Piper Jaffray & Co.
Internet Research

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The User Revolution

Communitainment and the Financial Impact on Local Services and Advertising

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The Advertising World is Changing

"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 Proctor & 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.

"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

"We [illegible] anymore." *- Jim Stengel, Global Marketing Offices at Proctor & Gambled*

"I spend [illegible] talk online and wait for friends to leave me friend requests, ***it's the highlight of my night."*** - Teenage Internet Panel Participant

The User Revolution

What's Happening to The Media World?

- We Must look at it from Consumer's viewpoint

I know what I want and I know how to get it; if I don't know how to find something, I Google it

Newspapers are a waste of time, I can read all I want on the web

I don't like advertisements – they are disruptive

I have over 30 choices for media channels – I can choose what I want, when I want

TV is so boring, but some clips can be fun – I watch them on Youtube

I like brands that are part of my life and care about what I like, they are cool and I trust them

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

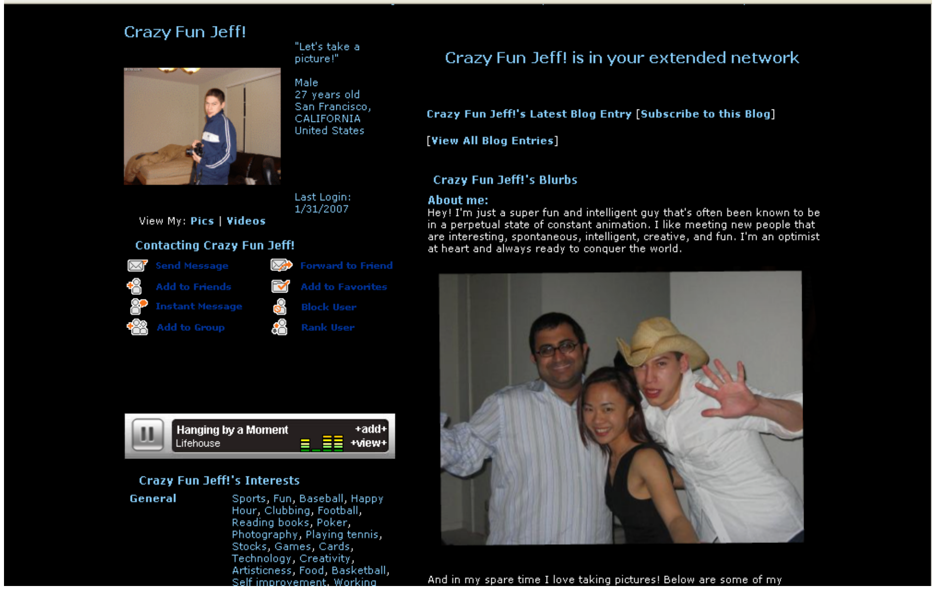
6. Evolution of User generated brands

Source: Piper Jaffray & Co.

Key Theme – Emergence of Communitainment

- Community + Communication + Entertainment have collided together and are impacting each other's growth - generating a new type of activity that we call "communitainment."

- 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 "hangout."



Source: Google and Youtube Web Sites

Key Theme – Emergence of Communitainment

- Advertisers must leverage the community aspect of communitainment

- Communitainment is an emerging trend that will partially replace other forms of content consumption

Over the next ten years,

we expect more than half of Internet

usage will be communitainment.

Source: Piper Jaffray & Co.

