



ONLINE PAID CONTENT U.S. MARKET SPENDING REPORT

Conducted in partnership with



This report covers Q1 and Q2 of 2005

October 2005

TABLE OF CONTENTS

| | |
|--|-----------|
| Introduction: Letter from the OPA President | 3 |
| Executive Summary..... | 4 |
| Research Details | 5 |
| ♦ Growth Rate for H1 2005 Higher Than for Same Period in 2004 | 5 |
| ♦ Online Paid Content Spending Reaches Half a Billion Dollars in Q2 2005..... | 6 |
| ♦ Entertainment/Lifestyles Zooms Past Personals/Dating to Become Largest Paid-Content Category | 7 |
| ♦ Revenue for Most Categories Is Up over H1 2004 | 8 |
| ♦ Half Are Up, Half Are Slightly Down from Q4 2004 | 9 |
| ♦ Music Sales Continue to Drive Shift from Subscription to Single-Purchase Sales of Paid Content | 10 |
| ♦ Subscription Pricing Still Dominates Most Paid Content Categories | 11 |
| ♦ Monthly Subscriptions Continue to Gain Share | 11 |
| ♦ Monthly Subscriptions Account for Majority of Subscription Revenue in Most Categories | 12 |
| ♦ Music Downloads Help Low-End Single-Purchase Sales to Soar | 13 |
| ♦ The Number of U.S. Consumers Buying Online Content Grows, While Market Penetration and Per-person Spending Remain Flat | 15 |
| Conclusions | 16 |
| Appendices | 17 |
| ♦ <i>Appendix A: Research Scope and Methodology.....</i> | <i>17</i> |
| ♦ <i>Appendix B: Definitions of Content Categories</i> | <i>18</i> |
| ♦ <i>Appendix C: About the OPA and About comScore Networks</i> | <i>19</i> |

INTRODUCTION

As I write this in October 2005, it has been less than a week since Apple introduced its new Video iPod. Like its pictureless older brother, this hot new gadget is likely to fuel content development to feed it, leading to continued growth in online content spending in the already booming Entertainment/Lifestyles category.

Growth in the Entertainment/Lifestyle category, driven by online music sales, has rippled through most every aspect of this report. Not only does growth in the Entertainment/Lifestyles category account for a large portion of the overall growth in online paid content spending; it accounts for the ballooning figures for single purchase content sales (now 20.1% of all revenue for paid content, up from 11.0% in 2003) as compared to subscriptions, and for the increasing percentage of all online paid content income attributed to low-price-point sales (under \$5 per transaction), as compared to mid- and upper-range figures.

Oddly, the only figures that don't yet seem affected are Market Penetration (the percentage of online users who make purchases online) and Average Spending Per Consumer, which has been stuck near the \$100-per-year mark for the last three years.

We don't yet know what effect the Video iPod will have on consumers' media consumption habits and whether we'll see these last two metrics move in response. But we certainly look forward to tracking these trends and reporting on new ones as they emerge.

Yours truly,

Michael Zimbalist
President
Online Publishers Association

EXECUTIVE SUMMARY

Online content spending reaches \$500 million in Q2 2005

- ◆ For the first time, U.S. consumers spent over half a billion dollars for online content in a single quarter.
- ◆ The total \$986.8 million in online-content revenue for the first half of 2005 represents an increase of 15.7% compared to the same period in 2004.

Entertainment/Lifestyles becomes the largest paid content category

- ◆ Consumer spending on Entertainment/Lifestyles content, spurred by sales of music online, reached \$264.8 million in H1 2005, surpassing the Personals/Dating category to rank first among all paid content categories.
- ◆ Personals/Dating remained a strong second-highest revenue producer, with online content sales of \$245.2 million in H1 2005.
- ◆ Business/Investment Content, which ranked first in revenue in 2001 and second-highest in 2002 and 2003, dropped to third place in 2004 and remained there for the first half of 2005.
- ◆ Of the eleven categories tracked for this report, the top three — Personals/Dating, Entertainment/Lifestyles, and Business/Investment — once again accounted for just over two-thirds (67.8%) of online content spending in H1 2005, up slightly from 67.3% for the full year 2004.

Single-purchase share of paid-content sales takes another big leap

- ◆ In 2004, single-purchase sales hit 15.4% of total sales, up from 11.0% in 2003. In H1 2005, single purchases leapt again, to 20.1% of online purchase revenue, driven by sales of music downloads.
- ◆ The growth in digital music track/album sales continues to shift the overall single-purchase versus subscription mix.
- ◆ Single-purchase sales in the Entertainment/Lifestyles category accounted for \$114.9 million in revenue in H1 2005, more than seven times the \$15.9 million total for the category for all of 2003.
- ◆ Among single payments, mid-range payments (between \$5 and \$50) accounted for 68.5% of single-payment revenue for H1 2005, down from 70.0% for the full year 2004. Payments in the highest range, \$50+, were also down, from 12.1% in 2004 to 10.0% in the first half of 2005.
- ◆ Monthly subscriptions accounted for 60.4% of total subscription revenues in H1 2005, up from 57.6% in 2004. The annual-subscription share of total subscription revenues dropped one percentage point, from 32.7% in the full year 2004 to 31.7% in H1 2005.

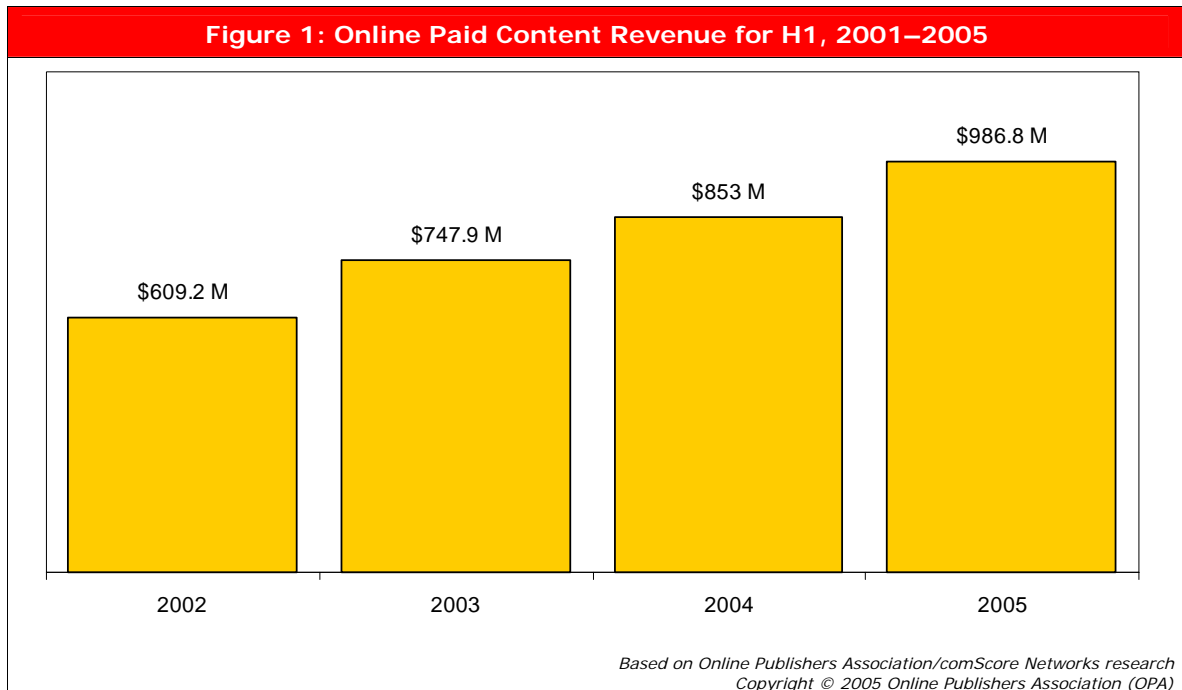
The number of U.S. consumers paying for online content continues to grow while spending on online content per consumer holds constant quarter to quarter

