United States

SG Cowen & Co.

Internet & New Media

Latest Survey Results

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Online Advertising: End Of Quarter Update

Conclusion: We have updated our June 10th keyword pricing survey to reflect data through June 30th. The cost-per-click (CPC) of our 3,300 keyword universe increased 2.4% in June, but declined 1.7% in the second quarter. In addition, we are recapping the following points from our recent survey: (1) channel checks with search engine marketing firms indicate conversion rates continue to improve and that pricing was flat to slightly up in Q2:05; (2) our June 16th conference call with a leading global SEM firm indicated that volume, ROI and keyword pricing for corporate paid search advertisers increased q/q; and (3) Google and Yahoo gained share in the online ad market in Q1:05. We remain positive on Google ($295.54) and Yahoo ($34.63) shares.

- **The average CPC of our keyword universe was down 1.7% sequentially in Q2:05.** During the second quarter, keyword prices increased in the telecom vertical (up 7%) and retail vertical (up 4%). The auto, finance, travel and technology verticals experienced keyword price declines ranging from 2% to 12% in the quarter.

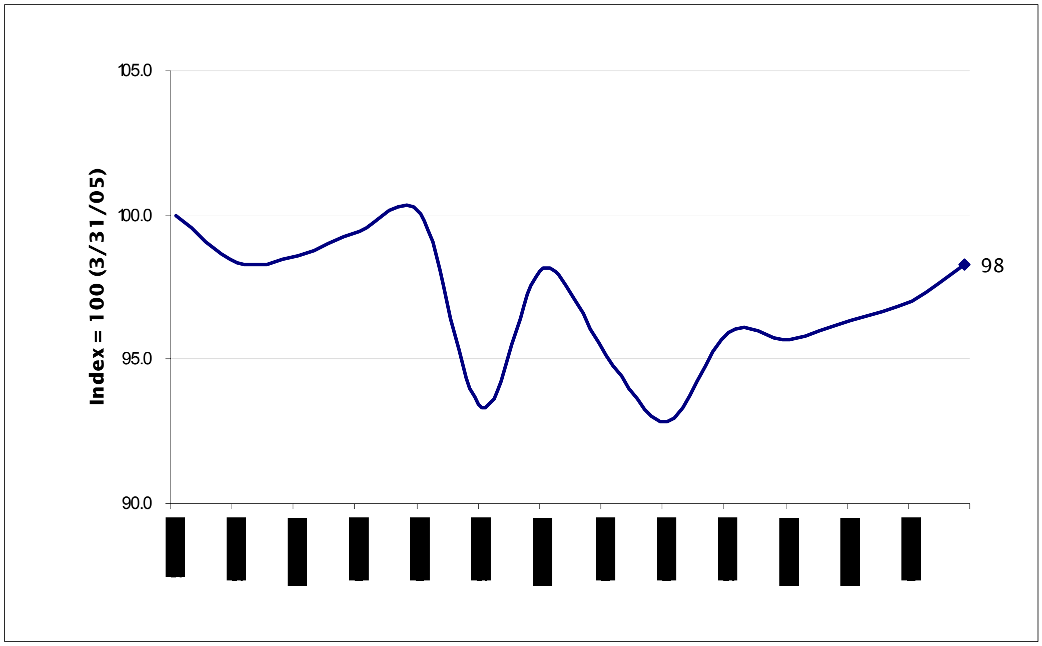
- **Channel checks indicate that keyword pricing was flat to marginally up in the second quarter.** Checks with SEM firms indicate that keyword pricing was flat to marginally up in Q2 due to improving conversion rates and a shift to longer "tail" keyword phrases. Furthermore, our recent conference call with a global SEM firm that services corporate clients indicated that keyword pricing and search volumes were up q/q in Q2.

- **We estimate Google's share of the online ad market is up from 9% in Q1:04 to 14% in Q1:05 and expect share gains to continue.** Yahoo's market share increased by 100 bps y/y to 13%; MSN, AOL and smaller websites have lost aggregate market share of 500 bps y/y. AOL's growth has been hurt by lower inventory due to a shrinking subscriber base. (Share estimates exclude revenue from affiliates).

Please see addendum of this report for important disclosures.

