KELLY SCOTT MADISON

2012 STATE OF MEDIA

LETTER FROM THE PRESIDENT

I am happy to present KELLY SCOTT MADISON's 2012 edition of the STATE OF MEDIA. This document is the culmination of our team's research, experience and ever-expanding knowledge of the current media landscape. As always, the **SOM** serves as a detailed exploration of current industry trends and even more importantly, a forecast of what is to come.

As we all know, this is a time of unbelievable change in the advertising industry. Some have even gone as far as to call our current state of progress not only an evolution, but a REVOLUTION.

With that being said, creating this year's edition of the STATE OF MEDIA presented challenges on a level we have never faced before. TV has become television **and** video; radio is now terrestrial **and** streaming; magazines and newspapers are considered print **and** digital. As a result, we're no longer living in a world where "new" and "old" media compete for sole survival. Our new world is one in which inter-connectivity allows for all media types to thrive and evolve.

We need to continue to embrace the chaos, because with increased complexity comes exciting opportunity, creativity, and reinvention. The revolutionary changes we're embracing today are paving the way for our clients to experience exhilarating advancements both in the near and long-term.

As always, I encourage you to share your thoughts and feedback on this year's STATE OF MEDIA and please look out for more in-depth articles on trending topics throughout the remainder of 2012.

Sincerely,

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President
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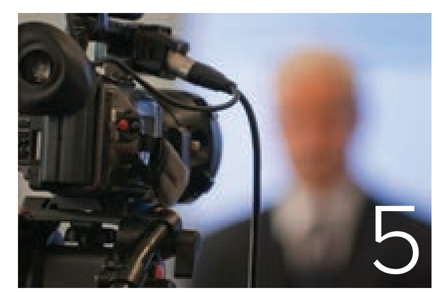
CONTENTS



2012 OVERVIEW

Change is upon us and it's going to be a bumpy and exciting ride! Technology advancements have always steered the media industry, but those of today are creating a dramatic transformation. Consumers of the past moved at the pace of slower technology development, and adoption rates were hampered by high prices and low accessibility. Advancements of today however, can affect change within months rather than years and require present-day advertisers to be knowledgeable, courageous, and proactive.

Navigating the increasingly fragmented landscape is difficult and will only become more so. At the same time, media platform development and consumer entertainment outlets are rife with opportunity, making the media industry one of the most complex and exciting categories of our day. Consider these juxtaposing facts:

1. It took tablets less than two years to reach the 40 million unit mark; that same level of adoption took seven years for smartphones. A technology providing convenience, entertainment, and an affordable price tag can, in today's world, reach the masses nearly four times faster than only 10 years ago. There are more platforms on which to reach target audiences and more fascinating ways to reach them than ever before.
2. Less than 4 percent of videos on YouTube exceed 100,000 views. Consumers are tough, and reaching them within the clutter of entertainment and news sources they choose from every day can be an overwhelming task. Many options for consumers means many options for advertisers and the right marketing decisions can find the audiences – making the wrong ones means that the message just gets lost in the clutter.

Being aware of trends, research and emerging formats is more important than ever. What we thought we knew no longer applies, as target audiences experiment with devices and information sources they never knew they needed but now can't live without. Media must move with the consumer to ensure that advertising remains top-of-mind.

TRENDS & HIGHLIGHTS OF 2012

CONVERGENCE & CONTENT: We have been talking about it for years, but convergence is finally here. American consumers now drift between digital and traditional platforms in order to interact with video, audio and print media. As a result, ALL media formats are in a race to produce content to attract the most consumers. The question is, how far can available revenues take them? As traditional media formats face loss of audiences to digitally-driven media, revenue losses may curtail their ability to produce content at the steady rate consumers have come to expect. At the same time, digitally-driven formats are not yet in a solid revenue state to pick up the slack, which will leave consumers in the lurch and searching for content. Make no mistake, the current media landscape is a delicate ecosystem and the consequences of total destruction of any one platform could be the downfall of the others.

PRIVACY: As technology advances and more activities take place on digital platforms, more complex targeting tactics have also created some consumer privacy concerns. Applying tracking opt-outs and self-regulation guidelines have helped the industry avoid government intervention, but don't expect digital behavioral targeting to remain in the clear. Their fate will be in the hands of regulating politicians in the near future and it will not be a happy outcome for the state of digital targeting. In addition, Personally Identifiable Information (PII) will be a huge discussion point this year as mobile advertising seeks its place in the advertising budget allocation. Consumer trust is essential for the truly effective advertising platform and mobile has a ways to go to prove its good intentions in the wake of countless accusations of PII mishandling.

DATA OVERLOAD: If we don't know what to do with all the data today, imagine where we'll be in three to five years. Cable operators have "too much data" in their DVRs to compute and therefore haven't been able to make "addressable" advertising work. Search marketing campaigns become increasingly complex as advanced data highlights optimizations not previously possible in the world of search. High labor costs and growing keyword lists are hampering the overall growth of search as a result. Advertisers measure every point of their digital campaigns because the data is available, not because they have identified a new KPI on which to determine success. The industry will continue to drown in data until it can focus on key metrics. This focus will come from a keen understanding of target groups and how they consume media.

TESTING: Testing has always been a dirty word in the ad industry, but it will increasingly guide every advertising decision we make. Long gone are the days when consumer usage was proven through years of experience with established media vehicles. Consumers are more discerning, more adventurous, and more demanding than ever before. As a result, their media habits have begun to change with each new technology advancement. As younger generations with high digital comfort levels come of age, expect testing to increase tenfold as advertisers are forced face the unknown rather than sit on the sidelines and watch media evolve without them.

SPECTRUM SHORTAGE: The information highway has gotten a lot busier within the last year. As smartphones reach mass adoption and tablets begin to emerge as popular entertainment devices, concerns grow about spectrum availability. Without spectrum, the 3G and emerging 4G networks that consumers have come to enjoy will not function. The next two years will see vending machines acting as "hot spots", whole cities blanketed with wi-fi networks and ever-increasing smartphone usage on new apps. The companies that own the most spectrum will literally own the superhighway that runs all modern technology. This is a battle that must be won. Cable, broadcast, and mobile providers will fight to the bitter end to maintain a hold on their spectrum. Expect major developments in late 2012, as government regulators continue their attempts to prevent spectrum monopolies and help distribute spectrum to all interested parties.

VIDEO

VIDEO OVERVIEW

We aren't watching the demise of a medium… we're watching TV drive an entire category and create a revolution.

It is becoming increasingly difficult to differentiate video formats as online and offline video converge in the battle for share of consumer viewing time. Technology, available content and consumer adoption have finally united and the convergence has begun creating fragmentation as we've never seen it. As a result, video-viewing habits will need to be re-examined frequently in order to keep pace with emerging technologies.

And what's the most interesting fact to emerge from the chaos? We aren't watching the demise of a medium (namely traditional TV) as so many had predicted over the last five years, we're watching TV drive an entire category and create a revolution.

Comparing Nielsen's 2010 and 2011 Cross-Platform Reports with time spent viewing video data in 2008 and 2007 (no like data exists for 2009), shows some enlightening statistics. In 2007, U.S. consumers were watching approximately 169 hours of video in a month. Today, viewership has shot up to nearly 191.5 hours. Video viewers are not foregoing traditional TV as originally thought, they are simply expanding their video consumption to include other formats.

While digital viewing is growing rapidly, no one video delivery device is currently in position to poach major share of traditional TV viewing in the short-term. Most studies show that as viewers have been offered more video-viewing devices, they have simply added to their viewing time rather than shifting entirely to a single, preferred platform. This is due in part to technological lag and partly to content availability, and is most evident when examining time-shifting activity.

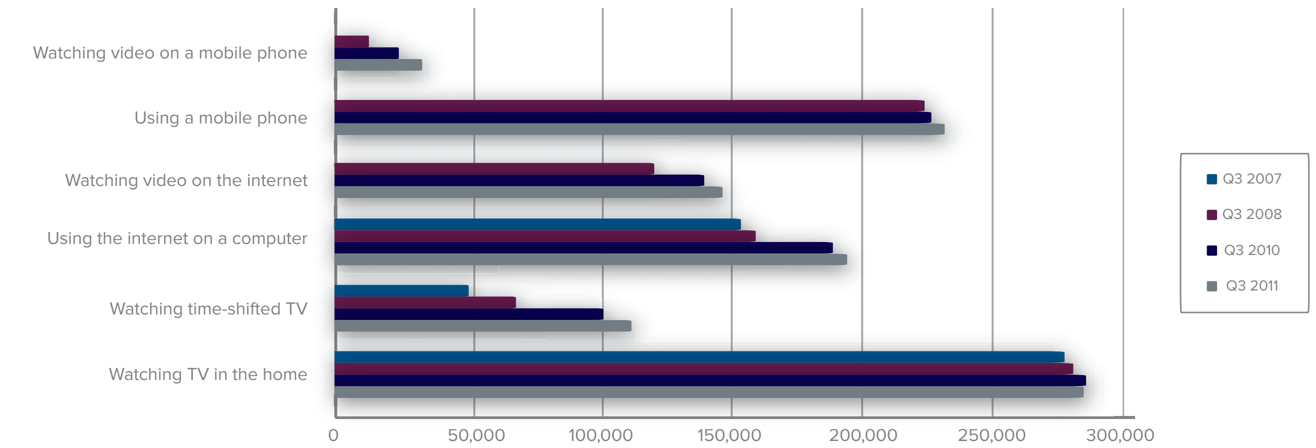
Time-shifting using a DVR (Digital Video Recorder) has more than doubled since 2007. Though a fairly new member to the mass arena, most studies say roughly 42 percent of households have access to at least one DVR and a growing percentage (about 30 percent) have multiple DVRs in their households. This is great news for cable and satellite providers because DVRs provide them with a new revenue stream and an added benefit with which to attract new subscribers.

Though only 35 percent of DVR owners report actually using their DVRs on a regular basis, this number is expected to rise dramatically in the next year. Research shows that the longer a household has owned a DVR, the more they actually use it for time-shifting. And since nearly 50 percent of DVR playback occurs within the same day of airing, the implication is that most people are using DVRs to aid in ad-skipping.

Nielsen Cross-Platform Report: Monthly Time Spent in Hours:Minutes Per User of Each Medium (2007-2011)				
	Q3 2011	Q3 2010	Q3 2008	Q3 2007
Watching TV in the home	146:45	145:28	142:29	136:54
Watching Time-Shifted TV	10:51	9:32	6:32	4:17
Using the Internet on a Computer	24:59	27:00	27:18	25:49
Watching Video on the Internet	4:31	4:13	2:31	n/a
Mobile Subscribers Watching Video on a Mobile Phone	4:20	4:20	3:37	n/a

Source: Nielsen Three Screen Report 2007, 2008 & Cross-Platform Report 2011. Nielsen Three Screen Report was not issued by Nielsen in 2009.

NIELSEN CROSS-PLATFORM REPORT: VIDEO ACTIVITY (in millions of users) 2007–2011



Long-term concerns are shared by cable and broadcast networks alike as they attempt to attract live viewing in order to stave off time-shifters skipping ads through their DVR systems. Nielsen calculates that approximately 7 percent of U.S. television viewing was time-shifted in 2011. Though not a huge amount when taken as a whole, on an individual daypart, network or demographic basis, time-shifting can be a major detriment to a TV campaign. It is also most assuredly a growing issue.

Time-shifting's greatest impact has been felt in prime time. The Sternberg Report calculates that in the 2009/2010 broadcast TV season, only nine series measured at least 35 percent of their A25-54 audience time-shifting. In 2010/2011, this jumped to 21 series. And, Steinberg reports, while broadcast has far more scripted, original series than cable and therefore historically more time-shifting, cable networks are also feeling the pain with their most popular series. Nearly 40 percent of the A25-54 audiences time-shifted the top cable series in the 10/11 season. Nielsen claims that 40 percent of time-shifted TV viewers actually watch the ads during playback, but many in the industry believe this statistic is skewed by flaws in the C3 ratings measurement and false attribution to viewers using the "skip" or "fast forward" buttons.

DVRs have made time-shifting more possible and created consumer demand for more viewing flexibility. This demand obviously translates well to online viewing, which centers around convenience and is focused primarily on second-run programming from cable and network producers. Those who use alternative video platforms like tablets, laptops, and mobile phones cite their main drivers as convenience and flexibility.

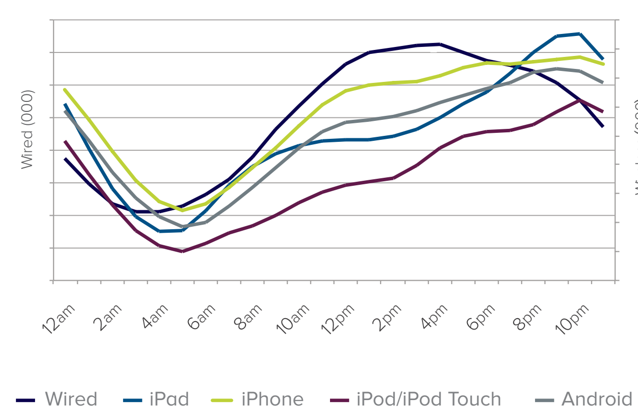
Though broadcast and cable programming options are still meeting viewer expectations, today's audiences are no longer content to live within the time constraints of traditional television time tables. Having access to a program online that they missed on traditional television means their video-viewing schedule can be time-shifted to meet their needs. As they follow desirable content, consumers will be increasingly open to seeking out the most convenient methods for viewing television, regardless of the platform.

New studies show that all the fragmentation caused by various delivery systems creates varying levels of engagement among consumers. Where viewers see content affects how likely they are to sit through an entire program and how closely they view ads within the experience. Tablets and connected TVs have shown the highest levels of engagement. Online video technology provider, Ooyala found that videos over 10 minutes in length have 45 percent higher

engagement on tablets than either desktops or mobile devices. Viewers on connected TVs and gaming consoles are most likely to watch a video all the way through — at a rate of 47 percent, with tablet owners completing videos 38 percent of the time. Mobile viewers had the lowest completion rates. Identifying engagement levels and understanding the specific results of campaigns delivered on various platforms will be key factors in measuring the new video landscape.

At this point, traditional TV retains its hold over American consumers, but campaign objectives and primary target audiences need to be considered to adjust for challenges like time-shifting and alternative platform viewing preferences. Online viewing should continue to grow substantially, and all campaigns must consider complementary digital video as part of any mix with traditional television.

WIRED VS. WIRELESS VIDEO VIEWS BY HOUR OF DAY Q4 2011

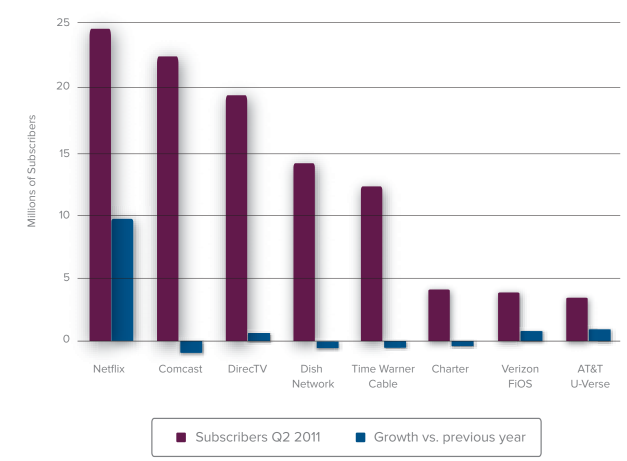


Source: FreeWheel Video Monetization Report - Full Year 2011

CABLE

Cable has long been the envy of broadcast television—not for its big audiences, but for its dual revenue stream. Pocketing ad dollars and fees from monthly subscribers puts cable networks in a much more profitable position than most media. In spite of their enviable economic position, cable networks have some challenges ahead.

