third-party tracking of traffic and events, a Web-based infrastructure to manage Websites, billing, and monitor performance.

## LEAD GENERATION

| | |
|---|---|
| **Adteractive, Inc.** | www.adteractive.com<br>San Francisco, California<br>Josh Peterson, President and Founder<br>Diego Canoso, VP Sales and Founder<br>Sy Fahimi, CEO |

Founded in 2000, Adteractive offers interactive lead generation and customer acquisition through a variety of distribution channels. Adteractive has built a proprietary customer acquisition network, which enables Adteractive to acquire large volumes of qualified leads and customers across several distinct online distribution channels for more than 200 advertising clients in a diverse set of vertical markets. Adteractive partners with many publishers to deliver significant reach across many areas of interactive media.

| | |
|---|---|
| **AzoogleAds.com Inc.** | www.azoogleads.com<br>New York, New York<br>Randy Nicolau, CEO |

Founded in 2000, AzoogleAds is a performance-based online advertising network comprised of a variety of large to medium-sized vertical sites, portals and email publishers. AzoogleAds features integrated marketing solutions comprised of network and site-specific advertising, online promotions, data-capture and co-registration programs, Campaign management, and advertising measurement. AzoogleAds' network of Websites and publishers consists of more than 2,500 partners.

| | |
|---|---|
| **Datran Media Corp.** | www.datranmedia.com<br>New York, New York<br>Alan Laifer, CEO |

Founded in 2001, Datran Media is a performance-based marketing company offering a comprehensive set of email marketing and digital media services including list management, customer acquisition, email delivery, and compliance solutions. Datran Media also owns an online affiliate marketing networks, NetMargin.

| | |
|---|---|
| **Housevalues Inc.**<br>**(SOLD)** | www.housevalues.com<br>Kirkland, Washington<br>Ian Morrise, CEO |

Founded in 1999, HouseValues Inc. provides consumers and real-estate professionals with real estate information and lead generation tools. HouseValues operates several properties including HomePages.com, a consumer-centric home buying and selling service that features interactive mapping and data on home prices and neighborhoods; TheLoanPage.com, a service that provides current and prospective home owners with competitive mortgage and refinance quotes from leading lenders; HouseValues.com, a

service that provides home sellers with valuations of their current home; and JustListed.com, a service that alerts home buyers as soon as new homes hit the market that meet their criteria. HouseValues markets a subscription-based lead generation product to real estate professionals.

| | |
|---|---|
| **Netblue, Inc. (subsidiary of Vendare Media Corporation)** | www.netblue.com<br>Mountain View, California<br>Art Shaw, Chairman and CEO<br><br>NetBlue offers advertisers pay-for-performance advertising in areas, such as lead generation, customer acquisition, co-registration, and advertiser microsites. NetBlue manages campaigns across over 2,000 traffic sources. |
| **Q Interactive (Subsidiary Of Landmark Communications, Inc.)** | www.qinteractive.com<br>Chicago, Illinois<br>Matthew Wise, President and CEO<br><br>Q Interactive, formally CoolSavings, was founded in 1995, and is a subsidiary of Landmark Communications. The firm is an online marketing services provider and operates an extensive advertising network with partner sites including Weather.com, About.com, and Knight Ridder newspaper sites, as well as its own savings and shopping sites, CoolSavings and FreeStyle RewardsSM. Q Interactive's services include Lead Generation, Email, Coupon and Loyalty programs. |
| **QuinStreet, Inc.** | www.quinstreet.com<br>Foster City, California<br>Doug Valenti, President and CEO<br><br>Founded in 1999, QuinStreet is a provider of lead generation solutions. The company maintains relationships with thousands of targeted destination sites and email/newsletter providers, as well as its own network of content sites that are read by nearly 100 million unique visitors per month. Customers include MSN, Yahoo!, Google, AOL, and others. QuinStreet currently serves 200 clients and more than 300 brands. |
| **WebClients, Inc. (Subsidiary Of ValueClick Inc. – VCLK)** | www.webclients.net<br>Harrisburg, Pennsylvania<br>James Zarley, Chairman and CEO, ValueClick Inc<br>Joshua Gray, General Manger, Lead Generation<br><br>Founded in 1998, WebClients provides online lead-generation marketing services, focused primarily on helping advertisers generate leads using a performance-based model. WebClients marketing strategies and products include co-registration and embedded lead generation technology. With a network of 1,500+ dynamic Website publishers, WebClients produces billions of impressions and millions of leads on a monthly basis. With over 29 different product categories, WebClients works with advertisers on a cost-per-action and cost-per-sale basis. WebClients was acquired by ValueClick in 2005. |

# AGENCIES

**Agency.com Ltd.
(Subsidiary Of
Omnicom Group Inc.
– OMC)**

www.agency.com
New York, New York
Chan Suh, Chairman
David Eastman, CEO

Agency.com is a full-service interactive agency providing solutions for interactive marketing, Web development, and other emerging channels. Through interactive marketing services, Agency.com provides strategy, ad creative, media buying and planning, SEM, email marketing, viral campaigns, analytics, and optimization. The company has nine offices around the world located in Amsterdam, Brussels, Chicago, Dallas, Dublin, London, Milan, New York, and San Francisco.

**AKQA**

www.akqa.com
San Francisco, California
Ajaz Ahmed, Chairman
Tom Bedecarré, CEO

AKQA is global interactive agency that provides a variety of interactive agency services including Web development, technology services, and emerging media services. AKQA has approximately 500 employees and has offices globally including London, Singapore, San Francisco, Washington D.C., and New York.

**Arc Worldwide
(Subsidiary Of
Publicis Groupe SA –
PUB)**

www.arcww.com
Chicago, Illinois
Marc Landsberg, President

Arc Worldwide is a global, full service agency providing direct marketing, interactive marketing, promotions, and shopper marketing. Arc's interactive marketing solutions include strategy, digital branding, consumer segmentation and analysis, Website development, campaign development, technology strategy and digital content, and creative development.

**Avenue A | Razorfish
(Subsidiary Of
aQuantive, Inc. –
AQNT)**

www.aquantive.com
Seattle, Washington
Brian P. McAndrews, President and CEO, aQuantive, Inc.
Clark Kokich, Worldide President, Avenue A/Razorfish

Avenue A/Razorfish is an interactive agency that provides interactive marketing services, Web development and creative development, and branding. Interactive marketing services include media planning and buying, search engine marketing and optimization, email marketing, customer targeting and profiling, and advanced analytics and optimization. Avenue A, which provides interactive marketing services, was founded in 1997. Razorfish, a leading Web development company, was acquired in 2004. aQuantive also owns three international agencies, including DNA (UK), Amnesia

(Australia), and Neue Digitale (Germany). Avenue A/Razorfish is headquartered in Seattle, Washington, and has approximately 1,200 employees.

---

**Carat Fusion (Subsidiary Of Aegis Group PLC)**

www.caratfusion.com
San Francisco, California
Scott Sorokin, President

Carat Fusion is an interactive agency providing numerous services, which include creative development, media planning and buying, consumer insight, data intelligence, direct response marketing, search marketing, Web development, CRM, and affiliate marketing. Carat Fusion is part of the Isobar network, the full service digital marketing network of Aegis.

---

**Critical Mass (Majority Owned By Omnicom Group Inc. – OMC)**

www.criticalmass.com
Chicago, Illinois
Jerry Johnston, Chairman
Dianne Wilkins, CEO

Critical Mass is an online interactive agency. The company offers strategy, user-centered design, personalization, content management, application development, electronic marketing programs, and site optimization.

---

**Digitas/Modem Media (Subsidiary Of Digitas Inc. – DTAS; Acquired By Publicis Groupe SA – PUB)**

www.digitas.com
www.modemmedia.com
Boston, Massachusetts
David Kenny, Chairman and CEO
Martin Reidy, President Modem Media

Founded in 1980, Digitas is a full service interactive agency offering strategy and enablement services as well as marketing agency services. Strategy services are primarily across three areas: consumer and brand strategy, investment optimization and marketing data, and technology enablement. Digitas' marketing agency services include communications strategy, program development, and campaign execution—across all direct contact channels, including mail, Internet, phone, email, direct response broadcast, print, and events. Modem Media, founded in 1987, and acquired by Digitas in 2004, also provides full interactive services including planning and marketing execution services. The Publicis Groupe recently acquired Digitas Inc. in December 2006.

---

**RSCG Worldwide, Inc. (Subsidiary Of Havas – Euronext Paris: HAV.PA)**

www.eurorscg4d.com
New York, New York
George Gallate, CEO of Euro RSCG 4D and EVP, Euro RSCG Worldwide

Euro RSCG 4D is a leading global interactive agency with 118 offices in 42 countries. Euro RSCG 4D's digital services include digital brand strategy, customer experience design, media buying and campaign management, information architecture, Web development, CRM consulting, and SEM, and SEO. Euro RSCG 4D also offers direct marketing, promotion and event marketing, and data services including database marketing.

**DraftFCB (Subsidiary Of Interpublic Group of Companies, Inc. – IPG)**

www.draftfcb.com
New York, New York

DraftFCB is a full-service interactive agency offering expertise in advertising, digital direct marketing, and promotions. The company also offers services in CRM, search, mobile, database, viral, and competitive strategy. DraftFCB was created in 2006, through the combination of Draft Digital and FCBi.

**Grey Interactive Worldwide (Subsidiary Of WPP Group plc – WPPGY)**

www.greyinteractive.com
New York, New York

Founded in 1993, Grey Interactive is a full-service interactive agency. The company's services include global online marketing programs, Web development, rich media advertising, wireless campaigns, permission marketing, and viral marketing.

**Media Contacts (Subsidiary Of Havas – Euronext Paris: HAV.PA)**

www.mediacontacts.com
Boston, Massachusetts
Don Epperson, CEO

Media Contacts "(MC)" is the global interactive network of Media Planning Group "(MPG)", the media division of HAVAS. MC provides media-focused marketing solutions across all digital and direct response channels. Media Contacts provides a variety of interactive services including media planning and buying, search marketing, CRM strategy, site traffic analysis, and database management. Media Contacts has offices in 26 cities in 22 different countries across Europe, North America, South America, and Asia Pacific, and has over 400 clients including industry leaders such as Air France, Expedia, Nike, ING Direct, VW, Repsol amongst others.

**Mediasmith, Inc.**

www.mediasmith.com
San Francisco, California
David Smith, CEO

Founded in 1989, Mediasmith is a media planning and buying agency and media consultant specializing in integrated media solutions. Mediasmith solutions include strategy, planning, buying, and search. The company's current clients include The National Geographic Channel, Hyperion, Maxtor, and Hands-On Mobile.

**MRM Worldwide (Subsidiary Of McCann Worldwide)**

www.mrmworldwide.com
New York, New York
Reuben Hendell, CEO

MRM Worldwide, a subsidiary of McCann Worldgroup, is a full-service direct and interactive agency. MRM's services include customer strategy, analytics segmentation, direct response, digital marketing, Web development, and branded content.

| **nurun | ant farm interactive, AKA Nurun Inc. (TSX: NUR, Subsidiary Of Quebecor Media Inc.)** | www.nurun.com<br>New York, New York<br>Jacques-Herve Roubert, CEO<br><br>nurun | ant farm interactive is a global interactive advertising agency providing information technology, eCRM, strategy, campaign management, creative, media, and search engine optimization services. With headquarters in Montreal, Nurun employs 600 professionals in Canada, the United States, France, Italy, Spain, and China. In April 2004, Nurun acquired Ant Farm Interactive, a full-service interactive marketing firm located in Atlanta, Georgia. |
|---|---|
| **Ogilvy Interactive Worldwide (Subsidiary Of WPP Group plc – WPPGY)** | www.ogilvy.com/o_interactive<br>New York, New York<br>Nasreen Madhany, Global CEO, Neo@Ogilvy<br><br>Ogilvy Interactive, a top-five interactive agency, is a full-service interactive agency providing digital marketing, Website development, Intranet and Extranet development, wireless applications, and rich media. The company has 42 offices across 39 countries. Ogilvy also operates Neo@Ogilvy, a full-service digital and direct media company servicing blue-chip clients such as IBM, American Express, Cisco, TDAmeritrade, SAP, Allstate, and Yahoo!. Neo@Ogilvy provides clients with a full range of digital and direct media planning and buying, search marketing, research, analytics, and emerging platform services. Ogilvy Interactive and Neo@Ogilvy are both divisions of OgilvyOne Worldwide, which is a subsidiary of WPP. |
| **Organic (Subsidiary Of Omnicom Group Inc. – OMC)** | www.organic.com<br>San Francisco, California<br>Jonathan Nelson,Co-founder, Chairman of the Board<br>Mark Kingdon, CEO<br><br>Founded in 1993, Organic is a digital online marketing agency that provides four main services: strategy, Web design, digital marketing and measurement, and analytics. Organic focuses on high-touch engagements in the automotive, travel, media and entertainment, communications, financial services, high-tech goods, retail, education, and consumer products sectors. |
| **R/GA (Subsidiary Of Interpublic - IPG)** | www.rga.com<br>New York, New York<br>Bob Greenberg, CEO/Chairman/Global Chief Creative Officer<br><br>R/GA is a New York-based ad agency that focuses on creativity and collaboration to deliver media-neutral marketing strategies. R/GA's offerings include digital branding, Web design, multi-channel marketing, online advertising, eCommerce, and technology services. The company was founded in 1977, and is a subsidiary of Interpublic Group. The firm currently has 400 employees, and its clients include Target, IBM, Verizon, and many other Fortune 500/Global 1000 companies. |

**RMG Connect
(Subsidiary Of WPP
Group plc – WPPGY)**

www.rmgconnect.com
New York, New York
Phillip Greenfield, CEO Worldwide

RMG Connect is a specialist relationship-marketing network. Its suite of tools (The Blue Tools) enables the company to understand the relationship dynamics of clients' customers at all stages of their lifecycle - acquisition, development, and retention. The Tools include the following: Intelligent Investment Tool, Differential Marketing, Moments of Truth, Channel Optimization, Relationship Index, and Gap Analysis. RMG offers brand and business consulting, CRM systems consulting, data management and analysis, direct/loyalty/promotional marketing, Website development, and online marketing.

**Tequila (Subsidiary
Of Omnicom Group
Inc. – OMC)**

www.tequila.com
New York, New York

Tequila is a digital/direct marketing agency that connects advertisers with consumers. Tequila's services include direct marketing, interactive marketing (strategy, media planning and buying, interactive design and production, online advertising, email marketing, Websites), data services, and sales promotion and event marketing.

**Tribal DDB
Worldwide
(Subsidiary Of
Omnicom Group Inc.
– OMC)**

www.tribalddb.com
New York, New York
Matt Freeman, CEO Worldwide
Stephen Beringer, CEO Tribal DDB

Tribal DDB Worlwide creates brand demand for advertisers spanning brand impressions to demand generation to transaction and loyalty. Its services include the following: consulting, engineering and design, online marketing strategy, content and application development, media research, media planning and buying, ROI analysis, and optimization. Clients include McDonalds, The Home Depot, Unilever, Audi, AOL, ING, Clorox, and Pepsi. Headquartered in New York, Tribal DDB Worldwide includes 33 full-service offices spanning 20 countries throughout the Americas, Europe, and Asia Pacific. Tribal DDB has more than 800 professionals worldwide.

**Wunderman
Interactive
(Subsidiary Of WPP
Group plc – WPPGY)**

www.wunderman.com
New York, New York
Lester Wunderman, Chairman Emeritus and Founder
Daniel Morel, Chairman and CEO

Wunderman's focus is on driving customer acquisition, retention, and value through relevant data-driven dialogues across all communications channels and touch points. Wunderman provides a full suite of services including strategy and insights, creative, database marketing services, media planning and buying, interactive, promotion, and events. The firm's clients include Ford, Microsoft, Citibank, and Xerox. Wunderman is a subsidiary of Young & Rubicam Brands, and became a member of the WPP Group plc in October 2000.

## DESTINATION AND SERVICES

**Eighty-Three Degrees, Inc. / 30 Boxes**

www.83degrees.com / www.30boxes.com
Tiburon, California

Eighty-Three Degrees is a software development firm that has developed 30boxes, a Web-based online calendar that allows families and groups to create private social networks, organize events, track schedules and share photos. It may soon allow users to save phone numbers as hyperlinks and make calls by simply clicking on a link.

**Ajax 13, Inc.**

us.ajax13.com
San Diego, California
Michael L. Robertson, CEO

Founded in early 2006, Ajax 13 Inc. is a software development company that develops Web-based AJAX applications. Its products include ajaxWrite, ajaxSketch, ajaxXLS, ajaxPresents, and ajaxTunes, which give users a broad array of office productivity capabilities through a Web-based interface.

**AOL (Subsidiary Of Time Warner Inc. – TWX)**

www.aol.com
New York, New York
Richard Parsons, CEO

AOL's key assets include AOL.com, AIM, Mapquest, AOL Video, and Moviefone. In October 2006, AOL had 120 million unique visitors, a reach of 69%, and an average usage of 274 minutes per visitor. The use of AIM and AOL Mail drives AOL's high usage metrics. The company generates advertising revenue from the sale of banner ads on a CPM or sponsorship basis, as well as from the sale of paid-search and other PPC advertising on Advertising.com's network of Internet properties. Historically, dial-up access has generated the overwhelming majority of AOL's revenue, but AOL is experiencing significant declines in the number of subscribers due to the increasing penetration of broadband across the United States. As such, access revenues are rapidly declining. Given the expected continued decline in access subscribers, AOL is in the process of transitioning its business to focus on the online advertising opportunity. In order to attract additional users to its service, AOL recently launched a free version of its AOL.com.