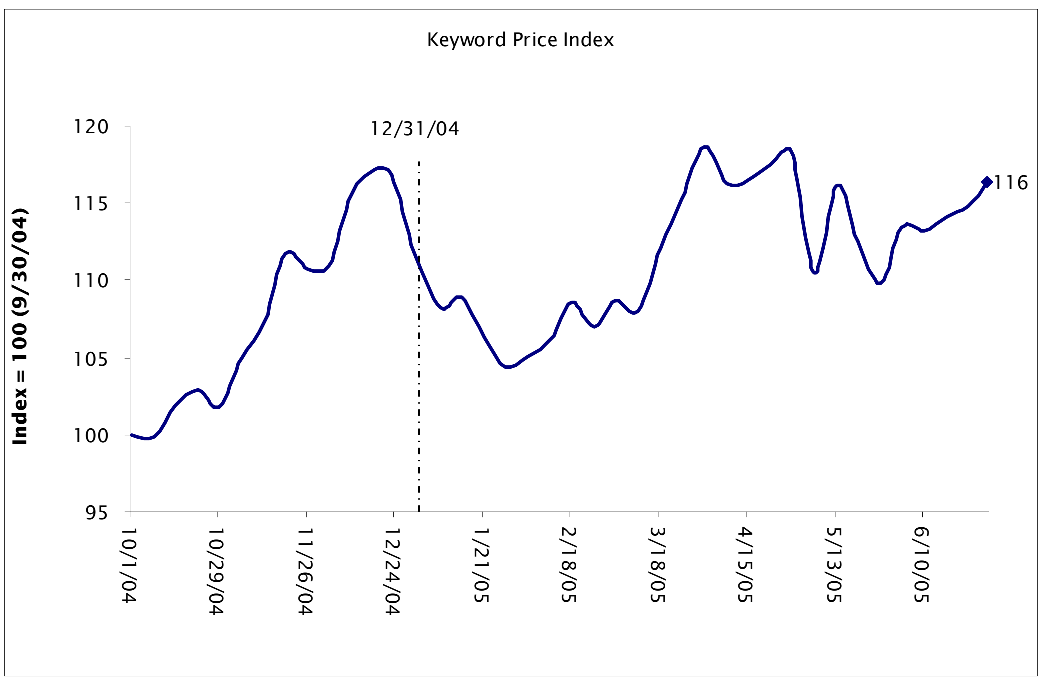
Note: Given the scale and complexity of the paid search market, we believe our results should be viewed as a directional indicator. We follow the pricing of 3,300 popular keyword phrases (up from 2,000 in Q1:05) on the Yahoo/Overture network in six major advertising verticals: retail; travel; finance; telecom; autos; and technology. We started tracking keyword pricing data on 9/30/04.

CPC Weighted Index of Popular Keywords (3/31/05 to 6/30/05)



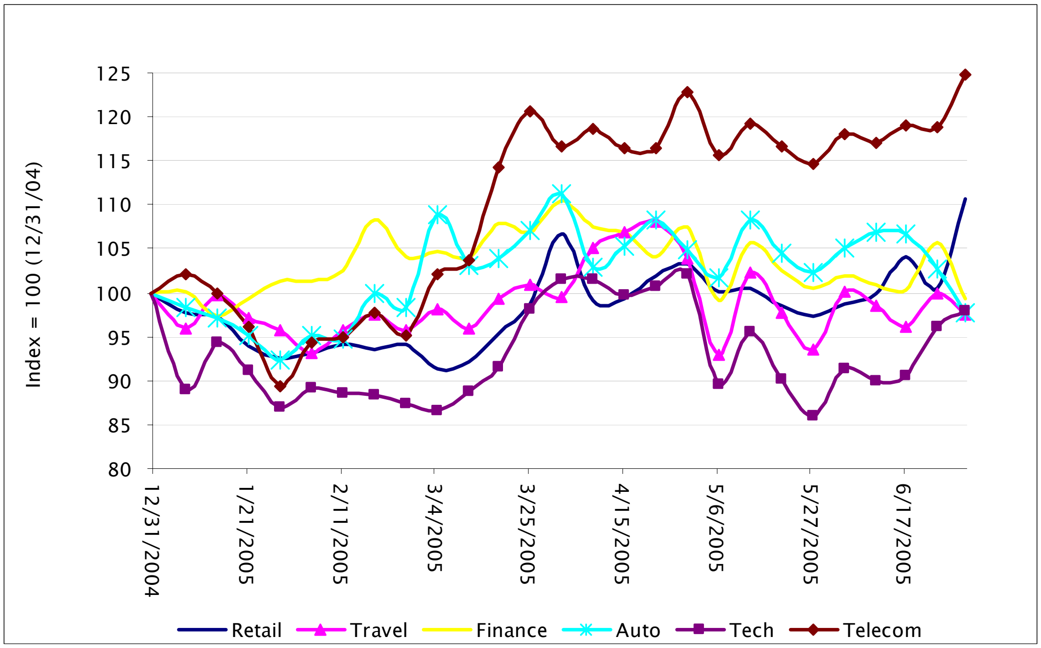
Source: SG Cowen & Co.