- ◆ Out of a total U.S. online population of 171.0 million in Q2 2005, 19.4 million paid for online content, up 15.6% from the 16.8 million who paid for content online in Q2 2004.
- ◆ The 15.6% growth in paid-content consumers in Q2 2005 over Q2 2004 is substantially greater than the growth of the U.S. Internet population during the same time period (11.9%).

RESEARCH DETAILS

Growth rate for H1 2005 higher than for same period in 2004

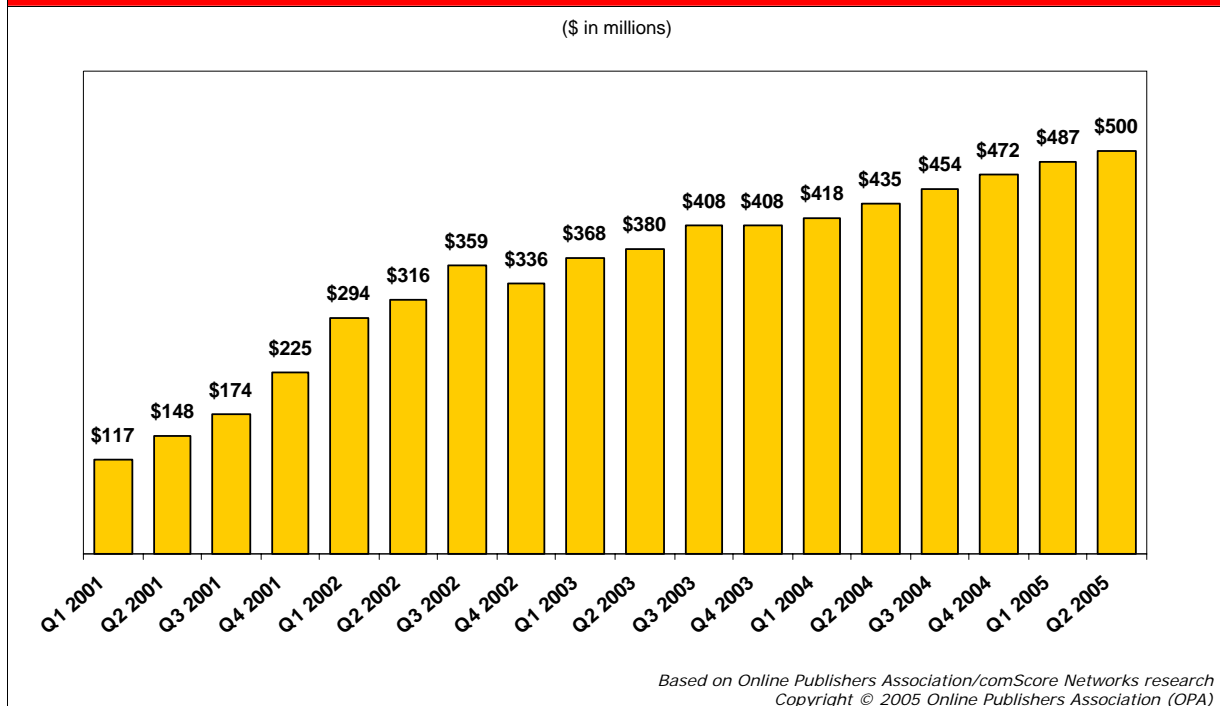
U.S. consumers spent \$986.8 million for online content in the first half of 2005, an increase of 15.7% over the first half of 2004. This compares to the 14.0% increase in H1 2004 over H1 2003.



Online paid content spending reaches half a billion dollars in Q2 2005

In Q2 2005, for the first time, online content spending in a single quarter exceeded \$500 million. In comparing online content spending in the first half of 2005 to the same period last year, the Entertainment/Lifestyles category was the engine of growth in both absolute dollar volume and percentage, as online music sales continued to flourish.