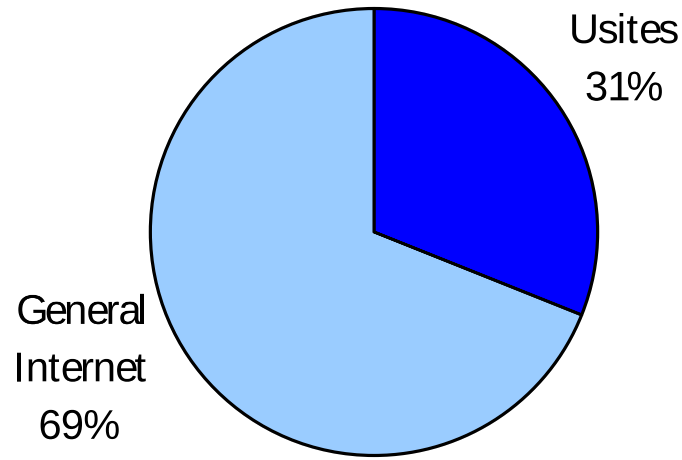
Key Theme – Emergence of Usites

- 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%**

October 2006

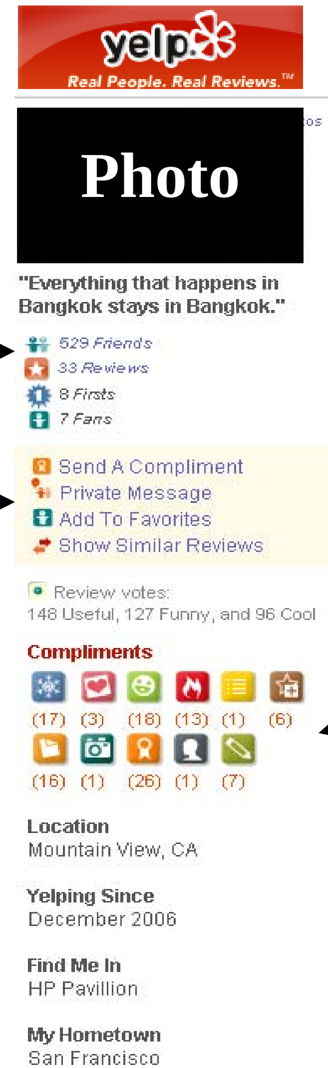


Source: ComScore Networks

Key Theme – Emergence of Usites

Not just a review site, Members can post profiles about themselves and connect with friends

- Not simply user generated content.
- Members connect with other members or locals to discuss/share opinions



Other users can also participate by "scoring" another member's postings

Localized Communities

Source: Piper Jaffray & Co. and Yelp Sites

Key Theme – The Internet as a Mainstream Media Channel

Internet's reach has expanded massively, from less than 20% to more than 60% in 2006

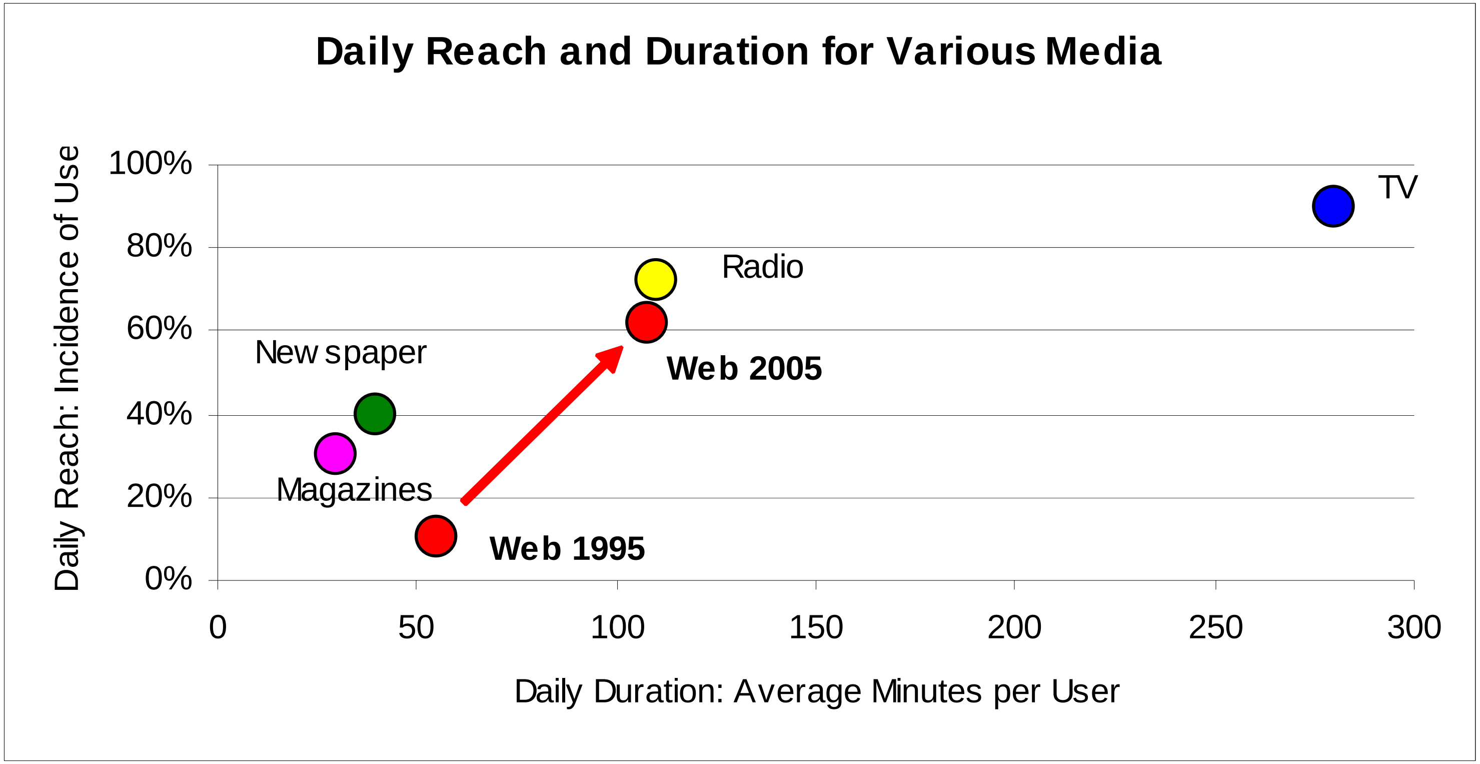
In a recent survey, 40% of respondents would choose to keep the Internet and eliminate television