VIDEO SUBSCRIBERS & GROWTH OVER THE LAST YEAR



Source: Dan Frommer/SplatF.com

Viewers are more discerning and increased fragmentation puts more demand on quality. The online pay video services (Hulu Plus, Netflix, etc.) will be challenging traditional TV pay services as well as broadcast TV within the next year as they develop original programming. No longer settling for "re-purposed" TV, these pay video services are going to give cable networks a run for their money down the road. And while IP TV companies like Hulu and Netflix cannot currently afford to produce the thousands of hours of original programming cable networks do each year, as they garner larger subscription audiences they will attempt to steal a larger share of cable viewing audiences. Cable networks need to prepare for the future and focus on "must see" series and unique programming in order to provide value to paying subscribers.

Cable ad revenue in 2010 was up 18 percent and it increased another 8 percent in 2011. Though increases slowed from year-to-year, the upfront in 2011 was especially profitable as CPMs across the top networks increased 11-15 percent in both scatter and upfront buys. This is a sign of health, and increases are expected in 2012 upfronts as well.

The coveted 18-49 demographic has continued to support cable programming and notable audience increases justified recent programming successes for networks like MTV, FX, and Lifetime. On the other hand, ratings declines from the Scripps Networks have raised alarm bells as long-time programming winners like HGTV and Food Network show signs of weakness. Consumers continue to be more discerning than ever and Scripps' issues are not novel as other struggling

Cable Network Ranking 2011

Network	A18-49 Rating	Viewers (in Millions)	% Change From Last Year
USA	1.1	1.210	-3%
ESPN	1.0	1.102	-4%
TNT	0.8	0.950	-3%
TBS	0.8	0.898	-11%
History	0.8	0.892	18%
FX	0.8	0.855	21%
MTV	0.7	0.770	22%
A&E	0.7	0.764	8%
Discovery	0.6	0.680	1%
ABC Family	0.6	0.678	4%
Comedy Central	0.6	0.641	5%
Bravo	0.5	0.582	8%
Food Network	0.5	0.571	1%
SyFy	0.5	0.571	6%
Adult Swim	0.5	0.569	NA
TruTV	0.5	0.543	1%
Disney Channel	0.5	0.529	5%
TLC	0.5	0.525	4%
AMC	0.4	0.469	10%
Lifetime	0.4	0.460	10%

networks like The Oprah Winfrey Network (OWN) have similar concerns. Initially slated to be a ratings winner, OWN has struggled through dismal ratings and executive turnover. As a result, Oprah has resorted to tweeting to pump viewership and at the beginning of 2012, specifically called out Nielsen homes in a tweet to increase tune-in. This is a big no-no in the ratings world and showed signs of desperation, proving that even Oprah is not a guaranteed winner in an increasingly competitive landscape.

Cord-Cutting

Cord-cutting is currently a non-issue, despite industry-wide fears and predictions for cable subscription declines in 2011. The number of homes with cable and broadband continues to increase while the number of homes without cable has remained relatively stable. Most of the doomsday reports began when cable providers registered their first-ever subscriber losses in Q2 2010. Many in the industry announced that the losses were attributable to higher digital video viewing, and that the internet was finally stealing share from traditional pay TV. However, 2011 ended with an increase in subscribers, revealing that those who left pay TV in 2010 probably came back as a result of a slight uptick in the economy or lack of satisfaction with non-cable alternatives.

For their part, cable providers have begun offering more technology options with improved DVRs, increased "TV Everywhere" availability so consumers can conveniently view cable programming on several different platforms, and more packaging flexibility in order to maintain customers. Providers are marketing a number of "cable light" options with fewer basic channels and an increased flexibility in "unbundling" of networks within given packages. This will help maintain customer bases for pay TV, but will also place added pressure on cable network programming.

Networks that do not make the cut with consumers will be unbundled as cable providers meet customer demand. The unbundling also means networks must keep carriage fees (the fee providers pay to networks to broadcast their signals on their provider platform) reasonable and reflective of consumer demand. Cable bills have been climbing steadily and many argue that this could bring cord-cutting in the future, especially if the economy continues to struggle. High carriage fees for networks like ESPN can add an average of $4-8 to each cable subscriber's monthly bill. Since cable sports networks have an unbelievable amount of clout in the cable landscape, they can get away with this pricing, however long-term sustainability is questionable. Over the next 10 years and as more and more content becomes available online, networks could decide to separate from traditional cable providers and draw subscribers directly to their branded content through internet-based delivery systems. And that would be the "unbundling" that ends cable as we know it.

2012 KSM Forecast

Content and convenience will be winners with consumers. So far, cable providers have done an excellent job of investing in multi-platform formats. Their current trajectory will maintain their relevance and the amount of content produced by cable networks will ensure that consumers can still identify value in their services. As long as cable providers and networks work together to keep customer satisfaction high, we'll see more success for cable over the next 3 years. If networks attempt to extort obscene carriage fees from providers, or the providers pad customer bills to increase profits, the balance required for success will be thrown off. Cord-cutting will not affect cable in the near future but long-term online content development makes digital TV a viable future alternative. Cable needs to use its current position of power to establish itself in the online world and pave the way for future subscription bases.

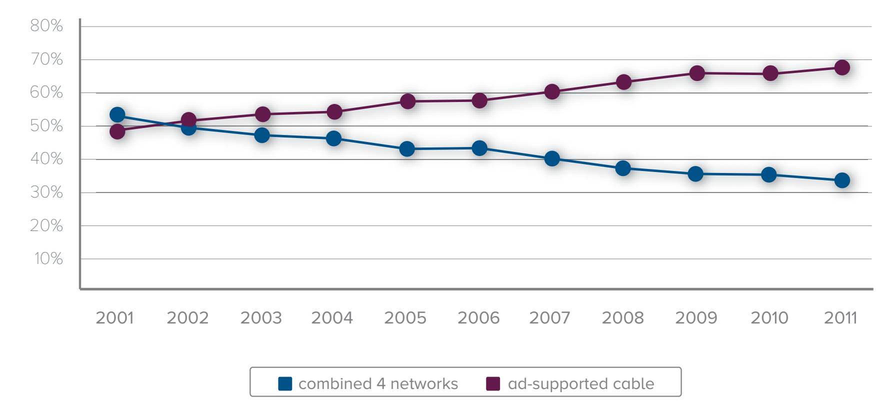
NETWORK TV

Broadcast television networks have a long road ahead of them to compete in an increasingly fragmented landscape, but it is expected that their large size, established brand identities, and powerful programming departments will help them survive. They will adjust to new consumer video-viewing habits and are playing from a power position due to high demand for their programming content.

The network TV ratings erosion (specifically in prime time) over the past 5 years seems to have slowed slightly in 2011, and consumers still seek out network programming – even if that means they watch it outside their living rooms on tablets, desktops/laptops or their mobile phones. ABC, NBC, CBS and FOX combined lost approximately 5 percent of the 18-49 audience in 2011, but they did not lose it to online video sources as originally expected. The Big Four are still combating viewership erosion to cable networks, proving that the content supplied by traditional outlets is still very much in demand.

In spite of the heated competition, broadcast networks are still demanding (and receiving) much higher costs per rating point than the cable networks. In 2011, networks received a 2 percent CPP increase over last year and upfront sales are expected to be incredibly strong this year.

A18-49 SHARE YEARLY TREND



Source: Turner Research from Nielsen data. Reflects the "strict broadcast prime" daypart (M-Sa 8-11p, Sun 7-11p). Final Live +7 data (12/26/05 - 11/27/11) blended with Live + Same Day (11/26/11 - 12/11/11). Live prior to 12/25/05. 4 broadcast nets weighted total: ABC, NBC, CBS, FOX.

Web Control

While not yet stealing large share from traditional broadcast viewing, online video viewing will continue to grow, so broadcast networks must navigate multiple platforms in order to distribute their content to the masses. This means maintaining relevance no matter how a viewer is accessing broadcast programming, while trying to ensure ad revenue surpasses content development costs. Video ad costs online do not currently generate anywhere near the revenue required to maintain production costs for high quality programming.

Additionally, online TV shows currently carry 70 to 90 percent fewer ad minutes than broadcast television. As a result, broadcast networks must walk a fine line between online distribution that pays out less but sets the stage for future viewership growth, and driving viewers

> "Video ad costs online do not currently generate anywhere near the revenue required to maintain production costs for high quality programming."

to traditional TV dayparts for live viewing that generates the ad revenue required for profitability.

Hulu, the broadcast network-controlled video hub started by NBC, ABC, and FOX relies on broadcast content development. When it was founded, Hulu provided a much-needed nucleus for broadcast networks to get their feet wet in the digital landscape. However, many in the industry worried that the long-term damage of allowing consumers to find network-produced video outside of the networks' websites would be substantial. CBS, for their part, declined to participate in Hulu from the outset because they felt Hulu would de-value their programming by driving viewers away from prime time viewing. CBS also has a disadvantage in the landscape overall since they do not have the level of diversification of their competitors (FOX has parent company News Corp, NBC boasts NBC Universal and ABC is backed by Walt Disney). No one is certain about the relationship between offering free, time-shifted online programming and viewership erosion over time. There simply has not been enough time to evaluate overall effects.

Broadcast needs to make the most of their strength position while they still have it.

In 2011, Hulu continued to draw twice as much traffic as the Big Four's websites and their relationship with the broadcast networks is becoming shakier. FOX now requires a seven-day

Source: www.iStockphoto.com/gmutlu

delay in order to view new episodes of some of their hit shows (like House and Fringe) on Hulu. In addition, NBC has pulled back slightly from offering content to Hulu due to their merger with Comcast and the cable conglomerate's competitive efforts at establishing TV Everywhere. ABC also snubbed Hulu recently when it created an ABC iPad app prior to the release of the Hulu app. This is most likely the first of many hints at separation as rumors swirl that ABC is creating its own subscription-based website to directly compete with Hulu.

In order to maintain their individual identities, networks need to rely on the quality of their premium content and split from Hulu once and for all. They have been producing video content for 70 years. They understand viewers and advertisers, and they have very large production budgets. This combination is hard to beat for newcomers to the content arena (specifically digitally-based companies like Netflix, Hulu, and YouTube), and broadcast needs to make the most of their strength position while they still have it.

2012 KSM Forecast

Broadcast will continue to thrive, but they have some challenges to meet and they need to meet them now! Maintaining production quality and meeting consumer demand for content will be paramount to ensure that the entire digital video industry continues to rely on them for content. Control means revenue, and capturing the share they have on TV in the digital realm will be their golden ticket. Branding themselves and creating destination hubs for their content instead of relying on competitors like Hulu are required next steps. In the long term, pricing will be the biggest factor in online versus offline ad revenue. Expect most content providers to rely on a dual-revenue stream model like cable: dollars from monthly subscription prices and advertising will fund the continued dominance of broadcast networks as the format moves to a digital stream.

DIGITAL VIDEO

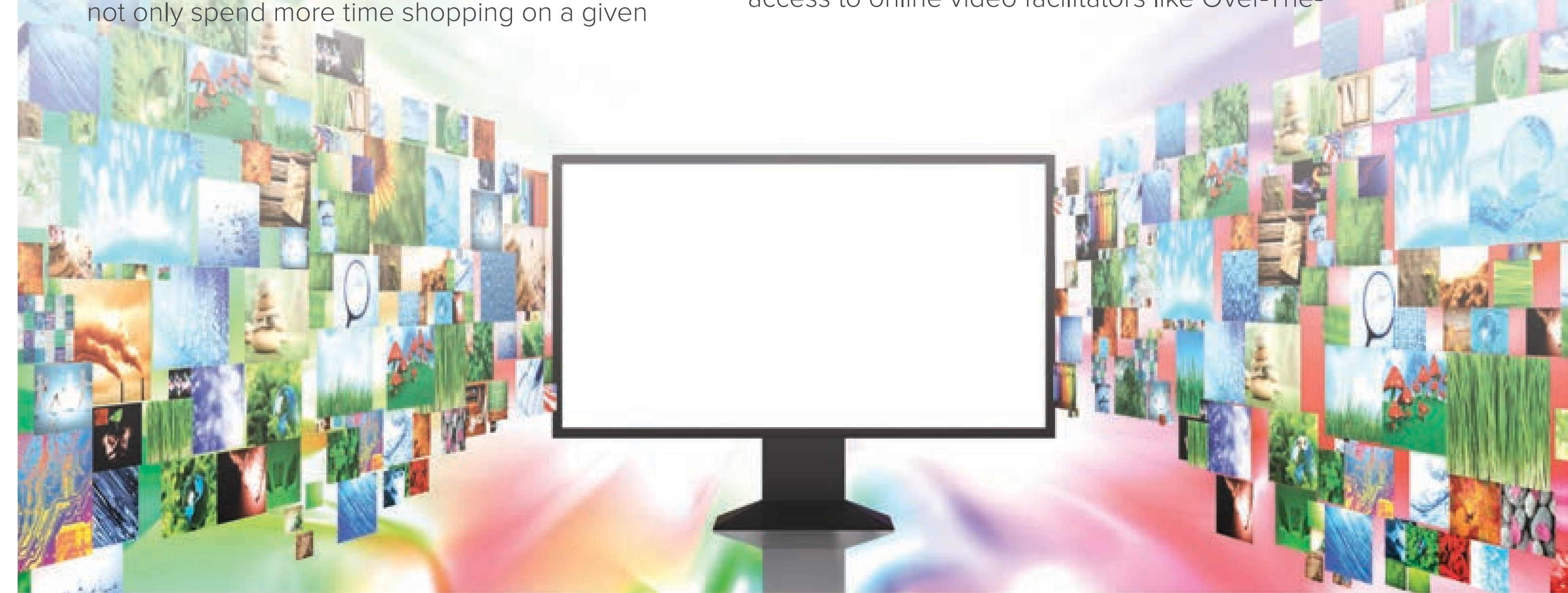
This year will mark the official coming-of-age for digital video.

This year will mark the official coming-of-age for digital video. To be sure, the category has a long way to go before it could be considered "mature." The monetization, measurement, and content development challenges are great, but the prospects are exciting for consumers and advertisers alike. Video sells better than any other format and consumers' appetite for educational, informational and entertaining video is insatiable. YouTube reported that visitors to their site are watching an average of four billion videos per day, which represents a four times increase over 2009. Advertisers should be creating video and aligning with it wherever possible as the opportunities have only just begun to emerge on a grand scale.

Forrester Research found that advertisers who added video to their sites increased their likelihood of appearing on the first page of search results by 50 times. Additionally, a recent study by e-commerce company Invodo showed that their partners saw a 9 times increase in video views during last December's holiday season. Online shoppers find video to be helpful, informational, and according to comScore, persuasive. ComScore found that shoppers who watch video not only spend more time shopping on a given site, but are also 64 percent more likely to buy than shoppers who did not engage with video.

Advertisers aligning with paid video content are also seeing increases. Though it is early and rapidly-evolving technological equipment is changing video consumption habits practically by the day, initial measurement tests have shown positive results. For example, YuMe, an online video network, and Nielsen partnered to measure the effects of adding online video to a traditional TV schedule for a major healthcare brand. The results showed an 18 percent frequency increase, a 14 percent reach increase, and an 11 percent reduction in overall impression cost when a $500,000 online video buy was added to a $2.6 million traditional TV schedule. While an increase in overall reach and frequency is not surprising when comparing a multi-media campaign to a single-medium schedule, the results suggest that online video has become an essential and efficient complement to offline reach platforms.