Figure 2: Consumer Spending on Online Content by Quarter



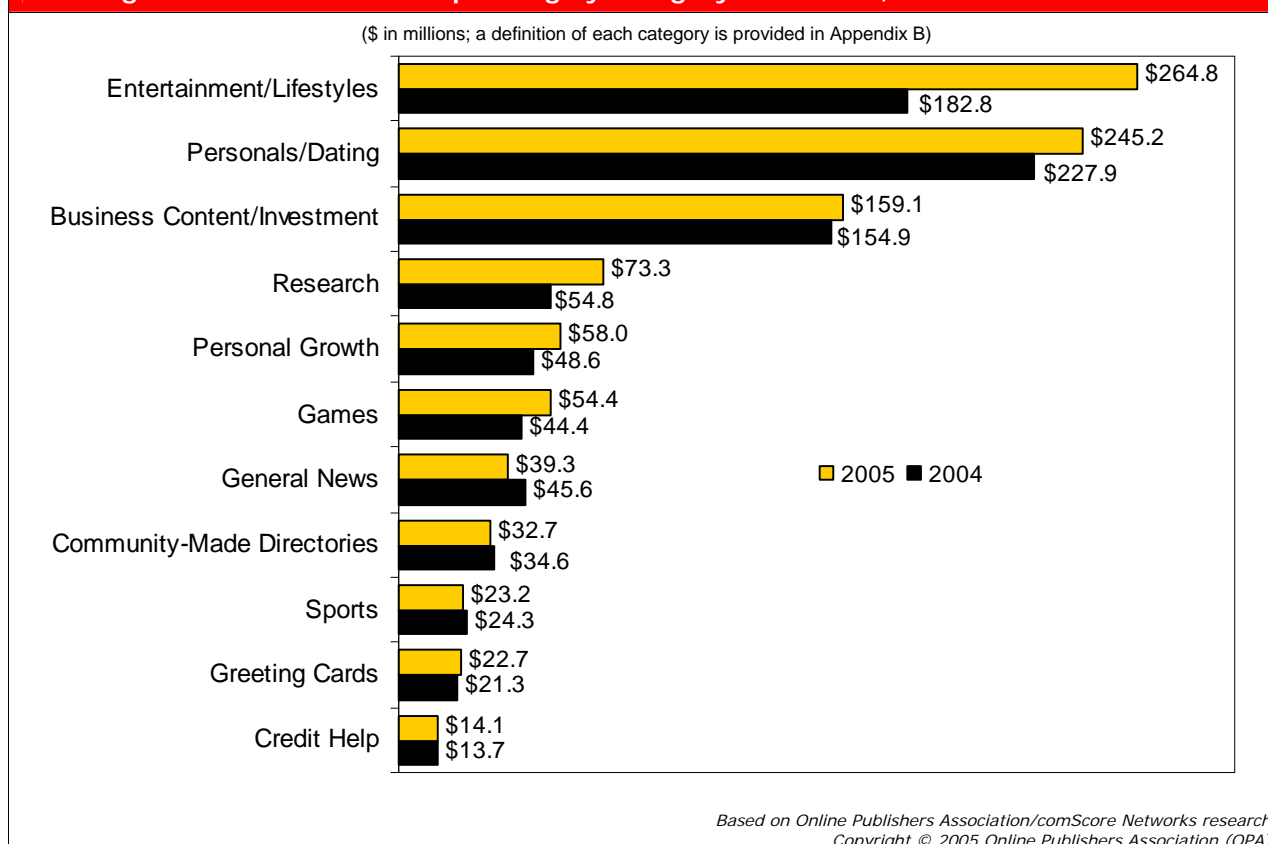
Entertainment/Lifestyles zooms past Personals/Dating to become largest paid content category

In 2004, Entertainment/Lifestyles eclipsed Business/Investment to become the second-largest category of online paid content, behind only Personals/Dating. As 2005 began, online music sales propelled Entertainment/Lifestyles into the number-one spot with a category total of \$264.8 million for the first half of the year, up 44.8% over the same period in 2004. Sales in the Personals/Dating category totaled \$245.2 million in H1 2005, an increase of 7.6% over H1 2004.

The Business/Investment category has remained steady near the \$80 million-per-quarter mark since Q4 2003, down from around \$85 million per quarter for the first three quarters of 2003. After five quarters of year-over-year declines, this category finally reversed the trend, registering a modest 5.5% year-over-year gain in Q2 2005 and easily maintained its rating as one of the top three categories with \$159.1 million in sales in the first half of 2005.

Spending in these three categories — Entertainment/Lifestyles, Personals/Dating, and Business/Investment — accounted for 67.8% of online content spending in H1 2005, up slightly from 66.3% in H1 2004, but about the same as the 67.3% figure for all of 2004.

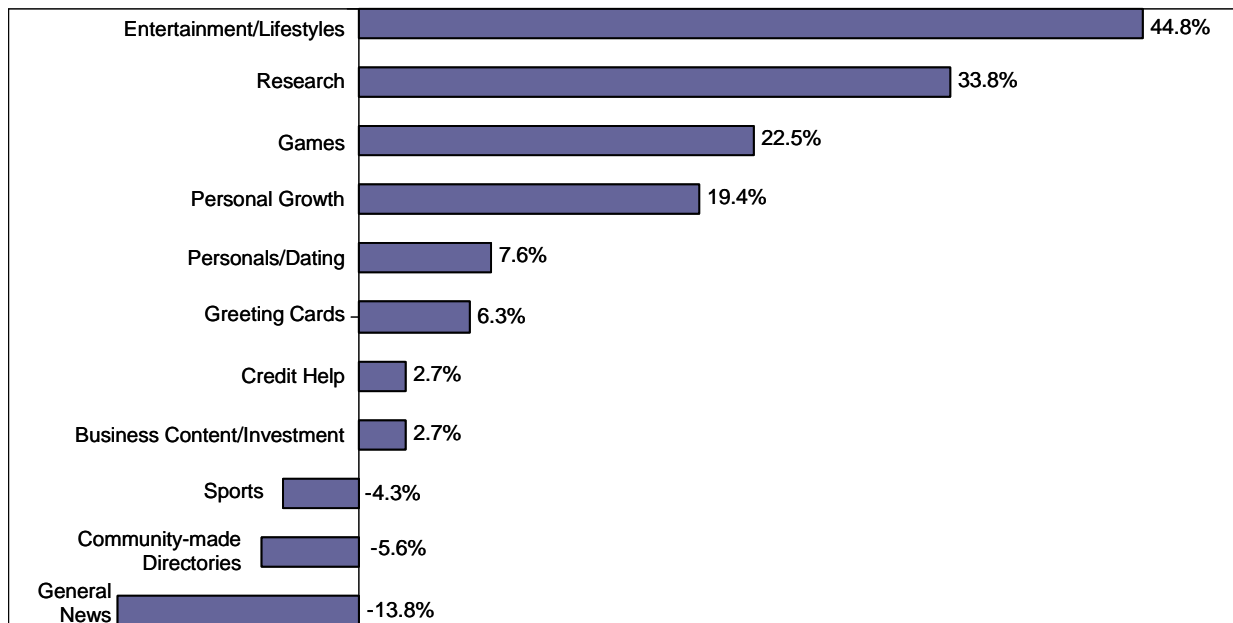
Figure 3: Online Content Spending by Category of Content, H1 2005 and H1 2004



Revenue for most categories is up over H1 2004

The growth rate for the Entertainment/Lifestyles category, 44.8% over the first half of 2004, was the highest year-over-year percentage increase for all categories, but other categories posted high gains, as well. After taking a dip during the first three quarters of 2004, Research surged back with the second-largest percentage gain among categories, a 33.8% increase. Games and Personal Growth were also up significantly, 22.5% and 19.4%, respectively.