But It's not just about more people using the web, and spending more time on it ; they are using it regularly, as part of their daily routine

As a result…

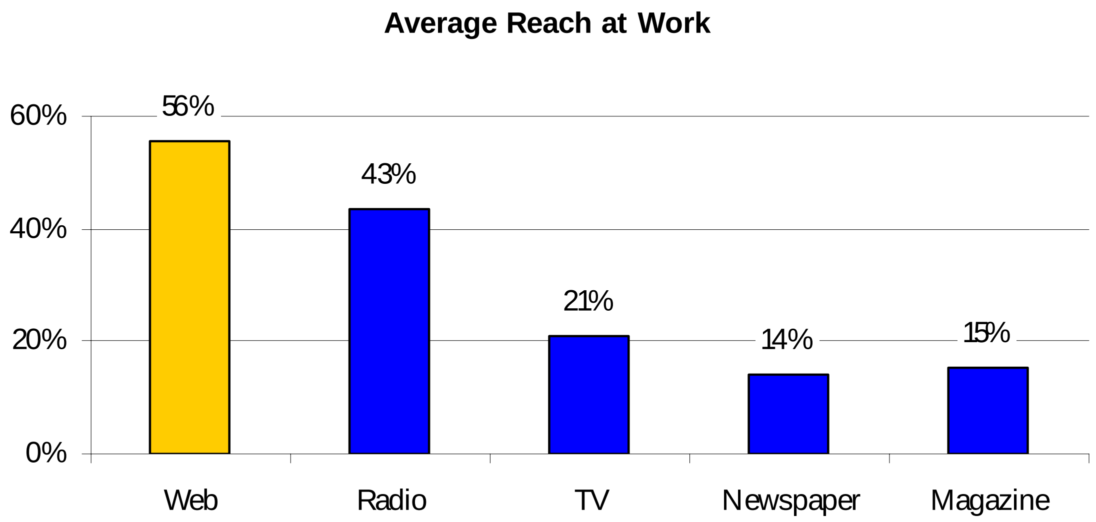
Source: Forrester, Ball State Center for Media Design, Piper Jaffray & Co.

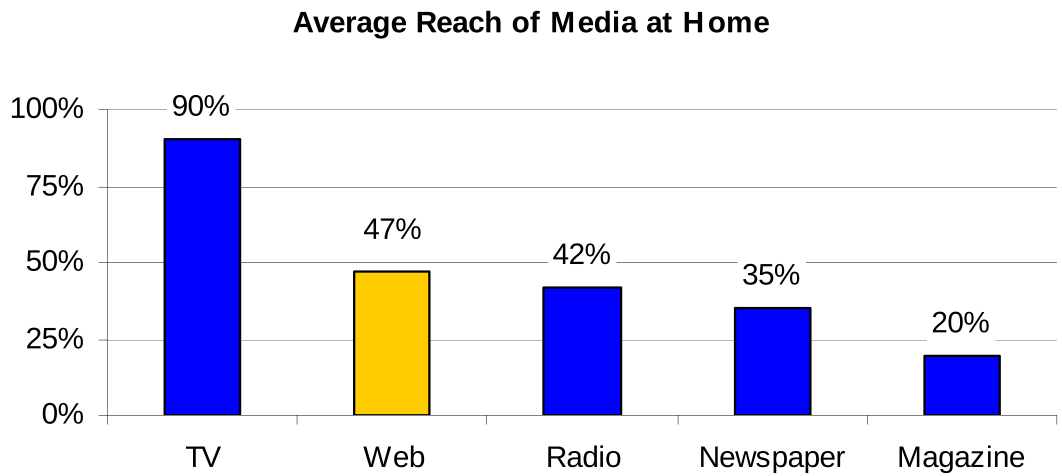
Key Theme – The Internet as a Mainstream Media Channel



Source: Ball State Center for Media Design

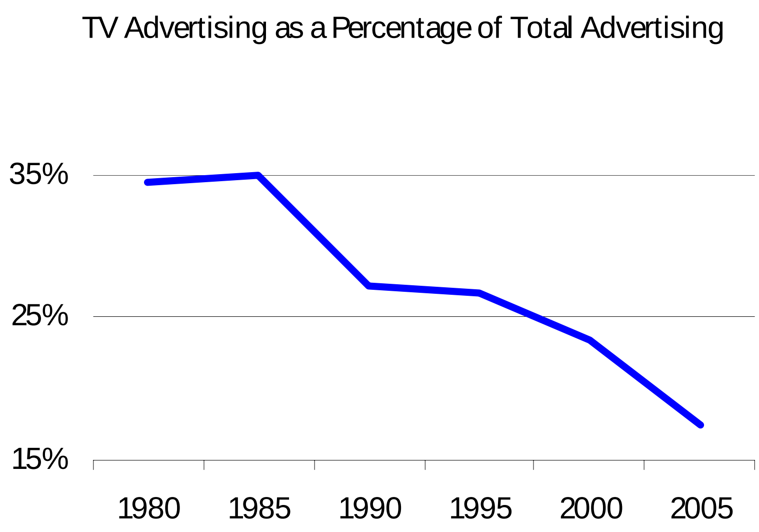
Key Theme – And Becoming A Key Medium at Work