**AtomFilms (Subsidiary Of Viacom Inc. – VIA)**

www.atomfilms.com
San Francisco, California
Mika Salmi, CEO

AtomFilms offers short films, animation, videos and casual games to more than 5 million people each month. The company's content library has over 1,500 game, film, animation, and entertainment software titles. Its advertisers and sponsors include 20th Century Fox, Coca-Cola, Intel, Mattel, Nintendo, Microsoft, Sony, Toyota, and Unilever Axe. Its distribution and marketing partners include Bell South, Microsoft,

and RoadRunner. The company was founded in 2001 by the merger of Shockwave.com, Inc., with Atom Corporation. In August 2006, Viacom's MTV Networks acquired Atom Entertainment, Atom Film's parent company, for approximately $200 million.

| | |
|---|---|
| **BallBug** | www.ballbug.com |

Ballbug spotlights the latest baseball news from all over the Web. It generates a summary page every five minutes drawing on content from local news sites, national sports media, and baseball bloggers.

| | |
|---|---|
| **Bankrate Inc. (RATE)** | www.bankrate.com<br>North Palm Beach, Florida<br>Thomas R. Evans, President and CEO |

Founded in 1993, and headquartered in Florida, Bankrate offers information on financial-related topics such as mortgages, credit cards, new and used automobile loans, money market accounts, certificates of deposit, checking and ATM fees, home equity loans, and online banking fees. The company operates in two segments, online publishing and print publishing and licensing. The online publishing segment sells advertising, sponsorships, and hyperlinks on Bankrate.com. The Print Publishing and Licensing segment sells advertising in the mortgage guide rate tables and newsletter subscriptions, as well as provides licensing of research information.

| | |
|---|---|
| **Bebo** | www.bebo.com<br>San Francisco, California<br>Michael Birch, CEO |

Founded in 2005, Bebo is a youth-targeted social networking site that enables users to connect with friends, share photos, and discover new interests.

| | |
|---|---|
| **Bloglines (Subsidiary Of IAC/InterActiveCorp – IACI)** | www.bloglines.com<br>Campbell, California<br>Mark Fletcher, CEO |

Bloglines enables users to search, subscribe, create, and share news feeds, blogs, and rich media content. Bloglines was founded in 2003 by Mark Fletcher, the former CEO of ONElist (acquired by Yahoo! in 2000 and now operating as Yahoo! Groups). The company is a property of IAC Search & Media, a wholly-owned business of InterActiveCorp, and is headquartered in the San Francisco Bay Area.

| | |
|---|---|
| **CBS Corp. (CBS)** | www.cbs.com<br>New York, New York<br>Mel Karmazin, President and CEO |

Through its CBS Digital Media Group, CBS Corporation operates a number of Internet properties including CBS.com, CBSNews.com, CBSSportsline.com, and CWTV.com. The sites leverage the content of CBS and CW to create new advertising supported online revenue streams. In October 2006, CBS's properties collectively had

approximately 25 million unique visitors, a reach of 15%, and average usage of 32 average minutes per visitor. CBS's Internet properties derive revenue from a combination of advertising, sponsorship, and subscription services. In January 2006, CBS acquired CSTV Networks, a cable network and online business devoted to college athletics. Also, in January 2006, CBS announced a partnership with Google whereby CBS began offering classic and primetime television shows for purchase on Google Video. CBS.com also offers Survivor online for a fee and streamed the 2006 NCAA Division I Men's Basketball Championship. CBS Radio is also extending its station brands online through streaming, podcasting, and developing radio station Websites.

**Citysearch (Subsidiary Of IAC/InterActiveCorp – IACI)**

www.citysearch.com

Citysearch is an operating company within InterActiveCorp's Media and Advertising segment, which also includes Ask.com. Citysearch provides local city guides with original content for major cities in the United States and internationally. Original content includes information about arts and entertainment events, bars and restaurants, community activities, shopping, as well as real-estate related and travel information. Citysearch generates revenue through the sale of local and national advertising and, to a lesser extent, from transaction fees from affiliates. Citysearch also generates revenue from enhanced listings in search results pages, targeted email, and sponsorship packages. Local advertising is offered through a PPC model, where local businesses pay for the number of consumer connections made. Citysearch city guides also support online local transactions, including hotel reservations and matchmaking, ticketing, and travel-related services through affiliations with leading eCommerce agencies. In October 2006, CitySearch had 12 million unique visitors, a reach of 7%, and average usage of three minutes per visitor. We estimate that Citysearch will generate approximately $60 million in revenue in 2006.

**Classmates.com (Subsidiary Of United Online – UNTD)**

www.classmates.com
Randy Conrads, Founder

Founded in 1996, Classmates.com is a social networking Website. The Website helps members find, connect, and keep-in-touch with friends and acquaintances from kindergarten, primary school, high school, college, work, and the United States military. Classmates.com has more than 40 million active members in the United States and Canada, and an Alexa Internet traffic ranking of 499. In October 2004, United Online acquired Classmates Online, the operator of Classmates.com.

**CNET Networks Inc. (CNET)**

www.cnet.com
San Francisco, California
Neil Ashe, CEO

CNET operates a variety of vertically focused sites in the areas of technology, games and entertainment, business, and community. Its online properties include CNET, WebShots.com, ZDNet, TechRepublic, mySimon, News.com, Download.com, Gamespot.com, and MP3.com. CNET's technology focused properties (CNET.com, ZDnet.com and Techrepublic.com) provide advice on technology and consumer electronic products, reports on technology news, product reviews, and price comparisons. In October 2006, CNET had 32 million unique visitors, a reach of 18%, and an average usage of 20 minutes per visitor.

**CoComment**

www.cocomment.com
Geneva, Switzerland

CoComment is a service that allows users to enjoy comment-based conversation on the Web. Using coComment, users can track all the comments and discussions users are participating in or observing on the Web. When someone adds something to the comment stream or discussion, the user will be notified.

**Control Room**

www.controlroom.com
Beverly Hills, California
Kevin Wall, CEO

Control Room offers online live music concerts. Over the past year, Control Room has produced and distributed 60 live music concerts on the Internet, radio, TV, mobile phones, at retail stores, and in theaters. The company works directly with music artists creating content for distribution. Control Room is also now working with MSN as a Global distribution partner.

**Cool Hunting**

www.coolhunting.com
New York, New York
Josh Rubins, Founder

Founded in 2003, Cool Hunting is a site that offers daily updates on information that intersects design, culture, and technology. The site was originally started as a way to catalog information, but evolved into a user-generated content site. The founder, Josh Rubins, serves as the editor of the site, and collects contributions from a select group of writers.

**Cox Enterprises**

www.coxenterprises.com
Atlanta, Georgia
James Kennedy, Chairman and CEO

Cox Enterprises is a leading media company and provider of automotive services with 2005 total revenue of approximately $12 billion. Major operating subsidiaries include Cox Communications, Inc. (cable television distribution, telephone, high-speed Internet access, and other advanced broadband services), Cox Newspapers, Inc. (newspapers, local and national direct mail advertising, and customized newsletters), Cox Television (television and television sales rep firms), Cox Radio, Manheim Auctions, Inc. (vehicle auctions, repair and certification services, and Web-based technology products), and Cox Auto Trader (automotive publications and a majority stake in AutoTrader.com). In October 2006, Cox Enterprises had 14 million unique visitors, a reach of 8%, and average usage of 35 minutes per visitor. Autotrader.com, Cox.net/Cox.com (broadband access portal), The Atlanta Journal Constitution, and Valpak.com accounted for the majority of Cox's Internet traffic.

| **Craigslist** | www.craigslist.org<br>San Francisco, California<br>Craig Newmark, Founder<br>Jim Buckmaster, President and CEO |
| --- | --- |
| | Founded in 1995, Craigslist provides local classified ads and forums for 450 cities worldwide including listings for jobs, housing, goods and services, local activities, and romance. Craigslist receives approximately 5 billion page views per month, and publishes 14 million new classified ads each month including approximately 750,000 new job listings per month. While traffic to Craiglist is under-monetized, Craigslist charges for broker apartment listings in NYC, $25 for a job listing in NYC, LA, Washington DC, Boston, Seattle, and San Diego, and $75 for a job listing in San Francisco. |

| **Daily Candy** | www.DailyCandy.com |
| --- | --- |
| | DailyCandy is a free daily email newsletter and Website that offers a guide to what's hot, new, and undiscovered from fashion and style to gadgets and travel. DailyCandy publishes nine daily email editions for the following cities: New York, Los Angeles, Chicago, San Francisco, Boston, Dallas, London, Washington, D.C., and Atlanta. DailyCandy also publishes DailyCandy Travel, DailyCandy Kids, and DailyCandy Deals. Bob Pittman owns a controlling stake in Daily Candy. |

| **del.icio.us (Subsidiary Of Yahoo! Inc. – YHOO)** | del.icio.us<br>Sunnyvale, California<br>Terry Semel, CEO, Yahoo! Inc. |
| --- | --- |
| | del.icio.us is a social bookmarking Website that allows users to store links for favorite articles, blogs, music, news, and other content. del.icio.us also enables users to share and discover the bookmarks of friends and family. |

| **Demand Media, Inc.** | www.demandmedia.com<br>Los Angeles, California<br>Richard Rosenblatt, Co-founder, Chairman and CEO |
| --- | --- |
| | Demand Media is an online media company that offers domain services, brand-able domains, and niche content Websites. Its collection of online assets receives more than 35 million unique visitors per month through its niche content sites and more than 250,000 domain names. Its online properties include Gamerival, FlowGo, AnswerBag, CoolQuiz, SoYouWanna, eHow/WeHow, CaseLadder, and Grab.com. Demand Media was founded by Richard Rosenblatt who previously served as Chairman of Myspace.com and CEO of Intermix. Founded in May 2006, Demand Media has received more than $200 million in financing. |

| | |
|---|---|
| **digg Inc.** | www.digg.com<br>San Francisco, California<br>Jay Adelson |

Digg is a user-driven social content Website. Users submit content to Digg, and the most popular content then receives prominence on the Digg site. Federated Media provides Digg's advertising.

| | |
|---|---|
| **Disney Online (a Subsidiary Of Walt Disney Co. – DIS)** | www.disney.com<br>Burbank, California<br>Robert Iger, CEO |

Disney Online manages the online presence of Disney's vast media properties including ESPN and ABC. We believe online traffic measurement companies usually do not track all of Disney's properties as a single entity, so it is difficult to judge how many total unique visitors all of its sites generate. Given that the Disney-branded Websites are targeted at young children and pre-teens while ESPN is targeted at adult males, it is reasonable to assume most of the unique visitors to each would not be duplicated. Disney properties received visits from approximately 25 million unique visitors, and generated more than 1 billion page views in October 2006.

| | |
|---|---|
| **edgeio** | www.edgeio.com<br>Menlo Park, California<br>Keith Tiere, CEO |

edgeio enables real-time distributed marketplaces to consumers. Content owners can submit listings to edgeio and have their listings appear throughout the edgeio network. Members of the edgeio network subscribe to real-time listings feeds tailored to their Website and can earn money by promoting premium edgeio content. When someone clicks on a listing that appears in the edgeio network, they are directed back to the original content. By distributing their listings through edgeio, content owners will generate new leads without having to rely on just one marketplace. Using keywords, geography, price, filters, and various sorting mechanisms, publishers have complete control over listings delivered by edgeio.

| | |
|---|---|
| **Evoca LLC** | www.evoca.com<br>Murem Sharpe - CEO and Co-founder<br>Tom Sharpe - CFO |

Evoca provides an easy way to create, organize, share, and search voice recordings. Evoca allows businesses to run more efficiently, journalists to capture stories more effectively, and oral historians to capture voice recordings.

| | |
|---|---|
| **Facebook** | www.facebook.com<br>Palo Alto, California<br>Mark Zuckerberg, CEO |

Facebook is one of the largest and fastest growing social networking sites on the Web. Contrasting itself with MySpace, Friendster, and other social networking sites,

Facebook describes itself as a "social utility," and its simple and clean look and strict user control supports this description. Unlike MySpace where anyone can join and communicate with any other user in the system, Facebook allows user to control access to their social networks and requires authentication to join particular networks (e.g., schools or workplaces). This strict control and user verification has limited Facebook's growth compared to MySpace, but also provides Facebook with a perception of exclusivity that enhances the site's "stickiness" with users. In October 2006, CitySearch had 17 million unique visitors, a reach of 10%, and average usage of 172 minutes per visitor. To date, however, Facebook has not heavily monetized its site, opting to only display one sidebar image advertisement per page and no contextual cost-per-click advertisements. Facebook recently signed a deal for Microsoft to provide text-based contextual and syndicated search advertisements on Facebook.

---

**FeedLounge, Inc.**

www.feedlounge.com
Scott Sanders, Co-founder
Alex King, Co-founder

FeedLounge is a Web-based feed reader, founded in 2005, by Alex King and Scott Sanders.

---

**Findory.com Inc.**

www.findory.com
Seattle, Washington

Findory builds a home page for each reader, recommending content based on what each person has read and what new content is published. The site helps readers discover interesting and relevant content and information.

---

**Flavorpill Productions LLC**

www.flavorpill.com
New York, New York

Flavorpill is an email magazine that delivers information about events, art, books, electronic music, and fashion. The company was founded in 2000 as a weekly newsletter about a few music events in New York City. Now the company publishes a series of nine email magazines including FlavorPills for New York, Los Angeles, San Francisco, Chicago, and London, as well as Artkrush, Boldtype, Earplug, and JC Report. Flavorpill has approximately 300,000 subscribers. On any given day, about 300 writers and editors trade emails with a constant stream of connected people around the globe to distill the crucial cultural information that readers may what to know. Everything on the Website is editorialized.

---

**Flickr (Subsidiary Of Yahoo! Inc. – YHOO)**

www.flickr.com
Sunnyvale, California
Terry Semel, CEO, Yahoo! Inc.

Flickr is an online photo management and sharing application. Users can upload photos from the Web, mobile devices, PCs, and other photo management applications, and share the photos on the Flickr Website, in RSS feeds, by email or by posting on blogs. Flickr also enables users to organize photos through collaboration by allowing friends, family, and other contacts to add comments, notes, and tags.

**Fox Interactive Media (Subsidiary Of News Corp –NWS)**

www.fox.com
Peter Levinsohn, President

Through a series of savvy acquisitions, Fox Interactive Media has evolved from relative obscurity into one of the most popular collections of Websites in the world. Of particular note, News Corp.'s acquisition of Intermix and its MySpace subsidiary, the Web's premier social networking site, for $600 million propelled Fox Interactive to its current position as the Internet's pre-eminent site for young people. News Corp also acquired IGN Entertainment for $650 million, which secured its position as the leading interactive gaming destination. These acquisitions combined with News Corp's already substantial media assets (Foxnews.com, Scout.com, New YorkPost.com) comprise Fox Interactive Media's 74 million unique visitors, a reach of 43%, and an average usage of 200 minutes per visitor in October 2006.

**FreeWebs**

www.freewebs.com
Silver Spring, Maryland
Haroon Mokhtarzada, CEO

Founded in 2001, FreeWebs is a free Web hosting service with more than 12 million members around the world. It received funding from Novak Biddle Venture Partners and Columbia Capital in August 2006.

**Gannett Co., Inc. (GCI)**

www.gannett.com
Mclean, Virginia
Craig Dubow, Chairman and CEO

Gannett operates more than 130 Websites in the United States including USATODAY.com, one of the top newspaper sites on the Internet. In October 2006, Gannett had 20 million unique visitors, a reach of 12%, and average usage of 22 minutes per visitor. USA Today accounted for approximately 40% of Gannet's overall traffic, while Gannet's network of sites for local newspapers and television stations accounted for the remaining traffic. Gannett also owns a 42.5%, 42.5%, and 31.9% stake in Careerbuilder, ShopLocal, and Topix.net. A recent transaction with McClatchy valued Careerbuilder, ShopLocal, and Topix.net at $1.55 billion, $85 million, and $72 million.

**Glam Media, Inc.**

www.glam.com
Samir Arora, Founder and Chairman

Glam Media operates a collection 200 fashion, beauty, and lifestyle oriented Websites including Glam.com, which publishes content from leading print magazines such as Marie Claire, Cosmopolitan, and Dwell as well as independent fashion oriented content from blogs and Websites. Glam.com also operates GlamSpace, a social network for fashion and style, and GlamCentral, which searches and ranks fashion blogs. Advertisers on Glam.com include DKNY, Max Factor, L'Oreal, and Estee Lauder. Investors include Accel Partners, Draper Fisher Jurvetson, Walden VC, and Duff Ackerman & Goodrich Venture and Information Capital.

| | |
|---|---|
| **Gothamist LLC** | www.gothamist.com<br>New York, New York<br>Jen Chung, Editor<br>Jake Dobkin, Publisher<br><br>Gothamist is a daily blog that covers everything that is happening in New York City. |
| **Goowy Media, Inc.** | www.goowy.com<br>San Diego, California<br>Alex Bard, CEO<br><br>Founded in 2004, goowy media provides a collection of intuitive tools for communicating and collaborating including instant messaging, email, contacts, calendar, customized new and file storage, and sharing. |
| **Gritwire (A Part Of Dizpersion Technologies, Inc.)** | www.gritwire.com<br>Evanston, Illinois<br><br>Gritwire offers a feed reader and a variety of online Web tools for users. People can use Gritwire's reader to organize feeds into folders, read and save content, or rate feeds and feed items. Other tools include Gritcast Player, which play podcasts or videocasts; Friends, which invites friends to the user's network; Inbox, which notifies users when they receive a message through friends or others; QuickLinks, which organizes folders; and Wikis, which acts as virtual notepad. |
| **HuffingtonPost.com, Inc.** | www.thehuffingtonpost.com<br>New York, New York<br>Arianna Huffington, CEO<br><br>The HuffingtonPost.com is a fast-growing, blog, news, and opinion site with a decidedly liberal perspective. The site, run by Arianna Huffington, has grown quickly due to blog contributions from Hollywood stars and political pundits. |
| **iVillage Inc. (NBC Universal – General Electric Co./GE)** | www.ivillage.com<br>New York, New York<br>Beth Comstock, President, NBC Universal Digital Media<br><br>iVillage operates online properties that target women, teenage girls, and parents. iVillage offers unique content, community applications, tools, and interactive features. Its online properties include iVillage.com, Healthcentersonline.com, GardenWeb.com, gURL.com, Promotions.com, Astrology.com, Seventeen.com, Redbook.com, Marieclaire.com, GoodHousekeeping.com, and Cosmopolitan.com. In October 2006, iVillage properties collectively had approximately 14 million unique visitors, a reach of 8%, and average usage of eight average minutes per visitor. In 2005, iVillage generated $91 million in revenue and $9 million in operating income. In March 2006, NBC Universal acquired iVillage for $600 million. |

**JamBase, Inc.**

www.jambase.com
San Francisco, California
Andy Gadiel, Founder and CEO

Founded in 1998, JamBase offers live music concert information to users. JamBase contains a comprehensive tour date search engine with coverage of 15,000 live shows by over 8,000 bands playing in over 20,000 venues around the world. JamBase has evolved into the community hub that each month connects over a half a million fans of improvisational music. With a grassroots network of over 200 contributing writers and photographers, JamBase serves up fresh and daily doses of concert reviews, previews, artist interviews, and music news. JamBase provides targeted advertising and marketing campaigns for music artists. JamBase works with the top concert promoters and record labels across the country including the following: Clear Channel Entertainment, House of Blues Concerts, AEG-Live, JAM Productions, Blue Note Records, Sony Music, and more.

**Jigsaw Data Corporation**

www.jigsaw.com
San Mateo, California
Jim Fowler, CEO and Co-founder

Jigsaw is an online business-contact marketplace where marketers, recruiters, and sales professionals can obtain fresh and accurate business contact information. Members provide business contacts to Jigsaw, and then Jigsaw provides users access to the community's collection of contacts. Jigsaw's mission is to map every business organization on the planet, contact by contact, and keep them current through a collaborative effort. The resulting database will help business people perform their jobs more efficiently and strategically. Jigsaw was founded by veteran sales executives, Jim Fowler and Garth Moulton. The company is located in San Mateo, California, and is funded by El Dorado Ventures, Norwest Venture Partners, and Austin Ventures.

**JotSpot (Acquired By Google Inc. –GOOG)**

www.jotspot.com
Palo Alto, California
Joe Kraus, Co-founder and CEO
Graham Spencer, Co-founder and CTO

Founded in 2004, JotSpot offers wikis and an online spreadsheet. JotSpot was acquired by Google in October 2006.