Figure 4: Percentage Change, by Category, from H1 2004 to H1 2005



*Based on Online Publishers Association/comScore Networks research
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Half are up, half are slightly down from Q4 2004

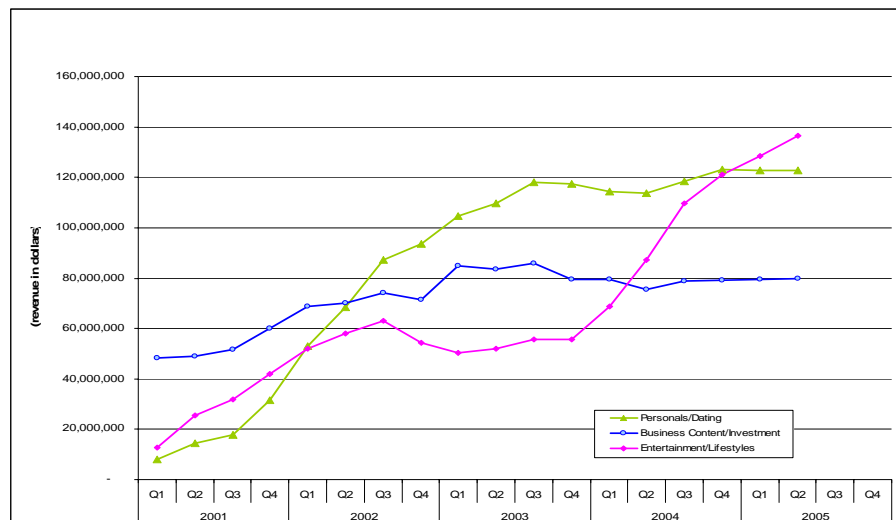
Six categories showed increased revenue in Q2 2005 compared to Q4 2004, while five categories registered slight declines.

While total paid content revenues for the last quarter of 2004 posted a 15.6% increase over Q4 2003, most of the positive side of the ledger was weighted by \$120.9 million in Entertainment/Lifestyles spending, where music sales fueled a 103.4% increase over the same quarter in 2003.

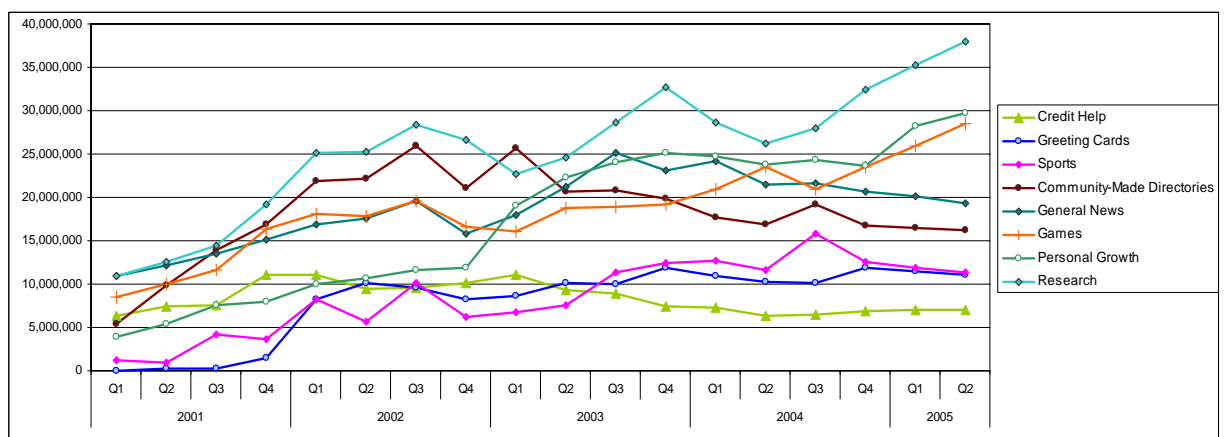
The pattern continued through the first half of 2005. Dollar amounts for many categories remained relatively flat from Q4 2004 through Q2 2005, but the 12.8% growth in the Entertainment/Lifestyles category pumped up overall figures for online content sales. Bucking the stagnation were Games (up 21.1% from Q4 2004 to Q2 2005), Personal Growth (up 26.0%), and Research (up 17.3%).

Figures 5 & 6: Quarterly Online Content Spending by Category

Top 3 Content Categories



Other 8 Categories



Based on Online Publishers Association/comScore Networks research
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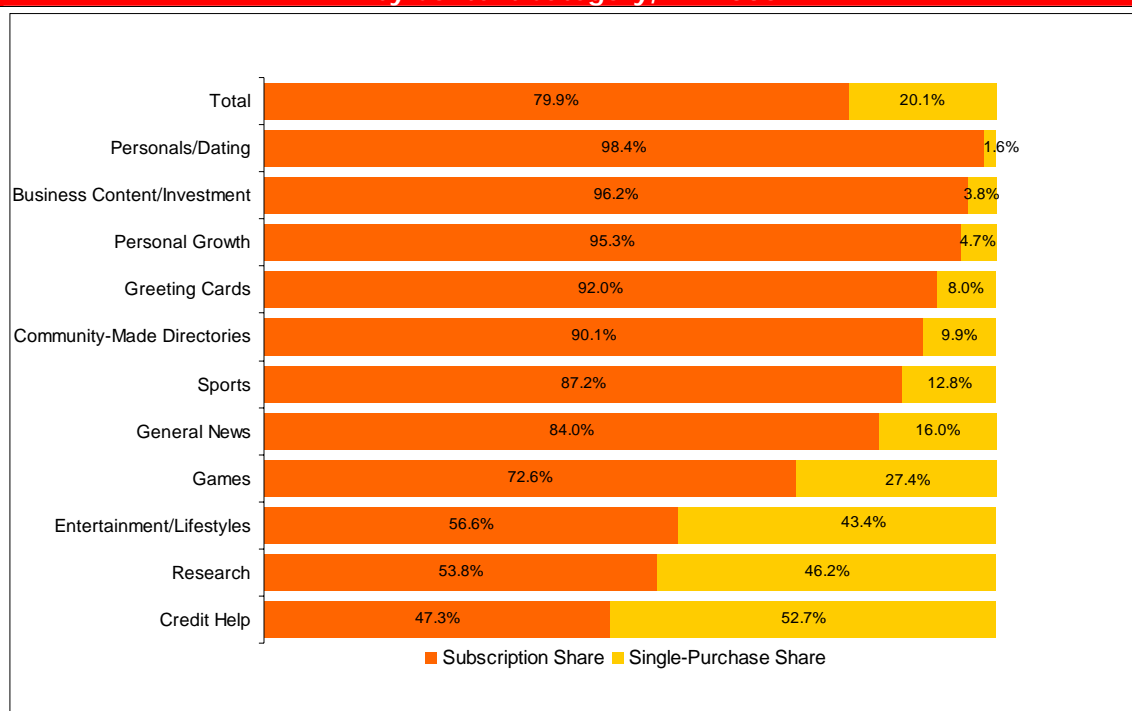
Music sales continue to drive shift from subscription to single-purchase sales of paid content

The single-purchase share of paid content sales continued to rise, hitting 20.1% for H1 2005. Single-purchase revenue totaled \$198.2 million for the first half of 2005, alone, which equaled 72.1% of the \$224.7 million total registered for all of 2004.