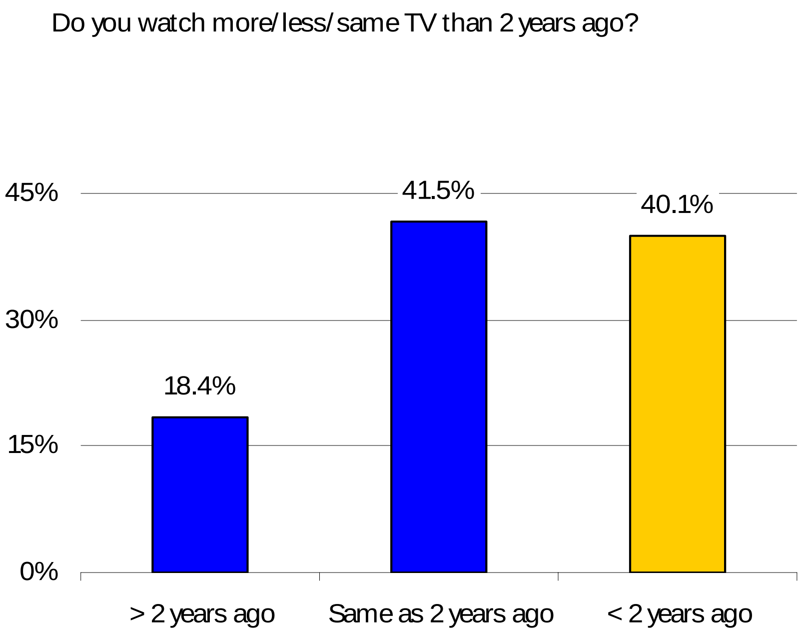




Source: Ball State Center for Media Design

Key Theme – The Decline of Traditional Media Usage





Source: Nielsen, Robert J. Coen - Universal McCann and Piper Jaffray & Co.

Key Theme – The Decline of Traditional Media Usage

1998 - 1999 Broadcast Season			**2006 - 2007 Broadcast Season** (Through December 17)		
	Household			Household	
Program	**Rating**	**Share**	**Program**	**Rating**	**Share**
E.R.	17.8	29	Dancing with the Stars	13.5	20
Friends	15.7	26	Desperate Housewives	13.3	19
Frasier	15.6	24	Grey's Anatomy	13.3	20
NFL Monday Night Football	13.9	22	CSI	13.1	19
Jesse	13.7	22	Dancing with the Stars Results	12.7	20
Veronica's Closet	13.7	21	CSI Miami	11.3	18
60 Minutes	13.2	22	Sunday Night Football	11.1	17
Touched By An Angel	13.1	20	Criminal Minds	10.8	16
CBS Sunday Movie	12.1	19	Lost	10.7	16
20/20 Wed	11.2	19	CSI: NY	10.6	18
Average	14.0	22.4	Average	12.0	18.3
% decline				**-14%**	**-18%**

Source: Nielsen, Robert J. Coen - Universal McCann and Piper Jaffray & Co.