**Judy's Book, Inc.**

www.judysbook.com
Seattle, Washington
Andy Sack, CEO
Chris DeVore, COO

Judy's Book is a local search engine that allows the online community to share and gather real-life information about local shops, fashion, and restaurants. All content on the site is user generated. Current investors in Judy's Book include Mobius Venture Capital, Ignition Partners, Ackerley Partners, and some Angel investors.

| Kaboodle, Inc. | www.kaboodle.com<br>Santa Clara, California<br><br>Kaboodle offers an easy way to collect, organize, and share information for online shopping, travel, and other research. |
|---|---|
| **The Knot, Inc.**<br>**(KNOT)** | www.knot.com<br>New York, New York<br>David Liu, CEO<br><br>The Knot Inc. is a leading wedding media and services company that provides to-be-weds with comprehensive wedding planning information, interactive tools, and resources. The Knot currently is the No. 1 wedding Website with 2.1 million unique visitors a month, and more than 3,600 new members joining TheKnot.com each day. The Website is also the exclusive wedding content provider to MSN, CompuServe, and Netscape, and the largest publisher of regional wedding magazines with 1.2 million circulations in 18 U.S. cities. The site is also a leading retailer of wedding favors and supplies on the Internet. In September 2006, The Knot acquired its closest competitor, Weddingchannel.com. |
| **La La Media, Inc.** | www.lala.com<br>Palo Alto, California<br>Bill Nguyen, Founder<br><br>La La is a community-oriented CD trading Website that trades through the use of a credit system. |
| **Last.fm Ltd.** | www.last.fmhelpcontact.php<br>London, England<br>Felix Miller, Co-founder<br>Martin Stiksel, Co-founder<br>Richard Jones, Co-founder<br><br>Last.fm is a social radio site. Its software creates a personalized streaming radio station based on the digital music a user listens to, and allows users to share playlists and suggests music from other closely related playlists. |
| **LinkedIn Corporation** | www.linkedin.com<br>Palo Alto, California<br>Reid Hoffman, CEO<br><br>LinkedIn is an online social network of more than 8 million experienced professionals. Users join LinkedIn by providing a profile that summarizes the user's professional background and accomplishments. The profile helps users to find and be found by former colleagues, clients, and partners. Through the social connections, users can find potential clients, service providers, subject experts, business opportunities, and jobs. LinkedIn is free to join, but also offers paid accounts that give users more tools for finding and reaching the right people. |

| **LoopNet, Inc. (LOOP)** | www.loopnet.com<br>Richard Boyle, Chairman and CEO |
| --- | --- |
| | LoopNet operates an online marketplace for commercial real estate and businesses for sale. Commercial real estate agents can list properties for sale or lease on www.LoopNet.com, and commercial real estate brokers, agents, buyers, and tenants can search the marketplace for available property listings. LoopNet enables real-estate professionals to complete transactions more cost effectively. |

| **Lycos Inc. (Subsidiary Of Daum Communications Corp.)** | www.lycos.com |
| --- | --- |
| | Lycos creates and operates search, community, and technology lifestyle sites including Lycos.com, Hotbot.com, Wired.com, Tripod.com (Website hosting and small business tools) and Angelfire.com (site building, blogs, photo albums, etc. for teens). Other Lycos products and sites include Lycos Mail, Lycos Games, Lycos Planet, Lycos Phone, and GetRelevant. In October 2006, Lycos had approximately 23 million unique visitors, a reach of 13%, and usage of six average minutes per visitor. Lycos.com is a wholly owned subsidiary of Daum Communications, a leading Internet portal and eCommerce destination in Korea with a growing presence throughout the Asian markets. Lycos was acquired by Daum Communications Corp. in October 2004. |

| **The ManiaTV! Network** | www.maniatv.com<br>Denver, Colorado |
| --- | --- |
| | ManiaTV delivers users a mix of music, short films, action sports, video games, cartoons, and news. All shows are hosted live by CyberJockeys (CJs for short), like Tom Green. Users can submit their own shows, short films, dedications, and requests to interact with the network and influence what gets aired. |

| **Meetup Inc.** | www.meetup.com<br>Scott Heiferman, Co-founder, CEO<br>Peter Kamali, Co-founder, CTO<br>Matt Meeker, Co-founder, VP/Operations |
| --- | --- |
| | Meetup.com is an online social network site that helps people find others who share common interests. |

| **Mercora, Inc.** | www.mercora.com<br>Santa Clara, California<br>Srivats Sampath, President and CEO |
| --- | --- |
| | Mercora is a social music network that allows Internet users to search and listen to a digital radio network, which consists of over 3 million songs, express their musical identity via a customizable profile page, and Webcast music to friends, family, and other Mercora users. |

| Mobber.com, LLC | www.mobber.com |
| --- | --- |
| | Mobber allows users to create instant communities on Websites with chat, video sharing, and photo sharing. |

| Move, Inc. (MOVE) | www.move.com<br>Westlake Village, California<br>Michael Long, CEO |
| --- | --- |
| | Move provides homebuyers and renters with real-estate and community information. Move operates several Internet properties including Move.com (real-estate search site for rentals and homes), Realtor.com (the official site of National Association of Realtors), WelcomeWagon.com (a service that provides new movers with valuable and comprehensive information about businesses and professionals in their new communities), and Topproducer.com (CRM and lead generation solution). Move also operates Moving.com, Seniorhousingnet.com, Factorybuilthousing.com and Homeplans.com. |

| Monster Worldwide Inc. (MNST) | www.monster.com<br>New York, New York<br>Andrew McKelvey, Founder and Chairman<br>William Pastore, President and CEO |
| --- | --- |
| | Monster Worldwide is a global online employment classified company. Monster has a local presence in key markets in North America, Europe, and Asia and provides job seekers with access to job listings. Monster also delivers highly targeted audiences to advertisers. |

| MSN (Subsidiary Of Microsoft Corp. – MSFT) | www.msn.com<br>Steven A. Ballmer, CEO, Microsoft Corp |
| --- | --- |
| | MSN is the third largest portal, most notably through the Internet Explorer, which traditionally had defaulted to MSN, and through its 241 million active Hotmail users. MSN had 117 million unique visitors in the United States in October 2006, and a reach of 67%. Although MSN trails Yahoo! and AOL in terms of average minutes per visitor, the popularity of Hotmail drives significant usage with average usage of 225 minutes per visitor in October 2006. We believe MSN has failed to establish a distinct value proposition for users, despite some strength in a few verticals. Microsoft has committed strategically to invest heavily in MSN search and its Windows Live initiative, and we believe the future of MSN could be heavily impacted by the launch of Vista, Microsoft's new operating System, and MSN Live. In the best case scenario, through these new platforms MSN will be able to attract users by establishing itself as the key destination for specific services that are not easily available elsewhere. |

**MySpace (Subsidiary Of News Corporation – NWS)**

www.myspace.com
Tom Anderson, Co-founder
Chris DeWolfe, Co-founder

MySpace is a social networking platform, which allows users to meet and communicate through user-generated pages. The company's historical ties to the independent music scene provided MySpace with a kernel of content upon which the network effects of social networking could grow, bringing in more than 114 million registered member profiles in just three years from its founding in August 2003. Despite high traffic and usage, MySpace likely generated less than $200 million in revenue in fiscal 2006 (June year end). Member-created content produces a near unlimited supply of advertising inventory, which until recently had seen only limited monetization. Under Fox, however, MySpace has become a haven for alternative and "gorilla" marketing campaigns, particularly for the entertainment industry, which is eager to tap into the core youth demographic represented on the site. A recently announced deal with Google to provide syndicated advertisements in both MySpace's heavily used search function, as well as contextual ads placed throughout the site, should allow Fox to more efficiently monetize the site's enormous traffic and carries with it a $900 million guarantee over three-and-a-half years.

**NewsGator Technologies, Inc.**

www.newsgator.com
Denver, Colorado
J.B. Holston, CEO and President
Greg Reinacker, CTO and Founder

Founded in 2003, NewsGator develops and markets RSS aggregation solutions. Users use NewsGator to access news, information, podcasts, and other relevant content. NewsGator readers are accessible via the Web, Microsoft Outlook®, mobile devices and PC- and Mac-based desktop clients. All of the products synchronize seamlessly, enabling users to easily switch between NewsGator aggregators. The company's investors include Mobius Ventures and Masthead Venture Partners.

**Newsvine, Inc.**

www.newsvine.com
Seattle, Washington

Newsvine is a collaborative publisher that provides news stories from established media organizations and individual contributors. Freshness, popularity, and reputation determine the placement of stories on the site. Newsvine is funded by Seattle-based Second Avenue Partners with original ESPN.com CEO Mike Slade and Aquantive founder Nick Hanauer on the company's Board of Directors.

**New York Times Co. (NYT)**

www.newyorktimes.com
Janet L. Robinson, CEO

The New York Times operates a variety of online properties including NYTimes.com, IHT.com (International Herald Tribune), Boston.com (The Boston Globe), and 14 regional newspaper sites. In March 2005, the company acquired About.com for approximately $410 million. About.com operates as an online source for original consumer information and advice. The New York Times' portfolio of newspaper-related sites generates advertising revenue from the sale of display ads on a CPM or

sponsorship basis. In October 2006, The New York Times had 42 million unique visitors, a reach of 25%, and an average usage of 14 minutes per visitor. About.com accounted for the vast majority of the company's Internet traffic. About.com generates revenues through display advertising relevant to the adjacent content on a page, CPC advertising, and eCommerce (including sales lead generation). About.com derived almost all of its revenues (95% in the first half of 2006) from the sale of advertisements (display and cost-per-click advertising). Cost-per-click advertising accounted for 53% of About.com's total advertising revenues.

## Pandora Media, Inc.

www.pandora.com
Oakland, California
Joe Kennedy, CEO

Pandora is an automated music recommendation and Internet radio service created by The Music Genome Project. Users first begin by entering a song or artist that they like, and the service responds by playing selections that it thinks are musically similar. Users are then able to provide feedback on the individual song choices — approval or disapproval, which the system takes into account for future selections. Over 400 different musical aspects are considered when selecting the next song. Examples of these are rhythm syncopation, key tonality, vocal harmonies, and displayed instrumental proficiency. The service has two subscription plans: a free subscription supported by ads, and a fee-based subscription without these ads.

## Photobucket Inc.

www.photobucket.com
Palo Alto, California
Alex Welch, CEO and Co-founder
Darren Crystal, CTO and Co-founder

Photobucket is an online image hosting and photo and video sharing site. The Website is usually used for personal photo albums, remote storage of avatars displayed on Internet forums, and storage of videos. Users use Photobucket's image hosting capability for presenting content on eBay, MySpace, LiveJournals or other blogs, and message boards. Photobucket offers one gigabyte of free storage, (five gigabytes with a paid account), and ten gigabytes free bandwidth (unlimited with paid account).

## PlanetOut Inc. (LGBT)

www.planetoutpartners.com
San Francisco, California
Karen Magee, Chief Executive Officer

PlanetOut operates a portfolio of online properties that target the lesbian, gay, bisexual, and transgender communities.   Its media properties include Gay.com, PlanetOut.com, Advocate.com, Out.com, OutTraveler.com, and HIVPlusMag.com. Its eCommerce Websites include Kleptomaniac.com, BuyGay.com and RSVP Vacations.  In 2006, PlanetOut generated $69 million in total revenue including $26 million in advertising revenue, $24 million in subscription revenue, and $18 million in transaction revenue.

**Plaxo, Inc.**

www.plaxo.com
Mountain View, California
Sean Parker, Co-founder
Minh Nguyen, Co-founder

Plaxo is an online address book service that provides automatic updating of contact information. Users store their personal contact information on Plaxo, and changes to the contact information are automatically populated to other Plaxo users who have a user's contact information in their address book. Plaxo integrates with a variety of address books including Outlook/Outlook Express, Mozilla Thunderbird, and Mac OS X's Address Book.

**Rojo Networks, Inc.**

www.rojo.com
San Francisco, California
Christopher J. Alden, CEO

Founded in 2003, Rojo is an RSS-based feed reader that enables users to access content from news sites and blogs. Rojo is financed by TPG Ventures, BV Capital, and individuals such as Marc Andreessen and Ron Conway.

**SimpleFeed, Inc.**

www.simplefeed.com
Los Altos, California
Mark Carlson, CEO

SimpleFeed uses RSS to allow users to subscribe to topics that interest them such as product updates, customer service and support, and recent company news. Corporations use SimpleFeed to increase sales to existing customers, acquire new customers, and increase customer retention. SimpleFeed is funded by Sequoia Capital and private investors.

**Six Apart, Ltd.**

www.sixapart.com
San Francisco, California
Barak Berkowitz, CEO
Mena Trott, Co-Founder and President
Ben Trott, Co-Founder and CTO

Founded in 2001, and based in San Francisco, Six Apart, or 6A, is the creator of the widely used Movable Type blogware, and offers the TypePad blog hosting service. In 2005, Six Apart acquired Danga Interactive and its popular Live Journal community blogging site.

**Slide, Inc.**

www.Slide.com
San Francisco, California
Max Levchin, Founder

Founded in 2004, Slide delivers customized slide shows of news, photos, merchandise, and other digital information directly to a Website. Slide was founded by PayPal Co-founder Max Levchin.

**StumbleUpon**

www.stumbleupon.com
San Francisco, California
Geoff Smith, Founder and CTO

Founded in 2002, StumbleUpon allows users to discover Websites recommended by other users with similar interests. StumbleUpon displays the top-ranking sites as voted by the Stumbling community, directly onto the browser through the StumbleUpon toolbar.

**Thrillist.com**

www.thrillist.com
New York, New York

Thrillist is a lifestyle newsletter targeted at urban men in New York and Los Angeles showcasing services, gadgets, gear, bars and restaurants.

**Topix LLC**

www.topix.net
Palo Alto, California
Rich Skrenta, Co-Founder and CEO

Founded in 2002, Topix allows users to find targeted news on the Internet. Topix has thousands of topically driven news sites that pull relevant stories from across the Web.

**Tribune Interactive
(Subsidiary Of
Tribune Co. – TRB)**

www.tribune.com
Chicago, Illinois
Dennis FitzSimons, CEO

Tribune Interactive is a subsidiary of Tribune Company. Tribune Interactive owns major daily newspapers such as the Los Angeles Times (LATimes.com), Chicago Tribune (ChicagoTribue.com), Newsday, and their associated Websites, plus all aspects of Tribune's print and online classified advertising operations including CareerBuilder.com, Cars.com and Apartments.com. With a network of more than 50 Websites, Tribune had 11 million unique visitors, a reach of 6%, and average usage of 14 minutes per visitor in October 2006. Tribune recently acquired ForSaleByOwner.com and has strategic investments in Boodle.com, Careerbuilder.com, Shoplocal.com, and Topix.net. A recent transaction with McClatchy valued Careerbuilder, ShopLocal, and Topix.net at $1.55 billion, $85 million, and $72 million. Tribune also owns Tribune Media Services (TMS), which creates and distributes entertainment-related news and data to 4,000 media customer worldwide; Zap2It is a product of TMS.

**Viacom Digital
(Subsidiary Of
Viacom Inc. – VIA)**

www.viacom.com
New York, New York
Thomas Freston, CEO

Viacom's many media holdings, including MTV, Nickelodeon Network, BET, Comedy Central, and Paramount, provide the backbone for an online presence that received nearly 40 million unique visitors in the United States in October 2006. Recent acquisitions include Neopets, a virtual youth community, and iFilm, a video entertainment site, which showcases user and professionally generated content. Viacom

Digital's presence is spread across targeted verticals allowing for the company to be a top publisher of content across an array of targeted demographics. Although Viacom does not provide detailed financial information on its Internet properties, we can judge Viacom Digital's size from a series of metrics that suggest its more than 90 Websites worldwide have considerable scale. These sites generate revenue principally through advertising (both brand/banner and syndicated Google contextual ads), but also through eCommerce and subscriptions.

---

**Walt Disney Co. (DIS)**

www.disney.go.com
Burbank, California

The Walt Disney Company, through its subsidiaries, operates as a diversified entertainment company worldwide. The company's Media Networks segment includes domestic broadcast television network and television stations, cable/satellite networks and international broadcast operations, television production and distribution, domestic broadcast radio networks and stations, and Internet and mobile operations. It also produces, distributes, and licenses cable television programming and invests in foreign television broadcasting, production, and distribution entities. The Walt Disney Company's Parks and Resorts segment owns and operates the Walt Disney World Resort that includes theme parks; hotels; vacation ownership units; retail, dining, and entertainment complex; sports complex; conference centers; campgrounds; golf courses; water parks; and other recreational facilities. It also operates ESPN Zone facilities in the United States, Disney Cruise Line, Disneyland Resort Paris, and Hong Kong Disneyland; and licenses the operations of the Tokyo Disney Resort in Japan. The company's Studio Entertainment segment produces, acquires, and distributes live-action and animated motion pictures, direct-to-video programming, musical recordings, and live-stage plays to the theatrical, home entertainment, pay-per-view, video-on-demand, pay television, and free-to-air television markets. Its Consumer Products segment licenses 'Walt Disney' characters, and visual and literary properties to manufacturers, retailers, show promoters, and publishers; and publishes books and magazines for children and families as well as computer software and video game products for the entertainment and educational markets. The company distributes its products through Disney Stores, as well as through its Website DisneyShopping.com. As of September 30, 2006, it owned and operated 103 stores in Europe and 325 stores in North America. The company was founded in 1923 and is based in Burbank, California.

---

**WebMD, Inc. (Subsidiary Of WebMD Health Corp. – WBMD)**

www.Webmd.com
New York, New York
Wayne Gattinella, CEO

WebMD is a leading provider of online health information services to consumers, physicians, healthcare professionals, employers, and health plans through public and private online portals and health-focused publications. The WebMD Health Network consists of WebMD.com, Medscape.com, Medicinet.com, RXList.com, eMedicine.com, as well as third-party sites, such as AOL's Health and Diet channel. WebMD.com offers consumers access to health and wellness news articles and decision support services to help consumers make informed healthcare-related decisions. The company generates revenue through the sale of advertising and sponsorships on its portfolio of companies. WebMD also provides private healthcare portals to a number of Fortune 500 companies. In addition to its online business, WebMD publishes offline publications, such as The Little Blue Book, a physician directory, several reference

books, and a consumer magazine. In October 2006, WebMD had 15 million unique visitors, a reach of 9%, and average usage of 10 minutes per visitor. The Thomson consensus estimate for WebMD 2006 revenue is approximately $250 million.

**The Weather Channel Interactive, Inc. (Subsidiary Of Landmark Communications)**

www.weather.com

The Weather Channel operates Weather.com, the most popular weather site on the Internet. In October 2006, Weather.com had a reach of approximately 19% and average usage of approximately 10 minutes per visitor per month. Weather.com does experience periodic traffic spikes during weather related news events like hurricanes, blizzards, and floods. The Weather Channel is owned by Landmark Communications, Inc., a Norfolk, Virginia-based, privately held media company.

**WebShots (Subsidiary Of CNET Networks Inc. – CNET)**

www.Webshots.com
San Francisco, California
Neil Ashe, CEO, CNET Networks Inc

Webshots is a leading photo-sharing site. The company provides consumers with a variety of ways to enjoy and share photos online, on their computer desktops as wallpaper and screensavers or on mobile phones. Webshots' Webshots Desktop, a free photo management application, combines wallpaper and screensaver functionality with tools for managing and sharing photos. The Webshots Gallery features thousands of professional images licensed from the world's top photographers. Over 1.5 million Webshots Gallery photos are downloaded daily. Webshots My Photos allows members to upload photos to personal albums using their Webshots Desktop. Webshots currently stores over 400 million member photos, with an average of over 750,000 new images uploaded each day. Webshots pioneered wireless photo sharing with the My Photos Viewer mobile service (previously known as Webshots Unplugged), enabling members to use their wireless phone or handheld device to remotely browse their own and their favorite members' photo albums. WebShots currently has 7.5 Million monthly visitors and over 400 Million photos to explore.