Over the past few years, initial barriers to online video growth were technological lag and content availability. Consumers did not have ready access to online video facilitators like Over-The-



Top Set Top Boxes like Roku, Boxee, Apple TV, or connected TVs and tablets. (OTT STBs are currently owned by approximately 15 million U.S. consumers. This number is expected to grow dramatically in 2012.) Additionally, content was restricted to short-form video which was very limited compared to the content found on traditional network or cable TV. As programming has migrated to the digital space from traditional TV producers, consumers have identified some online video sources as destination sites. These early providers are laying the foundation for the future digital video landscape and the industry is watching closely to measure their success.

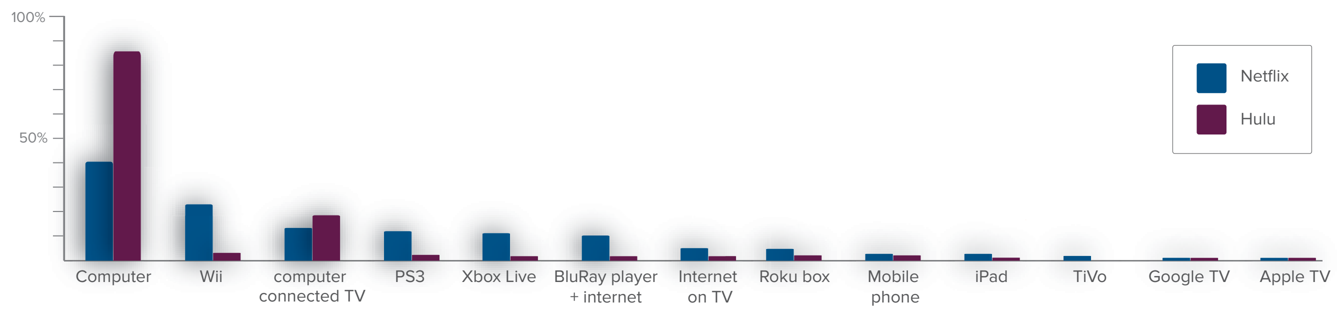
In terms of available content, the major players are Hulu (1.5 million subscribers to Hulu Plus), Amazon (estimated 3.5 million Prime streaming members), YouTube (800 million unique monthly visitors) and Netflix (23 million subscribers). The various models are ideal for gauging consumer usage habits and predilection for "pay-to-play" online video. In terms of scale, these delivery systems still have a ways to go when compared with offline platforms. However, their subscriber bases are no longer considered negligible and they are accelerating by the day.

In spite of its near-fatal attempt to raise subscription fees while forcing customers out of the not-so-lucrative DVD side of its business last fall, Netflix has 23 million subscribers and saw exceptional subscriber growth in Q4 2011. The service currently accepts no advertising, which they believe is a large consumer selling point that sets them apart from their competitors. They raked in $800 million in 2011 revenue based on subscriber fees alone and their average user clocked the most usage time of any video site at 10 hours and 1 minute per month (versus Hulu's 2 hours and 26 minutes and YouTube's 2 hours and 52 minutes).

According to BTIG analyst Richard Greenfield, if Netflix was a traditional television network, it would be the 15th largest network in the U.S. based on hours watched. Its revenue in one quarter was double that of Hulu's revenue for an entire year. This is a platform primed and ready for advertising and we expect Netflix will give in to the lure of the dual-revenue stream within the next 2-3 years. In spite of slated original content development efforts this year, Netflix's future will continue to rely on purchasing content from major video producers interested in selling to the highest bidder, making their financial clout essential for Netflix's and Hulu's long-term survival.

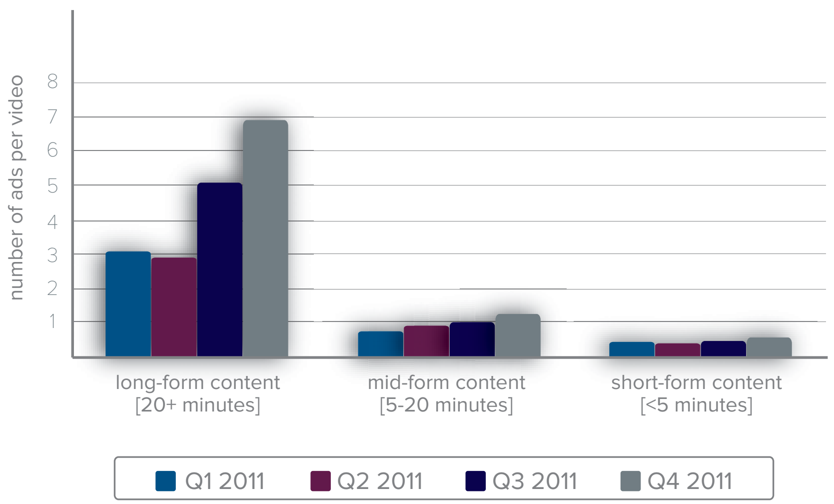
In recent years, internet video advertising has had two things working in its favor: it is not as ubiquitous as banner ads or traditional digital advertising space, and the majority of

HOW ARE HULU & NETFLIX USERS WATCHING?



Source: AC Nielsen survey data, March 2011

TOTAL VIDEO ADS PER VIDEO VIEWED BY CONTENT LENGTH 2012



Source: FreeWheel Video Monetization Report- Full Year 2011

advertising in video is "un-skippable." Digital publishers can charge high premiums for online spots because they are in high demand and advertisers can be assured they are DVR-proof. The increase in video advertising has been driven largely by this high demand and reach guarantee.

Recent changes to YouTube's advertising options, however, have begun to lay groundwork for a change in the environment. YouTube has announced that they are increasingly giving consumers advertising options, and one of those options is to skip ads altogether. YouTube's new "TrueView" ad initiative allows viewers to decide whether or not they want to watch a pre-roll spot. There are mixed feelings across the industry regarding this decision. Some feel opening consumers to a DVR-like experience on the internet will de-value and erode the characteristic most likely to set online ads apart from traditional TV ads. Additionally, consumers may not be as tolerant of online video ads if they are trained by their favorite websites to expect ad-skipping capabilities. YouTube's status as the largest and most visited online video distributor puts it in a unique position to change the face of the online video service provider landscape. So this kind of a shift could affect the entire online ad industry.

The video giant says that currently about 50 percent of all the in-stream ad inventory is being skipped, which is a shockingly high number, and the amount of skipping has increased four times since they began offering the option to skip in February. YouTube argues that TrueView is actually helping advertisers maintain targeting quality since, on average, 15 to 45 percent of users actually choose to watch the skippable ads. They also claim that allowing consumer choice helps with "stickiness" since TrueView ads decrease audience drop-off rates by 40 percent. Advertisers on board with the move say they actually appreciate the new initiative based on positive success rates so far. Many have seen upwards of a 40 percent view-through rate, and only paying for ads that customers actually watch helps them control their budgets for more accurate ROI calculations.

2012 KSM Forecast

High demand and low inventory availability are helping to maintain premium pricing for online video. At the same time, lack of content slows consumer adoption. Expect over-the-top pure play companies to accelerate original content production in 2012, but quality and consumer appreciation remain to be seen. Digital video will continue to rely on traditional television content for the near future as broadcast and cable networks make efforts to remain relevant and maintain online audiences.

SPOT TV

A stumbling economy and an off year for political advertising tarnished the fortunes of spot television during 2011. According to Kantar Media, traditional expenditures dropped 4.5 percent and for local stations the 2012 election cycle couldn't arrive fast enough. When including collateral materials, spot television accounts for approximately 60 percent of all political spending. Excluding collateral, this figure rises to over 80 percent. Current estimates forecast between $3 billion to $4 billion in television advertising from political candidates and related political organizations during the fall election cycle. Based on what's been seen during the primary season's first wave, the high end of this range is well within reach.

Although non-political spot television advertising has been stagnant since the beginning of the economic downturn, this is not a sign that advertisers have lost any confidence in the medium. In addition to an economy struggling to takeoff, auto advertising was tempered by the 2011 tsunami in Japan that caused an extended disruption in the supply of new car inventory. With an expected 2012 recovery of auto spend to pre-2011 levels, core revenue will increase on this basis alone. In addition, spot television continues to be the medium of choice for multi-media campaigns. More than half of agencies in a recent STRATA survey revealed that clients considered local television and cable advertising to be the most critical media component to their integrated advertising campaigns.

This is the first presidential election to be affected by the landmark 2010 Supreme Court "Citizens United" ruling. Initial reports immediately following the ruling predicted a torrent of negative political ads across the country sponsored by Political Action Committees. So should those advertisers who have found a renewed sense of confidence in spot television be worried? Absolutely not!

Although the Citizens United ruling allows for unlimited political contributions from individuals, unions and corporations, such dollars are funneled into so-called Super PACs and are not directly spent by the candidate and his or her campaign. These contributions cannot be coordinated with the candidate's spend and most important, do not qualify for "lowest unit rate" protection when purchasing spots.

Monies spent by Super PACs are commonly subject to rates that are double to five times that which a traditional advertiser would pay. In other words, while the Super PAC spend is great for a station's bottom line, it also takes up a disproportionately lower amount of inventory, allowing a well-run station to make sure its core customers are well-serviced.

As long as all candidates remain in the Republican race, expect pressure in News and Prime dayparts 10 days prior to presidential primary elections. For November's general election, expect presidential spending to be focused in 10-15 battleground states with exorbitant spending in five to six heavily contested electoral regions. Large spending states will most likely include: Florida, Ohio, Pennsylvania, Virginia, Colorado, Iowa and Michigan. Spending in Wisconsin will be greatly influenced by the results in the Scott Walker recall election for Governor, now scheduled for June.

Markets continue to show large audience increases across all dayparts, with the exception of Prime.

Spot Television PUT Levels % Change March 2009 - March 2011												
	Morning		Daytime		Early Fringe		Prime Access		Prime		Late Fringe	
DMA	A25-54	A35-54	A25-54	A35-54	A25-54	A35-54	A25-54	A35-54	A25-54	A35-54	A25-54	A35-54
New York	3.3	13.0	-8.1	-0.1	-6.8	4.3	-0.7	6.4	-0.6	2.7	0.4	1.8
Charlotte*	12.2	12.0	58.4	40.5	4.0	3.7	0.6	-7.3	-7.8	-5.6	11.0	6.7
St. Louis	-8.6	-2.8	4.6	16.3	2.6	9.7	-2.6	3.7	-5.1	0.1	-7.6	-2.6
Denver	-10.9	1.8	-6.7	6.5	-10.9	2.2	-7.8	1.1	-7.1	0.8	-6.2	0.9
Portland*	37.8	33.0	73.1	44.8	20.5	9.3	12.0	5.8	-9.7	-9.1	15.8	10.0

Source: AC Nielsen

*Denotes diary-based demographic audience measurement in 2009

Although there will also be hotly-contested races at the state and congressional level, it is important to note that the economy has reduced the number of individuals likely to contribute directly to candidates at all levels, including presidential candidates. Although large sums may be funneled into local DMAs through Super PAC contributions, the effect on inventory will be mitigated. Expect some pressure in News and Prime across the country but there will be little need to alter advertising media plans outside of swing states.

The fact remains that television viewing continues to be strong. Although consumer viewing has become more and more fragmented due to the sheer number of networks available on an expanded cable and digital platform, Nielsen measurement of viewing levels has stayed relatively constant during the past three years. A slight and slow downward trend among younger demographics has been more than offset by increased viewing from older audiences. The only noticeable decline has been in Prime, which is most likely due to the availability of first-run programming online and on-demand. Such viewing is outside the scope of Nielsen measurement through its NSI individual market reports.

Based on a KSM study of Nielsen LPM (Local People Meter) markets from 2009 to 2011, overall viewing levels have increased in the majority of 25 DMAs. When breaking out individual age cells from a 25-54 target audience, we find declines among 25-34 year-olds and increases among 45-54 year-olds. Viewing among 35-44 year-olds remains generally flat. Most interesting, is the performance of markets that have moved from a diary-based measurement system to LPMs during this period. Such markets continue to show large audience increases across all dayparts, with the exception of Prime. This increase was first seen during the initial rollout of LPMs in the top 10 markets and can be primarily attributed to growing audience numbers for local cable. Cable ratings in non-LPM DMAs continue to be greatly under-reported when compared to those on a national basis and in LPM markets.

2012 KSM Forecast

Political advertising accounts for more than 50 percent of all spot TV expenditures during the final weeks of an election cycle. The 2008 presidential race was the first to break the $1 billion spending barrier during which President Obama raised $741 million and outspent John McCain by a 3-1 margin during the September-November political window. In addition, $400 million of non-profit “soft” money was spent in federal elections. Such funds could not be used to directly endorse candidates at the time.

The 2010 Citizens United ruling by the United States Supreme Court allows for unlimited contributions from individuals, unions and corporations that can be used to directly support candidates. It is projected that a minimum of $500 million in Super PAC money (made possible by Citizens United) will be spent to back President Obama in 2012. This is in addition to $1 billion he is expected to raise on his own.

AUDIO

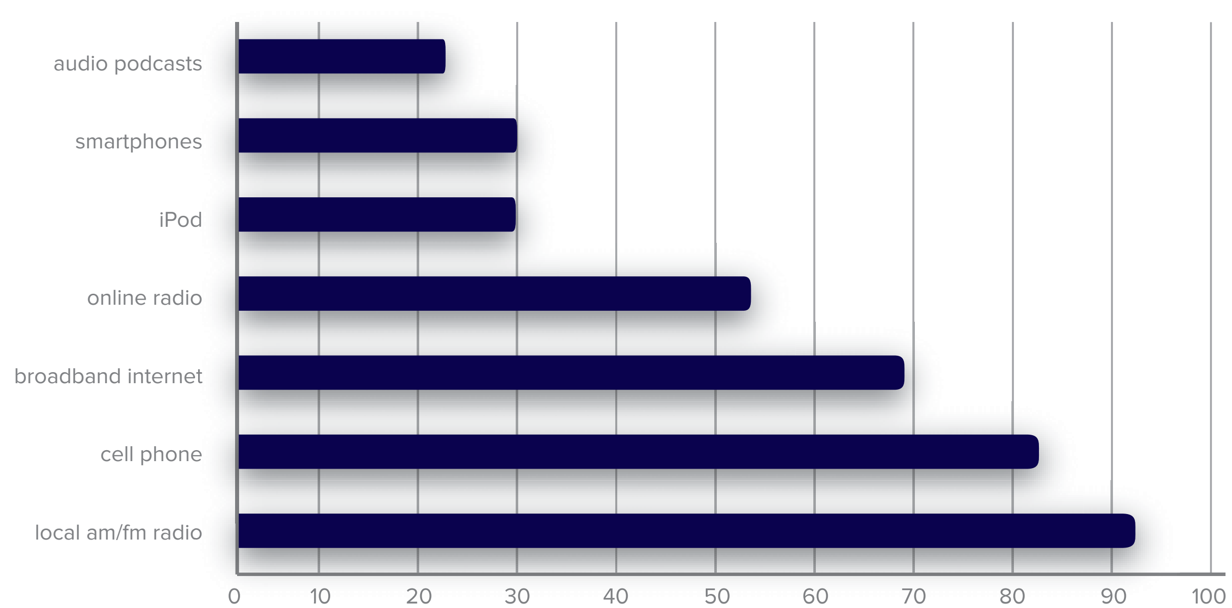
AUDIO OVERVIEW

The audio landscape is experiencing a transition as more digital players enter the marketplace and enable consumers to choose the most convenient and flexible audio options for their lifestyles. Consumers are now migrating back and forth between streaming and traditional terrestrial radio fairly seamlessly, depending on their location and platform of choice (mobile phone, tablet, desktop computer, or home and car AM/FM radios).

