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Internet Research

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The User Revolution

The New Advertising Ecosystem and

The Rise of the Internet as a Mass Medium

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The Advertising World is Changing

"We must accept the fact that there is no 'mass' in 'mass media' anymore."

- Jim Stengel, Global Marketing Offices at Proctor & Gambled

"One major impetus for the cutbacks is the upheaval the TV networks face because of ever-increasing incursions from digital media like Internet sites."

- Jeff Zucker, chief executive of the NBC Universal Television Group

"I spend a ton of time on [MySpace] when I get home from crew, all I do is talk online and wait for friends to leave me friend requests, ***it's the highlight of my night."***

- Teenage Internet Panel Participant

"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

"We never know where the consumer is going to be at any point in time, so we have to find a way to be everywhere. Ubiquity is the new exclusivity."

- Linda Kaplan Thaler, Chief Executive at the Kaplan Thaler Group, a New York ad agency.

The User Revolution

Six Trends Are the Key Drivers of This Revolutions

1. The emergence of “communitainment”

2. The increasing popularity of Usites

3. Mainstreaming of the Internet

4. Declining usage of traditional media

5. Fragmentation of content consumption

6. Evolution of User generated brands

Source: Piper Jaffray & Co.

Key Theme #2 – Emergence of Usites

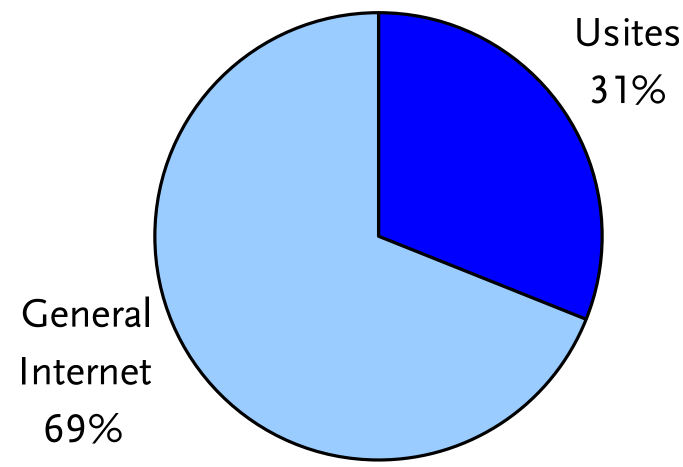
- We broadly define Usites as Websites with user generated content comprising all or the predominant part of their offering – time spent on Usites has grown from just 3% of total minutes online to 31% since April of 2005
- All segments of the population participate in Usites

Usite Unique Visitor Growth

	Oct-05	Oct-06	% 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

October 2006



Source: ComScore Networks

Key Theme #5 – Fragmentation of Media Consumption

- Proliferation of media options
- The users are increasingly less loyal to established brands
- Users are going to an increasingly larger number of content sources
- Popular new sites are growing through viral marketing
- Proliferation of content consumption empowers consumers