CPC Weighted Index of Popular Keywords (9/30/04 – 6/30/05)



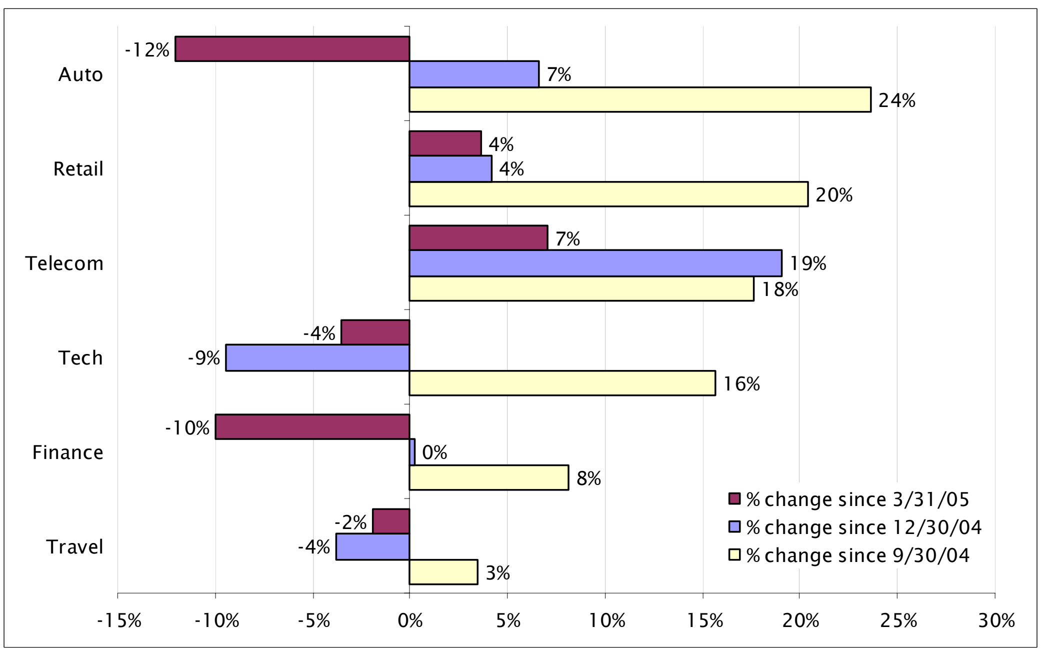
Source: SG Cowen & Co.

CPC Keyword Index of Major Advertising Verticals (Year-To-Date)



Source: SG Cowen & Co.

CPC of Major Advertising Verticals (% Change)



Source: SG Cowen & Co.