Key Theme – 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

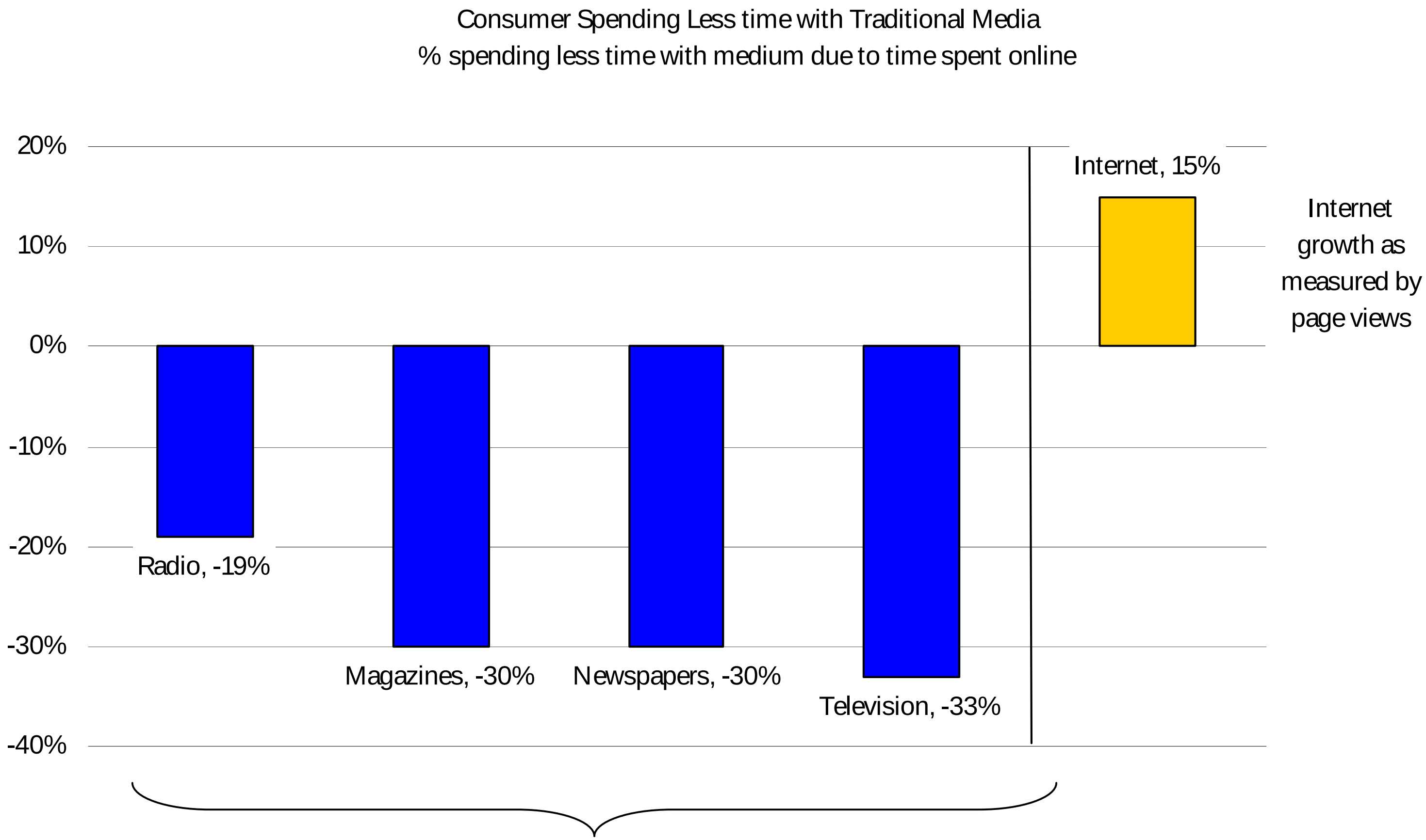
1986

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

Key Theme – Fragmentation of Media Consumption

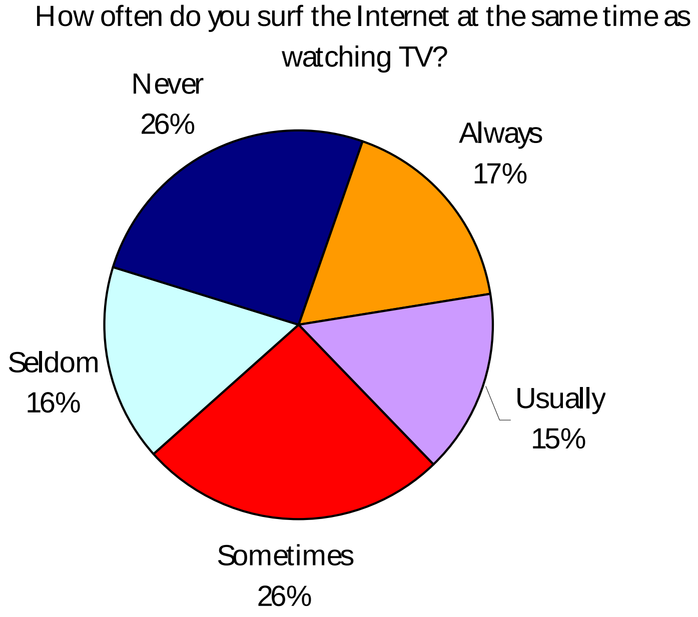


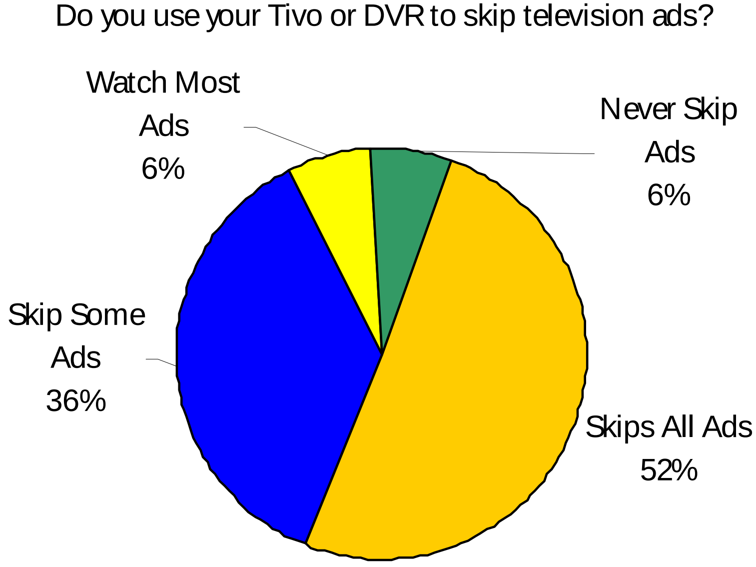
Users are spending less time with traditional media`

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

But Wait, It Gets Worse: 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





Source: Piper Jaffray & Co. 2006 Online Media Survey

Key Theme – 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.