**Wikipedia Foundation**

www.wikipedia.org
Jimmy Wales, Founder

Founded in 2001, Wikipedia is the largest reference Website or encyclopedia on the Internet. The reference articles on Wikipedia, which are collaboratively written by people around the world, are free and anyone can edit, correct, or enhance an article simply by selecting "edit this page." The Wikimedia Foundation operates Wikipedia along with Wiktionary, Wikiquote, Wikibooks, Wikisource, Wikimedia Commons, Wikispecies, Wikinews, Wikiversity, and Meta-Wiki.

**Xanga**

www.xanga.com
New York, New York
John Hiler, CEO

Founded in 1998, Xanga provides blogging tools. Currently, the Website has approximately of 27 million unique users worldwide a month and ranked the 21st most popular English-language Website, and the 42nd most popular Website in the world by Alexa.

**Yahoo! Inc. (YHOO)**

www.yahoo.com
Sunnyvale, California
Terry Semel, CEO

Yahoo! is the largest worldwide portal with 418 million unique users worldwide. Yahoo! segments revenues into two distinct revenue streams: Marketing Services and Fees. Advertising revenues are typically generated through the sale of display ads, rich media ads, and sponsorships. Yahoo! Search is the second-largest search destination, in terms of total queries, after Google. Recently Yahoo! has pushed into user generated content with its acquisitions of flickr and del.icio.us, and its Yahoo! Answers and Yahoo!360 products.

**Yelp**

www.yelp.com
San Francisco, California
Jeremy Stoppelman, Co-founder
Russel Simmons, Co-founder

Yelp provides a local directory of user reviews for restaurants, stores, medical providers, automotive services, cultural venues, professional services, and other local services. It received $6 million in funding from Bessemer Venture Partners and an additional $10 million from Benchmark Capital in its second round funding.

**YouTube (Subsidiary Of Google Inc. – GOOG)**

www.youtube.com
San Bruno, California
Chad Hurley, Co-founder
Steve Chen, Co-founder
Jawed Karim, Co-founder

YouTube is the largest video-sharing site on the Web. YouTube streams an average of 100 million user uploaded video clips each day to more than 25 million monthly visitors making it one of the top two video destinations on the Web. Although the majority of YouTube's streaming video content is user uploaded and some of it may violate copyrights of the original creators, the company has begun to pursue signing revenue-sharing agreements with large media companies including recently announced deals with NBC and Warner Music. Currently the site is monetized primarily by banner and sidebar image ads, but will likely see the bulk of its revenue in the future from revenue share on video advertisements placed at the beginning of professional content distributed by the site. YouTube was acquired by Google on October 9, 2006, for $1.65 billion. While YouTube will retain its distinct brand, the acquisition by Google should bring advertising expertise to YouTube, and significantly increase the monetization of YouTube's inventory. A potential risk to YouTube remains the threat of the large media companies not licensing their content and potentially forming a video service of their own.

**Yoono SAS**

www.yoono.com

Yoono is a social bookmarking or social tagging service that displays a list of Web pages via a toolbar that other people have classified as their favorites.

**Zimbra, Inc.**

www.zimbra.com
San Mateo, California
Satish Dharmaraj, Co-founder and CEO

Zimbra provides an Ajax-based email application. The company is based in San Mateo, California, and is backed by venture capital firms Benchmark Partners, Redpoint Ventures, and Accel Capital.

# MOBILE

**4INFO Inc.**

www.4info.net
Palo Alto, California
Zaw Thet, CEO and Co-founder

4INFO offers Mobile Search services that enable the search and delivery of real time information to a mobile device. 4INFO offers a suite of mobile services that includes the following: Text Message Search and Text Alerts that provides access to business listings, sports scores, fantasy sports stats, weather, flight information, movie times, horoscopes, hotspot locations, news stock quotes, hotel reservations, package tracking, and mobile downloads. These services are available free of charge to users on all major U.S. carriers. 4INFO's primary investors include US Venture Partners, Draper Fisher Jurvetson, and Gannett Company, Inc.

**AdMob, Inc.**

www.admob.com
San Mateo, California
Omar Hamoui, Founder and Chief Executive Officer

Founded in 2006, AdMob enables advertisers and publishers to target advertising to customers in 150 countries across several vertical channels including communities, contextual search, downloads, entertainment, news and information, and portals. According to the AdMob blog, the AdMob network hit the 500 million monthly page views served milestone in November 2006. Sequoia Capital funded the company.

**Bango.net Limited**

www.bango.com
New York, New York
Ray Anderson, CEO and Founder

Bango offers a platform solution that allows content providers to sell mobile content to consumers. Bango's solution allows users to access content through mobile phones and content providers to better engage with customers. Bango partners with operators including Cingular, Vodafone, Orange, Telefonica, and O2. Bango also collects micro-payments from users using a variety of billing methods such as Premium SMS, PayPal, and credit/debit cards.

**Enpocket**

www.enpocket.com
Boston, Massachusetts
Mike Baker, CEO
Jeremy Wright, Co- Founder

Enpocket provides advertisers with mobile marketing tools. The company offers the Enpocket Marketing Engine for managing an advertiser's brand across mobile media formats and the Enpocket Personalization Engine for automated personalization.

| **Greystripe, Inc.** | www.greystripe.com<br>San Francisco, Calfornia<br>Michael Chang, Founder and Chief Executive Officer |
|---|---|

Greystripe is an advertising supported mobile game distributor and in-game advertising network. Greystripe's AdWrap platform provides distribution to game publishers, enables advertisers to reach mobile users, and allows gamers to access mobile content. Greystrip's GameJump.com portal offers users free mobile games for download across a number of gaming genres.

| **Groove Mobile** | www.groovemobile.com<br>Bedford, Massachusetts<br>Eric Giler, Chairman and CEO |
|---|---|

Groove Mobile is a mobile music service. Groove Mobile's Complete Music Gateway includes Full Track Mobile Downloads, Peer-to-Peer Sharing, Personalized Music Recommendations, Streaming Radio, and Music Subscriptions. Groove Mobile is the No. 1-rated mobile music service in the United Kingdom (Orange's Music Player), and the first mobile music service in the United States (Sprint Music Store). Groove Mobile's direct download service is available in the United States, Canada, Europe, and Asia-Pacific, and provides access to music from EMI, Warner Music International, V2, Beggars Group, Digital Rights Agency, and The Orchard libraries.

| **Hands-On Mobile, Inc.** | www.handson.com<br>San Francisco, California<br>Jonathan Sacks, President and CEO |
|---|---|

Founded in 2001, Hands-On Mobile is a global publisher of mobile lifestyle, games, and personalization products targeting all market segments of the mobile handset marketplace. With operations on four continents, Hands-On Mobile develops, publishes, and distributes mobile content to more than 150 of the world's leading operators in 40 countries. The company's products and services include the following: Games, Subscription Services, Brand Management, Distribution, Porting, and Platform Management.

| **Infospace Inc. (INSP)** | www.infospaceinc.com/mobile/<br>Jim Volker, Chairman and CEO |
|---|---|

Infospace Mobile is a leading publisher of mobile games, ringtones, and graphics as well as mobile infrastructure that enable carriers to offer mobile portal services to subscribers. Infospace also operates Infospace Find It!, a mobile local search service.

| **Hungama Mobile (Subsidiary Of The Hungama Network)** | www.hungamamobile.com<br>Mahalaxmi, Mumbai<br>Saleem Mobhani, Head of Hungama Mobile |
|---|---|

Hungama Mobile is a provider of mobile marketing applications. The company's primary objective is to stimulate the growth of mobile marketing and its associated technology and to help companies create more rewarding interactions with their customers via mobile and digital channels. The company helps clients capitalize on the unique benefits of these mobile and digital channels by conducting continuous and

interactive dialogues with consumers anywhere, anytime. The company has entered a strategic alliance with the Radiate Group, a network of agencies across 60 countries, each specializing in various disciplines of Promotions Marketing. The Radiate Group is a part of Omnicom, the world's largest marketing services company.

**July Systems, Inc.**

www.julysystems.com
Santa Clara, California
Ashok Narasimhan, Chairman, CEO and Co-founder

July Systems provides an integrated mobile marketplace solution that enables its customers to manage mobile services deployment including content supply chain management, service creation, retailing, service delivery, and operations. The company currently reaches approximately 220 million mobile consumers. Founded in 2001, July Systems is privately held with investments by Charles River Ventures, WestBridge Capital Partners, NeoCarta Ventures, Acer Technology Ventures, Jumpstartup, and Silicon Valley Bancshares.

**JumpTap**

www.jumptap.com
Cambridge, Massachusetts
Dan Olschwang, CEO

JumpTap offers wireless carriers mobile search solutions including a private-label mobile search engine, a mobile search index, and advertising services such as pay-per-call, and sales billing and collection. JumpTap's carrier partnerships include Virgin Mobile USA and Alltel. JumpTap has raised more than $43 million, and its investors include Valhalla Partners, General Catalyst Partners, BCE Capital, and Redpoint Ventures.

**mBlox Inc.**

www.mblox.com
Sunnyvale, California
Jeffrey Clark, CEO

mBlox is a mobile transaction network. The company specializes in global operator connectivity and mobile billing. mBlox maintains a unique position in the mobile industry as one of the only companies to focus its resources on the commercial and technical complexities of mobile billing and message delivery.

**Medio Systems, Inc.**

www.mediosystems.com
Seattle, Washington
Brian Lent, CEO

Medio Systems' products include mobile carriers with mobile search, mobile merchandising, and mobile advertising solutions.

| **M:Metrics, Inc.** | www.mmetrics.com<br>Seattle, Washington<br>Will Hodgman, Co-founder<br>Seamus McAteer, Co-founder<br><br>Founded in early 2004, M:Metrics is a mobile measurement company that tracks the consumption of mobile content and applications, and benchmarks the performance of mobile operators, handset OEMs, platform vendors, and media companies. M:Metrics' monthly syndicated service empowers senior executives in the mobile content and wireless applications sector to make better business, creative, and production decisions informed by highly granular, verifiable measures of subscriber consumption. M:Metrics, Inc. is a private, venture-funded corporation headquartered in Seattle, Washington with offices in San Francisco, California and London, United Kingdom. |
|---|---|
| **MobiTV, Inc.** | www.mobitv.com<br>Emeryville, California<br>Dr. Phillip Alvelda, CEO and Chairman, Co-founder<br><br>Founded in 1999, MobiTV is a provider of mobile television and digital radio for cellular, WiFi, and broadband-enabled devices. The MobiTV service is available in the United States through Sprint, Cingular, and Alltel; in the United Kingdom through 3 and Orange UK; and to Canadian customers through Bell Canada, Rogers and TELUS Mobility. MobiTV has more than 1 million paying subscribers and offers many popular TV channels from content providers such as MSNBC, ABC News Now, CNN, Fox News, Fox Sports, ESPN 3GTV, NBC Mobile, CNBC, The Discovery Channel, TLC, The Weather Channel, and many others. In November 2006, MobiTV raised a $100 million Series C funding round. MobiTV investors now include Adobe Systems, Hearst Corporation, Oak Investment Partners, Menlo Ventures, Redpoint Ventures, Gefinor Ventures, and Sorrento Ventures. |
| **Modeo LLC (Crown Castle International Corp. – CCI)** | www.modeo.com<br>Houston, Texas<br>Michael Schueppert, President<br><br>Modeo plans to deliver a rich media service comprised of live TV channels, audio channels and podcasting content over its Digital Video Broadcast - Handheld (DVB-H) network to a variety of mobile devices in the top 30 markets in the United States. Modeo is a subsidiary of Crown Castle International Corp |
| **Mogmo (Part Of TaMeJ Software)** | www.mogmo.com<br>Egor Abramov, CEO<br><br>Based in Saint Petersburg, Russia, Mogmo is a mobile content search engine that enables users to find mobile games, screen-savers, ringtones, and wallpapers. |

**Motricity, Inc.**

www.motricity.com
Durham, North Carolina
Ryan K. Wuerch, Chairman of the Board and CEO

Motricity provides mobile carriers and content providers with a platform that enables the delivery of mobile content including ringtones, games, and graphic downloads. Motricity also recently announced the acquisition of GoldPocket Wireless, a leading provider of mobile marketing solutions for media and entertainment companies. GoldPocket extends Motricity's mobile content offering with a distribution gateway that connects more than 200 million subscribers and a mobile marketing campaign manager that has been chosen by 45 media companies to power large-scale interactive campaigns with real time requirements. Motricity and GoldPocket power some of the most successful, innovative mobile campaigns in the media and entertainment business, including the following: BET Mobile, NBC's "The Apprentice" and "The Biggest Loser," CBS' "CSI NY" and "Big Brother," the Olympics, and CNN's "Rock the Vote." The company has more than 350 employees and is headquartered in Research Triangle Park, North Carolina, with offices in London, Munich, San Diego, and Los Angeles.

**Nellymoser, Inc.**

www.nellymoser.com
Arlington, Massachusetts
John Puterbaugh, CEO

Nellymoser provides rich media mobile platform that enables customers to produce and deliver rich, interactive media to the widest base of mobile consumers through network operator, direct to consumer, and P2P/social network distribution channels.

**NeoMedia Technologies, Inc.**

www.neom.com
Fort Myers, Florida
Charles T. Jensen, President and CEO

NeoMedia Mobile provides advertisers with innovative mobile marketing solutions including visual recognition and SMS/MMS/WAP/IVR applications.

**Obopay, Inc.**

www.obopay.com
Palo Alto, California
Carol L. Realini, CEO

Obopay is a mobile payment service.

**Sennari, Inc.**

www.sennari.com
Cupertino, California
Bill Barhydt, CEO and Chairman

Sennari is an integrated mobile entertainment and marketing company.

| **Soapbox Mobile, Inc.** | www.soapboxmobile.com<br>Carlsbad, California<br>Dan Flanegan, President and CEO, and Co-founder |

Soapbox Mobile offers mobile marketing management solutions. Soapbox Mobile was founded in 2004, and launched its first-generation platform later that year. In late 2005, the company launched Soapbox Anywhere™2.0.

| **Third Screen Media** | www.thirdscreenmedia.com<br>Boston, Massachusetts<br>Tom Burgess, CEO |

Third Screen Media enables advertising on mobile phones and wireless devices. Third Screen Media's MADX product suite connects advertisers, publishers, and mobile operators on a common platform to increase the efficiency and time-to-market for the buying and selling of mobile advertising in WAP, video, MMS, and downloadable applications. Third Screen Media also operates the TSM|Network, the largest single source of mobile advertising inventory offering best-in-class content, targeted demographics and broad reach. Customers include the USA Today, MasterCard, MSN, Dunkin Donuts, and The Weather Channel.

| **Zingy, Inc.** | www.zingy.com<br>New York, New York<br>Bill Mills, CEO |

Zingy is a leading mobile media company. Zingy licenses, creates, publishes, and distributes products and services to mobile consumers around the world. Zingy's products include ringtones, ringback tones, wallpapers, games, and video, as well as information and community-based applications. Zingy features a diverse portfolio of mobile content distinguished by exclusive relationships with some of pop culture's most recognizable names including hip-hop icons 50 Cent and the Notorious B.I.G., comedian Bernie Mac, '80s wrestling superstar Hulk Hogan, celebrity tattoo artist, Mister Cartoon, and pin-up sensation, Vida Guerra. The company has a distribution network comprising 120 mobile operators serving more than 60 countries, and also sells products directly to consumers through the Zingy, Vindigo, and MarcaZ brands. Lastly, Zingy offers a comprehensive, one-stop mobile marketing solution for advertisers, presently serving more than 150 brands. Leveraging its extensive distribution network and product lineup, Zingy's marketing capabilities span every mobile platform, including Wireless Application Protocol (WAP), JAVA, BREW, and PDAs. Zingy offers both turnkey advertising and unique custom programs that deliver an engaging brand experience, coupled with powerful direct response capabilities.

## SEARCH

---

**A9.com, Inc. (Subsidiary Of Amazon.com Inc. – AMZN)**

www.a9.com
Palo Alto, California
Jeffrey P. Bezos, Founder and CEO, Amazon.com Inc.

Founded in 2003, A9.com is Amazon's search engine.

---

**Accoona**

www.accoona.com
Jersey City, New Jersey
Stuart Kander, CEO

Accoona is a search engine that uses artificial intelligence to better understand searches. Accoona's SuperTarget feature allows users to select one keyword and sort search results such that the selected keyword is prioritized over other search terms. Accoona has signed a 20-year exclusive partnership with The China Daily. Through this partnership, with China Daily and its widespread Chinese affiliates, Accoona expects 10 million daily hits from China.

---

**AlltheWeb (Subsidiary Of Yahoo! Inc. – YHOO)**

www.alltheWeb.com
Sunnyvale, California
Terry Semel, CEO, Yahoo! Inc.

AlltheWeb, a subsidiary of Yahoo!, is a search engine with an index that includes billions of Web pages, news sources, audio files, video files, and images as well as PDF and MS Word files. AlltheWeb offers a variety of specialized search tools and advanced search features, and supports searching in 36 different languages. AlltheWeb's LiveSearch feature is an Ajax-enabled search engine that dynamically displays search results as a user types a query into a search box.

---

**Alta Vista (Subsidiary Of Yahoo! Inc. – YHOO)**

www.altavista.com
Sunnyvale, California
Terry Semel, CEO, Yahoo! Inc.