Remarkably, traditional radio has continued to hold its place in the average American's daily media usage in spite of the growth of alternative audio platforms. Its ubiquitous availability and localized format have allowed the medium to sustain its place in the traditional media campaign. Terrestrial radio listeners still cite broadcast radio as their number one destination to hear new music, since radio still has the power to launch music careers. It has even been reported by TargetSpot, a streaming radio company, that those who listen to streaming radio continue to include terrestrial radio in their daily repertoire.

In fact, users of both broadcast and internet radio tend to spend more time with broadcast radio than those who do not stream at all. All of this suggests that terrestrial radio will not be disappearing overnight. However, the old model of listening to what stations and specific DJs want you to listen to is most likely a dying one. While there will always be a place in the landscape for a "sit back" model where algorithms or human choice determine music for the listener, there are many other "lean forward" models emerging that allow for either partial or total consumer choice on demand. These platforms will most likely become the norm, leaving room for only a select few "stations" which choose new music for listeners preferring the "sit back" model.

PERCENT OF AMERICANS 12+ WHO USE/OWN PLATFORMS/DEVICES



Source: Arbitron 2011

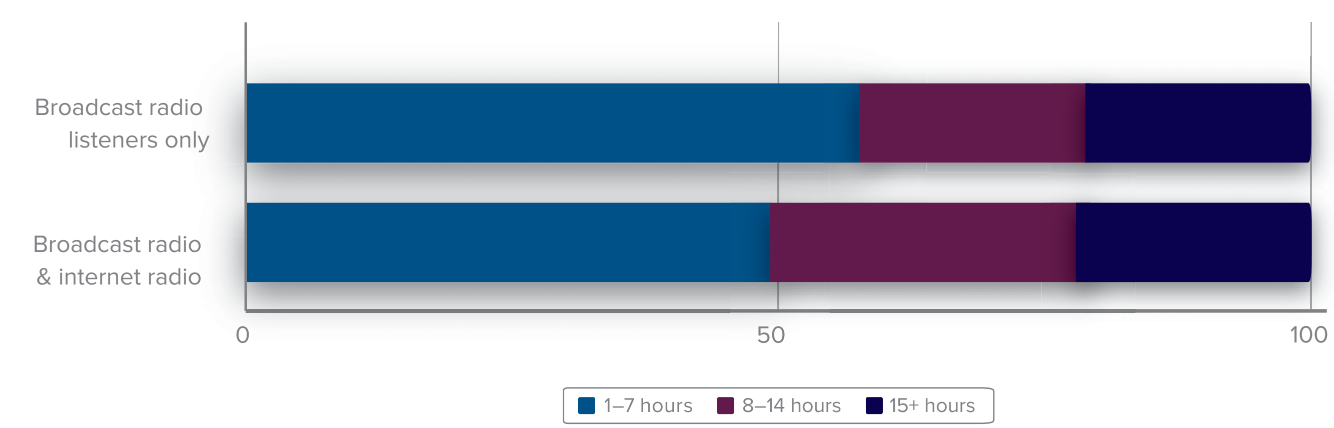
Measurement

Presently, the biggest controversy in the audio world is the question of streaming audio measurement. Broadcast radio has been measured by Arbitron for 40 years and has gone through many tweaks and iterations to provide advertising industry-accepted guidelines for benchmarking station performance. In order to maintain long-term viability and begin to capture broadcast radio advertising dollars, online audio sites need to provide media buyers with apples-to-apples currency comparisons. A leading online measurement company, Triton, developed measurement benchmarks similar to offline radio so media buyers could compare streaming and terrestrial stations on an apples-to-apples basis.

Unfortunately, the comparison has not been successful as user estimates from server log files has come into question. This situation prompted a response from Arbitron saying, "Arbitron urges those reviewing audience estimates from Internet music services not to

TIME SPENT WITH BROADCAST RADIO: PERCENT OF USERS

Source: Target Spot & Parks Associates 2011



make direct comparisons to Arbitron audience estimates in any market." In addition, they pointed out several questions to be determined when working with streaming site listener data:

- The listening model for most internet music services is "one to one." As an example, a user of an Internet music service may not be served an ad until being signed on for a specified amount of time. The listening model for broadcast radio is "one to many;" specifically, listeners are exposed to the same commercials at the same time and without regard to how long they have been listening to the station. This creates different benchmarks across the two services and can have an effect on overall listenership data.
- Arbitron measures each local station's share of listening by market. Triton measures all streaming stations as a conglomerate by broadcast ownership on a national basis. Comparing national and local numbers makes it impossible to identify growth areas or determine streaming station strength gains over time.
- Arbitron measures all broadcast stations in the landscape to provide a complete picture of each market. Triton requires streaming sites to pay for measurement services. This means that overall streaming category growth can experience enormous growth "jumps" when new sites enter the measurement mix and begin paying Triton for their services.

- Arbitron PPM methodology requires that listeners keep their PPM device on their person at all times, allowing Arbitron to confirm that there is a listener on the other end of the measurement device. A typical online user session is not monitored in the same way and it is impossible to confirm that a listener is actually hearing an ad as frequently or as accurately as the PPM device can.

Until these measurement disparities are addressed, present-day broadcast media buyers cannot consider streaming sites as an apples-to-apples media platform with terrestrial stations.

Most media specialists consider online radio as an important complement to a broadcast buy and all agree that the digital platform is emerging as a major player in the broadcast marketplace. Though online audiences are still not considered "mass," they have grown over the last five years as consumers have become more comfortable with alternative delivery systems. However, if actual, engaged audiences cannot be counted, and if there is any question that listener estimates may not be accurate, streaming sites will not be able to command the ad revenue (or CPMs) that traditional radio stations do. It is undeniable that as the convenience of digital streaming wins over new users, the AM/FM standard radio may become a thing of the past.

Regardless, traditional radio still carries larger audiences and a more stable measurement system for current media campaigns while online radio is relegated to smaller "daypart" buys and highly-targeted digital ad dollars.

RADIO

Terrestrial & Streaming Broadcast

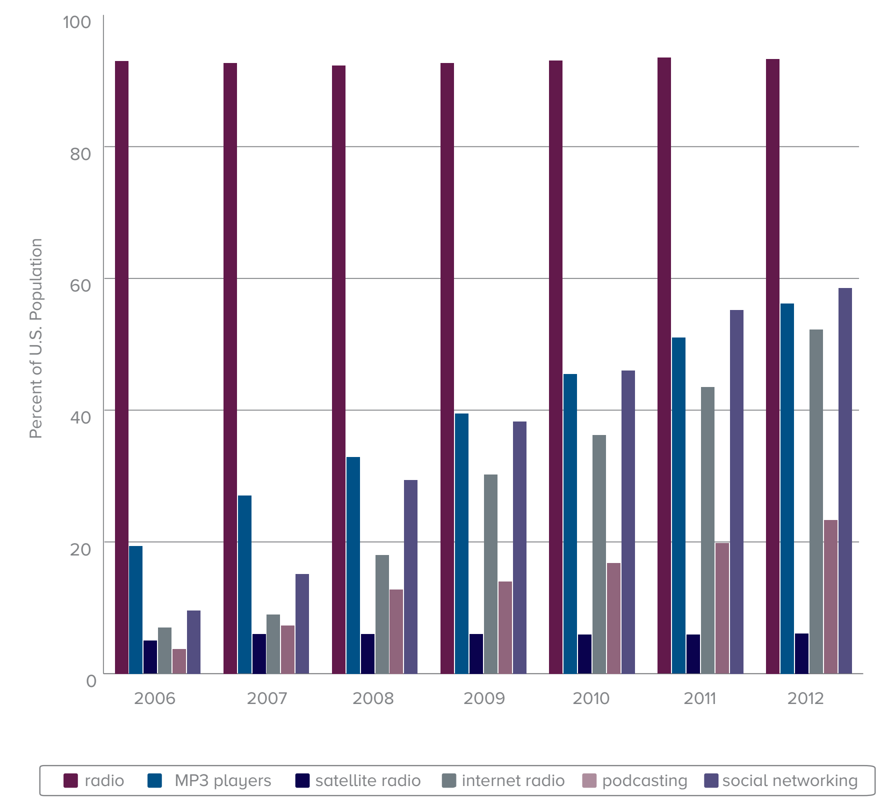
In spite of technology advancements and variations on the radio platform over the last decade, broadcast radio remains strong. Consumers listen to broadcast radio in two ways: on the traditional, terrestrial platform (also known as Over the Air or OTA) through an AM/FM radio tuner, and through streaming platforms on the internet. Though most industry insiders predicted the downfall of the traditional AM/FM tuner in the digital age, recent studies have shown just the opposite.

The 2011 RADAR report shows radio actually added 1.4 million more weekly listeners in December 2011 versus December 2010. Radio now reaches an estimated 241.3 million listeners aged 12 and older weekly, representing 93 percent of the population. In addition, radio continues to reach 22.8 million weekly 12-17 year old listeners, clocking in at 92 percent of the population, which represents slightly less than the total population.

In 2011, the Coalition for Innovative Media Measurement (CIMM) partnered with the Media Behavior Institute to investigate consumer media consumption; the radio results were shocking. The study indicated that radio reaches more Millennials, Boomers, and

MEDIA USE CONSOLIDATED 2006-2012

Source: Bridge Ratings, Inc.

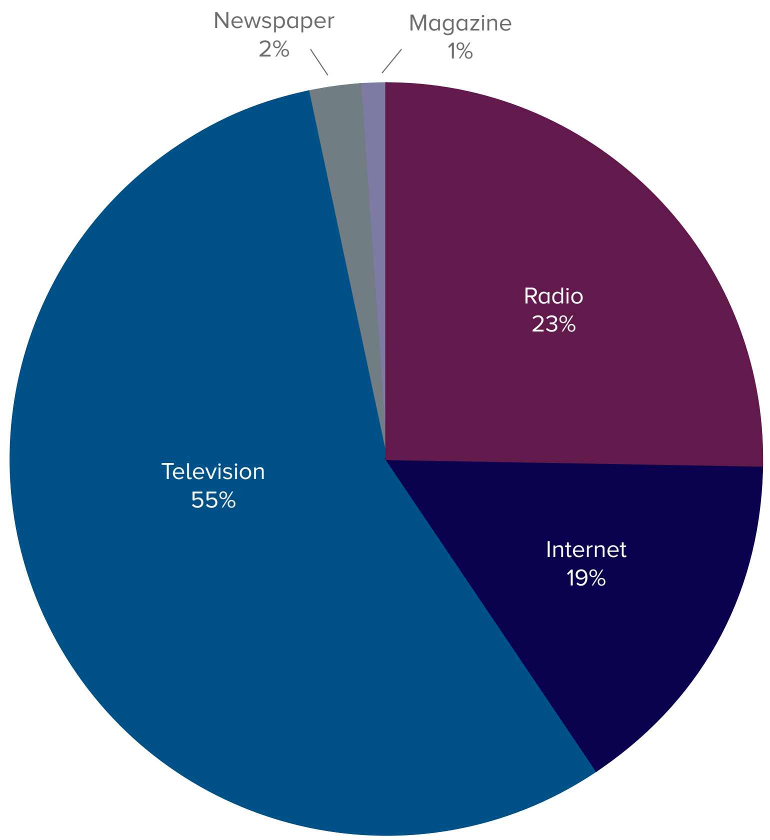


Radio reaches more Millennials, Boomers, and Gen-Xers than the top television broadcast networks (CBS, ABC, NBC and FOX) combined.

Gen-Xers than the top television broadcast networks (CBS, ABC, NBC and FOX) combined. CIMM also reported that terrestrial radio's reach was 2 percent greater to those who regularly stream music and 1 percent greater to those who listen to an iPod or MP3 player, proving that even consumers who use alternative music solutions are tuning in to traditional radio at various points of the day. (Of note, the study found that people who listen to satellite radio are least likely to tune into traditional broadcast radio stations. Since satellite reach remains at only 6 percent of the U.S., this finding has very little effect on overall radio share analyses.)

AVERAGE DAILY TIME SPENT WITH MEDIA

Source: CIMM/ Media Behavior Institute Study, 2011



Most surprising was CIMM's focus on the 18-34 segment. Prior to this study, the nearly industry-wide assumption had been that traditional radio had little to no impact on this group in light of the rise of MP3 players and online-only radio (also known as pure-play). Contrary to popular belief, 18-34 year olds listen only slightly less than the radio universe: 2 hours, 21 minutes per day compared to 2 hours, 31 minutes for 18-64 year olds. The study found that radio trails only television in average time spent with media each day across the entire 18-64 universe.

Radio's Challenges

According to a recent Arbitron report, much of the measured traditional radio use can be attributed to listening in cars, since 84 percent of consumers report usage of their AM/FM radio while driving. (The next highest response was the CD player at 64 percent, not an MP3 player.) The potential near-term emergence of internet-connected car radios may interrupt radio's long-term success in this area. The 2012 Consumer Electronics Show featured multiple connected cars including a Ford test model featuring iHeartRadio (ClearChannel's internet-based platform providing streaming access to all ClearChannel terrestrial stations across the country). Clearly, traditional radio sees the writing on the wall and is making an effort to remain relevant beyond even the home desktop. However, some argue that radio's staying power is strong enough to withstand anything, since the rise of the MP3 player had little to no effect on broadcast radio shares. Additionally, efforts to remain relevant on the digital side continue to increase with more terrestrial stations attempting to attract streaming listeners in spite of pure-play station popularity.

Faced with similar traditional/digital platform transition pricing issues as newspapers, magazines and television, radio has a tough road ahead in the profitability department. It is estimated that the online audience of a given broadcast station can be anywhere from 3-10 percent of the station's total listenership. This is expected to grow to double digits in the next year or two. According to Radio InSights, a typical radio station makes three times the ad revenue by running a terrestrial radio spot than it does from a streaming spot. Though streaming listenership has not yet grown enough to require a full transition to digital, this revenue disparity will continue to be an issue as digital audiences grow over time. It will be increasingly difficult to maintain the local news, traffic, weather and DJ staffing if station profit margins recede. Understanding that these are the only points of differentiation between broadcast radio and their digital pure-play competitors (who offer only music without the "local community" information), it is essential that traditional radio maintains its profitability edge.

Contrary to popular belief, 18-34 year olds listen only slightly less than the entire radio universe.

2012 KSM Forecast

Radio continues to hold its own and the vehicle's scale still provides an integral contribution to a broadcast campaign. Additionally, terrestrial radio boasts a solid and proven measurement methodology that is easily incorporated into overall campaign metrics and has received the industry stamp of approval. (See "Audio Overview" for more information on measurement methodologies.) Though radio gets approximately one-tenth of the political spending that TV does, it does receive spillover dollars from TV advertisers struggling for cost-effective alternatives during political windows. This spillover, combined with strong audience numbers, will help make 2012 a profitable year for traditional radio. However, future OTA growth is debatable in light of the emergence of digital platforms, and the next five years could be painful ones. Lower digital profitability and a lack of measurement that provides equal consideration to online and offline listenership make shifting ad dollars to digital a complicated endeavor. In order to remain competitive, terrestrial stations must play to their strengths. If they're only offering music, they won't survive the rise of pure play streaming sites like Pandora. Local DJs, news and community updates make listeners feel connected AND introduce them to new music. Broadcast Radio's goal is to maintain its status as the number one destination for discovering new music, and it will be a challenging one.