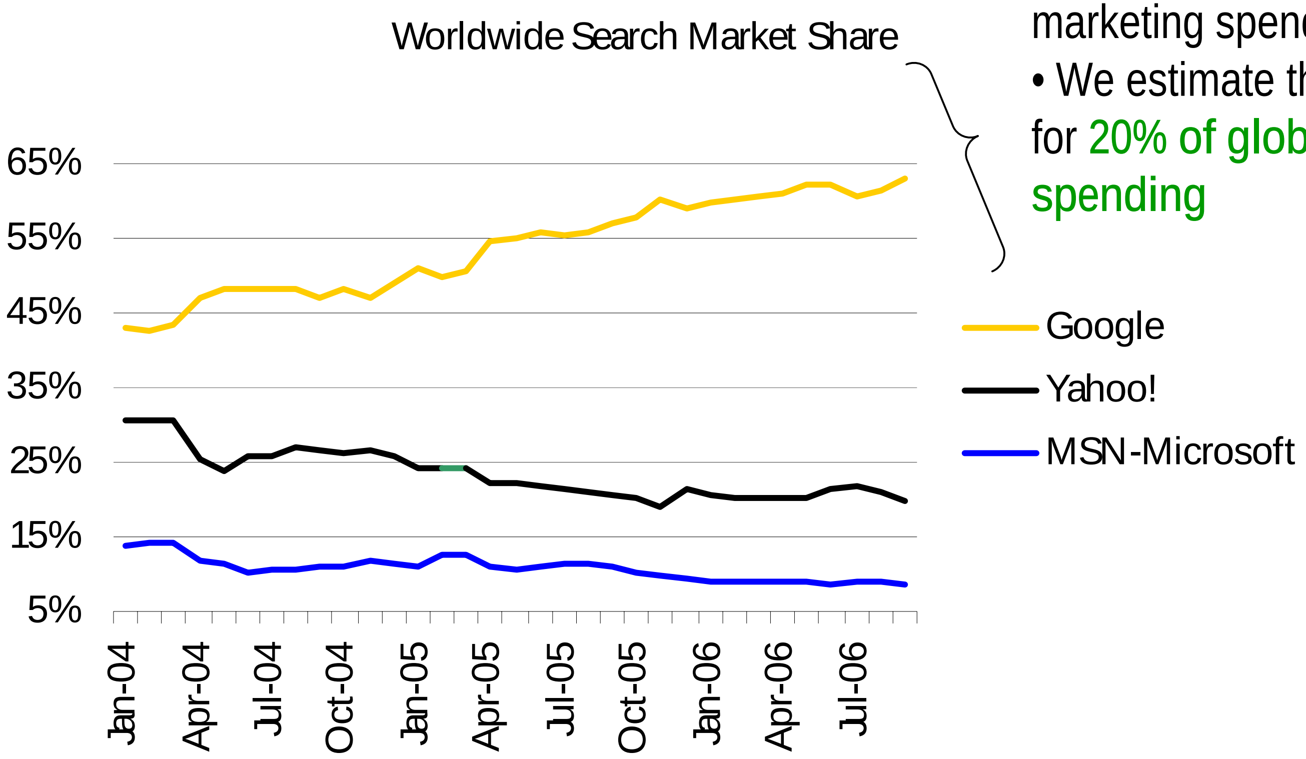
The Web Advantage: Search has become the New Portal

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

Google Local

Source: Piper Jaffray & Co.