AltaVista, a Yahoo! property by way of Overture, provides search services and technology. During the spring of 1995, scientists at Digital Equipment Corporation's Research lab in Palo Alto, California, devised a way to store the content of Web pages in a fast, searchable index. This led to AltaVista's development of the first searchable, full-text database on the Internet. Other notable AltaVista inventions include the first-ever multi-lingual search capability on the Internet and the first search technology to support Chinese, Japanese, and Korean languages. The company also created Babel Fish, the Internet's first Internet machine translation service, which can translate words, phrases, or entire sites to and from a variety of languages including English, Spanish, French, German, Portuguese, Italian, and Russian.

| **Ask.com (Subsidiary Of IAC/InterActiveCorp – IACI)** | www.ask.com<br>New York, NY<br>Barry Diller, CEO, IAC/InterActiveCorp<br><br>Ask.com, formerly known as AskJeeves, is an independent search engine. Ask also owns a variety of popular Web destinations including country-specific search engines for the United Kingdom, Germany, Italy, Japan, The Netherlands, and Spain; Excite, MyWay.com, iWon.com, Bloglines and several others. In December 2006, Ask launched AskCity, a new local search service that integrates local information with a variety of InterActive properties such as TicketMaster, ServiceMagic, ReserveAmerica, and CitySearch, as well as other content/service providers such as Fandango, OpenTable, TripAdvisor, Yelp, and InsiderPages. According to comScore Networks, Ask accounted for approximately 6% of the U.S. search market in September 2006. |
| --- | --- |
| **Business.com, Inc.** | www.business.com<br>Santa Monica, California<br>Jake Winebaum, Founder and CEO<br><br>Business.com provides a business-focused search engine and directory. The Business.com directory contains more than 400,000 listings within 65,000 industry, product, and service subcategories. More than 32 million business professionals use the Business.com Network, which includes business publishers and Websites. Furthermore, with featured listing and directory inclusion placement programs, Business.com gives marketers a tool to drive qualified traffic and generate leads by reaching business users at the precise moment they are seeking information. |
| **Clusty (Subsidiary Of Vivísimo, Inc.)** | www.clusty.com<br>Pittsburgh, Pennsylvania<br><br>Founded in 2004, Clusty is a search engine that focuses on clustering search results into groups of topics. Founded in 2000 by three Carnegie Mellon University scientists, Clusty queries several top search engines, combines the results, and generates an ordered list based on comparative ranking. This "metasearch" approach raises the best results to the top and pushes search engine spam to the bottom. Instead of delivering search results in long lists, Clusty groups similar results together into clusters. |
| **Eurekster, Inc.** | www.eurekster.com<br>San Francisco, California<br>Steven E. Marder, CEO<br><br>Eurekster is search engine that leverages the knowledge and behavior of communities to add weight and specificity to search results. Eurekster's SwickiBuilder and SwickiPublisher link search algorithms to social networks and communities of interest. In doing so, Eurekster allows small or individual site publishers to create their own search engines and enables large publishers to deliver customized search feature on large Websites. Eurekster, Inc. is privately held and headquartered in San Francisco, California. |

| **Feedster, Inc.** | www.feedster.com<br>San Francisco, California<br>François Schiettecatte, Co-founder and Chief Scientist<br><br>Founded in March 2003, Feedster enables individuals and organizations to search RSS feeds from blogs, traditional news services, eCommerce sites, and entertainment properties. Feedster constantly indexes millions of RSS feeds to provide the freshest index of RSS feeds for users to search. Feedster's advertising network matches marketers with a specific demographic audience of RSS subscribers through highly targeted channels in numerous vertical categories. Investors include Selby Venture Partners, Omidyar Network, Mitsui & Co. Ltd., members of the New York Angels, and other prominent Angel investors. |
|---|---|
| **Gigablast, Inc.** | www.gigablast.com<br>Albuquerque, New Mexico<br>Matt Wells, Founder<br><br>Founded in 2000, Gigablast indexes the Web and offers real-time information retrieval technology for partner sites. The company offers a variety of features including topic generation and the ability to index multiple document formats. Also, the Gigablast Website (www.gigablast.com) enables users to easily refine their search based upon related topics from search results. |
| **Google Inc. (GOOG)** | www.google.com<br>Mountain View, California<br>Eric Schmidt, CEO<br><br>Google is the world's most used search engine, processing more than 3 billion searches for more than 90 million users per month in the United States alone and with a search query market share of near 50% in the United States, and a greater than 63% share worldwide. Google's has built its clear dominance of the search industry on a combination of its superior search results and brand strength. While it is clear that these two strengths are linked, we believe over the last several years Google's brand strength has solidified its market dominance; "to google" has become a recognized verb. We believe Google's portfolio of new products is creating a virtuous cycle where brand affinity drives traffic to Google search. See Chapter 8 for a detailed Google profile. |
| **Gravee.com** | www.gravee.com<br>San Francisco, California<br>Erik Rannala, Founder<br><br>Gravee is a community-powered, social search engine that personalizes results according to users' interests, based on bookmarks, tags, relevance voting, and the activity of other users with similar interests in addition to a proprietary relevance algorithm. |

| **hakia, Inc.** | www.hakia.com |
| | Dr. Riza C. Berkan, CEO |
| | |
| | Hakia is building a "meaning based" search engine with the purpose of improving search relevancy and interactivity. Hakia plans to launch its full-capacity search engine in 2007. |

| **HotBot (Subsidiary Of Lycos, Inc./Daum Communications Corp.)** | www.hotbot.com |
| | |
| | Launched in May 1996, HotBot originally launched as service of Wired Magazine, and was acquired by Lycos in 1998. Today the Website is a front end for three third-party search engines, MSN, Ask.com, and Google. It was one of the first search engines to offer the ability to search within search results. |

| **IceRocket** | www.icerocket.com |
| | Dallas, Texas |
| | Blake Rhodes, CEO |
| | |
| | IceRocket is a search engine that searches the Internet, MySpace, news, images, and the blogosphere. |

| **Indeed** | www.indeed.com |
| | Stamford, Connecticut |
| | Paul Forster, Co-founder |
| | Rony Kahan, Co-founder |
| | |
| | Founded in 2004, Indeed is a search engine for jobs that provides job seekers access to millions of employment opportunities from thousands of company Websites, job boards, and newspapers. Indeed.com now has over 1 million unique users and 25 million searches every month. Investors include The New York Times Company, Union Square Ventures, and Allen & Company. |

| **Infospace Inc. (INSP)** | www.infospace.com |
| | Seattle, Washington |
| | Jim Volker, Chairman and CEO |
| | |
| | Infospace operates several search, local search, and online directory sites for consumers. Infospace's family of sites includes Dogpile, Webcrawler, Metacrawler, Zoo, Switchboard, Infospace, Webfetch and Infospace Find It! Infospace also has key advertising partnerships with Google, Yahoo!, MSN, Ask, Verizoan SuperPages, and Yellowpages.com. |

| **Jookster Networks Inc.** | www.jookster.com |
| | Kapenda Thomas, CEO and Founder |
| | |
| | Jookster is social search engine that allows users to discover user-generated content from YouTube, Flickr and del.icio.us. Jookster then puts the content in one place for users to search, save, and share with friends. |

| | |
|---|---|
| **Jux2** | www.jux2.com |
| | Jux2 provides a meta-search tool that allows users to compare search results from Google, Yahoo!, and MSN. The site is famous for being for sale on eBay in October 2005. |
| **KartOO** | www.kartoo.com<br>Clermont-Ferraud, France<br>Laurent Baleydier, Founder |
| | Kartoo is a visual meta-search engine that displays results on a visual map, and displays how search result content is inter-related. |
| **Kayak.com** | www.kayak.com<br>Norwalk, Connecticut<br>Steve Hafner, Co-founder and CEO<br>Paul English, Co-founder and CTO |
| | Kayak is a meta-travel search engine that allows users to search for hotels, flights, and rental cars from a variety of sources. On an Ajax-enabled site, Kayak allows users to search a full range of airlines, hotels, and car rental agencies to quickly obtain pricing information based on the specific criteria. |
| **Lexxe Pty Ltd (ACN: 117 090 454)** | www.lexxe.com<br>North Strathfield, Australia<br>Hong Liang Qiao, CEO |
| | Founded in 2005, Lexxe is a natural language search engine that emphasizes processing language based on meanings associated with them. Lexxe is based in Sydney, Australia. |
| **Local.com Corporation** | www.local.com<br>Irvine, California<br>Heath Clarke, CEO |
| | Local.com is a local-search engine that has 16 million business listings and a selection of content from sites that are geographically relevant to a local user's search. Local.com's content and search results attract more than 10 million unique visitors each month that seek local businesses, products, services, and people. Search results include special offers from local businesses, reviews from other users, local businesses' Website links, maps, driving directions, and more. Businesses can advertise on Local.com with subscription, pay per click, banner and pay per call ad products. |

| **LookSmart Ltd.** <br> **(LOOK)** | www.looksmart.com <br> San Francisco, California <br> David Hills, President and CEO <br><br> LookSmart provides content, advertising and technology solutions for consumers, advertisers and publishers. LookSmart has over 180 vertical search sites for consumers, and a customizable set of syndicated solutions for publishers to grow their advertiser relationships and audience. |
| --- | --- |
| **Lycos, Inc.** <br> **(Subsidiary Of Daum Communications Corp.)** | www.lycos.com <br><br> Lycos operates search, community, and technology lifestyle sites including Lycos.com, Hotbot.com, Wired.com, Tripod.com (Website hosting and small business tools), and Angelfire.com (site building, blogs, photo albums, etc. for teens). Other Lycos products and sites include Lycos Mail, Lycos Games, Lycos Planet, Lycos Phone, and GetRelevant. In August, Lycos had approximately 34 million unique visitors, a reach of 15%, and usage of seven average minutes per visitor. Lycos.com is a wholly owned subsidiary of Daum Communications, a leading Internet portal and eCommerce destination in Korea with a growing presence throughout the Asian markets. Lycos was acquired by Daum Communications Corp. in October 2004. |
| **Mamma.com Inc.** | www.mamma.com <br> Montreal, Canada <br> David Goldman, Executive Chairman <br> Guy Fauré, President and CEO <br><br> Founded in 1996, Mamma.com operates two divisions: Mamma.com and Mamma Media Solutions. Mamma.com is a metasearch engine. The search engine has received Honourable Mentions in the Best Metasearch category in the annual SearchEngineWatch Awards. Mamma Media Solutions provides search technology for both the Web and desktop space, delivered through its properties, www.mamma.com and www.copernic.com, respectively. The company is also a provider of online marketing solutions to advertisers, providing keyword and graphic ad placement on its large publisher network. |
| **Marchex, Inc.** <br> **(MCHX)** | www.marchex.com <br> Seattle, Washington <br> Russell C. Horowitz, Chairman of the Board and CEO <br><br> Marchex is a technology-driven search and media company with a focus on search marketing, local search, and direct navigation. Marchex leverages proprietary technology products to connect advertisers with relevant online customers through the following: (1) a proprietary network of direct navigation Web properties, including vertical and local Websites; and (2) a partner network that includes search engines, directories, shopping engines, and vertical and branded Web properties. The company's advertisers include BestBuy, Citigroup, and REI, and its distribution partners include Google, Shopping.com, and BusinessWeek. |

| | |
|---|---|
| **Mobissimo** | www.mobissimo.com<br>San Francisco, California<br>Béatrice Tarka, Co-founder and CEO<br>Lucia Carniglia, Co- Founder<br>Svetlozar Nestorov, Co-founder<br><br>Mobissimo provides a meta-travel search engine that searches for hotel, airfare, and car rental information. |
| **MSN (Subsidiary Of Microsoft Corp. – MSFT)** | www.msn.com<br>Redmond, Washington<br>Steven A. Ballmer, CEO, Microsoft Corp.<br><br>MSN is the third largest portal, primarily due to its 241 million active Hotmail users. MSN had 119 million unique visitors in the United States in August 2006, and a reach of 69%. Microsoft has committed strategically to invest heavily in MSN search and its Windows Live initiative. Furthermore, MSN is the third-largest paid search provider in terms of total number of search queries, but it is important to note the trend of declining market share at MSN search over the last several years. Through 2005, MSN search used Yahoo! as its algorithmic search provider, but Microsoft recently launched its much-awaited internally developed search platform, AdCenter, which should enable MSN to increase its display and search revenue by decreasing its reliance on third parties. We expect MSN search to be tightly integrated with Microsoft's Vista operating system, which may position Microsoft to gain some share over the coming years. We also expect AdCenter to differentiate itself from other search and advertising platforms by some of its demographic and behavioral targeting functionalities. |
| **Netscape Communications and Weblogs, Inc. (Subsidiary Of AOL, LLC/Time Warner Inc. – TWX)** | search.netscape.com<br><br>Netscape Search is a service found on the Netscape portal, and returns search results from Google. |
| **Oodle, Inc.** | www.oodle.com<br>San Mateo, California<br>Craig Donato, CEO<br><br>Oodle offers online classifieds listings. The site provides listings from both local and national sources, and helps consumers find employment, volunteer work, housing related activities, and others. |
| **Otavo** | www.otavo.com<br>St. Catherine's, Ontario, Canada<br>Amanuel Tewolde, CEO<br><br>Otavo operates an "intention" driven search engine that is designed to index the unindexable content by pooling together the intentions of its users. |

| **PodZinger (Subsidiary Of BBN Technologies Corp.)** | www.podzinger.com |
|---|---|
| | PodZinger is an audio and video search engine and online advertising network. For consumers, PodZinger allows users to find audio and video content based on keyword searches. Users can access a specific location in an audio or video file without fast forwarding or listening to the entire file. For advertisers, PodZinger delivers online multimedia ads relevant to consumers' specific search queries. PodZinger, a BBN Technologies subsidiary, leverages BBN's speech recognition technology to create a text index of the words in audio and video content. |

| **QIXO,Inc.** | www.qixo.com <br> San Francisco, California <br> Daniel Ko, CEO |
|---|---|
| | Founded in year 2000 and based in San Francisco, California, Qixo is a meta-travel search engine that enables users to search for hotels, flights, and rental cars. Since its launch in September 2001, its agency operations have processed more than $30 million in airfare sales. Qixo has also licensed its technology to over 700 online travel sites. |

| **Riya** | www.riya.com <br> San Mateo, California <br> Munjal Shah, CEO and Co-founder <br> Burak Gokturk, Ph.D., CTO and Co-founder |
|---|---|
| | Riya is an online visual search engine and personal search service that performs facial and text recognition. |

| **Rollyo** | www.rollyo.com <br> San Francisco, California <br> Dave Pell, Founder |
|---|---|
| | Rollyo is a service that allows users to create personal search engines using the sources that the users trust. Rollyo allows users to utilize tools to create a personal search engines. |

| **SideStep, Inc.** | www.sidestep.com <br> Santa Clara, California <br> Rob Solomon, President and CEO |
|---|---|
| | SideStep is a meta-travel search engine. Sidestep searches 100 sites including online agencies, consolidators, airline sites, hotels, vacation package providers, and rental car companies to find pricing information for travelers. More than 4.7 million consumers currently use SideStep each month. |

**Simply Hired, Inc.**

www.simplyhired.com
Mountain View, California
Gautam Godhwani, CEO

Simply Hired is a vertical search engine that focuses on job search. It searches listings on other job-search sites and corporate sites, and allows subscribers to receive RSS feeds or email alerts with relevant jobs.

**Snap.com**

www.snap.com
Pasadena, California
Tom McGovern, CEO
Bill Gross, Founder

Snap, an Idealab company, is an interactive search engine that offers a unique method of viewing and interacting with search results by offering previews of search result Web pages. Snap is led by Bill Gross who was instrumental in the success of Overture, CitySearch, Cars Direct (Internet Brands), and Picassa.

**Technorati, Inc.**

www.technorati.com
San Francisco, California
David L. Sifry, Founder and CEO

Technorati is a search engine that indexes blogs and other user-generated content, such as photos and video. Technorati currently tracks 60 million blogs, displays how many other blogs link to a particular post, and ranks blogs by topic. Bloggers frequently link to and comment on other blogs, creating a viral community. Technorati tracks these links and the relative relevance of blogs, photos, and videos.

**Textmap (Subsidiary Of CaseSoft)**

www.textmap.com
Stony Brook, New York
Steven Skiena, Professor and Project Leader

TextMap tracks references to people, places, and things appearing in news text to identify meaningful relationships between references. TextMap currently tracks more than 1,000 domestic and international news sources, and uses natural-language processing techniques to identify entity references and a variety of statistical techniques to analyze the relationships between them.

**Trulia, Inc.**

www.trulia.com
San Francisco, California
Pete Flint, Co-founder and CEO
Sami Inkinen, Co-founder and COO

Founded in 2005, Trulia is a residential real-estate search engine that helps buyers search for homes for sale, neighborhood insights, and other real estate information from hundreds of thousands of real-estate broker Websites.

**Wikio**

www.wikio.com
Luxemberg
Laurent Binard, CEO

Wikio is a user-managed news search engine that tracks thousands of news sources and classifies them based on relevancy and popularity.

**Wink Technologies, Inc.**

www.wink.com
Michael Tanne, Founder and CEO
Los Altos, California

Wink is a social search engine that searches results other people have found to be the best results for particular queries. Wink also searches content on social networks for interests, locations, screen names, and other content. Wink lets users create "collections," which are a simple way for users to share knowledge of a subject with other people. Users can subscribe to other people's collections, make them public and let other people add to these collections. Public collections show up in the Wink search results so people can find relevant results for any search topic.

**Yahoo! Inc. (YHOO)**

www.yahoo.com
Sunnyvale, California
Terry Semel, CEO

Yahoo! is the largest worldwide portal with 418 million unique users worldwide. Yahoo! segments revenues into two distinct revenue streams: Marketing Services and Fees. Advertising revenues are typically generated through the sale of display ads, rich media ads, and sponsorships. Yahoo! Search is the second-largest search destination, in terms of total queries, after Google. Recently Yahoo! has pushed into user generated content with its acquisitions of flickr and del.icio.us, and its Yahoo! Answers and Yahoo!360 products.

**Zillow.com**

www.zillow.com
Seattle, Washington
Richard Barton, Chairman and CEO

Zillow.com is an online real-estate service that provides users information about real estate values, trends, neighborhood characteristics, and real-estate related tax information. Zillow partners with realtors, loan officers, and other real-estate related agents and agencies to provide online advertising and lead generation. Zillow currently offers detailed local real estate information in Denver, Las Vegas, and Phoenix and limited information on other cities and states. As of December 2006, Zillow added paid listings.

**SEM**

| | |
|---|---|
| **360i LLC** | www.360i.com<br>New York, New York<br>Will Margiloff, CEO |

360i is a full-service performance and search marketing firm that provides clients with paid search, search engine optimization, paid inclusion, comparison shopping feed integration, market research, display media, creative, direct marketing, and emerging media services. Clients include Office Depot, Food Network, and H&R Block.

**Atlas Search (Subsidiary Of aQuantive, Inc. – AQNT)**

www.atlasonepoint.com
Seattle, Washington
Brian McAndrews, CEO, aQuantive, Inc.
Karl Siebrecht, President of Atlas

Atlas Search provides an online marketing toolset that manages keyword campaigns, and tracks and analyzes Web traffic. Atlas Search enables clients to optimize online marketing campaigns across paid search, banner, email, shopping portals, and other online customer acquisition channels. Current products include CampaignOptimizer, BidManager, ProfitBuilder, MasterList, and Intellidex. We believe the Atlas Search tool manages over $500 million in annual search spend.

**Authenticlick**

www.authenticlick.net
Los Angeles, California
Michael Leonard, CEO

Authenticlick provides a combination of technology and services to help clients analyze paid click traffic and recover refunds from major search engines associated with click fraud. The company uses statistical analysis to score traffic which provides advertisers and search engines insights into the quality of the traffic and the likelihood of click fraud. Authenticlick markets its auditing capabilities to both advertisers and search engines/ad networks, giving advertisers the data necessary to recover illegitimate charges and search engines verification of the validity of their traffic. The company typically charges based on the volume of traffic analyzed.