DIGITAL RADIO

Music choice and convenience converge on pure-play radio sites like Pandora, GrooveShark, and Spotify, but is that enough to guarantee their survival? Amidst talk of extremely low profitability and undetermined long-term business models, pure-play (also known as "streaming") radio is attracting listeners in droves. An estimated 70 million Americans listen to some type of online radio each month and the numbers are growing. It is reported that approximately 44 percent of all internet users age 12 and up listened to internet streaming radio at least monthly in 2011.

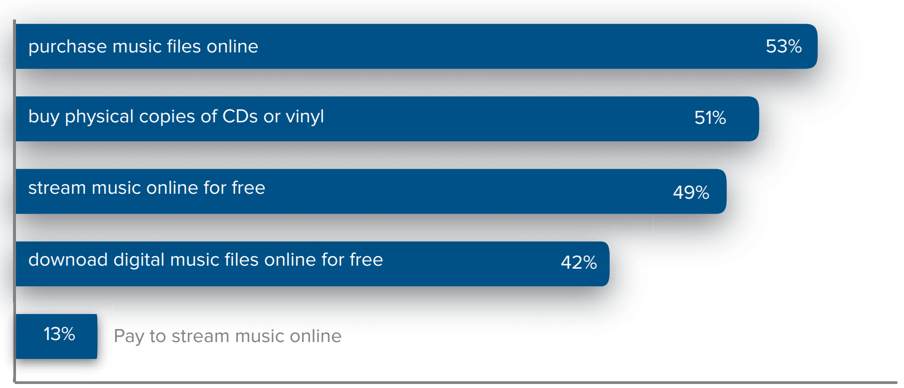
In addition to user increases, time spent with internet radio during each session has doubled in the last year. The TargetSpot 2011 internet radio study found that 59 percent of internet radio users listen to internet radio one to seven hours a week and 41 percent listen for eight hours or more. With the rise of mobile platforms, internet radio is expected to explode with new users who use their phones outside their homes (and in their cars) to listen to music. Nearly 84 percent of internet radio users listen for one to three hours a week on a smartphone, and tablets are emerging as music hubs as well, registering the longest listening sessions (25 percent of users listening for four or more hours a week).

With the increases of smartphone usage and tablet ownership, many believe that 2012 will bring streaming radio closer to mass adoption. In 2011, Insight Research Group reported that the average consumer was still more likely to buy music files online than to pay to stream music on a pure-play website. However, the rise of "cloud-based streaming" options, where users are more in control of their music choices, may chip away at music purchases and make consumers more open to paying subscriber fees for online streaming sites. The potential to replace costly music collections with anytime, anywhere playlists at a low monthly fee could prove to be more tempting than outright ownership.

Challenges

As expected, the music industry is wary of the onslaught of streaming music sites as several have been the beneficiaries of legal issues stemming from copyright protection. Spotify, a streaming site already very popular in Europe, delayed its entrance into the US market until 2011 in order to ensure they received signed copyright releases from all respective owners of the recordings they intended to air on their site. This is required by the Digital Millennium Copyright Act (DMCA), which makes establishing streaming sites in the US much more difficult than in the rest of the world, and inhibits ease of use for the sites once they're established. Many believe that until the DMCA is updated to reflect current technology and the widespread use of digital files, streaming sites will never fully satisfy consumer choice.

METHOD OF PURCHASING OR LISTENING TO MUSIC ACCORDING TO US ONLINE MUSIC CONSUMERS 18-44



Source: eMusic, "Digital Music Consumer Behaviors: Ownership & Streaming" conducted by Insight Research Group, Sept 2011

It is reported that approximately 44 percent of all internet users age 12 and up listened to internet streaming radio at least monthly in 2011.

Royalties are another major handicap in the streaming radio business model. Each streaming site must pay staggering royalties to the music industry in order to air content. For sites like Pandora, which pay a fee each time a song is played, expenses will continue to rise with every new user and each new streaming session. The industry has called this model a "suicide pact," and most fear that unless royalty fees can somehow be re-negotiated, streaming music options will never be profitable in spite of growing audiences and consumer interest. Of all the sites in the category, Pandora is the most well-situated for a fight with the music industry in the near future. At 125 million registered users and growing, they are hoping to gain enough momentum to wield the power to achieve an economy of scale and change the industry model. Until then, they have to stay afloat and attempt to attract more advertising dollars to cover operating expenses.

Most streaming sites are currently trying to solidify a profitable business model that meets consumer demand, creates an advertiser-friendly environment and increases overall interaction time with their platforms. As a result, they offer varying amounts of "free" and ad-supported streaming time, or consumers can choose a paid platform that eliminates advertising altogether. So far, subscription growth has been slow (including on Pandora where "Pandora One" subscriptions only generate about $1 for every $7 gained through advertising) and it remains to be seen which platforms will win consumers over once they are forced to pay for their listening privileges.

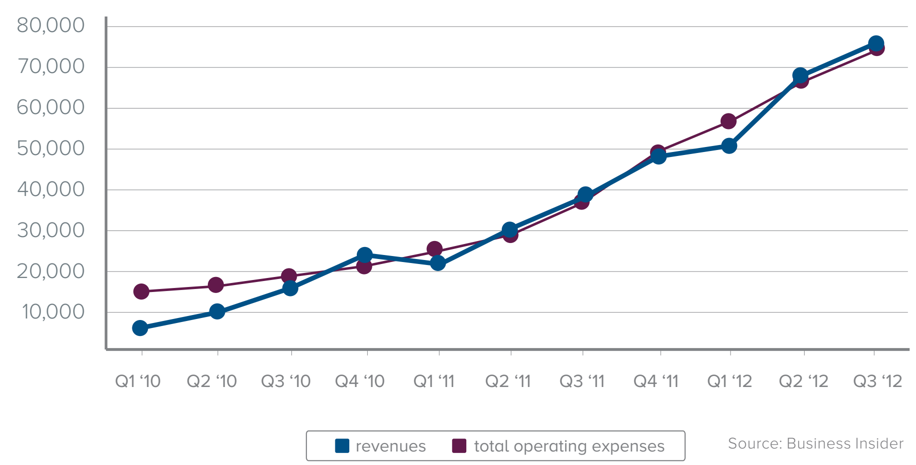
At the same time, large advertisers have also been difficult to win over. Though advertising has increased each quarter on all streaming sites, they are not gaining traction on the scale of terrestrial radio ad spending. To be sure, streaming website audiences (even Pandora's) are not remotely close to the weekly audiences of broadcast radio and could therefore not presently command such large budget allocations. However it is generally believed that unless they start stealing listeners (and therefore ad dollars) from broadcast radio, streaming sites will not survive their start-up costs and growing pains as they compete to attract larger audiences.

Streaming Landscape: The Players

Pandora: The leader in the pure play landscape, Pandora gained popularity through its "Music Genome Project" which identifies personalized playlists based on an algorithm as well as the selections of music specialists. Users enter a song or artist that they enjoy, and the service responds by playing selections that are musically similar. Far and away the largest streaming site, Pandora has revised its site's pay structure within the last year to open it to more free usage and compete with Spotify's entrance to the US music scene. Cost: 320 hours free and then $36 per year. Mobile access is currently free.

Spotify: This site is essentially a giant hard drive that can play whole songs or albums on request as if you owned them. It can also read users' playlists and music collections and recommend new music based on user preference or from friends' playlists. Spotify entered the scene in 2011 and is expected to compete on a large-scale basis with Pandora for the #1 seat in the streaming radio landscape. However, it is also one of the most controversial pure play sites because consumers can actually download songs and play them offline without ever purchasing any albums. As a result, it has been plagued by licensing issues from the disgruntled music industry. Cost: First six months are free. Limited listening restricted to 10 hours per month after that. Mobile access requires a subscription. Access to music on and offline

PANDORA'S REVENUES AND EXPENSES



Source: Business Insider

with a no-limitation subscription costs $9.99 per month.

Grooveshark: Listeners design their own playlist from start to finish using the Grooveshark database of millions of songs. Since the entire experience is self-created and no algorithm or DJ chooses songs for users, this is one of the most flexible stations for user choice. Cost: Free with no restrictions on traditional desktop. Removing all advertising (called Grooveshark Plus) costs $6 per month, mobile access (called Grooveshark Anywhere) costs $9 per month.

Accuradio: With 400,000 unique monthly listeners, this is one of the smaller streaming players. However, it has been on the scene for several years. Its site traffic is measured, and it uniquely describes its goal as "helping the music industry sell records." The site mixes streaming local broadcast radio stations and genre channels rather than focusing on self-selected music like other streaming competitor websites. Cost: Totally free, including mobile access.

Last.fm: Known for its melding of social media and music, this site offers a community and social-sharing hub for music lovers. It was founded in the UK and has a very international following, though it was purchased by US-based CBS Radio in 2007. Cost: Free on the desktop. Subscription fee of $3 required to remove ads and access mobile listening.

2012 KSM Forecast

The growth of digital audio websites proves that convenience and freedom of choice will always win over US consumers. However, the revenue model for streaming sites is shaky at best. Their reliance on the music industry and an imperfect pricing model make it difficult to predict their long-term viability. Pandora will remain at the top of the rankings, but Spotify will give them a run for their money over the next year with its superior choice-driven format. Both sites will aggressively go after broadcast radio ad dollars rather than continue to be relegated to the far lower digital dollar allocations currently on campaign plans. Expect measurement scrutiny from the agency community as a result. (See "Audio Overview" for more on streaming measurement methodology questions.) Venture capitalists and Pandora shareholders are watching streaming sites closely and the next year will tell whether they are a profitable investment. In the meantime, expect ads to become more prevalent on all streaming sites as advertisers are increasingly drawn to the growing audiences and streaming sites continue to fight for their livelihood.

DIGITAL

MOBILE

Mobile phones are ubiquitous and the smartphone is on the brink of ubiquity. As of December 2011, 48 percent of U.S. mobile phone subscribers owned a smartphone (up from 27 percent in December 2010), and that group is growing fast. Access to mobile is unquestionably a necessity to the average consumer. Over 26 percent of the U.S. is considered “mobile only,” relying solely on their mobile phone (rather than a landline) for all communication. Mobile phones account for 20 percent of initial search activity, and the end of 2011 marked the first time that mobile devices outsold PCs. In the history of technology development, there has never been a device that reached mass adoption status faster than the mobile phone, though it is expected that tablets will easily surpass this record within the next several years.

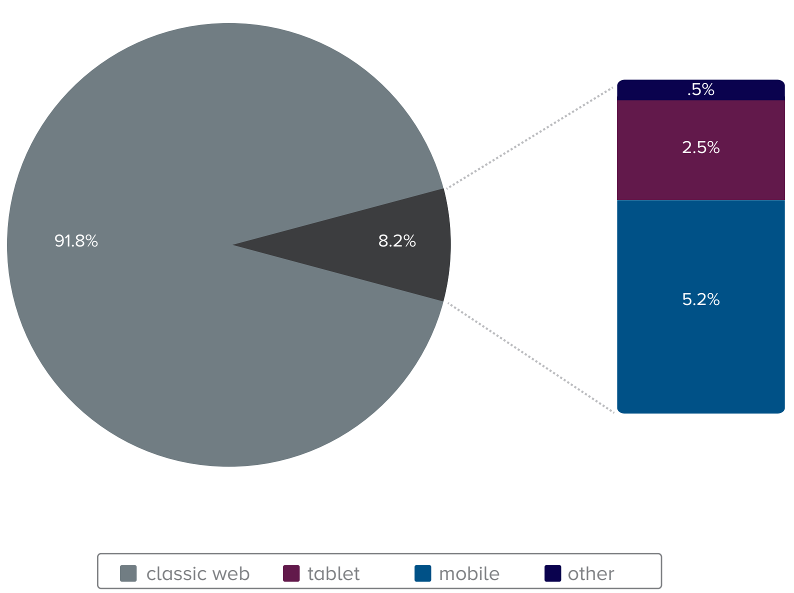
ComScore reports that mobile activity represented 8 percent of all observed internet traffic at the end of 2011. But the term “mobile” has begun to encompass more than just our phones. The entrance of the tablet in the “mobile” platform has increased opportunity for ad expansion and advertiser attention. The similar screen sizes (e.g., smaller than a desktop or laptop) and various operating system challenges make mobile phone and tablet advertising very similar. Though mobile phones have a far greater adoption rate than tablets, the increasing demand for tablet devices will help the entire mobile category grow share of advertising dollars. (See “Tablets” for more information.)

As always, Q4 proved to be an interesting forecasting aid as 2011’s holiday season identified the most desirable phones and therefore the future growth possibilities for each operating system. Blackberry’s share has been mortally wounded and their possibility of contending on a serious level in the U.S. is gone for good. Apple and Android however, are still aggressively competing. Android has surpassed Apple’s share (not surprising, given the high number of Android device manufacturers) and is nearing 50 percent of the U.S. marketplace.

There are more than 400 smartphone devices on the market in the U.S. today, which provides consumers with choice but can create limitations for advertisers. Designing websites and apps that work on multiple operating systems can be costly and often forces advertisers to choose one operating system over another, targeting only Apple users or only Android users with their campaigns. It is expected that 2012 will bring a web design standard so that campaigns can be executed in a “device agnostic” manner. As is the case with tablets, consumer experience can make or break a campaign and is directly related to sales. Removing the need for multiple campaign versions depending on the operating system will allow marketers to focus on one user experience and will, in turn, accelerate consumers’ likelihood to interact with mobile information and shopping sites.

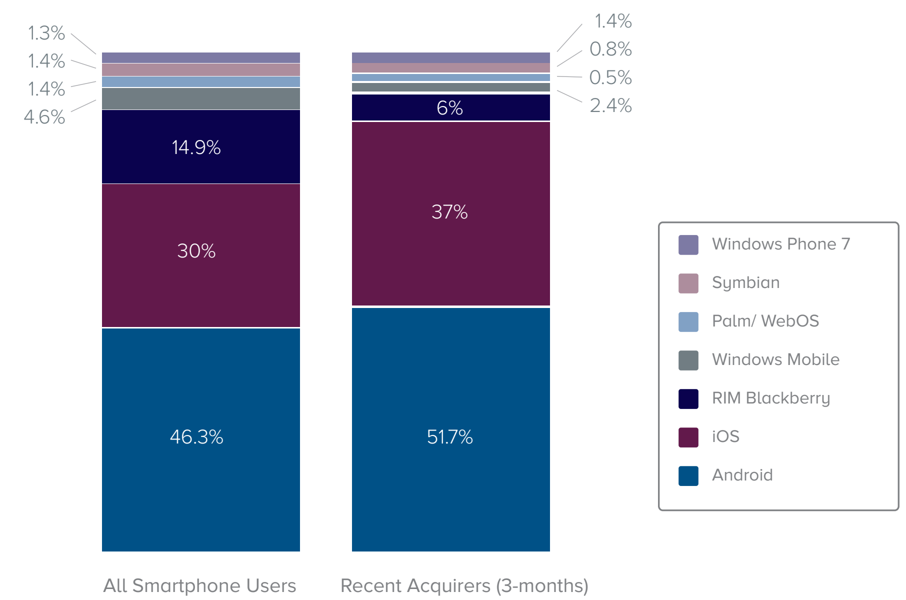
SHARE OF CONNECTED DEVICE TRAFFIC IN THE U.S.