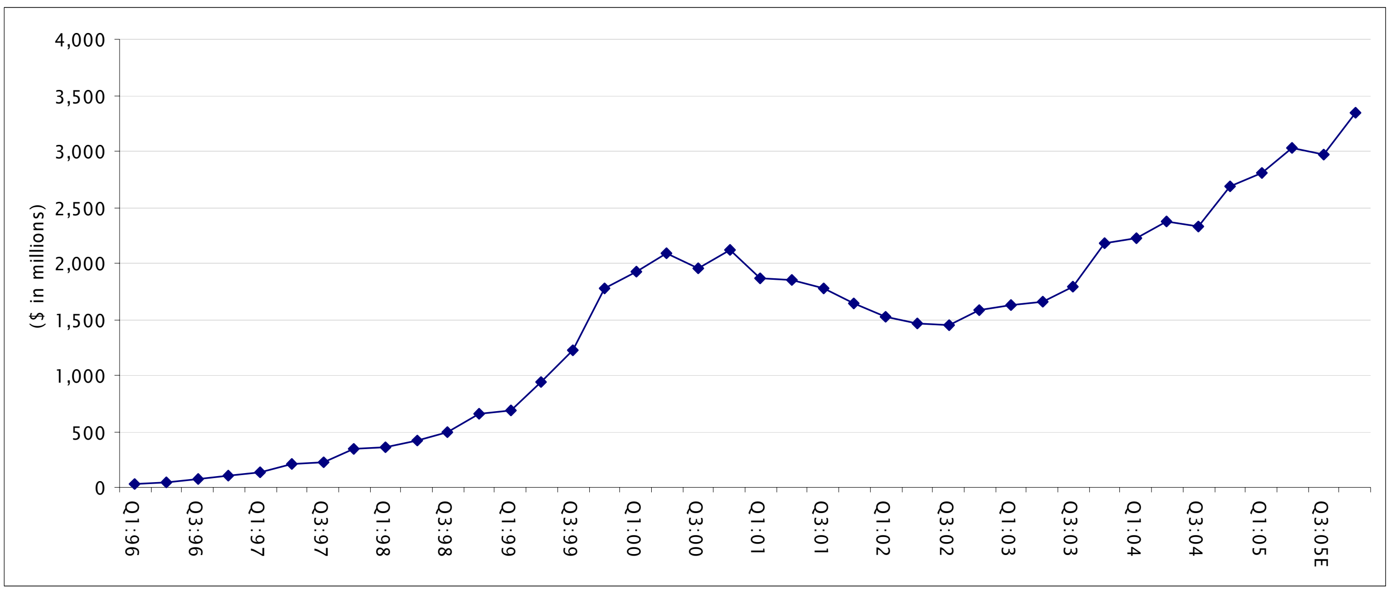
U.S. Internet Advertising Industry – Net Market Share (analysis excludes revenue from affiliates)

$ in millions	2002 Q1:Mar	2002 Q2:Jun	2002 Q3:Sep	2002 Q4:Dec	2002	2003 Q1:Mar	2003 Q2:Jun	2003 Q3:Sep	2003 Q4:Dec	2003	2004 Q1:Mar	2004 Q2:Jun	2004 Q3:Sep	2004 Q4:Dec	2004	2005 Q1:Mar
U.S. Internet Advertising Market Share																
Yahoo	132	147	162	186	627	180	198	216	283	878	278	295	317	375	1,265	371
Market Share (%)	9%	10%	11%	12%	10%	11%	12%	12%	13%	12%	12%	12%	14%	14%	13%	13%
Google	29	50	70	90	239	115	131	146	171	563	208	237	268	345	1,057	401
Market Share (%)	2%	3%	5%	6%	4%	7%	8%	8%	8%	8%	9%	10%	11%	13%	11%	14%
MSN	84	112	122	131	449	189	194	194	230	808	270	262	239	270	1,041	281
Market Share (%)	6%	8%	8%	8%	7%	12%	12%	11%	11%	11%	12%	11%	10%	10%	11%	10%
AOL	311	274	214	254	1,053	179	143	142	163	628	171	177	198	202	748	201
Market Share (%)	20%	19%	15%	16%	18%	11%	9%	8%	7%	9%	8%	7%	8%	8%	8%	7%
Other	963	876	884	919	3,642	969	993	1,094	1,334	4,390	1,303	1,398	1,312	1,502	5,515	1,556
Market Share (%)	63%	60%	61%	58%	61%	59%	60%	61%	61%	60%	58%	59%	56%	56%	57%	55%
Total U.S. Internet Advertising Market	**1,520**	**1,458**	**1,451**	**1,580**	**6,009**	**1,632**	**1,660**	**1,793**	**2,182**	**7,267**	**2,230**	**2,369**	**2,333**	**2,694**	**9,626**	**2,810**
Market Share (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
% Change (y/y)	*-19%*	*-21%*	*-18%*	*-4%*	*-17%*	*7%*	*14%*	*24%*	*38%*	*21%*	*37%*	*43%*	*30%*	*23%*	*32%*	*26%*

Note:
Our analysis eliminates double counting of search traffic; for example, Google revenues represent our estimate of U.S. Google.com AdWords revenues.
AOL revenues exclude Advertising.com revenues. Yahoo revenues include our estimate of U.S. branded advertsing, non-affiliate search, and listings.