**Click Forensics, Inc.**

www.clickforensics.com
San Antonio, Texas
Tom Cuthbert, CEO

Click Forensics is a third-party paid click traffic auditor that assists advertisers and search engines to eliminate fraud from the pay-per-click marketing industry. Click Forensics audits paid click traffic by analyzing both the technical aspects of the click (such as IP address, location, associated browser and operating system, etc.) and behavioral characteristics (such as time spent on site, visit depth, etc.). In addition,

Click Forensics provides summary threat analyses, allowing advertisers to adjust spending based on keywords with varying degrees of threat and potential loss. The company charges a flat audit fee.

| | |
|---|---|
| **24/7 Search (Subsidiary Of 24/7 Real Media, Inc. – TFSM)** | www.247realmedia.com<br>New York, New York<br>David Moore, Chairman and CEO, 24/7 Real Media, Inc.<br><br>24/7 Real Media acquired Decide Interactive, an Australia based search engine marketing agency and technology firm, in August 2004, merging Decide's advanced bid management technology with 24/7's global client list. 24/7 Search offers bid management and optimization technology through its Decide DNA platform and provides search engine marketing account management with experienced SEM professional services. |
| **Did-it Search Marketing** | www.did-it.com<br>Rockville Centre, New York<br>Kevin Lee, Executive Chairman<br>Bill Wise, CEO<br><br>Originally founded in 1996 as an organic search engine optimization firm, Did-it employs a combination of marketing expertise and technology to offer large clients comprehensive search marketing campaign management. Did-it employs its internally-developed Maestro system to automate bidding, track metrics, adjust bids, create keyword copy, and landing pages. |
| **Efficient Frontier Inc.** | www.efrontier.com<br>Mountain View, California<br>Ellen Siminoff, President and CEO<br><br>Efficient Frontier uses advanced algorithms and statistical analysis to optimize keyword spend across millions of potential keyword buys for more than 70 of the top 500 search advertisers. Efficient Frontier uses a "portfolio-based" approach to search optimization, spreading a customer's keyword purchases across a large number of automatically generated word combinations, which expands reach deeper into the "Long Tail" of searches and lowers the average spend per click. The company manages more than $250 million in annual search spend for its clients and eBay as one of its customers. |
| **Enhance (Subsidiary Of Marchex, Inc. – MCHX)** | www.enhance.com<br>Orem, Utah<br>Russell Horowitz, CEO, Marchex, Inc.<br><br>Enhance provides pay-for-performance search engine marketing services via highly targeted pay-per-click advertising programs, including Paid Listings, Contextual Advertising, and Guaranteed Inclusion. Enhance Interactive's Paid Listings product delivers traffic on a pay-per-click basis via keyword searches through Enhance Interactive's distribution partners, including search engines and directories. Enhance Interactive was founded in 1999. Enhance Interactive is a wholly owned a subsidiary of Marchex. |

**Fathom Online, Inc.**

www.fathomonline.com
San Francisco, California
Dean DeBiase, Chairman and CEO

Fathom Online is a full-service SEM agency that provides bid management, organic search engine optimization, paid inclusion feed management, click–to-call campaign development, and landing page optimization. The company employs its Triton Platform and Dashboard to both manage and report on search marketing campaigns. Fathom is also well known for its Keyword Price Index, which tracks over 20,000 keywords across multiple industries to give customers insights into the search pricing environment.

**goClick.com, Inc. (Subsidiary Of Marchex, Inc. – MCHX)**

www.goclick.com
Las Vegas, Nevada
Russell Horowitz, CEO, Marchex, Inc.

goClick is a bid-for-placement or pay-per-click (PPC) search engine. Marchex acquired goClick in July 2004 for $12.5 million.

**iCrossing**

www.icrossing.com
Scottsdale, Arizona
Jeffrey Herzog, CEO

Founded in 1998, as an organic search engine optimization firm, iCrossing has grown into a full-service search engine marketer. The company services 32 of the Fortune 500 with 250 employees. iCrossing provides market research, natural search optimization, paid media, search analytics, Web development, and mobile services through a combination of professional services and technology. The company's proprietary technologies include its Interest2Action campaign management platform, its Bid2Action bid management tool, Product Symphony for managing product feeds to shopping engines, its Brand Shadow brand and consumer-generated content monitoring tool, and its Dynamo search code management software.

**IMPAQT**

www.impaqt.com
Bridgeville, Pennsylvania
Richard Hagerty, CEO

Founded in 1999, IMPAQT is a search engine marketing firm that provides clients with a variety of services including propriety research, custom application development, search management tools and campaign consulting. IMPAQT uses ExstoNet, an integrated suite of analytical tools designed to provide insights into brands' search visibility. ExstoNet allows clients to see customized reports on search terms (paid, natural or combined) by search engine or geographical breakdown. IMPAQT also offers clients SearchPositionScore, which compares a client's positioning against that of its competitors.

| iProspect (Subsidiary Of Aegis Group PLC – AGS-L) | www.iprospect.com<br>Watertown, Massachusetts<br>Fredrick Marckini, CEO and Founder<br><br>Founded in 1996, iProspect provides clients with a variety of search engine optimization services, such as natural search engine optimization, international search engine optimization, pay-per-click advertising management, paid inclusion management, feed management, search leveraged public relations, and Web analytics. iProspect was acquired by United Kingdom-based advertising conglomerate Aegis Group for $50 million in December 2004. |
|---|---|
| MarketLeap.com, Inc. (Subsidiary Of Acxiom Digital, Formerly, Digital Impact) | www.marketleap.com<br>San Francisco, California<br>Noel McMichael, President<br><br>MarketLeap is an Internet marketing firm that specializes in search engine optimization and online customer acquisition. Its services include search engine optimization, search engine feed management, site architecture analysis, Yahoo! search submit express, and pay-for-placement. |
| MoreVisibility | www.morevisibility.com<br>Boca Raton, Florida<br>Dennis Pushkin, CEO<br><br>Founded in 1999, MoreVisibility is a search engine marketing firm with strong roots in direct marketing and client services. Its services include strategic optimization, custom consulting and advisory strategies, paid placement, and outsourced search engine marketing management. |
| NewGate (Subsidiary Of iCrossing, Inc.) | www.newgate.com<br>Sausalito, California<br><br>Founded in 1995, NewGate offers search-engine marketing strategies to clients. Its services include pay-per-click management, paid placement, paid inclusion, shopping engine feed management, organic search optimization, contextual advertising, site architecture, and directory submissions. NewGate's proprietary CPC Manager is an internally developed advertising technology custom-built for campaign analysis and optimization. The firm was acquired by iCrossing in December 2006. |
| Performics Inc. (Subsidiary Of DoubleClick Inc.) | www.performics.com<br>Chicago, Illinois<br>Stuart Frankel, President<br><br>Performics, a subsidiary of DoubleClick, provides online marketing services for multi-channel retailers. Its services include affiliate marketing, search engine marketing, data feed management, and lead-generation programs. Performics' proprietary tracking and reporting technology platform, advanced market expertise, and active account management enable clients to efficiently acquire and retain online customers. Performics has more than 300 clients including America Online, Blair Corp., Bose, Cingular, CompUSA, Eddie Bauer, Fairmont Hotels, HP Shopping, J. Jill, Jos. A. |

Banks, Kohl's, L.L. Bean, Motorola, OfficeMax, PC Connection, RedEnvelope, My Sony, Quickbook, Staples, Verizon Wireless, and Wyndham Hotels.

**Range Online Media**

www.rangeonlinemedia.com
Fort Worth, Texas
Misty Locke, Co-Founder and President

Range Online Media is a search engine marketing firm. Its services include online strategic planning, organic search optimization, performance optimization, and pay for placement. Range's clients include CompUSA, Pier1Imports, Travelocity, and Toshiba.

**Refinery, Inc.**

www.refinery.com
Hatboro, Pennsylvania
Andrew Sullivan, CEO

Refinery is an interactive agency that provides strategic consulting, creative, technology, user experience, search marketing, and account and project management. RefinerySearch provides search-engine optimization, paid placement management, paid inclusion, and emerging technology services such as blogging, RSS feeds, podcasts, and mobile marketing services. Refinery is ranked in Advertising Age's Top 30 interactive agency.

**SendTec, Inc.**

www.sendtec.com
Brooklyn, New York
Paul Soltoff, Chairman and CEO

SendTec provides a variety of direct response services including Internet pay-for-performance marketing (search engine marketing, site based advertising, affiliate marketing, and email marketing), integrated direct response marketing (outbound telemarketing, TV and video production, direct response television, direct mail, and media buying) and interactive marketing services (eCommerce development and hosting, production services, creative services, and media planning).

**SiteLab International Inc.**

www.sitelab.com
La Jolla, California
Marlene Matheson, CEO

Founded in 1994, SiteLab offers search engine marketing and optimization, Website design and development, pay-for-performance search engine advertising, online marketing and promotions, and email marketing.

**WebMama.com Inc**

www.Webmama.com
Palo Alto, California
Barbara C. Coll, CEO

Founded in 1996, WebMama.com provides search-engine marketing services for B2B and B2C businesses including site traffic generation, link popularity and online PR, and traffic analysis. Clients include Hewlett-Packard, WebEx Communications, Intuit, salesforce.com, WeddingChannel.com, HomeGain.com and Shoes.com.

## VIDEO

| | |
|---|---|
| **ABC, Inc. (Subsidiary Of Walt Disney Company – DIS)** | www.abc.com<br>New York, New York<br>Robert Iger, CEO, Walt Disney Company<br><br>ABC.com was the first network Website to offer full-length episodes online from May-June 2006. Beginning with the 2006-2007 season, ABC.com has offered full-length episodes of some of its popular and new shows, such as Lost, Grey's Anatomy, The Nine, Ugly Betty, Six Degrees, Day Break, and Desperate Housewives, for free on its Website the day after they aired; this is supported by advertising. |
| **Amazon Unboxed (Subsidiary Of Amazon - AMZN)** | www.amazon.com<br>Seattle, Washington<br>Jeffrey Bezos, Founder, CEO and President<br><br>Launched in September 2006, Amazon Unboxed is an online video service offered by Amazon.com, which offers customers TV shows and movies for download. Amazon offers TV shows for $1.99, and movie downloads that range from $3.99 to $14.99. |
| **AOL Video (Part Of Time Warner Inc. – TWX)** | video.aol.com<br>San Francisco, California<br><br>AOL Video offers users the ability to search for a wide range of video content from across the Internet, upload user generated content, view television shows from a wide variety of sources, and purchase movies for download from several Hollywood studios. AOL Video combines functionality from the acquisition of Truveo and Singingfish with internally developed site enhancements and features free streaming videos, as well as the ability to purchase and download full-length content that can be viewed on multiple devices. The AOL Video portal brings together thousands of hours of video programming and organizes it into more than 50 branded video-on-demand channels. |
| **Blinkx.com** | www.blinkx.com<br>San Francisco, California<br>Suranga Chandratillake, Founder<br><br>Blinkx is a video search engine that provides users with the ability to search the Internet for audio and video content including content from 60 content and media companies. Blinkx utilizes speech recognition to enhance its index of content, and also allows users to search for content, create personal TV channels, and download content to mobile devices. |

| | |
|---|---|
| **Bolt Media** | www.bolt.com<br>New York, New York<br>Aaron Cohen, CEO<br><br>Founded in 1996, Bolt started as a teen community, and transformed into an online video search site in late 2005. Bolt allows members of its community to upload, search, and view user-generated videos. Bolt "has evolved into a creative network focused on helping 16-34 year olds find an audience." Bolt has approximately 13 million unique users. |
| **Break.com** | www.break.com<br>Los Angeles, California<br>Keith Richman, CEO<br><br>Break.com (formerly Big-boys.com) is an online video site targeting 16-34 year-old men. Break receives close to 1 million daily unique visitors, and 14 million per month. The company shows close to 300 million videos monthly, and an additional 200 million pictures as well. The Website offers a platform to reach men ages 15 - 35. |
| **Brightcove, Inc.** | www.brightcove.com<br>Cambridge, Massachusetts<br>Jeremy Allaire, Chairman Founder and President<br><br>Founded in 2004, Brightcove allows content creators and producers to distribute content online while providing control over video usage. For content owners, Brightcove can create, distribute, and monetize Internet TV channels. For consumers, Brightcove.com is a destination site to discover, watch, share, and participate in channels. For publishers, Brightcove can syndicate content to enhance sites and generate revenue. In January 2006, Brightcove closed a $59.5 million C round of financing. Investors include General Catalyst Partners, Accel Partners, AOL/Time Warner, InterActiveCorp, The Hearst Corporation, New York Times, Allen & Company, and General Electric. Customers include British Sky Broadcasting (Sky), Discovery Communications Inc., Dow Jones & Company, Inc., MTV Networks, The New York Times Company, Reuters, Sony BMG, Time Life, Warner Music Group, and Washingtonpost.Newsweek Interactive. |
| **CBS.com (CBS Broadcasting Inc., Subsidiary Of CBS Corp. - CBS)** | www.cbs.com<br>New York, New York<br>Leslie Moonves, CEO<br><br>Through its CBS Digital Media Group, CBS operates a number of Internet properties including CBS.com, CBSNews.com, CBSSportsline.com, and UPN.com. The sites leverage the content of CBS and UPN to create new advertising-supported online revenue streams. In August, CBS's properties collectively had approximately 25 million unique visitors, a reach of 14%, and average usage of 22 average minutes per visitor. CBS's Internet properties derive revenue from a combination of advertising, sponsorship, and subscription services. In January 2006, CBS acquired CSTV Networks, a cable network and online business devoted to college athletics. The online component of CSTV included sites for 240 affiliated college athletic sites and CSTV.com. Also, in January 2006, CBS announced a partnership with Google, |

whereby CBS began offering classic and primetime television shows for purchase on Google Video. CBS offers a variety of its prime time TV shows online for free on its Innertube service. CBS.com also streamed the 2006 NCAA Division I Men's Basketball Championship. CBS Radio is also extending its station brands online through streaming, podcasting and developing radio station Websites.

**CinemaNow, Inc.**

www.cinemanow.com
Marina del Rey, California
Curt Marvis, CEO

Founded in 1999, CinemaNow provides movies online for rent and purchase including more than 4,000 feature-length films, television programs, and music concerts from more than 250 licensors including 20th Century Fox, ABC News, Disney, HDNet, Lionsgate, MGM, Miramax, NBC Universal, Paramount Pictures, Sony, Sundance Channel, and Warner Bros. Investors include EchoStar, Index Holdings, Menlo Ventures, Transcosmos, Microsoft, Lionsgate, Cisco Systems, and Blockbuster. In April 2005, CinemaNow launched CinemaNow Japan, Inc. (www.cinemanow.co.jp), a subsidiary company with investments from Trascosmos, Inc. and Microsoft.

**Current TV, LLC**

www.currenttv.com
San Francisco, California
Joel Hyatt, CEO

Founded in 2005, Current TV is national network created by and for 18-34 year olds. Its programming ranges from the hottest trends in technology, fashion, music, and videogames, to pressing issues such as the environment, relationships, parenting, finance, politics, and spirituality. After shooting and editing a piece, producers can upload their video segments to www.current.tv. Submissions may be viewed online, and the online community decides which pieces should be broadcasted online. Current TV is available in 30 million U.S. homes via Comcast (channel 107 nationwide), Time Warner Cable, and DirecTV (channel 366 nationwide). In September 2006, Current TV partnered with Yahoo! to create the Yahoo! Current Network, which offers four channels -Yahoo! Current Action, Yahoo! Current Driver, Yahoo! Current Traveler and Yahoo! Current Buzz . The Yahoo! Current Network is slated to grow to eight channels by 2007.

**CNN (A Part Of Cable News Network LP, LLLP, Subsidiary Of Time Warner Inc. – TWX)**

www.cnn.com
Atlanta, Georgia

CNN.com is a leading online news destination. While it offers some free video content, its Pipeline service is a subscription-based online news video content service.

**Dailymotion.com**

www.dailymotion.com
Paris, France
Benjamin Bejbaum, CEO

Dailymotion is online video site that allows users to upload, watch, rate, review, and share videos.

| **ebaumsworld.com** | www.ebaumsworld.com<br>Rochester, New York<br>Eric Bauman, Founder<br><br>eBaumsworld is an online community targeting men that allows users to watch, share, create, and submit user-generated content and user-submitted clips. |
| --- | --- |

| **FireAnt.tv (Subsidiary Of Mycelia Networks, Inc.)** | fireant.tv<br>Joshua Kinberg, Founder<br><br>FireAnt allows users to watch, share, create, and submit video blogs. |
| --- | --- |

| **Fox Interactive (Subsidiary Of News Corp. – NWS)** | www.fox.com<br>www.myspace.com<br>www.ign.com<br>Peter Levinsohn, President<br><br>Through a series of savvy acquisitions, Fox Interactive Media has evolved from relative obscurity into one of the most popular collections of Websites in the world. Of particular note, News Corp.'s acquisition of Intermix and its MySpace subsidiary, the Web's premier social networking site, for $600 million propelled Fox Interactive to its current position as the Internet's pre-eminent site for young people. News Corp also acquired IGN Entertainment for $650 million, which secured its position as the leading interactive gaming destination. These acquisitions combined with News Corp's already substantial media assets (Foxnews.com, Scout.com, New YorkPost.com) comprise Fox Interactive Media's 74 million unique visitors, a reach of 43%, and an average usage of 200 minutes per visitor in October 2006. |
| --- | --- |

| **Google Video (Subsidiary Of Google Inc. – GOOG)** | video.google.com<br>Mountain View, California<br>Eric Schmidt Ph.D, CEO and Chairman<br><br>Google Video allows users to upload, view, and search for video clips online, and also offers users the ability to purchase a variety of television shows for download. In October 2006, Google acquired YouTube for $1.65 billion in stock, but YouTube will remain a separate service under its own identity for the near future, though YouTube search results may include Google Video clips, and vice versa |
| --- | --- |

| **GoFish** | www.gofish.com<br>Portland, Maine<br>Michael Downing, CEO<br><br>GoFish is an online video sharing Website. GoFish differentiates itself from other online video sites by focusing on "directed" content (i.e., telling users what kinds of videos to make). |
| --- | --- |

**Grouper Networks, Inc. (Subsidiary Of Sony Corp. – SNE)**

www.grouper.com
Sausalito, California
Josh Felser, Co-President
Dave Samuel, Co-President

Grouper Networks is an online video site that allows users to watch, share, and create online videos. Grouper allows users to post videos on a wide variety of sites including MySpace, Facebook, Yahoo! 360, Friendster, and Blogger. In August 2006, Sony acquired Grouper for $65 million.

**GUBA, LLC**

www.guba.com
San Francisco, California
Eric Lambrecht, CEO

Founded in 1998 as a Usenet service provider, GUBA is an online video site that allows users to rent or purchase movies and TV shows.

**Heavy**

www.heavy.com
New York, New York
David Carson, Co-founder
Simon Assaad, Co-founder

Founded in 1998, Heavy.com is a broadband entertainment that allows users to watch, share, create, and submit user-generated content targeting men. Heavy also creates and produces largely comic programming for the Internet. Heavy has a projected 2006 advertising revenue of $20 million, representing a 300% increase over 2005.

**ifilm.com (Subsidiary Of Viacom Inc. – VIA)**

www.ifilm.com

ifilm is an online archive of short films, movie trailers, and other video clips. iFilm also hosts many Viral marketing videos, allowing these clips to spread between users easily. iFilm was acquired by MTV Networks in October 2005.

**The Internet Archive**

Internet Archive
www.internetarchive.com
San Francisco, California

The Internet Archive (IA) is a non-profit organization dedicated to maintaining an archive of multimedia sources.

**iTunes (Apple Inc. – AAPL)**

www.itunes.com
Cupertino, California
Steve Jobs, Co-founder and CEO

iTunes is a media player application launched by Apple in year 2001. The application originally started as an application that allows the users to play and organize digital music, and now has evolved to include video functionality. This video feature was launched in May 2005, with the release of iTunes 4.8. Users can drag and drop movie

clips from their computer into the iTunes Library for cataloging and organization. On October 12, 2005, Apple introduced iTunes 6.0, which added support for purchasing and viewing video content from the iTunes Music Store. The iTunes Music Store initially offered a selection of several thousand Music Videos and five TV shows including, most notably, the ABC network's Lost and Desperate Housewives. The iTunes store has now expanded to include content from a number of different television networks and the Disney movie studio.