Newspapers
Broadcast TV
Magazines
Broadcast Radio
Eight Track

1966

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

1986

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

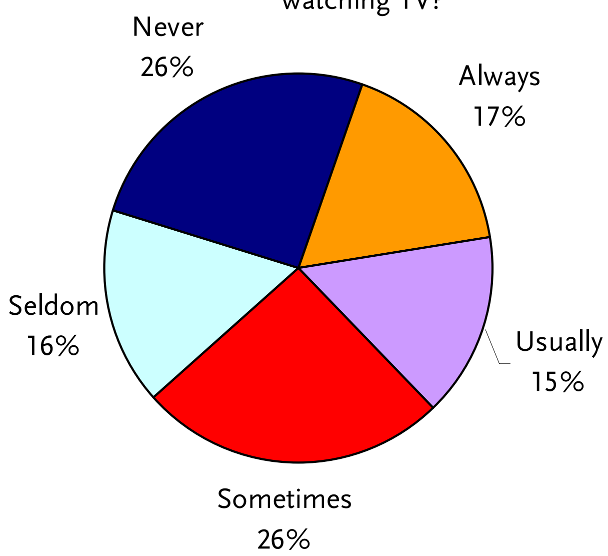
2006

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

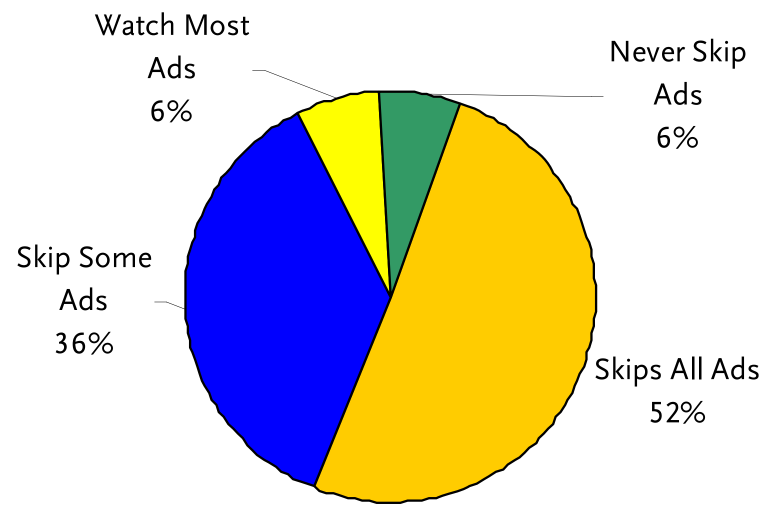
The Added Challenge: Consumer Are Multi-Tasking

- Quality of time people spend on TV has deteriorated rapidly with multi-tasking
- DVR revolution has exacerbated advertisers' difficulty in reaching consumers through television
- The net result is that advertisers increasingly will need to buy more inventory from nearly all types of media

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



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



Source: Piper Jaffray & Co. 2006 Online Media Survey

Key Theme #6 – The Advance of User Generated Brands

"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

Source: Yahoo!, Inc.

At the Same Time, Users Are Turning Away From Ads

"Is this** [Yahoo's acquisition of Right Media]* ***connected to the new absurd idea to begin sending ads to users who pay for e-mail access through Yahoo/AT&T? What if I want NO ADS AT ALL?
If I want to be marketed to, I'll seek it out, not have it dropped on me. What about my democratic power to check the 'none of the above' box?"

Comment by RS - [In response to the posting by Terry Semel on the acquisition of Right Media] , from Yodel Anecdotal – Yahoo's Blog site

Source: Yahoo!, Inc.

The Golden Search – Key Facts

- Search is the second most commonly used application on the Web with 550 million searches daily, and search marketing globally is a **$15.8 billion** industry **growing to $44.5 billion in the next five years** (Source: Piper Jaffray & Co.)
- There are three types of search: **navigational**, **informational**, and **commercial.** Each represents about one-third of total search queries
- We estimate U.S. search volume growing at 12% CAGR while International search volume is growing at 23% CAGR (2006-2011)
- 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

Source: Piper Jaffray & Co.

Search Has Become the New Portal

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

Recent Top 10 Searches from Leading Search Engine

Martin Luther King, Jr	st. patrick's day	St. Patrick's Day	American Idol	Paris Hilton
Rosa Parks	channing tatum	Poker	Internal Revenue Service	Slipknot
Harriet Tubman	v for vendetta	March Madness	France Protest	Music Downloads
Black History	ncaa	Pam Anderson	Shakira	50 Cent
Jackie Robinson	tara rose mcavoy	Britney Spears	Debra LaFave	Restaurants
George Washington	spencer tunick	Neopets	Chris Brown	Emma Watson
Maya Angelou	natalie portman	Paris Hilton	Lost	Internet
Coretta Scott King	oblivion	Dragonball	NBA	Gwen Stefani
Langston Hughes	terrell owens	Taxes	America's Next Top Model	Web Messenger
Malcolm X	ides of march	NFL	WWE	Fat Man Walking