Source: comScore Device Essentials, Dec-2011, U.S.



OPERATING SYSTEM SHARE

Source: Q4 2011, Nielsen Mobile Insights



Device Usage

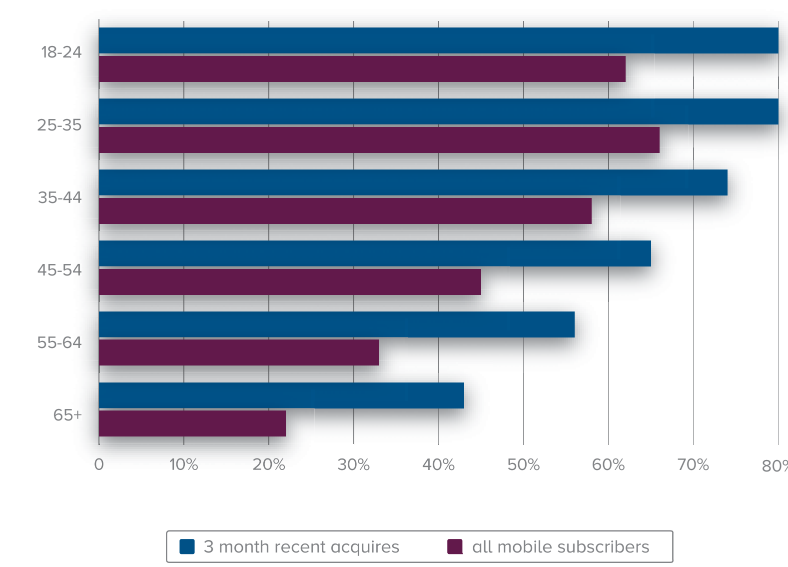
Smartphones are currently most popular within the 25-34 age segment. However, as devices become more accessible due to lower price and improved 3G and 4G networks, adoption growth is accelerating across all demographics. Large families (6+ members), retired persons, and low income households are all showing excellent growth rates in smartphone purchases, proving once again that ubiquity is right around the corner.

Shopping on mobile phones is seeing slower adoption than other mobile activities. According to eMarketer, 56 million mobile users shopped online in the U.S. in 2011. Only about 27 million completed a purchase via a mobile device. Retailers are missing out on a valuable revenue source. Like T-Commerce (Tablet shopping), M-Commerce (Mobile shopping) is very focused on the impulse purchase. Losing customers to a clunky checkout process means they probably will not return later on their laptop because impulse purchases, by definition, don’t look as enticing after a period of consideration.

While users are still somewhat wary of the M-commerce platform, they are becoming more comfortable with using smartphones for shopping research purposes. At the end of 2011, nearly one in five smartphone owners had scanned a product barcode and nearly one in eight compared prices on their phone while in a store. In addition, one in five customers took a picture of a product and texted a friend or relative while considering the purchase on-site. Retailers

SMARTPHONE PENETRATION BY AGE

Source: Nielsen, Jan 2012



2011 marked the first time that mobile devices outsold PCs.

Selected Mobile Activities by Share of Total Mobile Audience	
Sent text message	74.3%
Took photos	60.3%
Used email	40.8%
Accessed social networking/blog	35.3%
Accessed weather	35.2%
Played games	31.4%
Accessed search	29.5%
Accessed maps	26.5%
Accessed news	25.5%
Listened to music	23.8%
Accessed sports info	21.8%
Accessed financial news or stock quotes	15.1%
Accessed online retail	12.2%

Source: ComScore MobiLens, 3 Month Average ending Dec. 2011

will have to accelerate their learning curve in order to adapt to in-store usage and capitalize on attracting consumers at point-of-purchase.

The biggest growth area for mobile in 2012 will be mobile search. It has been estimated that approximately 50 percent of mobile search queries have a local intent. This location-based aspect of search for on-the-go customers can help brands fill an immediate consumer need at a crucial point in the purchase funnel. For this reason, search advertisers tend to experience higher click-through-rates for mobile phone and tablet search campaigns than for desktop search campaigns (166 percent and 137 percent respectively).

However, researchers are reporting that mobile clicks are less likely to convert to sales. This is most likely due to slower M-commerce adoption, smaller screen size and inconsistent or clunky website experiences. Actual sales conversions will increase quickly as web designers perfect the mobile platform and the consumer experience improves.

2012 KSM Forecast

This is actually the year of mobile! The industry has been waiting for baited breath to announce mass adoption of smartphones, and with it mass advertising possibilities. Mobile ad dollars are on the verge of exploding and 2012 will be a pivotal year in determining metrics and value for the mobile platform. Understanding how consumers utilize mobile devices will be the major challenge as adoption grows and users adapt to the new technology and functionalities. Due to the nature of mobile, a crucial aspect of its advertising growth will be maintaining a line between targeting and invasion of privacy. The industry will be determining standards and regulations in order to avoid governmental regulation in the near future. (See our upcoming “Privacy, Regulation and Advertising” white paper.)

SOCIAL

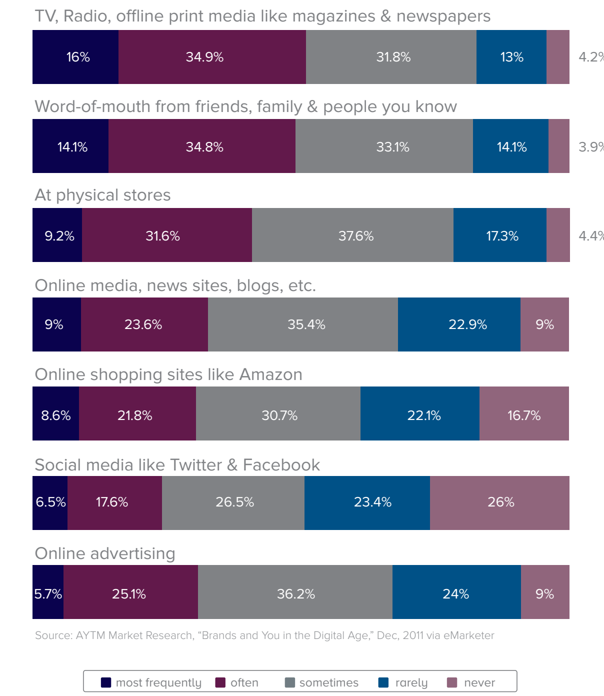
Social media is the most exciting, most misused and misunderstood medium of the last 10 years. Its meteoric rise captured the attention and imagination of every advertiser, large and small, and created a mad scramble for consumer attention. Facebook pages were created, Twitter accounts were opened, and the true enthusiasts claimed that traditional media was expensive and ineffective when compared with the “Word-of-Mouth on Steroids” supplied by the social landscape.

There are two aspects to social: the paid advertising platform where advertisers purchase ads on social media websites like Facebook, and the “earned” platform where advertisers engage consumers through advertiser-generated content in the form of Facebook pages or tweets. The two platforms require vastly different approaches since success metrics for both should be gauged differently. Social media as a whole therefore provides advertisers a venue for both “push” and “pull” marketing and, as such, it can be an invaluable tool.

Large and small businesses can achieve success by using paid ads on social sites like Facebook to drive sales to their internal Facebook pages for “F-commerce,” or sales within the Facebook infrastructure. Additionally, since 50 percent of e-commerce site users are logged into Facebook while they are shopping, paid display ads can be invaluable for driving Facebook users to point of purchase on sites outside of the Facebook platform.

As the social category has begun to mature, it has become clear that social media is the double-edged sword of the digital world. Digital media’s hallmark has long been its ability to track and measure its users, and social media is no exception. However, social’s “track-ability” is not necessarily telling advertisers anything of value. This is especially true for those advertisers who have eschewed the “push” side of marketing completely in favor of “pull” strategies. The seduction of the possibility of direct conversation with consumers has blinded many advertisers to the need for clear goals, objectives, and an understanding of consumers’ unique usage habits on the many different social platforms.

WAYS THAT U.S. INTERNET USERS FIRST LEARN ABOUT NEW BRANDS, PRODUCTS & SERVICES



What does a “Like” accomplish for your brand?

In 2011, numerous studies were conducted to help de-mystify consumer social media behavior. The results have helped to provide perspective to the social media landscape. It is undeniable that social media should be an essential part of the digital advertising mix, as long as advertisers can devote the resources to properly support and manage the platforms. Social interaction outpaced search as the number one online activity in 2011 and one-quarter of all internet users’ time online is spent social networking. This is not a platform that should be ignored or misused, and yet research continues to show that more advertisers are getting it more wrong than right because they misunderstand social's strengths and weaknesses.

The Ehrenberg-Bass Institute studied large brands with Facebook fans to determine the value of a "fan" and the overall impact brands are having on their fans. They found that less than 1 percent of users who "liked" a brand ever interacted after the initial engagement. Similar research has shown that brands with millions of fans only see 0.45 percent of their fans active after they click "like" the first time. What is the moral of the social "like" story? Huge fan numbers do not always show optimum use of the engagement feature of social media or a valuable ROI.

In addition to incorrectly touting "likes" as the social success metric, it has been commonly accepted that social networking delivers more reach than traditional word-of-mouth. To measure the impact of social sharing on pass-along rates, Buzzfeed and StumbleUpon conducted a joint study of Facebook and Twitter users and their sharing habits. They found that the average Facebook share leads only nine people to visit a story and Twitter's sharing reach is even lower, leading only five people to visit a story. Word-of-mouth is still essential to the overall advertising mix and assuming viral-level sharing will occur with all advertiser-generated content is a mistake.

Over-estimating the power of a social media network's reach can actually hamper an advertiser's effectiveness if the social campaign is not complemented by other media vehicles. This is most evident in AYTM Market Research's 2011 study of how much users learn about brands on social sharing sites. They found that only 6.5 percent of US internet users said they most frequently hear about new brands, products and services from social media, while 17.6 percent said they often do, and 26.5 percent said they sometimes do. Slightly over a quarter of respondents said they never hear about new brands or offers through social media channels.

In addition, as of October 2011, nearly 58 percent of all Facebook users had never mentioned a brand in their status updates and 61 percent of Twitter users had never tweeted about a specific brand. Traditional, broad reach media and word-of-mouth are still the primary sources of awareness for new products and services in spite of the size and "share-ability" of social media platforms.

Social media can reach hundreds of thousands of people per day. But, in reality, it rarely does. And marketers need to stop thinking in terms of the entire social user base and start thinking about how to reach their target with engaging, actionable conversation tools that will increase their bottom line. Simply creating a space within a social network does not generate valuable interaction. Constant updating, special offers, incentives, and content development are requirements for a successful social campaign and these items require real dollar and time investments. Social media interaction is therefore not the "free" panacea marketers originally thought it to be.

2012 KSM Forecast

Social ad spending is expected to increase in 2012 as marketers take advantage of new targeting possibilities on social networking sites. Recent studies have also shown that marketers are eager to increase unpaid social involvement to better integrate offline advertising efforts with social media content. It will be crucial that marketers learn from past campaigns and failed attempts to engage consumers to make the time and money devoted to "unpaid" social media worthwhile. Determining objectives and metrics prior to campaign launch and ensuring that goals will have an impact not only on the long-term growth of a brand, but also to the overall bottom line, is the only path to success. If "unpaid" social efforts are not increasing sales, they are most likely not being managed properly.

SEARCH

Paid search is currently the number one ad revenue generator in the digital landscape, and for good reason. Over 91 percent of all adults online use search engines on a regular basis and 50 percent use a search engine at least once per day. According to the Pew Internet & American Life Project, the most frequent users of search engines are the 18-49 age group, college graduates, and those with household incomes of $75,000 or more. Over 83 percent of search engine users report using Google most often, compared to just 6 percent for Yahoo.

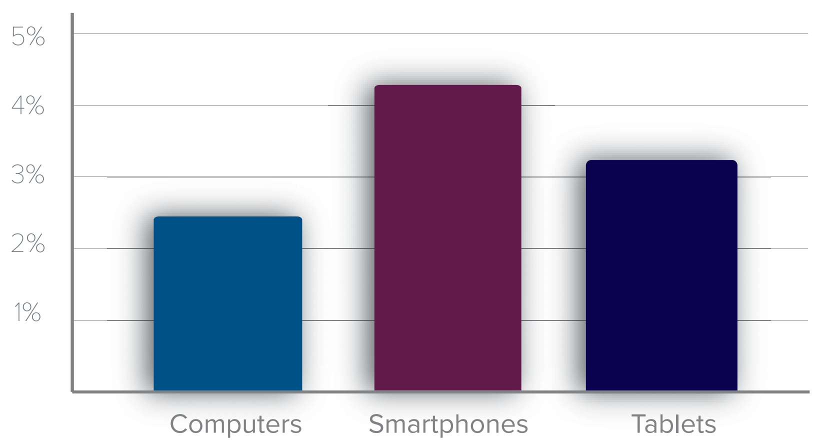
Mobile Search

With the rise of smartphones, consumers are now able to use search engines anywhere, at any time (e.g., search for resturant reviews, locate a business, compare product prices). In January 2011, mobile devices accounted for 5.3 percent of all clicks on Google and by December 2011 they accounted for 12 percent. By December 2012 it is predicted that mobile devices will account for 25 percent of all paid-search clicks and 23 percent of search budgets. While in many ways desktop and mobile search are the same, marketers must consider the reason a consumer performs a search on a mobile device versus on their desktop. Consumers already in a store researching a product prior to purchase may search on keywords that are different than if at a desktop computer. Understanding that consumers search differently on their smartphone will give advertisers an advantage in making sure they are bidding on mobile-appropriate keywords and including ad extensions such as click-to-call or store locators in their mobile ads.

Mobile phone browsers differ from desktop browsers. It is important that the user's mobile search experience is tailored to their mobile browser to ensure a positive brand interaction. Since most websites are difficult to navigate on a mobile device, it is key to drive to a mobile-optimized website. Mobile browsers also feature a limited number of paid ads in search results. Due to this limited real estate, it is imperative to have your paid search ad appear in position one or two of a results list.

Desktop search typically results in strong conversion rates and is a measurable revenue driver. The question becomes how will mobile search compare? According to a Marin Software study, mobile search resulted in lower conversion rates across their clients. Marketers must understand that because consumers search differently on mobile phones, conversions could be occurring in the actual store, which makes them much harder to track. Because of this, marketers will need to measure the success of mobile search differently than on desktops.

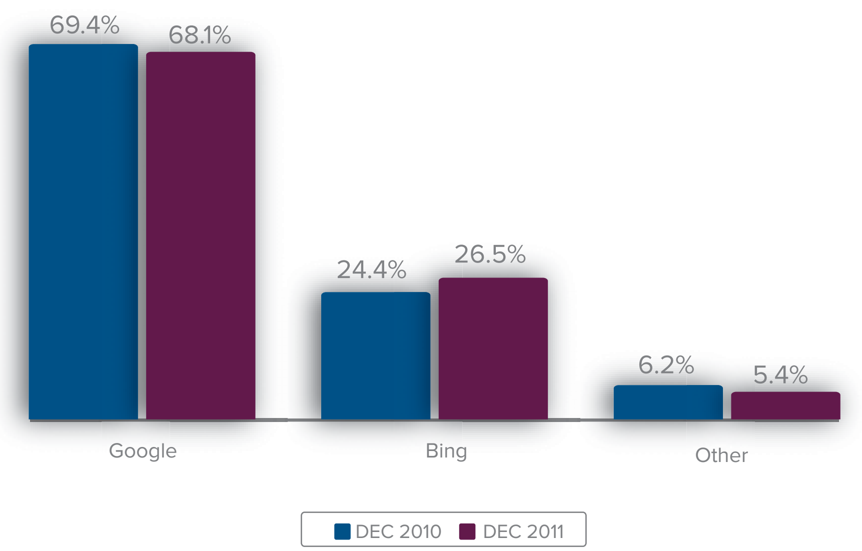
AVERAGE CLICK-THROUGH RATE BY DEVICE – 2011



Source: Marin Software

"POWERED BY" SHARE OF EXPLICIT CORE SEARCHES IN THE U.S.