Google's Dominance is Increasing

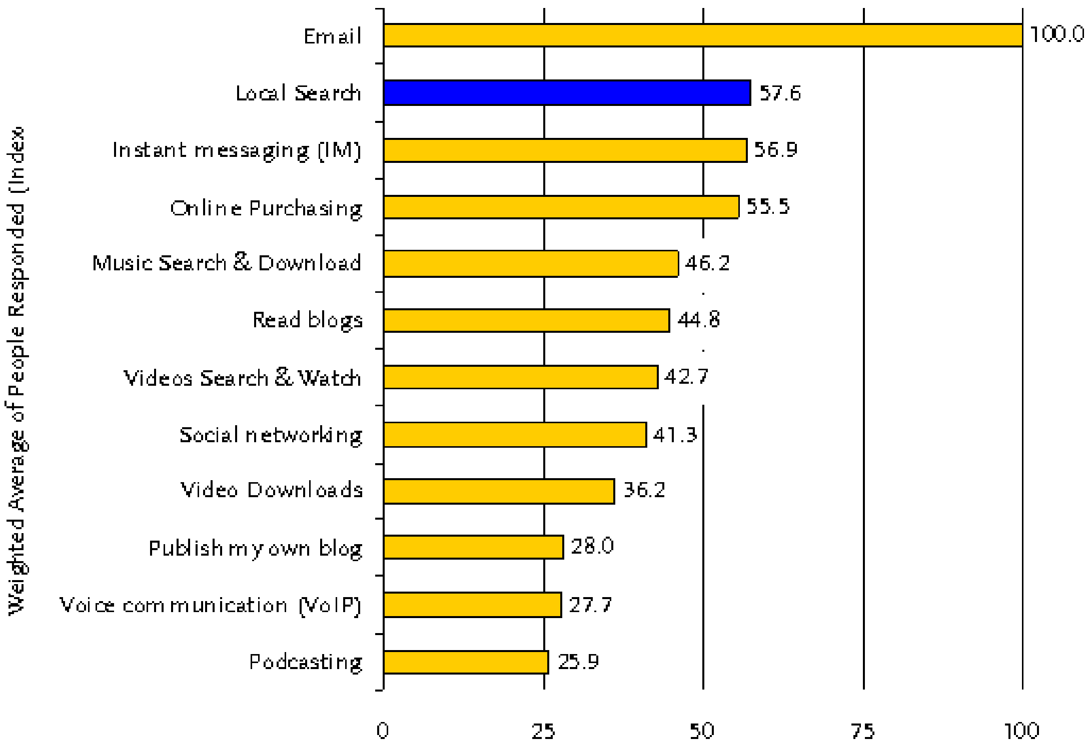


- Google controls some 60% of the worldwide search query volume and percentage of the total search marketing spend
- We estimate that Google accounted for 20% of global online advertising spending

Source: ComScore Networks

Expect Local Search To Be A Major Growth Driver

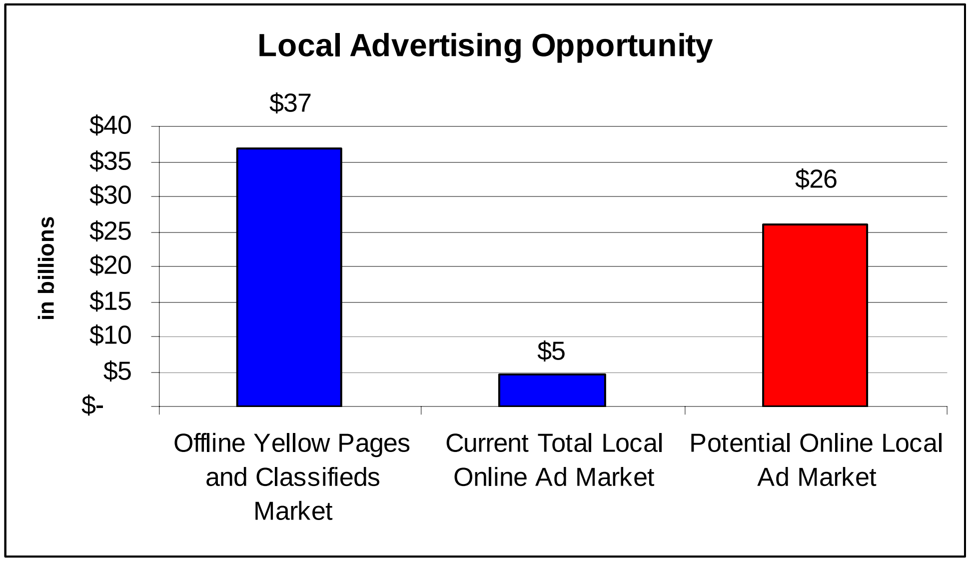
- Local search queries comprise 10%-30% of search queries
- Expect local search to comprise as much as 50% of search queries longer term
- According to our research, local search is second most frequent online service



Source: Piper Jaffray & Co.

Tremendous Opportunity in Migration of Local Ad Dollars

- Local search ad revenue only comprises approximately $1.0B (or 10% of U.S. search market)
- Online yellow pages ad revenue comprises approximately $800M (or 5% of Print Yellow Pages)
- Online classifieds ad revenue comprises approximately $2.8B
- Total local online ad market = $4.6B
- The offline yellow pages and classified markets = $37B
- We believe 70% of the offline yellow pages and classified markets can migrate online longer term
- Potential online local ad market = $25.9B



Key Local Search Trends

- Mapping and satellite imagery becoming an integral part pf local search
- Ease of use aids adoption
- Expect dominant search engines (Google, Yahoo!, Ask.com, MSN and AOL) to take share from offline classified and yellow pages players, especially as click-to-call gains traction

The Old Media's Changing Perception of Google: Join 'em

"Agence France-Presse has sued Google Inc. for copyright infringement, alleging that the Internet search engine included AFP headlines, news summaries and photographs published without permission. In a suit filed in a Washington court, AFP sought damages and interest of at least $17.5 million (€13.1 million) and an interdiction on the publication of its text and photos without prior agreement."