Single purchase sales in the Entertainment/Lifestyles category rose from \$15.9 million in 2003, to \$125.7 million in 2004, to \$114.9 million in the first half of 2005. This is likely due to the purchase of music tracks and albums.

The Research category also showed a gain in the single-purchase share of revenue, rising from 41.9% in the full year 2004 to 46.2% in the first half of 2005, while Games showed a decrease in single-purchase share, from 36.1% in the full year 2004 to 27.4% in the first half of 2005.

**Figure 7: Ratio of Single-Purchase to Subscription Sales
by Content Category, H1 2005**

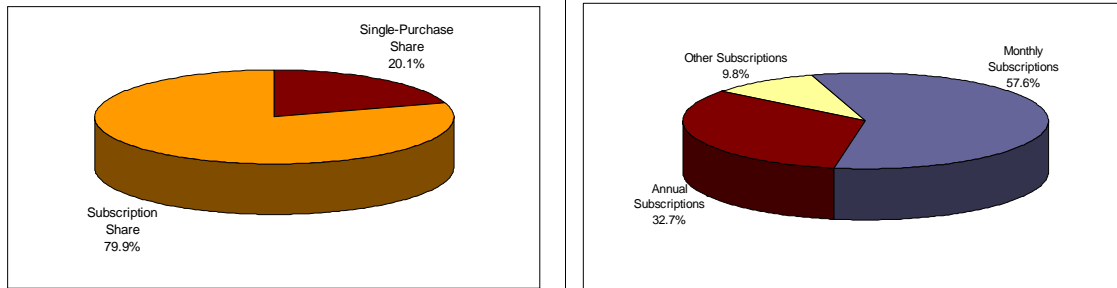


*Based on Online Publishers Association/comScore Networks research
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Subscription pricing still dominates most paid-content categories

Subscriptions continue to be the dominant pricing model, accounting for 79.9% of online content revenue in H1 2005. For every category except Credit Help, subscription revenue was greater than single-purchase revenue for this period; in most cases, subscription revenue accounts for at least 85% of total revenue.

Figures 8 & 9: H1 2005 Online Content Spending by Pricing Model



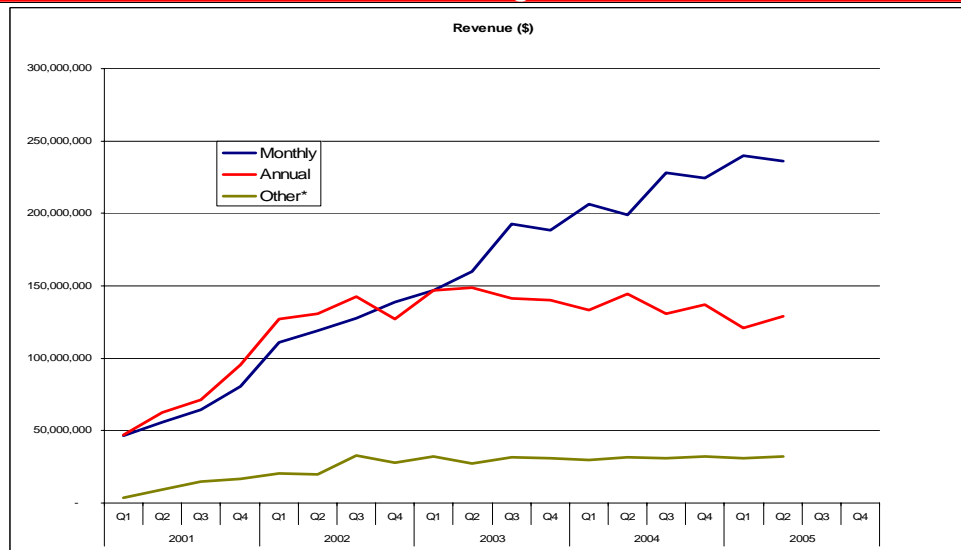
* "Other" includes weekly, biweekly, quarterly, semi-annual, and other subscription terms.

Based on Online Publishers Association/comScore Networks research
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Monthly subscriptions continue to gain share

While subscription terms other than monthly or annual have held steady at around 8% of the total since data collection began in 2001, monthly subscriptions have grown almost as steadily, eating away at the annual-subscription share of revenues, over that same period. Monthly subscriptions, which grew from 49.6% of total subscription revenue in 2003 to 57.6% in 2004, rose to 60.4% of the total in the first half of 2005.

Figure 10: Growth in Subscription Spending by Pricing Model, Q1 2001 through Q2 2005



* "Other" includes weekly, biweekly, quarterly, semi-annual, and other subscription terms.

Based on Online Publishers Association/comScore Networks research
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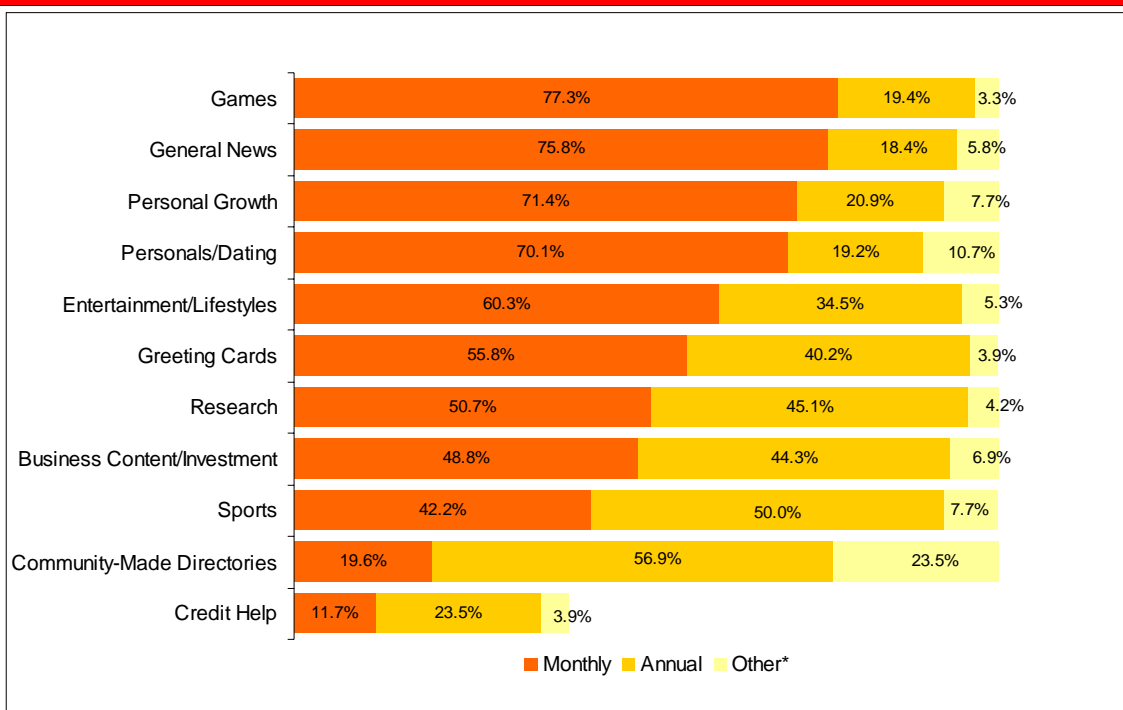
Monthly subscriptions account for majority of subscription revenue in most categories