**Metacafe, Inc.**

www.metacafe.com
Palo Alto, California
Arik Czerniak, CEO

Founded in 2003, Metacafe is an online video site that targets 18-34 year old men. The company is funded by Accel Partners and Benchmark Capital.

**Movielink, LLC**

www.movielink.com
Santa Monica, California
Jim Romo, CEO

Movielink is an online video site that offers movies, TV shows, and other material for rental or purchase. The company is a joint venture of Paramount Pictures (Viacom), Sony Pictures Entertainment, Universal Studios (NBC Universal/General Electric), and Warner Bros. Entertainment (Time Warner). Movielink has film content from Paramount, Sony, Universal, Buena Vista, Miramax, Twentieth Century Fox, and others on a non-exclusive basis.

**MTV Networks (Subsidiary Of Viacom Inc. – VIA)**

www.mtv.com
New York, New York

MTV.com provides users with MTV original content programming including podcasts, MTV News RAW, and MTV Overdrive, a video streaming service supported by commercials.

**Multiply**

www.multiply.com
Boca Raton, Florida
Peter Pezaris, CEO

Multiply is a social networking service that emphasizes sharing media such as photos, videos, and blog entries. On Multiply, a user's network is made up of their direct contacts, as well as others who are closely connected to them through their first-degree relationships. Additionally, users are encouraged to specify the nature of their relationship with one another, making it possible to share content with their entire network of closely-related people or subsets including friends, family, and professional contacts.

| | |
|---|---|
| **MySpace Video (Subsidiary Of News Corp. – NWS)** | www.myspace.com<br>Tom Anderson, Co-founder<br>Chris DeWolfe, Co-founder<br><br>MySpace is a social networking platform owned by Fox Interactive, which allows users to meet and communicate through user generated pages. Its historical ties to the independent music scene provided MySpace with the a kernel of content upon which the network effects of social networking could grow, bringing in more than 114 million registered member profiles in just three years from its founding in August 2003. Member-created content produces a near unlimited supply of advertising real estate, which to date has only experienced limited monetization, because many large brand advertisers fear associating their brands with unknown and uncontrolled content on a page created by some semi-anonymous teenager. Under Fox, however, MySpace has become a haven for alternative and "gorilla" marketing campaigns, particularly for the entertainment industry, which is eager to tap into the core youth demographic represented on the site. MySpace launched MySpace video in March 2006. |
| **NBC.com (Subsidiary Of NBC Universal/General Electric Co. – GE)** | www.nbc.com<br>New York, New York<br>Bob Wright, CEO<br><br>In addition to providing news, local information, micro-sites for shows, NBC offers a variety of its prime time TV shows online for free, supported by advertising. |
| **Netflix, Inc. (NFLX)** | www.netflix.com<br>Los Gatos, California<br>Reed Hastings, Founder and CEO<br><br>Netflix is an online movie rental subscription service, and offers access to a library of movie, television, and other filmed entertainment titles. The Website has a collection of more than 65,000 titles, and has about 5 million subscribers. We expect Netflix to detail its online video rental initiative in January 2007, during its earnings conference call. |
| **Ourmedia** | www.ourmedia.org<br>Marc Canter, Co-founder<br>J.D. Lasica, Co-founder<br><br>Ourmedia is an online community for the sharing of videos, audio, photos, text, and other works of personal media. Ourmedia's partners include Internet Archive, Bryght, Creative Commons, and Broadband Mechanics. As of August 2006, Ourmedia had over 110,000 members. |
| **Putfile** | www.putfile.com<br><br>Founded in 2004, Putfile is a free file-hosting Website providing video and photo hosting services. |

**Revver, Inc.**

www.revver.com
Hollywood, California
Steve Starr, CEO

Revver is a video-sharing platform that allows free and unlimited sharing. Revver's technology tracks and monetizes videos on its network as it spreads virally across the Web. The company shares revenue on a fifty-fifty basis with content contributors.

**ROO Group Inc.**

www.rootv.com

ROO Group Inc., through its subsidiary ROO Media Corporation, is an online video solutions company that provides online publishers with an online video platform (The Roo Video Exchange) that enables companies to effectively monetize and distribute online video content. Customers and partners include TheStreet.com, Lycos UK, Lonely Planet Travel, FT.com, and Citadel Broadcasting Company. Its consumer site, Rootv.com, also offers online video content from 50 leading content providers.

**Tagworld**

www.tagworld.com
Santa Monica, California
Fred Krueger, CEO

Founded in July 2005, TagWorld is online video, music, and picturing-sharing site. Users currently can upload one gigabyte of music, pictures, and videos to the site.

**TopTVBytes**

www.toptvbytes.com

TopTVBytes is an online video site where the users can search for and watch clips from TV shows.

**Veoh**

www.veoh.com
San Diego, California
Dmitry Shapiro, CEO

Veoh is an online video site that distributes television and video content. Motion picture studios, television networks, companies, organizations, and individuals can use Veoh to publish broadcast-quality video content, providing consumers with unparalleled choice in television programming. Veoh provides a secure delivery system that prevents piracy and provides publishers unprecedented control over their content. Users can use the Veoh Web interface to browse and search the Veoh catalogue, watch Web previews of shows published on Veoh and interact with the rest of the Veoh community.

**VideoEgg, Inc.**

www.videoegg.com
San Francisco, California
David Lerman, Co-founder
Matt Sanchez, Co-founder
Kevin Sladek, Co-founder

Founded in 2005, Videoegg enables publishers to integrate video into their site experience and generate advertising revenue. The VideoEgg network reaches millions of users through social networks and communities including AOL, Bebo, Dogster, hi5, and Tagged. VideoEgg is funded by August Capital, First Round Capital, and Maveron.

**Vimeo**

www.vimeo.com
New York, New York
Jakob Lodwick, Founder

Founded in 2004, Vimeo is a video-sharing site. Vimeo has over 65,000 registered users.

**vMix Media Inc.**

www.vmix.com
Greg Kostello, CEO

Founded in 2005, vMix is an online community for sharing video clips and photo slideshows. vMix was founded in 2005 by executives from MP3.com, Universal Music Group, Twentieth Century Fox, Apple Computer, and Netscape. vMix screens all uploaded content to ensure no objectionable material is distributed and copyrights are respected.

**Yahoo! Video
(Subsidiary Of
Yahoo! Inc. – YHOO)**

video.search.yahoo.com
Sunnyvale, California
Terry Semel, CEO

Yahoo Video began in year 2006 and is an online video search engine. Yahoo Video allows users to search and play videos directly from Yahoo! Video, save them to their 'favorites' page, subscribe to channels for video sources, and embed videos on their Web pages and blog posts. The Website has combined a traditional video search engine, which crawls and links off to videos on different Websites, with a Web 2.0 service that allows users to upload, share, tag, and host their videos on Yahoo!, offering an embedded player experience like YouTube or Google Video. The homepage contains editorially-featured videos from around the Web, including other sites like iFilm and MySpace. The homepage changes daily and skews towards viral video content. Current TV has a business relationship with Yahoo! Video to supply video "channels" to The Yahoo! Current Network. Also, each day Yahoo produces "The 9" which highlights videos from across the Internet.

**YouTube (Subsidiary Of Google Inc. – GOOG)**

www.youtube.com
San Bruno, California
Chad Hurley, Co-founder
Steve Chen, Co-founder
Jawed Karim, Co-founder

YouTube streams an average of 100 million user-uploaded video clips each day to more than 19 million monthly visitors, making it one of the top two video destinations on the Web. Although the majority of YouTube's streaming video content is user uploaded, and much of it may violate copyrights of the original creators, the company has begun to pursue signing revenue-sharing agreements with large media companies including recently announced deals with NBC and Warner Music. Currently the site is monetized primarily by banner and sidebar image ads, but will likely see the bulk of its revenue in the future from revenue sharing on video advertisements placed at the beginning of professional content distributed by the site. YouTube was acquired by Google in October 2006.

## WEB ANALYTICS

| | |
|---|---|
| **ClickTracks Analytics, Inc.** | www.clicktracks.com<br>Santa Cruz, California<br>John Marshall, CEO<br><br>ClickTracks is a leading provider of Web analytics software. Its solution analyzes site visitor behavior, search engine and paid campaigns, ROI, and visitor segmentation. ClickTracks prices its solutions on a hosted and license basis. |
| **Coremetrics, Inc.** | www.coremetrics.com<br>San Mateo, California<br>Joe Davis, President and CEO<br><br>Founded in 1999, Coremetrics is a leading analytics platform that captures and stores all customer and visitor clickstream data to build Lifetime Individual Visitor Experience (LIVE) Profiles, which are an accurate representation of a customer's online customer data, and become the focal point for a company's online marketing initiatives. Coremetrics powers the analytics for more than 600 online brands and counts 40% of the Internet Retailer's Top 100 sites, as customers including 1-800-Flowers, Abercrombie & Fitch, Circuit City, Costco, Office Depot, Oriental Trading Co., Staples, and Williams-Sonoma. In April 2006, Coremetrics acquired IBM's SurfAid analytics business, and became the integrated Web analytics solution for IBM WebSphere Commerce. |
| **Elytics, Inc.** | www.elytics.com<br>Cambridge, Massachusetts<br>Jon Christensen, President<br><br>Founded in 1999, Elytics provides analytics solutions for the telecommunications, financial services, retail, high tech, and healthcare industries. The Elytics solution provides insight into B2B, B2C, Intranet, and Extranet applications and helps organizations measure the effectiveness of their online marketing initiatives. |
| **Fireclick (Subsidiary Of Digital River, Inc. – DRIV)** | www.fireclick.com<br>Mountain View, California<br>Joel A. Ronning, CEO of Digital River<br><br>Fireclick is a Web analytics tool offered by Digital River that combines a real-time Web analytics solution with an analytics data warehouse. Fireclick enables advertisers to measure marketing campaign performance, improve site layout and design, optimize merchandising decisions, and understand online customer behavior. The Fireclick solution includes the analysis of basic site statistics, real time traffic statistics, eCommerce tracking, marketing campaign tracking, merchandising analysis, and segmented reporting. The Fireclick Advanced Marketing Suite offers an integrated suite of online marketing tools including Web analytics, keyword bid management, and |

email marketing. Fireclick's customers include Woodcraft, Air Canada, The North Face, and Symantec.

| **Google Analytics (Subsidiary Of Google Inc. – GOOG)** | www.urchin.com<br>Mountain View, Georgia<br>Eric Schmidt, CEO, Google Inc<br><br>Google Analytics (formerly Urchin, which was acquired by Google in 2005) is a free Web analytics application that is tightly integrated with Google's AdWords search platform. The solution primarily targets small- and medium-sized businesses that purchase Google AdWords. Google Analytics offers a number of features including site navigation analysis, search campaign analysis, visitor origination analysis, and ROI analysis. |
|---|---|
| **Nedstat** | www.nedstat.com<br>Netherlands<br>Michael Kinsbergen, CEO<br><br>Founded in 1996, Nedstat is a leading European provider of Web analytics solutions. Nedstat's Sitestat targets the high end of the analytics market, while its Nedstat Pro targets small- and medium-sized businesses. Nedstat is based in The Netherlands, and has offices in Antwerp, Frankfurt, London, Madrid, and Paris. |
| **Omniture Inc. (OMTR)** | www.omniture.com<br>Orem, Utah<br>Josh James, CEO and Co-founder<br>John Pestana, Co-founder<br><br>Founded in 1999, Omniture, Inc. provides analytics solutions that enable customers to manage and enhance their online and offline marketing initiatives. Omniture's flagship SiteCatalyst product provides its customers the ability to collect, integrate and analyze information regarding their Websites to gain insights into the efficiency of their online marketing initiatives. Omniture Data Warehouse allows organizations to generate targeted re-marketing lists based on specific segments of visitors' online behavior. Omniture Discover is a free-form data intelligence tool that allows users to instantly segment large volumes of Web data. Omniture has more than 1,000 customers across 70 countries including eBay, AOL, Wal-Mart, Gannett, Microsoft, Oracle, General Motors, and Hewlett-Packard. |
| **SageMetrics Corporation** | www.sagemetrics.com<br>North Hollywood, California<br>Hon. E. Kenneth Nwabuezem, CEO<br><br>Founded in 1997, SageMetrics is an online behavioral targeting and Web analytics solutions provider. SageAMP, SageMetrics' platform for behavioral targeting, facilitates the delivery of customized ad campaigns to specific audience segments based upon advertisers' preferences. SageMetrics' solution for Web analytics, SageAnalyst, helps companies optimize their online marketing initiatives by providing insights into visitors, content, navigation, and campaign performance. SageMetrics' customers include the BBC, L'Oreal, Neutrogena, United Media, and Virgin. |

**Unica Corporation**

www.unica.com
Waltham, Massachusetts
Yuchun Lee, Co-founder, CEO, Chairman and President

Founded in 1992, Unica provides Enterprise Marketing Management (EMM) solutions including Web analytics, lead management, campaign management, and marketing resource management. Unica's analytics solutions include Affinium NetInsight On Premise, Affinium NetInsight On Demand, and Unica NetTracker. Unica has more than 400 customers.

**WebSideStory Inc. (WSSI)**

www.Websidestory.com
San Diego, California
James W. MacIntyre, IV CEO

Founded in 1996, WebSideStory is a leading provider of on-demand Web analytics. WebSideStory's Active Marketing Suite, a comprehensive online marketing solution, includes HBX Analytics, Site Search, Content Management, and Keyword Bid Management. HBX Analytics, WebSideStory's flagship product, helps customers understand how users navigate their Websites and provides businesses with analytical insights regarding the effectiveness of online and offline marketing initiatives. HBX Analytics enables businesses to rapidly test the effects of changes to marketing campaigns and to site content, design, and configuration on browsing patterns and sales conversions. HBX Analytics allows businesses to make more effective marketing decisions based upon the online behavior of visitors to a company's Website. In February 2006, WebSideStory acquired Visual Sciences, which focuses on the high end of the analytics market as evidenced by its average selling price of $200,000. At the time of the acquisition, Visual Sciences had approximately 40 customers. We believe WebSideStory's core analytics product is evolving into a more strategic online marketing tool, as it has extended the functionality of its core analytics application to include site search, content management, and bid management. WebSideStory has more than 1,400 customers including Best Buy, FedEx, Viacom, Disney, YouTube, and Wachovia.

**WebTrends Inc.**

www.Webtrends.com
Portland, Oregon
Greg Drew, CEO

Founded in 1993, WebTrends pioneered the Web log analysis software market. Today, WebTrends is a leading provider of both software-based and hosted analytics applications. The WebTrends Marketing Lab includes WebTrends' analytics platform, which enables campaign analysis, key performance measure dashboards, conversion analysis, and geographic segmentation. WebTrends' Marketing Warehouse enables real-time customer segmentation, email list creation and real-time data exploration. Key customers include Microsoft, Ticketmaster, IKEA, Reuters, and General Mills. In March 2005, Francisco Partners, a technology-focused private equity firm, acquired WebTrends from NetIQ Corporation.

## SELECTED INTERNATIONAL COMPANIES

**Allyes AdNetwork**

www.allyes.com
Shanghai, China

Allyes is a leading interactive marketing services company in China and operates an interactive agency, an ad-delivery and measurement platform, and a performance-based marketing network. Investors include IDGVC and Oak Investment Partners.

**Baidu.com, Inc. (BIDU)**

www.baidu.com
Beijing, China

Baidu is by far the dominant search engine in China, commanding more than 60% of China's search query volume, and more than 80% of the search related revenue. Baidu gained its market-leading position relatively quickly, despite entering a market already being served by much larger global rivals Google and Yahoo!. Baidu's success has come from a combination of better Chinese-language parsing allowing the company to better understand the intent of the searcher and a sense of nationalistic pride, which has given Baidu an edge over global brands with the Chinese user. Although Baidu's revenue model is similar to Google's, Chinese search advertising has developed differently due to the limited eCommerce penetration. Most of Baidu's 100,000+ advertisers are small local businesses using Baidu in much the same way as local businesses in the United States use the Yellow Pages.

**Focus Media Holding Ltd. (FMCN)**

www.focusmedia.com.cn
Shanghai, China
Jason Nanchun Jiang, Founder, Chairman and Chief Executive Officer

Focus Media operates an out-of-home advertising network in China. Its out-of-home advertising network consists of commercial location network, in-store network, poster frame network, mobile handset advertising network, and outdoor LED network. Focus Media has approximately 75,000 display units in its commercial location network; 33,000 display units in its in-store network; and nearly 75,000 advertising poster frames installed in China; and approximately 75 leased five-feet by five-feet digital billboards.

**Mixi**

www.mixi.com
Tokyo, Japan

Founded in 2004, Mixi operates in two business segments: social networking and IT recruiting information. Mixi operates Japan's leading social networking site and Find Job!, Japan's largest IT recruiting information site. As of November 2006, Mixi had about 6.6 million users.

| | |
|---|---|
| **Oak Pacific Interactive** | www.oakpacific.com<br>Beijing, China<br>Joseph Chen, Chairman and CEO of Oak Pacific<br><br>Through acquisitions and organic growth, Oak Pacific Interactive, formerly known as ChinaInterActiveCorp, operates an array of Web 2.0 oriented community, content, and communication sites in China including mop.com, DuDu.com, RenRen.com, UUme.com, donews.com, and wowar.com. In March 2006, Oak Pacific Interactive raised $48 million from General Atlantic LLC, Doll Capital Management, Technology Crossover Ventures, Accel Partners, and Legend Capital. |
| **Rambler Media Group** | www.rambler.ru<br>Moscow, Russia<br>Irina Gofman, Chief Executive<br><br>Rambler Media is a Russian media, entertainment, services, and content delivery company that operates an Internet services and mobile value-added services business. Rambler Media operates a Russian-language Internet portal and search engine 'rambler.ru', an online newspaper 'Lenta.ru', a broadband ISP 'Rambler Telecom', an interactive advertising company 'Index20', and a mobile content service provider 'SMXCOM.' |
| **Rediff.com India Ltd. (REDF)** | www.rediff.com<br>Mumbai, India<br>Ajit Balakrishnan, Founder and Chairman<br><br>Founded in 1996, Rediff.com is a leading online portal in India that provides news content, communications tools, mobile services, and eCommerce services. Rediff.com enables Indians worldwide to connect with one another online. Rediff.com also offers Indian-American community one of the oldest and largest Indian weekly newspapers, India Abroad. Rediff.com is headquartered in Mumbai, India with offices in New Delhi and New York. |
| **Sify Limited** | www.sify.com<br>Chennai, India<br>George Zacharias, President<br><br>Sify is the leading Internet Service Provider in India that reaches 186 cities and towns in India. Sify's consumer services include broadband home access, dial up connectivity, and the iWay cyber cafe chain across 158 cities and towns. Sify's Corporate Services include corporate connectivity, network and communications solutions, security, network management services, and hosting. |
| **SINA Corp. (SINA)** | www.sina.com<br>Shanghai, China<br>Yanhong Li, Chairman and Chief Executive Officer<br><br>SINA operates the dominant Internet portal in China and is also a wireless value added service provider in China. SINA's five major business segments include SINA.com (online news and content), SINA Mobile (mobile value-added services), SINA Online |

(community-based services and games), SINA.net (search and enterprise services), and SINA eCommerce (online shopping).