Source: Google, Ask and Yahoo

Our New Global Advertising Estimates

- 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 will be 11.4% of total ad spending in the United States
- We believe online can eventually be the second largest medium, and much closer to TV's level

Global Total Online Advertising Market	2001	2002	2003	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	'06-'11 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**	**$42,004**	**17%**
% of Total U.S Ad Spend	*3.2%*	*2.6%*	*2.8%*	*3.7%*	*5.1%*	*6.6%*	*8.1%*	*9.2%*	*10.0%*	*10.8%*	*11.4%*	
Yr/Yr Growth		*-15.9%*	*12.1%*	*40.7%*	*42.1%*	*38.5%*	*27.8%*	*19.4%*	*15.2%*	*12.6%*	*9.9%*	
International Online Advertising Revenues ($M)	**$2,161**	**$1,914**	**$2,695**	**$4,987**	**$8,034**	**$11,846**	**$16,575**	**$21,887**	**$27,300**	**$33,117**	**$39,058**	**27%**
Yr/Yr Growth		*-11.4%*	*40.8%*	*85.0%*	*61.1%*	*47.5%*	*39.9%*	*32.0%*	*24.7%*	*21.3%*	*17.9%*	
Global Online Advertising Revenue ($M)	**$2,161**	**$1,914**	**$2,696**	**$4,988**	**$8,035**	**$11,847**	**$16,575**	**$21,887**	**$27,300**	**$33,117**	**$39,058**	**27%**
% of Total Global Ad Spend	23.5%	24.6%	29.8%	35.4%	37.6%	38.5%	40.0%	41.0%	42.0%	43.0%	44.0%	
Yr/Yr Growth		*-11.4%*	*40.9%*	*85.0%*	*61.1%*	*47.4%*	*39.9%*	*32.0%*	*24.7%*	*21.3%*	*17.9%*	

Global Search vs. Non Search	2001	2002	2003	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	'06-'11 CAGR
Global Paid Search Revenue ($M)	$505	$1,350	$2,948	$5,718	$10,140	$15,832	$21,879	$27,675	$33,193	$38,924	$44,482	**23%**
Global Branded Advertising ($M)	$9,060	$6,793	$6,730	$9,092	$11,849	$15,337	$19,392	$23,689	$28,058	$32,426	$36,580	**19%**
Global Online Advertising Revenue ($M)	**$9,566**	**$8,143**	**$9,677**	**$14,810**	**$21,990**	**$31,169**	**$41,271**	**$51,364**	**$61,252**	**$71,350**	**$81,062**	**21%**

Global Search Market	2001	2002	2003	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	'06-'11 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	$21,519	**17%**
Total International Paid Search Revenue ($M)	$30	$246	$690	$1,767	$3,584	$5,937	$8,818	$12,174	$15,515	$19,173	$22,962	**31%**
Global Paid Search Revenue ($M)	**$505**	**$1,350**	**$2,948**	**$5,718**	**$10,140**	**$15,832**	**$21,879**	**$27,675**	**$33,193**	**$38,924**	**$44,482**	**23%**

Source: Piper Jaffray & Co.

Our Classification of the Web: *The Eight Types of Inventory*

1. Portals. Most Popular. Best for reach, not targeting. Yahoo! leads the portals, followed by MySpace.

2. Search. Second largest reach. High marketing value.

3. Commerce. High reach but not conducive to advertising.

4. Entertainment. Strong position on the Web, much more so than in the traditional media. Large reach (higher than communities and comparable to search), a relatively high time spent, and strong targetability.