Monthly subscriptions account for more than 50% of subscription revenue in all categories except Business/Investment Content, Sports, Credit Help, and Community-Made Directories.

Annual subscriptions account for 50% of subscription revenue for Sports, as many sports sites continue to default to annual subscriptions as opposed to the seasonal subscriptions they offered in the past. Community-Made Directories, while maintaining a 56.9% share in annual subscriptions, saw that level drop from the 61.4% posted for the full year 2004.

Greeting Cards, which showed gains in annual subscription revenue for 2004, reversed the trend during the first half of 2005; annual subscriptions in this category decreased from 44.0% in 2004 to 40.2% in H1 2005 while monthly subscriptions are now 55.8%, the same level as in the full year 2003 and up from 50.9% in the full year 2004.

Figure11: Share of Subscription Revenue by Term, H1 2005



* "Other" includes weekly, biweekly, quarterly, semi-annual, and other subscription terms.

Based on Online Publishers Association/comScore Networks research
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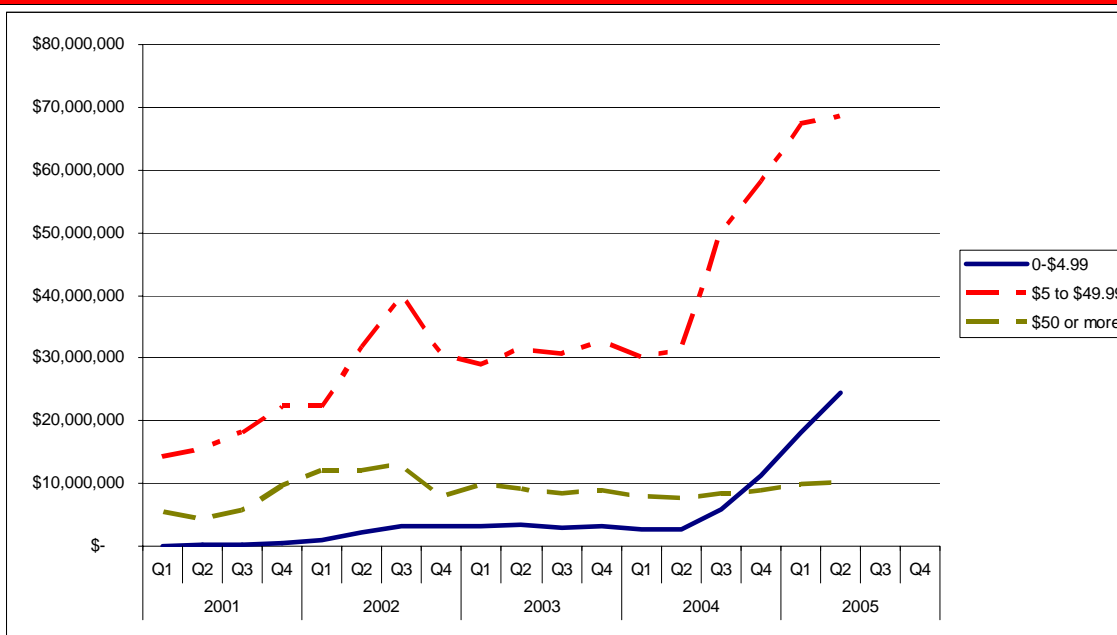
Music downloads help low-end single-purchase sales to soar

Driven by digital-music downloads, payments in the lowest price point, \$0–\$4.99, increased to 21.5% of the single-purchase total for H1 2005, up from 17.9% for all of 2004, but the revenue increase was greater than the modest percentage increase would suggest. Low-price-point sales totaled \$49.2 million for all of 2004, while sales at this level had already hit \$42.6 million by the end of Q2 2005.

While mid-range payments (between \$5 and \$50) were down slightly from 70.0% of revenue for all of 2004 to 68.5% of revenue in H1 2005, the revenue increase in this range was still substantial: \$135.8 million for the first half of 2005, equal to 70.6% of the \$192.3 million total for all of 2004.

Single purchases in the \$50.00+ range were down from 12.1% in the full year 2004 to 10.0% for the first half of 2005.

Figure12: Single-Purchase Revenue by Price Bracket



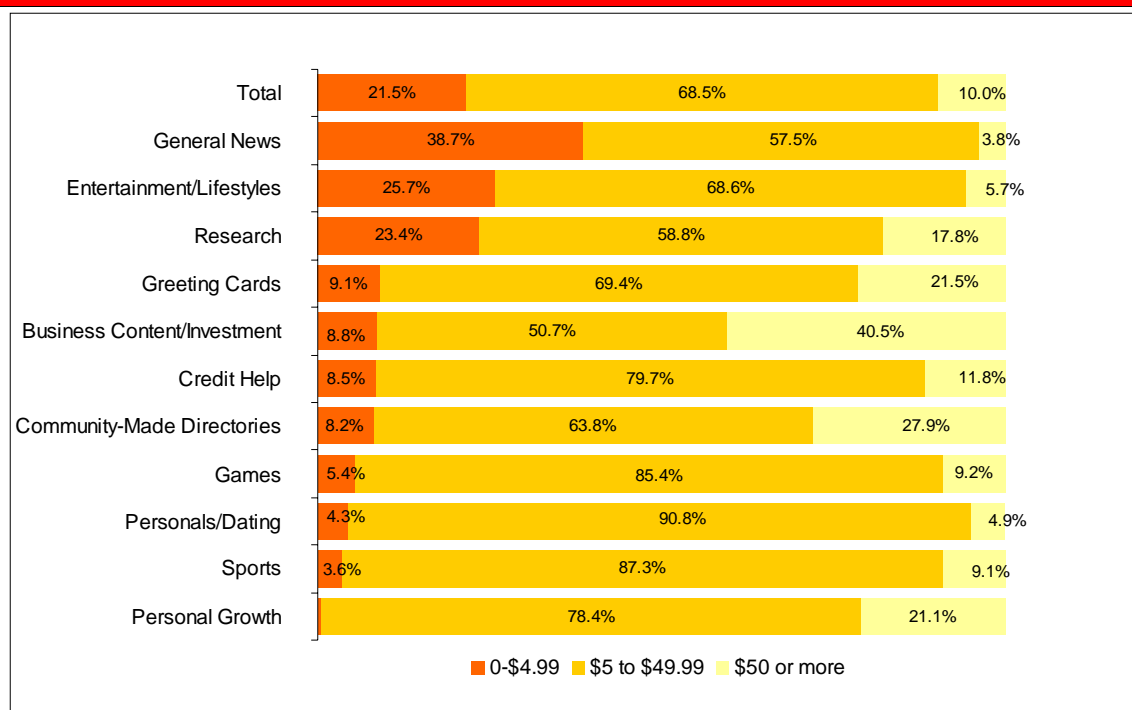
* "Other" includes weekly, biweekly, quarterly, semi-annual, and other subscription terms.