Source: comScore qSearch, Dec 2011 vs. Dec 2010, U.S.



Search Retargeting

Retargeting has been an effective tactic that gives brands the opportunity to remarket to consumers after they have reached their website. Search retargeting takes remarketing a step further. It gives brands the opportunity to target based on a user's search activity. For example if a user types into a search query "Vacation Deals," we now know that user is researching vacations and may be in the market to book a trip. This opens the door to many advertisers who would like to reach an already-interested audience and serve them with relevant messages. Once a consumer has searched on a keyword that has been deemed relevant, marketers can choose to serve them a banner. This type of targeting technique is a step towards bridging the gap between search and display.

2012 KSM Forecast

Search will continue to be the backbone of media campaigns, reaching consumers at all stages in the purchase funnel. With the rise of mobile search, advertisers must strategically consider building out separate mobile and desktop campaigns. It will be important to monitor mobile and desktop search separately and optimize accordingly. A keyword that is a top performer in desktop search might not perform the same way in mobile search.

In 2012 search retargeting will become a key targeting tactic in the digital media mix. With search retargeting, advertisers need to consider building different creative that is tailored to the type of keyword on which the consumer searched. As other types of media continue to evolve and converge, know that search is no different.

DISPLAY

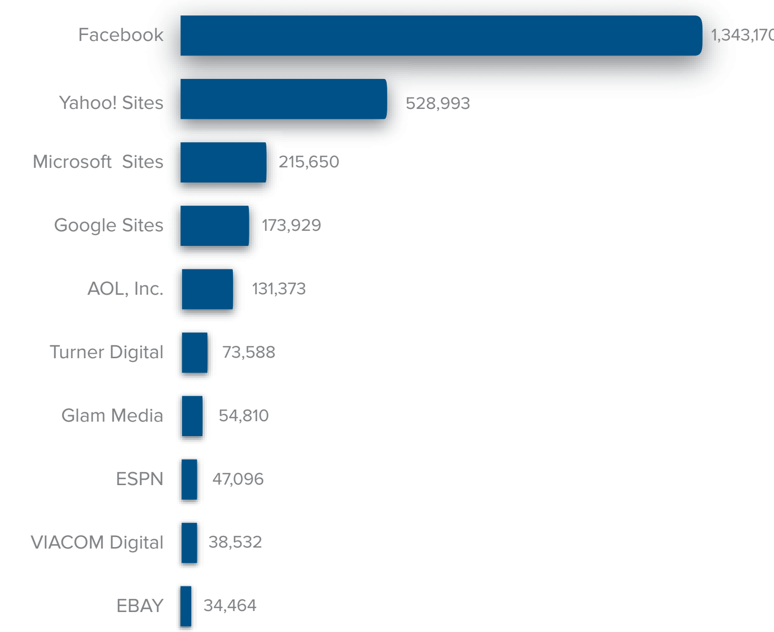
Online display is the bread and butter of the digital world. Its position as the workhorse of online advertising has evolved as billions of display impressions are served each year in order to brand, drive clicks, convert, promote special offers and create interest for consumers as they traverse the internet. In its infancy, display was undervalued because it was judged primarily on click-through rates. As measurement tools have advanced, marketers have learned to attribute value to all ads served on a consumer's path to conversion. As a result, display has cemented its place in the advertising world's digital media mix as a solid number two behind search advertising.

Ubiquity has been, and will continue to be, display's primary handicap. With so many possible placements and an infinite number of websites, it is difficult for the medium to command prices similar to offline media vehicles with limited inventory opportunities and higher demand. While it is true that some websites deliver large, premium audiences, most do not.

Display advertising can provide marketers with strong branding opportunities by aligning themselves within premium content, such as purchasing a Fantasy Football sponsorship on ESPN.com. They can also take advantage of unsold impressions from a wide range of websites by purchasing impressions based on the audience. Audience buying continues to evolve and through Demand Side Platforms (DSPs), agencies can now purchase and optimize impressions through multiple ad exchanges in one place. An ad exchange is a technology platform that allows publishers to sell inventory, and advertisers to bid on and buy impressions, all in real time. The purchasing of impressions through an ad exchange happens in less than a millisecond, and the winner of the auction gets to serve their banner. This is determined by the advertiser's bid amount and the targeting parameters set in the DSP.

TOP TEN U.S. ONLINE DISPLAY AD PUBLISHERS BY NUMBER OF IMPRESSIONS IN MILLIONS

Source: comScore Ad Metrix, Jan 2011 to Dec 2011, U.S.



One targeting option on the DSP is contextual targeting: choosing specific content such as finance, entertainment, sports or other focus areas in which to place your message. If an advertiser chooses to contextually target finance content, it means that they are not informed of what website their banner was served on, but they do know that the person who saw their banner was reading content within the financial category.

Beyond contextually targeting within the exchange, advertisers can also utilize third-party data providers to find their target online. This is known as audience targeting. Data providers capture information about their audience in multiple ways. Some examples include the use of registered website information and cookie data.

The question then becomes: how does real time bidding for a specific audience work on an ad exchange? The travel category provides the perfect example of the audience targeting

U.S. TOTAL ONLINE, ONLINE DISPLAY AND REAL-TIME-BIDDING-BASED ONLINE DISPLAY AD SPENDING (IN BILLIONS)

source: International Data Corporation (IDC) as cited in PubMatic, "Ad Revenue Report: Controlling Your Brand's Future," Oct 13, 2011 via eMarketer

	2010	2011	2012	2013	2014	2015
Total online ad sales	$30.2	$34.4	$40.6	$47.2	$54.7	$62.4
Percent change	14.1%	13.8%	17.9%	16.5%	15.8%	14.1%
Online display ad sales	$9.6	$10.9	$12.6	$14.5	$16.8	$18.9
Percent change	27.9%	13.5%	16.1%	15.3%	15.5%	12.8%
RTB-based online display ad sales	$0.4	$1.1	$2.0	$2.9	$3.9	$5.1
Percent change	–	203%	85.1%	48%	35%	28.6%

process. A consumer interested in traveling may go to Orbitz.com, search for vacation deals on a search engine and look up flights. While they are researching, a third-party data provider drops a cookie on their browser and tracks the various websites they visited. This company knows no personal identification information (PPI data) about the consumer, only that they are in the market for a vacation. The next day the potential traveler goes to CNN.com to read the daily news and sees an ad for a trip to Disney World on the home page. Disney World bid on that impression because in their DSP, they set a targeting parameter to reach audiences who are interested in traveling.

Retargeting is another targeting option on the DSP that has been around for some time. Retargeting gives marketers the tool to remarket to consumers who have already shown interest and tailor the creative message to each consumer. One industry that is heavily using retargeting is retail. For example, consumers shopping on a retailer's website who add an item to their shopping cart but leave the site before purchasing, can be retargeted. Later that afternoon while on the web, they can be served a banner from that same retailer that includes a picture of the product they put in their shopping cart.

DSPs put the power in the hands of the advertiser, allowing them to purchase inventory based on their targeting parameters. This provides marketers with the opportunity to test multiple targeting options such as audience segments, contextual placements and more. It also allows them to optimize their campaign based on which tactic is best meeting their goals.

While spending on DSPs continues to grow and is cost efficient, there are still advantages to aligning a brand within premium content. As marketers, it is important to understand a campaign's goals and objectives to properly allocate media budgets between premium content and purchasing an audience through DSPs.

2012 KSM Forecast

Display advertising has been solidified as a strong digital tactic and continues to grow. As display technology continues to evolve advertisers will be able to deliver a more targeted and relevant messages to their consumer creating more efficiencies. As technology continues to receive all the hype in the marketplace it is important for advertisers to continue to evaluate alignment with premium partnerships to pulse up their digital strategies.

TABLET

The momentum of adoption, advertising development, consumer usage and pricing declines for the tablet and e-reader category has been stupefying. No other technology in modern history has changed the landscape so completely, so quickly. Since the launch of the first iPad in 2010, growth has been primarily driven by Apple, but the recent holiday season brought some game-changing additions. Android-based models (a category which generally includes the Kindle Fire, though Amazon argues it has created an "Amazon-based" device and does not compete in the Android device market) began to appear stronger, mostly due to more consumer demand. Fourth quarter 2011 shares ended with Apple still clearly holding the lead at 58 percent share (down from 68 percent in Q3), Kindle Fire in second at 14 percent (accomplished in only two months on the market), Samsung Galaxy Tab at 8 percent and Barnes & Noble's Nook at 7 percent.

Amazon Fire sales fueled speculation regarding the tablet market as they sold an estimated 3-5 million in the two-month holiday period at the close of 2011. Many believe that the company's goal of offering the lowest price point in the category has merely expanded the tablet market to those who may not originally have considered a tablet, rather than directly stealing share from existing tablets like the iPad. A post-holiday ChangeWave Research survey found that nearly 60 percent of Fire owners named price as the most positive aspect of the tablet. In overall satisfaction, the percent of Kindle Fire owners who were "Very Satisfied" with their device was a distant second to the iPad (54 percent vs 74 percent.)

Hiccups in the operating system and overall operations of Android-based devices have hamstrung their overall sales growth and kept them behind Apple. However, many believe that original estimates were wrong and Android tablets may capture majority market share well before 2014. Fire's nearly miraculous share steal and wild success is also difficult to forecast in the long term. Though it is reported that Amazon takes a loss on every unit sold, early estimates have shown that Fire purchasers are more willing to increase their spend on Amazon's website than non-purchasers. Whether this increased spending can make up for revenue losses on the actual devices remains to be seen. And 2012 will be the year that determines how competitive Amazon can be within the tablet category as other Android devices like the Windows 8 tablet launch and begin to pick up steam.

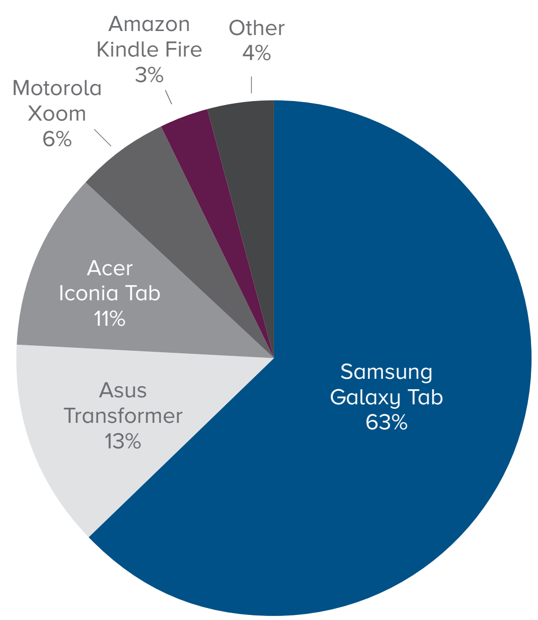
Source: www.iStockphoto.com/cglade

Understanding Tablet Activity

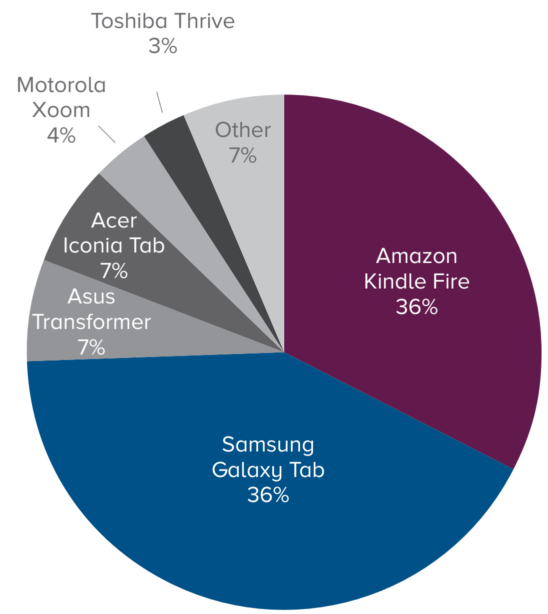
The most fascinating aspect of the tablet sector has been watching consumers evolve their habits and activities on the new platform. Since the tablet

END USER APPLICATION SESSIONS BY ANDROID TABLET

source: Flurry Analytics



November 2011



January 2012

did not begin as a "can't live without" device, actual usage patterns were difficult to predict. Early research has proved that tablets are decidedly for entertainment and fun and laptops/desktops are for work. Approximately 91 percent of activities performed on a tablet are considered by users to be "fun" rather than work-related.

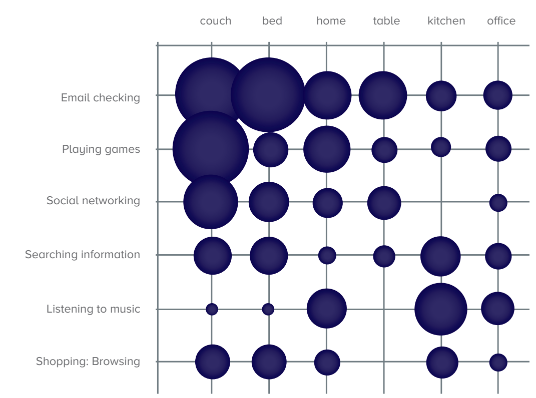
Most usage occurs at home (the highest activity is reported on the couch, in bed and in the kitchen) and a Google Mobile Activity Report found that 42 percent of users multi-task while using their tablets. Everyday activities like listening to music while cooking, checking email while eating and watching TV while social networking were common.

In spite of all this multi-tasking, engagement levels on tablets far surpass those of mobile phones or even traditional computers. Online video technology provider, Ooyala found that videos over 10 minutes in length have 45 percent higher engagement on tablets than either desktops or mobile devices.

The most lauded aspect of the tablet has been its retail performance. "T-commerce" has excited advertisers who have begun identifying interesting dayparting, targeting and tablet-optimization opportunities. Since usage peaks in the morning and evening and is heavier on the weekends, ad dayparting can be highly effective. Reaching wine shoppers while they are having a glass of wine after work, for instance, is going to be more impactful than ever. The same goes for furniture and home goods advertisers looking to reach engaged consumers in the mindset to shop.

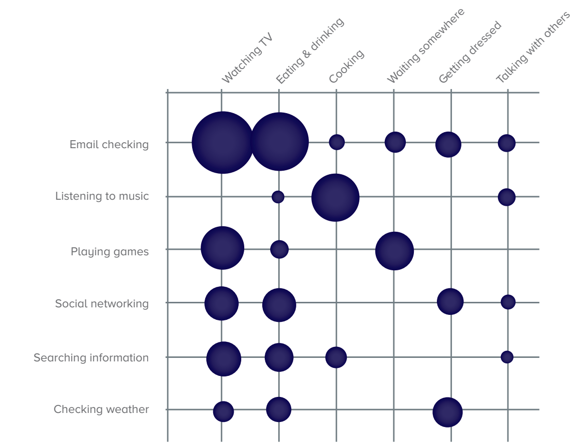
Based on 2011 year-end tablet ownership statistics, tablet customers tend to be more affluent and therefore more likely to shop. More than a third of households making $75,000+ now own tablets and the most growth has appeared in the 30-49 year old segment. As the share leader, these statistics are most

FREQUENCY OF TOP TABLET ACTIVITIES BY TOP LOCATIONS



source: Google Tablet Search Trends: Tablet Usage report, Dec 2011

FREQUENCY OF TOP TABLET ACTIVITIES BY TOP SECONDARY ACTIVITIES



source: Google Tablet Search Trends: Tablet Usage report, Dec 2011

likely attributable to the iPad's high price point. However, as adoption grows through lower price point options, expect these ownership numbers to change slightly and consumers to be identified by the equipment they own.