- Reuters, March 18, 2005

"The Times of London, owned by New York-based News Corp., is training journalists to write in a way that makes their articles more likely to appear among Google's unpaid search results. "You make sure key phrases and topic words are embedded in the top paragraph and headlines," says Zach Leonard, the paper's digital-media publisher" … "Newspapers are buying search words on Google Inc. so that links to their Web sites pop up first when people type in a search. The Daily Telegraph, for example, bought the phrase "North Korea Nuclear Test" after the country detonated a nuclear device last October."

- Wall Street Journal, January 12, 2007

The Upshot: 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.

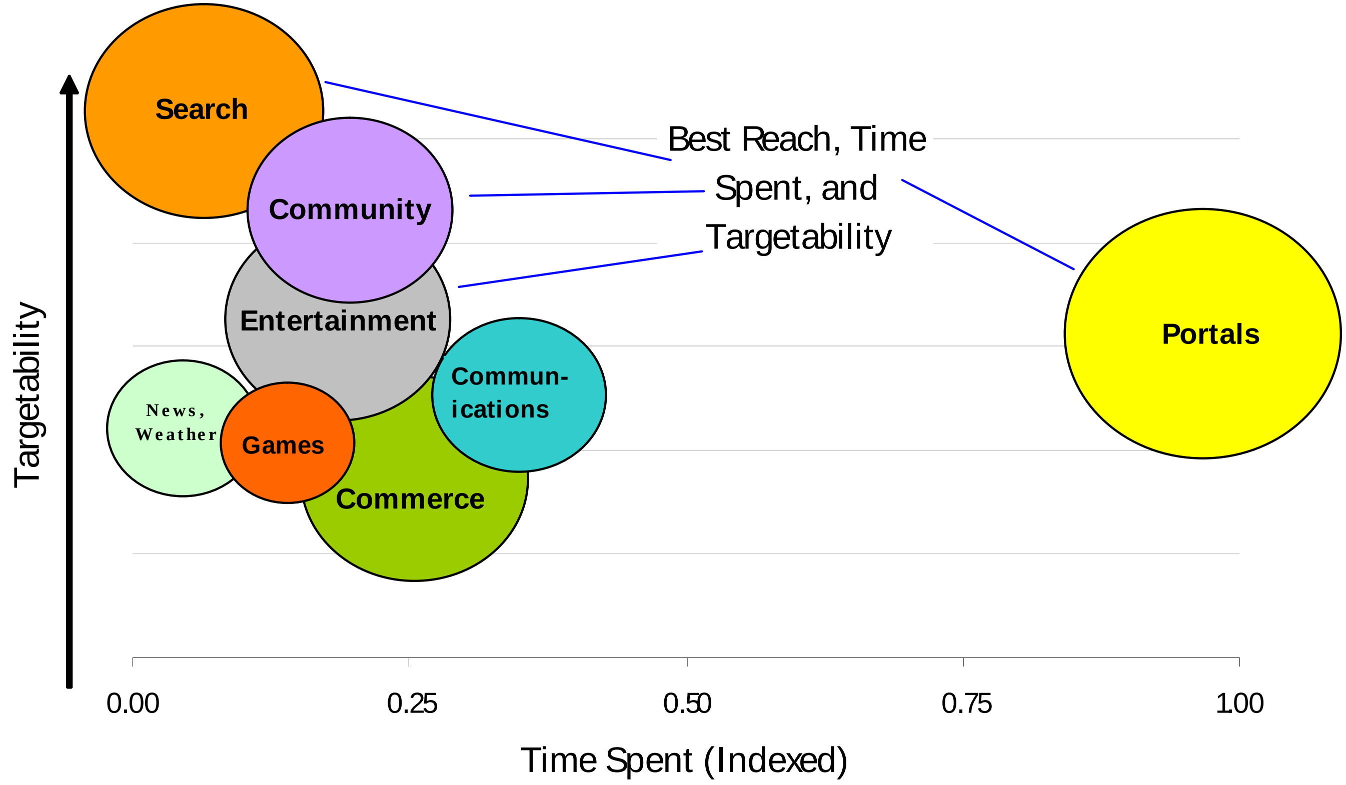
6. Communications. Not very suitable for many types of branding. Relatively low targetability,

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.

The Advertiser-Value Position of the Eight Types of Inventory

- Portals maintain the highest reach, but the fastest growing category of destinations are 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**

Local Search Opportunity

Source: Piper Jaffray & Co.

Thank You!

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

Analyst Certification—Safa Rashtchy, Aaron Kessler

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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 investment 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.

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