5. Community. Sites that emphasize communication rather than content are becoming a cornerstone of Communitainment.

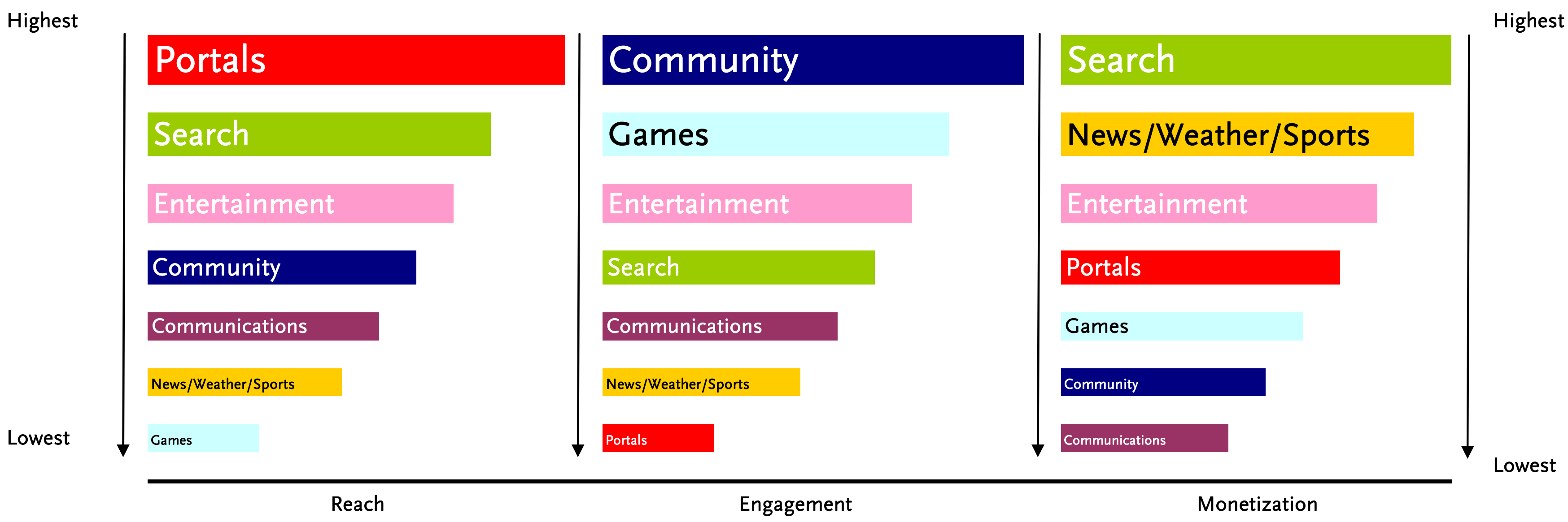
6. Communications. Not very suitable for many types of branding. Relatively low targetability.