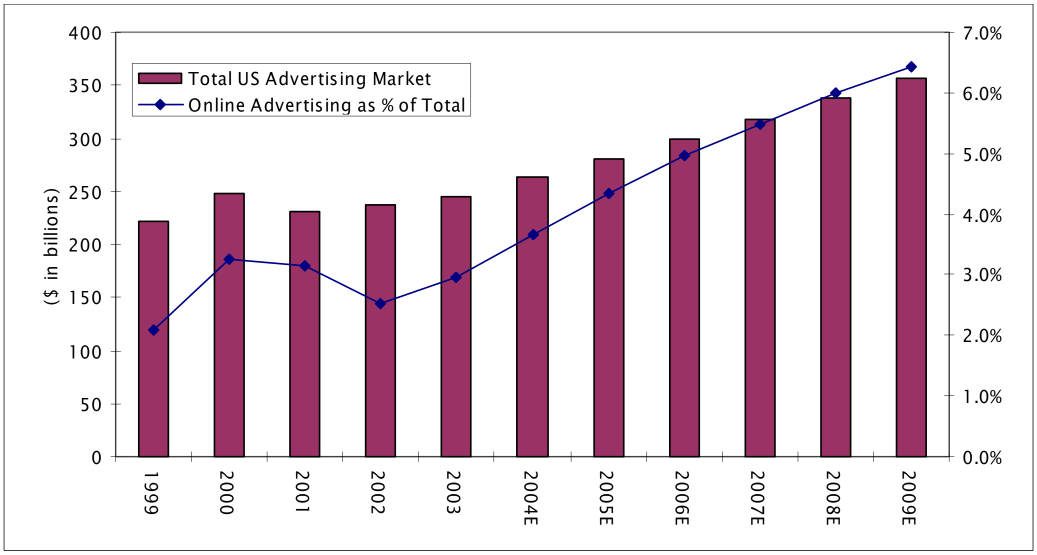
Source: Interactive Advertising Bureau, company reports, and SG Cowen & Co.

U.S. Quarterly Online Advertising Market Revenues



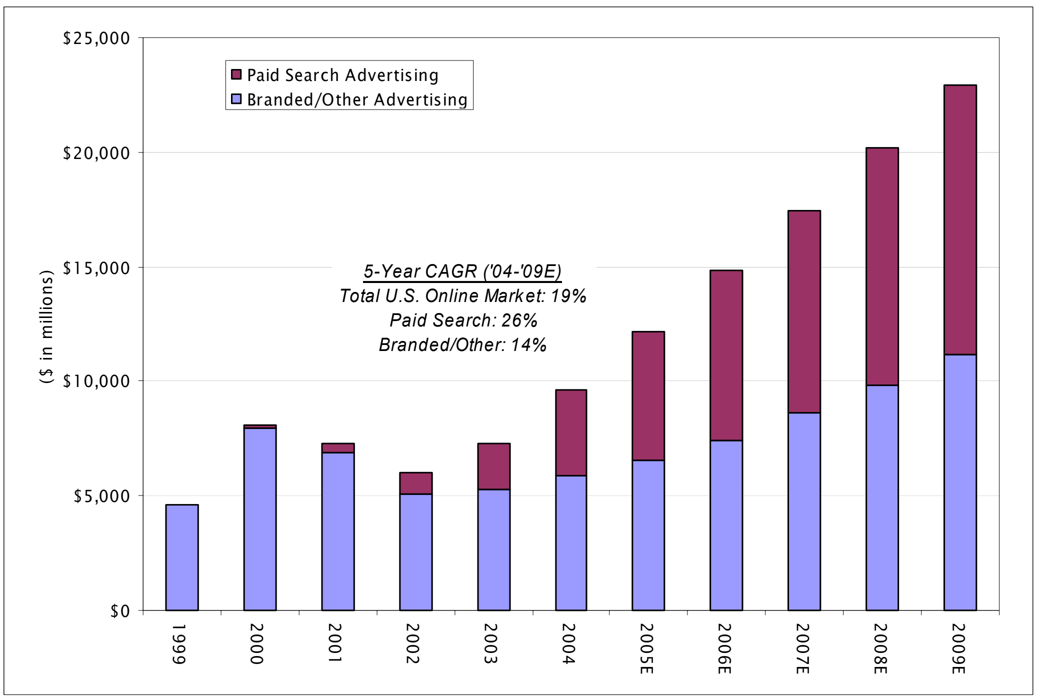
Source: Interactive Advertising Bureau and SG Cowen & Co.