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As for previous years, the Business/Investment and Community-Made Directories categories had the highest proportion of single-purchase sales above the \$50 price point, but those percentages dropped in H1 2005. Business/Investment saw single payments over \$50 go from 45.9% of sales in all of 2004 to 40.5% in the first half of 2005. Community-Made Directories saw a decrease in \$50+ single payments over the same period, from 35.6% to 27.9%.

While eight of eleven categories had less than 10% of sales in the \$0–\$4.99 price range, General News (38.7%), Entertainment/Lifestyles (25.7%) and Research (23.4%) had much higher proportions of sales at this lowest range. This was a relatively slight change for News (40.9% in the full year 2004) and Entertainment/Lifestyles (28.8% in the full year 2004); the change was greater for Research (7.8% in the full year 2004).

Figure 13: Single-Purchase Revenue Share by Price Point



* "Other" includes weekly, biweekly, quarterly, semi-annual, and other subscription terms.

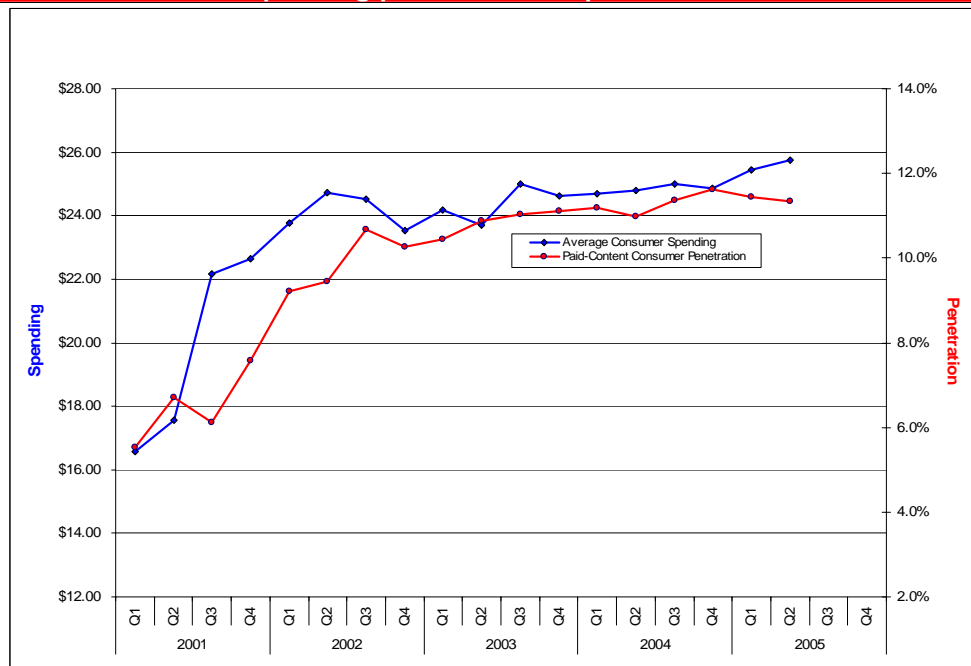
Based on Online Publishers Association/comScore Networks research
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In the first half of 2005, single-purchase sales of \$114.9 million in the Entertainment/Lifestyles category equaled 91.4% of the total for that category for all of 2004 (and more than seven times the \$15.9 million total for all of 2003). While the percentage of sales in the \$0–\$4.99 range for this category decreased slightly from 2004, sales increased slightly in both the \$5–\$50 range (66.7% in the full year 2004, 68.8% in H1 2005) and the \$50+ range (4.5% in the full year 2004, 5.7% in H1 2005).

The number of U.S. consumers buying online content grows, while market penetration and per-person spending remain flat

While the number of paid-content consumers has gone from 12.4 million in Q1 2002 to 19.4 million by the end of Q2 2005, an increase of over 56%, the average consumer's spending for online content has grown by only 8.3% over that period. The average consumer has spent around \$100 for online content every year since 2002; the annualized total for 2005 stands at \$103.02. Consumer penetration (the percentage of U.S. Internet users who purchased online content) fell slightly to 11.4% for H1 2005, down from the all-time high of 11.6% in Q4 2004. However, the uptick at the end of 2004 may be attributed to seasonal shopping.

Figure 14: Paid-Content Consumer Growth (Market Penetration) and Average Spending per Consumer, per Quarter



Based on Online Publishers Association/comScore Networks research
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CONCLUSIONS

- ◆ Growth in online content spending in the first half of 2005, as in the full year 2004, was driven primarily by growth in the Entertainment/Lifestyles category as a result of online music sales.
- ◆ The two largest categories are Entertainment/Lifestyles (which includes music downloads) and Personals/Dating. The Games category also remains strong, further evidence that consumers are increasingly using the Internet for entertainment.
- ◆ Although revenue for General News is down for H1 2005, compared to H2 2004, continued strong showings by Business Content/Investment Content (the third-largest revenue-producer) and Research (up 33.8% in H1 2005 over H1 2004) indicate that consumers also readily turn to the Internet for information.
- ◆ Paid downloads of digital music are shifting the single-purchase versus subscription mix, but subscription sales continue to be the dominant pricing model for online revenue.
- ◆ Consumer penetration (the percentage of the online population that purchases online content) remains steady. Of the 171 million Americans who were online in Q2 2005, about one in nine spent money on online content purchases, so the market has plenty of room to grow.
- ◆ Average consumer spending for paid online content appears to be leveling out, showing very little change over the past three years.