**Sohu.com, Inc. (SOHU)**

www.sohu.com
Beijing, China
Dr. Charles Zhang, Founder, Chairman and Chief Executive Officer

Sohu is an online portal in China and operates a wide array of properties including www.sohu.com (portal), www.sogou.com (search), www.chinaren.com (online alumni), www.17173.com (game portal), www.focus.cn (real estate), and www.goodfeel.com.cn (wireless value added services), and www.go2map.com (mapping).

**Yandex**

www.yandex.com
Moscow, Russia
Arkady Volozh, Co-Founder and Chief Executive Officer

Yandex is the largest search engine and portal in Russia, offering services ranging from search and directory listings to email and free Web hosting. Although the Yandex search engine was officially announced in 1997, the company and management team have developed search technology since 1990, and it has used this long experience combined with its understanding of Russian semantics to become the dominant search site Russia. Yandex became profitable in 2002 on revenues of less than $2 million, selling targeted CPC advertisements to a combination of large multi-nationals and small local Russian businesses. By 2004 Yandex's revenue had increased ten times. We estimate that Yandex's revenues in 2006 will well exceed $50 million.

**Alphabetical List Of Companies Profiled**

24/7 Real Media Inc. (TFSM)
24/7 Search (subsidiary of 24/7 Real Media, Inc. - TFSM)
360i LLC
4INFO Inc.
A9.com, Inc. (subsidiary of Amazon.com Inc. - AMZN)
ABC, Inc. (subsidiary of Walt Disney Company - DIS)
Accipiter Solutions, Inc. (subsidiary of aQuantive, Inc. - AQNT)
Accoona
Ad Pepper
Adbrite
AdMob, Inc.
Adteractive, Inc.
Advertising.com (subsidiary of Time Warner Inc. - TWX)
Affiliate Fuel LLC
AffiliateFuture Inc.
Agency.com Ltd. (subsidiary of Omnicom Group Inc. - OMC)
Ajax 13, Inc.
AKQA
AlltheWeb (subsidiary of Yahoo! Inc. - YHOO)
Allyes AdNetwork
Alta Vista (subsidiary of Yahoo! Inc. - YHOO)
Amazon unbox (subsidiary of Amazon.com, Inc. - AMZN)
AOL (subsidiary of Time Warner Inc. - TWX)
AOL Video (subsidiary of Time Warner Inc. - TWX)
Arc Worldwide (subsidiary of Publicis Groupe SA - PUB)
Ask.com (subsidiary of IAC/InterActiveCorp - IACI)
Atlas (subsidiary of aQuantive, Inc. - AQNT)
Atlas Search (subsidiary of Digital Marketing Technologies, subsidiary of aQuantive, Inc. - AQNT)
AtomFilms (subsidiary of Viacom Inc. - VIA)
Authenticlick
Avenue A | Razorfish (subsidiary of aQuantive, Inc. - AQNT)
AzoogleAds.com Inc.
Baidu.com, Inc. (BIDU)
BallBug
Bango.net Limited
Bankrate Inc.(RATE)
Bebo
blinkx.com
Bloglines (subsidiary of IAC/InterActiveCorp - IACI)
BlueLithium, Inc.
Bolt Media
Break.com
Brightcove, Inc.
Burst Media
Business.com, Inc.
Carat Fusion (subsidiary of Aegis Group PLC)
Casale Media ™ Inc
CBS Corp. (CBS)
CBS.com (CBS Broadcasting Inc., subsidiary of CBS Corp. - CBS)

CinemaNow, Inc.
Citysearch (subsidiary of IAC/InterActiveCorp - IACI)
Classmates.com (subsidiary of United Online - UNTD)
Click Forensics, Inc.
ClickTracks Analytics, Inc.
clickXchange Corporation
Clusty (subsidiary of Vivísimo, Inc.)
CNET Networks Inc. (CNET)
CNN (a subsidiary of Cable News Network LP, LLLP, subsidiary of Time Warner Inc. - TWX)
CoComment
Commission Junction, Inc. (subsidiary of ValueClick Inc. - VCLK)
Control Room
Cool Hunting
Coremetrics, Inc.
Cox Enterprises
CPX Interactive
Craigslist
Critical Mass (majority owned by Omnicom Group Inc. - OMC)
Current TV, LLC
Daily Candy
Dailymotion.com
DarkBlue Sea Limited
Datran Media Corp.
del.icio.us (subsidiary of Yahoo! Inc. - YHOO)
Demand Media, Inc.
Did-it Search Marketing
digg Inc.
Digital River oneNetwork (subsidiary of Digital River Inc. - DRIV)
Digitas/Modem Media (subsidiary of Digitas Inc. - DTAS; acquired by Publicis Groupe SA - PUB)
DoubleClick Inc.
DraftFCB (subsidiary of Interpublic Group of Companies, Inc. - IPG)
DRIVEpm (subsidiary of aQuantive, Inc. - AQNT)
ebaumsworld.com
edgeio
Efficient Frontier Inc.
Eighty-Three Degrees, Inc. / 30 Boxes
Elytics, Inc.
Enhance (subsidiary of Marchex, Inc. - MCHX)
Enpocket
ePilot (subsidiary of Interchange Corporation)
Eurekster, Inc.
Evoca LLC
Eyeblaster, Inc.
EyeWonder, Inc.
Facebook
Fathom Online, Inc.
Federated Media Publishing
FeedLounge, Inc.
Feedster, Inc.
Findory.com Inc.
FireAnt.tv (subsidiary of Mycelia Networks, Inc.)
Fireclick (subsidiary of Digital River, Inc. - DRIV)

Flavorpill Productions LLC
Flickr (subsidiary of Yahoo! Inc. - YHOO)
Focus Media Holding Ltd. (FMCN)
Fox Interactive (subsidiary of News Corp. - NWS)
Fox Interactive Media (subsidiary of News Corp -NWS)
FreeWebs
Gannett Co., Inc. (GCI)
Gigablast, Inc.
Glam Media, Inc.
goClick.com, Inc.
GoFish
Google Analytics (formerly Urchin, subsidiary of Google Inc. - GOOG)
Google Inc. (GOOG)
Google Video (subsidiary of Google Inc. - GOOG)
Goowy Media, Inc.
Gorilla Nation Media
Gothamist LLC
Gravee.com
Grey Interactive Worldwide (subsidiary of WPP Group plc - WPPGY)
Greystripe, Inc.
Gritwire (Dizpersion Technologies, Inc.)
Groove Mobile
Grouper Networks, Inc. (subsidiary of Sony Corp. - SNE)
GUBA, LLC
hakia, Inc.
Hands-On Mobile, Inc.
Heavy
HotBot (subsidiary of Lycos, Inc./Daum Communications Corp.)
Housevalues Inc. (SOLD)
HuffingtonPost.com, Inc.
Hungama Mobile (subsidiary of The Hungama Network)
IceRocket
iCrossing
ifilm.com (subsidiary of Viacom Inc. - VIA)
IMPAQT
Inc. (TSX: NUR, subsidiary Quebecor Media Inc.)
IncentAClick Media Group Inc
Indeed
Infospace Inc. (INSP)
Infospace Inc. (INSP)
iProspect
iTunes (Apple Inc. - AAPL)
iVillage Inc. (NBC Universal - General Electric Co./GE)
JamBase, Inc.
Jigsaw Data Corporation
Jookster Networks Inc.
JotSpot (acquired by Google Inc. -GOOG)
Judy's Book, Inc.
July Systems, Inc.
JumpTap
Jux2
Kaboodle, Inc.
KartOO
Kayak.com

La La Media, Inc.
Last.fm Ltd.
Lexxe Pty Ltd (ACN: 117 090 454)
LinkedIn Corporation
LinkShare Corporation (subsidiary of Rakuten, Inc.)
Local.com Corporation
LookSmart Ltd. (LOOK)
LoopNet, Inc. (LOOP)
Lycos Inc. (subsidiary of Daum Communications Corp.)
Lycos, Inc. (subsidiary of Daum Communications Corp.)
M:Metrics, Inc.
Mamma.com Inc.
Marchex, Inc. (MCHX)
MarketLeap.com, Inc. (subsidiary of Acxiom Digital, formerly, Digital Impact)
mBlox Inc.
Media Contacts (subsidiary of Havas - Euronext Paris: HAV.PA)
Mediaplex, Inc. (subsidiary of ValueClick Inc. -VCLK)
Mediasmith, Inc.
Medio Systems, Inc.
Meetup Inc.
Mercora, Inc.
Metacafe, Inc.
Miva Inc. (MIVA)
Mixi
Mobber.com, LLC
Mobissimo
MobiTV, Inc.
Modeo LLC (Crown Castle International Corp. - CCI)
Mogmo (subsidiary of TaMeJ Software)
Monster Worldwide Inc. (MNST)
MoreVisibility
Motricity, Inc.
Move, Inc. (MOVE)
Movielink, LLC
MRM Worldwide (subsidiary of McCann Worldwide)
MSN (subsidiary of Microsoft Corp. - MSFT)
MTV Networks (subsidiary of Viacom Inc. - VIA)
Multiply
MySpace (subsidiary of News Corporation - NWS)
MySpace Video (subsidiary of News Corp. - NWS)
NBC.com (subsidiary of NBC Universal/General Electric Co. - GE)
Nedstat
Nellymoser, Inc.
NeoMedia Technologies, Inc.
Netblue, Inc. (subsidiary of Vendare Media Corporation)
Netflix, Inc. (NFLX)
Netscape Communications and Weblogs, Inc. (subsidiary of the AOL Network owned
and operated by AOL, LLC/Time Warner Inc. - TWX)
Networks, Inc.
New York Times Co. (NYT)
NewsGator Technologies, Inc.
Newsvine, Inc.
Nurun + Ant Farm (subsidiary of Quebecor) nurun | ant farm interactive, AKA Nurun
Oak Pacific Interactive

Obopay, Inc.
Ogilvy Interactive Worldwide (subsidiary of WPP Group plc - WPPGY)
Omniture Inc. (OMTR)
Oodle, Inc.
Organic (subsidiary of Omnicom Group Inc. - OMC)
Otavo
Pandora Media, Inc.
Performics Inc. (subsidiary of DoubleClick Inc.)
Photobucket Inc.
Plaxo, Inc.
PlanetOut Inc. (LGBT)
Podbridge, Inc.
PodZinger (subsidiary of BBN Technologies Corp.)
PointRoll, Inc. (subsidiary of Gannett Co., Inc. - GCI)
Pulse 360, Inc. (subsidiary of Seevast Corporation)
Putfile
Q Interactive (subsidiary of Landmark Communications, Inc.)
QIXO,Inc.
QuinStreet, Inc.
R/GA (subsidiary of Interpublic - IPG)
Rambler Media Group
Range Online Media
RealTechNetwork Corporation
Rediff.com India Ltd. (REDF)
Refinery, Inc.
Revver, Inc.
Right Media
Riya
RMG Connect (subsidiary of WPP Group plc - WPPGY)
Rojo Networks, Inc.
Rollyo
ROO Group Inc.
RSCG Worldwide, Inc. (subsidiary of Havas - Euronext Paris: HAV.PA)
SageMetrics Corporation
SendTec, Inc.
Sennari, Inc.
ShareASale.com
SideStep, Inc.
Sify Limited
SimpleFeed, Inc.
Simply Hired, Inc.
SINA Corp. (SINA)
SiteLab International Inc.
Six Apart, Ltd.
Slide, Inc.
Snap.com
Soapbox Mobile, Inc.
Sohu.com, Inc. (SOHU)
Specific Media, Inc.
StumbleUpon
TACODA, Inc.
Tagworld
Technorati, Inc.
Tequila (subsidiary of Omnicom Group Inc. - OMC)

Textmap (subsidiary of CaseSoft)
The Internet Archive
The Knot, Inc. (KNOT)
The ManiaTV! Network
The Weather Channel Interactive, Inc. (subsidiary of Landmark Communications)
Third Screen Media
Thrillist.com
Topix LLC
TopTVBytes
TradeDoubler AB
Tribal DDB Worldwide (subsidiary of Omnicom Group Inc. - OMC)
Tribal Fusion
Tribune Interactive (subsidiary of Tribune Co. - TRB)
Trulia, Inc.
Unica Corporation
Unicast by Viewpoint (subsidiary of Viewpoint Corporation)
ValueClick Inc. (VCLK)
Vendare Media Corporation
Viacom Digital (subsidiary of Viacom Inc. - VIA)
VideoEgg, Inc.
Vimeo
Vizi|Media
vMix Media Inc.
Walt Disney Co. (DIS)
WebClients, Inc. (subsidiary of ValueClick Inc. - VCLK)
WebMama.com Inc.
WebMD, Inc. (subsidiary of WebMD Health Corp. - WBMD)
WebShots (subsidiary of CNET Networks Inc. - CNET)
WebSideStory Inc. (WSSI)
WebTrends Inc.
Wikio
Wikipedia Foundation
Wink Technologies, Inc.
Wunderman Interactive (subsidiary of WPP Group plc - WPPGY)
Xanga
Yahoo! Inc. (YHOO)
Yahoo! Video (subsidiary of Yahoo! Inc. - YHOO)
Yandex
Yelp
Yoono SAS
YouTube (subsidiary of Google Inc. - GOOG)
ZEDO, Inc.
Zillow.com
Zimbra, Inc.
Zingy, Inc.

**Acknowledgments**

# Important Research Disclosures

| Distribution of Ratings/IB Services Piper Jaffray | | | | |
|---|---|---|---|---|
| | | | IB Serv./Past 12 Mos. | |
| **Rating** | **Count** | **Percent** | **Count** | **Percent** |
| **BUY [OP]** | 357 | 56.49 | 89 | 24.93 |
| **HOLD [MP]** | 246 | 38.92 | 20 | 8.13 |
| **SELL [UP]** | 29 | 4.59 | 2 | 6.90 |

Note: Distribution of Ratings/IB Services shows the number of companies in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. NASD and NYSE rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Accordingly, Outperform corresponds most closely with buy, Market Perform with hold, and Underperform with sell. Outperform, Market Perform and Underperform, however, are not the equivalent of buy, hold or sell, but instead represent indications of relative performance. See Rating Definitions below. An investor's decision to buy or sell a security must depend on individual circumstances.

# Important Research Disclosures

## Analyst Certification — Safa Rashtchy, Sr Research Analyst

### — Aaron M. Kessler, CFA, Sr Research Analyst

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

**Affiliate Disclosures:** This report has been prepared by Piper Jaffray & Co. or its affiliate Piper Jaffray Ltd., both of which are subsidiaries of Piper Jaffray Companies (collectively Piper Jaffray). Piper Jaffray & Co. is regulated by the NYSE, NASD and the United States Securities and Exchange Commission, and its headquarters is located at 800 Nicollet Mall, Minneapolis, MN 55402. Piper Jaffray Ltd. is registered in England, no. 3846990, and its registered office is 7 Pilgrim St., London, EC4V 6LB. Piper Jaffray Ltd. is authorised and regulated by the UK Financial Services Authority, entered on the FSA's register, no. 191657 and is a member of the London Stock Exchange, and its headquarters is located at One South Place, London, EC2M 2RB. **Disclosures in this section and in the Other Important Information section referencing Piper Jaffray include all affiliated entities unless otherwise specified.**

Piper Jaffray research analysts receive compensation that is based, in part, on overall firm revenues, which include investment banking revenues.

**Complete disclosure information, price charts and ratings distributions on companies covered by Piper Jaffray Equity Research can be found on the Piper Jaffray website: http://piperjaffray.com/researchdisclosures or by writing to Piper Jaffray, Equity Research Department, 800 Nicollet Mall, Minneapolis, MN 55402**

## Rating Definitions

**Investment Opinion:** Investment opinions are based on each stock's return potential relative to broader market indices, not on an absolute return. The relevant market indices are the S&P 500 and Russell 2000 for U.S. Companies and the FTSE Techmark Mediscience index for European companies.

- **Outperform (OP):** Expected to outperform the relevant broader market index over the next 12 months.
- **Market Perform (MP):** Expected to perform in line with the relevant broader market index over the next 12 months.
- **Underperform (UP):** Expected to underperform the relevant broader market index over the next 12 months.
- **Suspended (SUS):** No active analyst opinion or no active analyst coverage; however, an analyst investment opinion or analyst coverage is expected to resume.

- **Volatility Rating:** Our focus on growth companies implies that the stocks we recommend are typically more volatile than the overall stock market. We are not recommending the "suitability" of a particular stock for an individual investor. Rather, it identifies the volatility of a particular stock.
- **Low:** The stock price has moved up or down by more than 10% in a month in fewer than 8 of the past 24 months.
- **Medium:** The stock price has moved up or down by more than 20% in a month in fewer than 8 of the past 24 months.
- **High:** The stock price has moved up or down by more than 20% in a month in at least 8 of the past 24 months. All IPO stocks automatically get this volatility rating for the first 12 months of trading.

## Other Important Information

The material regarding the subject company is based on data obtained from sources we deem to be reliable; it is not guaranteed as to accuracy and does not purport to be complete. This report is solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security. Unless otherwise noted, the price of a security mentioned in this report is the market closing price as of the end of the prior business day. Piper Jaffray does not maintain a predetermined schedule for publication of research and will not necessarily update this report. Piper Jaffray policy generally prohibits research analysts from sending draft research reports to subject companies; however, it should be presumed that the analyst(s) who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication, and has had assistance from the company in conducting diligence, including visits to company sites and meetings with company management and other representatives.

This report is published in accordance with a conflicts management policy, which is available at http://www.piperjaffray.com/researchdisclosures.

**Notice to customers in Europe:** This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e. persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom, or persons who have been categorised by Piper Jaffray Ltd. as intermediate customers under the rules of the Financial Services Authority.

**Notice to customers in the United States:** This report is distributed in the United States by Piper Jaffray & Co., member SIPC and NYSE, Inc., which accepts responsibility for its contents. The securities described in this report may not have been registered under the U.S. Securities Act of 1933 and, in such case, may not be offered or sold in the United States or to U.S. persons unless they have been so registered, or an exemption from the registration requirements is available. Customers in the United States who wish to effect a transaction in the securities discussed in this report should contact their Piper Jaffray & Co. sales representative.

This material is not directed to, or intended for distribution to or use by, any person or entity if Piper Jaffray is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to such person or entity.

This report may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Piper Jaffray & Co.
Additional information is available upon request.

# PiperJaffray®

## INVESTMENT RESEARCH

**MINNEAPOLIS**
800 Nicollet Mall
Suite 800
Minneapolis, MN 55402
612 303-6000
800 333-6000

**CHICAGO**
Hyatt Center, 24th Floor
71 South Wacker Drive
Chicago, IL 60606
312 920-3200
800 973-1192

**SAN FRANCISCO**
345 California Street
Suite 2400
San Francisco, CA 94104
415 277-1500
800 214-0540

**EAST PALO ALTO**
1950 University Avenue
Suite 200
East Palo Alto, CA 94303
650 838-1300
800 981-1203

**NEW YORK**
245 Park Avenue, 33rd Floor
New York, NY 10167
212 284-9300
800 982-0419

**LONDON**
One South Place
London EC2M 2RB
+44 20 3142 8700

Web Site: http://www.piperjaffray.com

# PiperJaffray®