U.S. Advertising Industry Projections



Source: Universal McCann, IAB, and SG Cowen & Co.

U.S. Online Advertising Market Projections



$ in millions	2002	2003	2004	2005E	2006E	2007E	2008E	2009E	'04-'09 CAGR
Branded/Other Advertising	5,047	5,253	5,911	6,522	7,424	8,595	9,846	11,180	14%
Paid Search Advertising	962	2,014	3,715	5,624	7,410	8,870	10,367	11,760	26%
Total U.S. Online Ad Market	6,009	7,267	9,626	12,146	14,834	17,465	20,213	22,939	19%

Source: IAB, SG Cowen & Co., and company reports.

Worldwide Paid Search Market Projections

$ in millions	2002	2003	2004	2005E	2006E	2007E	2008E	2009E	'04-'09 CAGR
Worldwide Search Revenues									
Google Affiliates	104	629	1,554	2,473	3,188	3,921	4,627	5,321	28%
Google Search	307	792	1,589	2,879	3,906	4,922	5,906	6,892	34%
Yahoo Affiliates	476	727	1,373	2,238	3,291	3,718	4,313	4,874	29%
Yahoo Search	134	307	583	833	1,101	1,376	1,596	1,803	25%
MSN Post-Yahoo Affiliate	0	0	0	0	350	975	1,316	1,645	NA
Other	100	110	253	393	471	554	637	713	23%
Total Search Revenues	1,121	2,565	5,352	8,816	12,306	15,466	18,395	21,249	32%
% Change	*NA*	*129%*	*109%*	*65%*	*40%*	*26%*	*19%*	*16%*	
Worldwide Search Market Share									
Google Affiliates	9%	25%	29%	28%	26%	25%	25%	25%	
Google Search	27%	31%	30%	33%	32%	32%	32%	32%	
Yahoo Affiliates	42%	28%	26%	25%	27%	24%	23%	23%	
Yahoo Search	12%	12%	11%	9%	9%	9%	9%	8%	
MSN Post-Yahoo Affiliate	0%	0%	0%	0%	3%	6%	7%	8%	
Other	9%	4%	5%	4%	4%	4%	3%	3%	
Total Search Revenues	100%	100%	100%	100%	100%	100%	100%	100%	
U.S. Search Revenues									
Total U.S. Revenues	962	2,014	3,715	5,624	7,410	8,870	10,367	11,760	26%
% Change	*NA*	*109%*	*84%*	*51%*	*32%*	*20%*	*17%*	*13%*	
% of Worldwide	*86%*	*79%*	*69%*	*64%*	*60%*	*57%*	*56%*	*55%*	
International Search Revenues									
Total Intl Revenues	159	550	1,638	3,192	4,897	6,596	8,028	9,489	42%
% Change	*NA*	*246%*	*198%*	*95%*	*53%*	*35%*	*22%*	*18%*	
% of Worldwide	*14%*	*21%*	*31%*	*36%*	*40%*	*43%*	*44%*	*45%*	

Source: SG Cowen & Co. and company reports

Addendum

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Rating	Definition
Strong Buy (1)	Stock expected to outperform the S&P 500 by over 25%
Outperform (2)	Stock expected to outperform the S&P 500 by 10-25%
Market Perform (3)	Stock expected to out/underperform the S&P 500 by +/-10%
Underperform (4)	Stock expected to underperform the S&P 500 by at least 10%

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period.