APPENDIX A

Survey Scope and Methodology

comScore Networks (www.comscore.com) has a proprietary technology network that tracks all World Wide Web activity for its panel of 2 million active U.S. Internet users. This technology allows comScore to see (with panelists' permission) even "Secure Socket Layer" (SSL) browsing, including commerce transactions with dollar amounts. This system enabled comScore to observe actual online content purchases among its panelists and look back into its immense data warehouse at content transaction activities for all of 2001 through the present. The Online Publishers Association (OPA) set the scope for the paid-content universe principally through the following exclusions:

Excluded Content Categories

- ◆ Pornographic sites
- ◆ Gambling sites
- ◆ Software purchases
- ◆ Illegal drug-related sites
- ◆ Get-quick-rich schemes and scams
- ◆ Internet Service Providers
- ◆ Business services, including electronic faxing and Web-based e-mail applications
- ◆ Games for which subscriptions are purchased and played through a proprietary (non-web browser-based) software interface

Sites not excluded on this basis were then classified according to OPA content categories definitions (see Appendix B), and sites with sufficient transaction activity were classified into two Tiers for analysis. *Tier 1* sites included 59 large sites for which there is sufficient transaction activity to track reliably at a site level. The analysis also includes observed transaction activity at a set of 47 *Tier 2* sites, which were analyzed at a category level to determine revenue contribution among mid-sized paid-content vendors. All observations noted above were monitored for both Tier 1 and Tier 2 sites.

To supplement this analysis set, an analysis of visitor activity at a total of 132 known paid-content sites was performed to assess the general distribution of online paid-content spending within the marketplace. This set represents roughly 8% of the estimated 1,700 U.S. sites currently charging for content. In total, Tier 1 sites account for roughly 85% of revenue. Tier 2 sites account for between 10% and 12%, with the remainder accounted for by remaining sites.

All data are weighted and projected to represent the U.S. Internet online population, as determined by a weekly random-digit dial enumeration study.

The study covers eighteen quarterly time periods, spanning the full years 2001–2004 and the first half of 2005. This eighteen-quarter range provides the basis for evaluating annual revenue from 2001 through 2005 H1.

Market-size estimates required that incumbent subscriptions as of the study period (i.e., extant subscriptions prior to 2001 Q1) be accounted for. This was accomplished by analyzing traffic volume to subscriber-only sections of a sampling of paid content sites at the beginning of 2001 relative to observed subscription sign-ups to estimate subscription share between new and existing subscriptions.

Sales figures for the Entertainment/Lifestyles category now include online music sales, which became an important segment in 2004.

APPENDIX B

Definitions of Content Categories

Business Content — Includes business news (e.g., WSJ.com) and investment advice (e.g., fool.com).

Community Directories — Includes sites whose content is created in large part through the efforts of other site visitors; for example, Ancestry.com, Classmates.com, and IMDB.com.

Credit Help — Includes sites offering access to consumer credit-history records and related content; for example, ConsumerInfo.com and CreditExpert.com.

Entertainment/Lifestyles — Includes digital music individual downloads and subscription services (e.g., iTunes, Napster, and Rhapsody) and multimedia sites (e.g., Real.com and Movielink.com), as well as humor, recipes, and other content intended for amusement, leisure, and diversion.

Games — Includes online games that are played through a Web browser, both as distributed through portal sites (e.g., Yahoo! and MSN.com) and as offered directly through specialized gaming sites such as Pogo.com and Gamehouse.com.

General News — Includes such sites as CNN.com, NYTimes.com, and Washingtonpost.com.

Greeting Cards — Includes such sites as AmericanGreetings.com, BlueMountainArts.com, and Hallmark.com. Single-purchase revenue in this category includes revenue generated from the attachment of gift certificates to content.

Personal Growth — Includes motivational and “self-betterment” sites, such as DailyGuidePosts.com, eDiets.com, and WeightWatchers.com.

Personals/Dating — Includes sites that foster dating, such as Match.com, eHarmony.com, and Yahoo! Personals.

Research — Includes library-type research tools (e.g., Highbeam.com, Merriam-Webster, and Britannica.com), as well as consumer research (e.g., CarFax.com and ConsumerReports.org), people search (e.g., 1800ussearch.com), medical, and more.

Sports — Includes sports news, fantasy sports, and league sites, such as ESPN.com, SportingNews.com, Sportsline.com, MLB.com, and DRF.com.

Where content at large portal sites, such as Yahoo! or MSN, encompassed multiple content categories, the revenue was counted separately according to content type.

APPENDIX C

About the Online Publishers Association

Founded in June 2001 by some of the Internet's leading content brands, the Online Publishers Association (OPA) is an industry trade organization dedicated to representing high-quality online publishers before the advertising community, the press, the government, and the public.

OPA is committed to producing groundbreaking research into online advertising and media consumption with the goal of advancing the online publishing industry. Through credible research and ongoing communications, OPA seeks to establish and promote the Internet as an effective advertising medium for marketers and a sustainable media business for publishers, thereby ensuring the continued availability of quality content to serve the public good.

Current members of the Online Publishers Association are: ABCNews.com, About.com, AllBusiness.com, Bankrate.com, Belo Interactive, BusinessWeek Online, CBS Digital Media, CNET Networks, Inc., CNN.com, CondéNet, ConsumerReports.org, Cox Enterprises, Edmunds.com, ESPN.com, Fairchild Bridal Group Internet, Forbes.com, Fox Interactive Media, Gannett Co., Inc., Hearst Interactive Media, Internet Broadcasting, iVillage, Jupitermedia, Knight Ridder Digital, LifetimeTV.com, MarketWatch, Meredith Interactive, MSNBC.com, MTV.com, Nascar.com, The New York Times Company, Reuters.com, Rodale, Scripps Networks, Scripps Newspapers, Slate, SportingNews.com, Time Inc. Interactive, Tribune Interactive, USATODAY.com, The Wall Street Journal Online, Walt Disney Internet Group, Washingtonpost.Newsweek Interactive, Weatherbug and The Weather Channel Inc.

About comScore Networks

comScore Networks provides unparalleled insight into consumer behavior and attitudes. This capability is based on a massive, global cross-section of more than 2 million consumers who have given comScore explicit permission to confidentially capture their browsing and transaction behavior, including online and offline purchasing. comScore panelists also participate in survey research that captures and integrates their attitudes and intentions. Through its patent-pending technology, comScore measures what matters across a broad spectrum of behavior and attitudes. comScore consultants apply this deep knowledge of customers and competitors to help clients design powerful marketing strategies and tactics that deliver superior ROI. For more information, please visit www.comscore.com.