7. News/Weather/Sports. The targetability is not as high as communities or entertainment sites.

8. Games. Relatively large category on the Internet; suitable for very specific types of advertising.

What This All Means For Advertisers

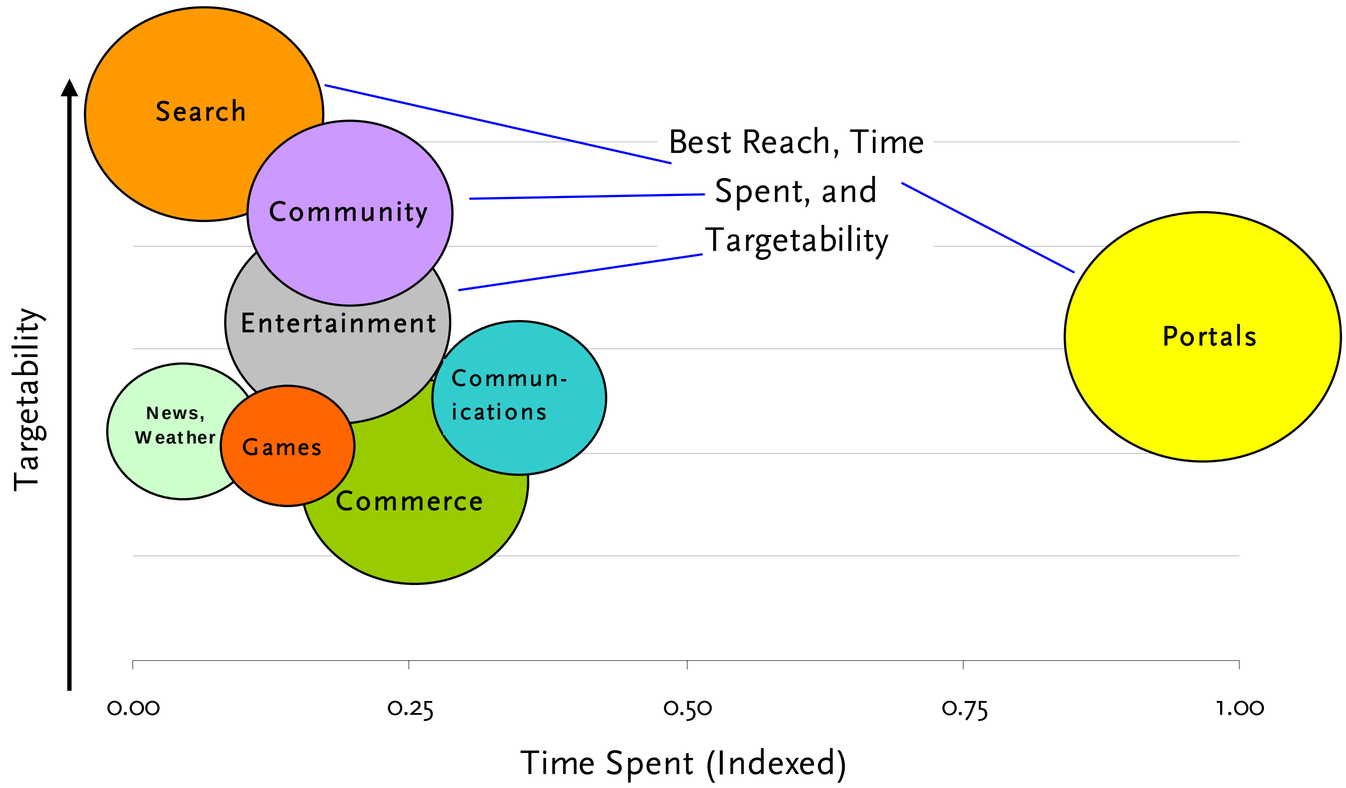
- The most valuable advertising for broad reach inventory is in the categories of Portals, Search, News, and Entertainment.
- The communities are the best new inventory for establishing close connection with users and creating engagement.



Source: Piper Jaffray & Co.

The Advertiser-Value Position of the Eight Types of Inventory

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



Source: Piper Jaffray & Co.

The New World Order

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 & Co.

Key Questions For This Panel

1. The Implications of The Search Evolution for:
   - Users
   - Publishers
   - Advertisers
2. The "New Way" to Buy and Sell Ads – how do you match the inventory with user and publisher needs?
3. Branding in Search – how do people use search and what is the value of this to the advertisers who want branding exposure?
4. Is True Targeting Finally Here? How will you match the users with ads?
5. Is Right Media Yahoo's Answer to Auction (a la Google?) the Display Ad Inventory?
6. What Role do SEMs Play Now? Will new models of optimization and exchange put the SEMs business model at risk?
7. What is the Most Effective Way for the Advertisers to:
   - Create a Brand;
   - Enhance a Brand
   - Acquire customers
8. Are ads getting more effective or less effective? How and why?

WebGuild SILICON VALLEY

Source: Piper Jaffray & Co.

Business Risks

- A decrease in advertising expenditures due to general macro-economic conditions
- Government regulation and oversight
- 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

Analyst Certification—Safa Rashtchy, Aaron Kessler, Gene Munster

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