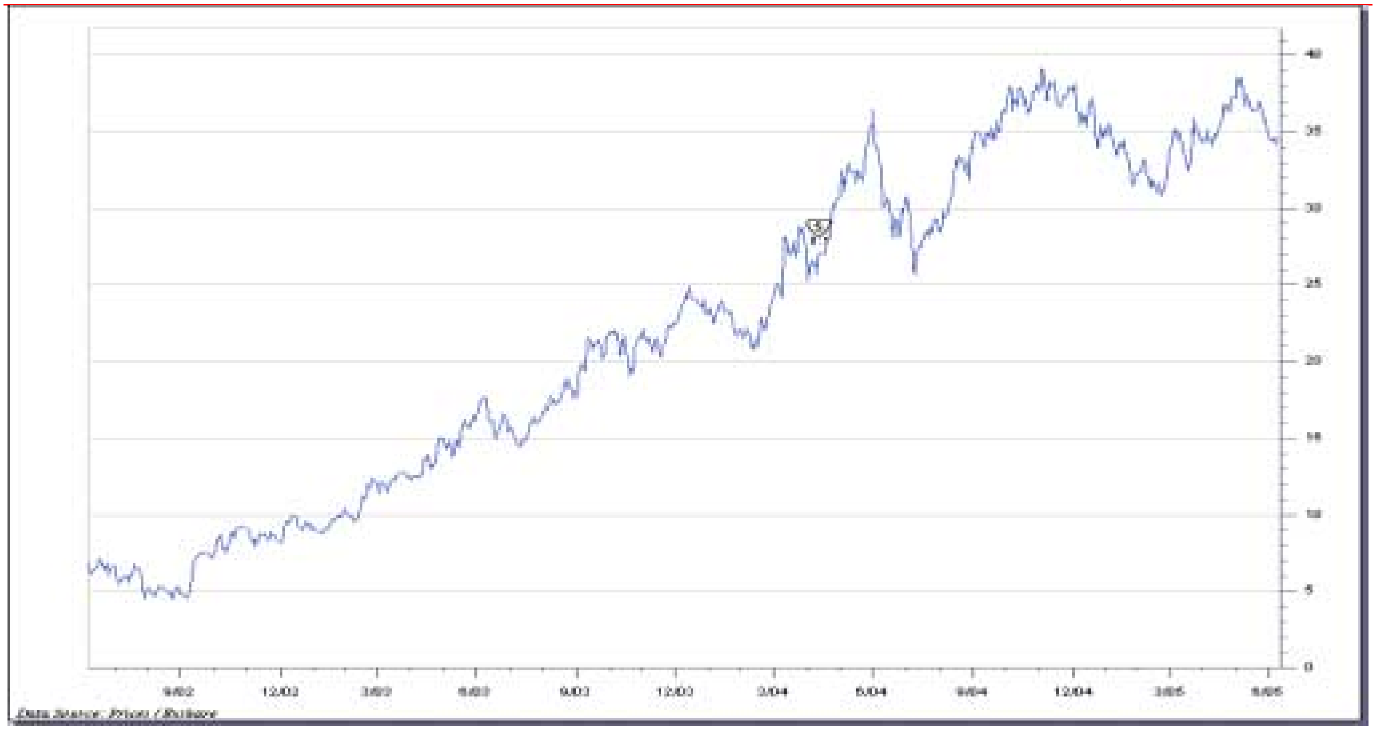
SG COWEN & CO. RATING DEFINITIONS PRIOR TO 9/9/2002

Rating	Definition
Strong Buy (1)	Analyst expects the stock to outperform the market over the next 6-12 months
Buy (2)	Analyst expects the stock to outperform the market over the next 12-18 months
Neutral (3)	Analyst expects the stock to perform in line with the market over the next 12 months
Underperform (4)	Analyst expects the stock to underperform the market over the next 12 months

GOOG—SG COWEN & CO. HISTORICAL PRICE CHART AS OF 07/07/2005 (US$)

Initiated on 09/27/04;
SG Cowen & Co., LLC eliminated price targets on 09/09/02;
SG Cowen & Co., LLC eliminated investment ratings on 03/01/04.

YHOO—SG COWEN & CO. HISTORICAL PRICE CHART AS OF 07/07/2005 (US$)



Initiated on 08/04/04;
SG Cowen & Co., LLC eliminated price targets on 09/09/02;
SG Cowen & Co., LLC eliminated investment ratings on 03/01/04.