An iPad shopper is far different from a Kindle Fire shopper, as is the technology to reach them. Screen size has been a major interruption in tablet shopping habits as advertisers struggle to adjust tablet-optimized sites for the market's various tablets. A traditional website is not tablet-friendly and an iPad-designed website is seriously deficient on the smaller, 7-inch Fire screen. Bigger buttons designed for touch screens, higher resolution images conducive to zooming, and seamless payment screens are all requirements for a tablet shopper.

2012 KSM Forecast

Adjustment for screen size is absolutely essential! The number one complaint among tablet consumers is lack of tablet customization on the part of advertisers. Nothing curtails purchase and conversion like a tablet site that isn't optimized for fat fingers! Some experts are warning that mass adoption can still be retarded by the economy due to the high price point of most tablets. This could limit ownership to affluent shoppers only and may keep tablets in the affluent marketing category longer than expected. Assess whether tablet-specific marketing is appropriate for your business based on current shopper characteristics. Entering this market in an effective manner is expensive and must be thoughtfully executed. Tablets are here to stay but the rate of adoption, Android competitive development, and tablet-specific content creation will all affect advertiser entry into the category.

PRINT

MAGAZINE

Last year was an interesting mix of success and caution for magazines. We expect the same in 2012. Total 2011 ad revenue showed a slight increase over 2010, mostly driven by positive Q1/Q2 revenue. The negative slip in the back half of the year was a result of advertiser caution as the economy worsened and consumer spending slowed. Additionally, the food sector dramatically curtailed advertising due to rising energy and production prices. Interestingly enough, titles centered around food (Food Network Magazine, Bon Appetit, Saveur) have enjoyed the most success both digitally and in print in recent months. Though food advertisers have pulled back advertising, other categories are finding success and a strong readership in food books.

Digital Formats

Magazines still enjoy (or endure, depending on your vantage point) a state of limbo between print and digital. As tablets begin to proliferate, more information is accumulating regarding readership and consumer demand, and that information is not necessarily clarifying. It is hard to say at this stage whether consumers prefer tablet or digital versions of magazines over traditional print copies. A recent Gfk MRI study of magazine readership on tablets showed that the convenience and portability of digital copies ranks them high in readers' regard. However, readers are not quite certain what they want from the existing options since 67 percent said they prefer electronic magazines, and 65 percent also believe it is more satisfying to read the print version of their favorite magazines. A full 72 percent also said they would prefer their digital editions follow the same format as print magazines, suggesting that the bells and whistles accompanying digital versions may be overwhelming to readers.

As with all emerging technologies, adoption can be slow and advertiser experimentation is essential to understand consumer habits. Over time, digital magazines will begin to consume a larger share of magazine rate bases, but expect uncertainty in the category's understanding of their current readership. Early data shows that magazines with exceptional digital versions are attracting readers more open to single-copy experimentation – readers who may never have picked up a print version of a specific magazine. This suggests that magazines on the cutting edge of digital design could steal share from print titles that are slow to adapt.

QR (Quick Response) Codes

In an effort to quantify readership and purchase attribution, magazines have encouraged advertisers to use QR code integration. In certain categories, 2011 saw advertiser QR code usage lift primarily in the beauty, fashion and home sectors. By December 2011, a total of 8 percent of magazine ads incorporated QR codes versus only 3.6 percent in January 2011. QR codes have primarily appeared in Women's Service titles but some for electronics, credit cards, and clothing retailers have also shown up in men's titles like Wired and Sports Illustrated.

Research shows that only 5 percent of smartphone owners have ever scanned a QR code, and of that group most skew young and male. With slow adoption, they didn't create the firestorm of measurement and sales most expected at the onset. However, QR codes can still pack a big punch because of those who actually scan them, 18 percent are moved to purchase. This is compelling incentive for advertisers.

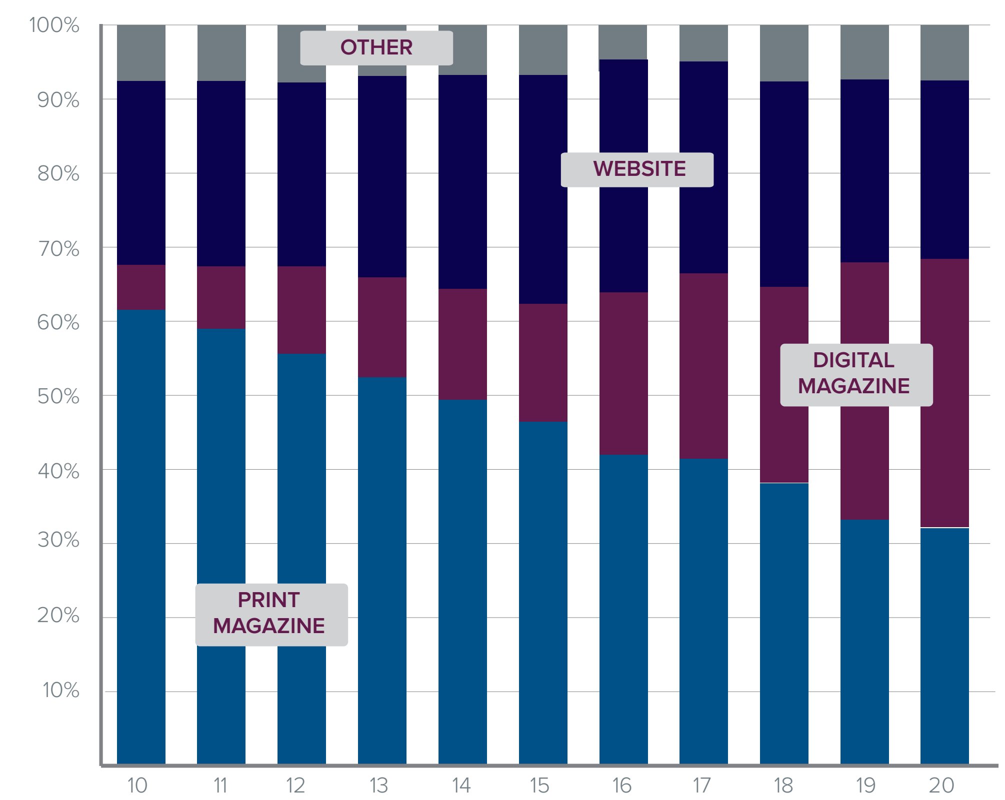
The logical next question will be whether QR codes have a place in the magazine category as the trend shifts to digital formats. Once readers are already online when reading their favorite titles, the QR code as an attribution tool will not be necessary, effectively making QR codes in print obsolete.

User-generated copy

In an effort to stave off falling ad pages, Ladies' Home Journal has re-vamped their magazine to work from a nearly entirely user-generated model. All articles (with the exception of a few "expert" columns) will be culled from social media sites connected to the Meredith Corporation as well as direct submissions from readers. In an age when user-generated content is readily-available at the click of a mouse, this move could prove fatal to a well-known and long-standing brand.

US MAGAZINE ADVERTISING SPLIT 2010-2020

source: medialDEAS



As publishers like Ladies' Home Journal move to stay relevant and on-trend, we expect to see more mistakes like this one. A hallmark of magazine readership has always been extreme loyalty creating high engagement levels. In a shifting landscape, will readers continue to remain loyal to print titles they have relied on for years or will they move wherever the content is most intriguing? Do they read magazines because they enjoy "expert" content or are they open to magazines that prove to be the best "news aggregators," regardless of the source of the information? The next year will prove to be very telling for the magazine community's niche in the media landscape.

2012 KSM Forecast

As with all online connectivity devices, KSM never recommends QR codes unless advertisers accompany their ads without a compelling call to action. Consumers turned off by poorly-designed landing pages, difficult path to purchase, or lack of content at their destination are difficult to win back. It is also debatable how much QR code traffic can actually be driven by slow audience-building magazines. Digital versions will continue to attract a stronger share of readers, but this may disrupt current readership trends. Prepare to relinquish everything you thought you knew about the magazine category as digital versions attract a shifting group of readers. The loyalty, engagement, and trust touted by magazines of yesterday could be in jeopardy as we see readers begin to adapt to shifts in format.

NEWSPAPER

> We have not yet seen the bottom of the decline and 2012 will bring a number of failures.

Newspapers are beginning to adapt to the digital landscape, but there was a lot of bloodshed on the road to mild success. The end of 2011 saw a rash of newspaper buy-outs as newspaper groups across the country changed hands at unheard-of low prices. Experts believe this is not a sign of an improving newsprint category, but actually a step in the overall decline in the industry. We have not yet seen the bottom of the decline and 2012 will bring a number of failures. The Newspaper Association of America reports that there hasn't been advertising growth in the newspaper landscape for 21 straight quarters, since 2006. Newspapers around the world are bleeding employees and most have been forced to perform massive cuts across the board.

Though revenues will never again reach the highs of years past, the new definition of "success" is maintaining a base readership on digital platforms. Consumers accustomed to obtaining all news free of charge online have required re-training in the appreciation of quality news sources. The challenge for newspapers has been maintaining a level of quality worthy of loyalty while cutting newsrooms and losing specialized reporters in the process. Running stories garnered from the AP does not generate news stories unique enough for purchase and customers will not pay for generic news. The Newspaper Association of America recently used comScore to measure newspaper website visitation between 2010 and 2011. The results showed a slight uptick as newspaper websites increased traffic 5 percent between 4th quarter 2010 and 4th quarter 2011.

Paywalls

As the paywall concept matures and consumers become more accustomed to recognizing news as a "pay-worthy" commodity, newspapers have begun to see digital success. The challenge has been finding a successful paywall model to entice both heavy and light users of news sites.

The Times created a "pure" paywall which required payment in order to read any article posted by the paper. This pay structure has been universally dismissed as a mistake, and the publication plans to make the wall a tad "leakier" in 2012 to increase their base of 120,000 subscribers. The Wall Street Journal erected a paywall which allows free access to "universal" and breaking news, but requires payment for news deemed accessible only through the WSJ newsroom (i.e., financial information, special sections, etc.) The WSJ currently boasts one of the highest digital subscriber rate bases (540,000) as a result of this paywall.

The New York Times, on the other hand, created a tiered access paywall which tends to affect only the heaviest users (those who access 20+ articles per day.) Some argue this access model "punishes" the most avid readers, but so far those readers have been relatively happy to pay. The NYT deemed their paywall a success at nearly 400,000 subscribers at the end of a nine-month period in 2011. ComScore data shows that the NYT traffic was approximately 44 million monthly unique visitors in February 2010, prior to the paywall institution. After paywall institution, December 2011 data showed 44.8 million unique visitors. Traffic has remained relatively stable and advertising revenue has shown a slight uptick as a result of this stability.

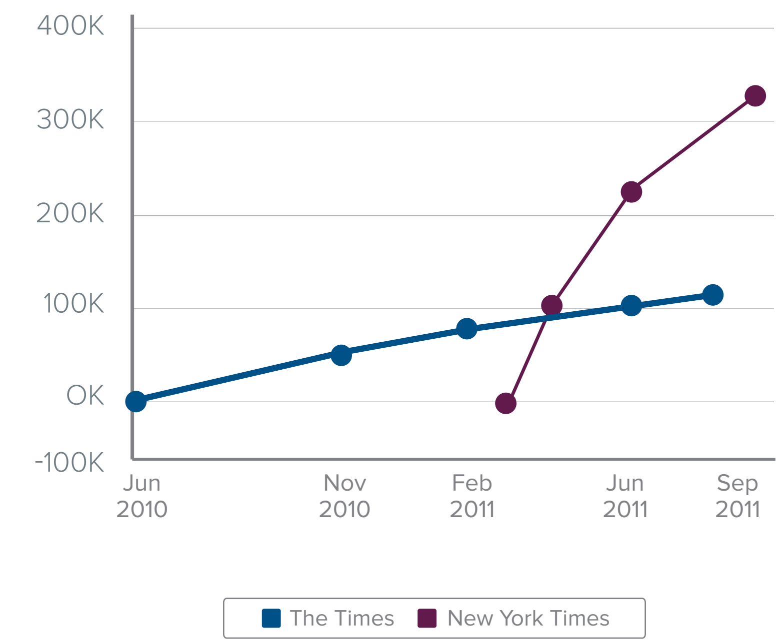
While newspapers have continued printing paper copies, circulations have declined steadily and, in spite of digital success, new models are required to sustain revenue. Digital success does not supply enough revenue to offset expenses required to sustain the newsprint portion of their businesses. For every $7 in print revenue ad declines, newspapers only gain $1 in new digital ad sales. Newsrooms need to be streamlined and the newsprint segment of all newspaper businesses must be abolished in the near future to maximize profits.

We've seen a seismic shift in the news category as a result of the increased emphasis on digital. Major papers are no longer simply print news sources – they have become media outlets. We have watched them adapt to consumer demand and add more and more video, increase website traffic and meld their offerings to reflect those of cable news networks like FOX, CNN, and CNBC. The need for multi-tiered, multi-platformed news conglomerates will create an interesting conversion in the future.

Will future generations be unable to differentiate between news sources with their roots in newspaper like The New York Times and sources with their roots in cable like FOX News? Will newspaper news rooms weather the storm and maintain operating expenses required to expand their offerings across multiple digital platforms? The next five years will be incredibly impactful on an industry struggling for relevance and revenue.

TIMES & NYT DIGITAL SUBSCRIBERS

Source: paidContent.org



2012 KSM Forecast

As the "Daily Mail" surpasses "The New York Times" in total online reach, expect to see more shifts in the newspaper landscape. The very large and the very localized will be the ONLY publications to survive. Expect another mess of closures in 2012 as publications attempt to find their niche and adjust to new revenue models. There is much to offer advertisers here. Newspaper website reach hovers around 60 percent for the coveted 18-49 demographic, suggesting that the digital format has been very successful in attracting readers not obtainable through the newsprint format. Newspaper websites can also now tout 63 percent reach across all adult internet users, which will continue to help them attract advertisers. The question is, can newspapers' operating expenses be decreased to remain in line with lower revenues without sacrificing quality?

SPORTS & OUT-OF-HOME

SPORTS

2011 was a unique year for the world of sports, as the NFL and NBA both threatened to lock their doors.

Historically, live sports has played an integral role in brand communication plans and 2011 proved to be no different. According to Nielsen, the national TV sports ad spend (including network TV and cable) increased to $10.9 billion after posting $10.3 billion in 2010 and $8.2 billion in 2009. AT&T earns the top spot as the biggest advertiser in sports, spending $200+ million more than the next biggest spender, Bud Light.

At the top of the sports revenue heap is the NFL, dwarfing all other sports media in advertising dollars. 2011 was a unique year for the world of sports, as the NFL and NBA both threatened to lock their doors and forgo the 2011-2012 season. As the lockouts loomed, advertisers struggled to decide how to allocate their budgets for the season. Could there possibly be a year without the NFL or, more importantly for advertisers, no Super Bowl? Brands were forced to make the tough decision to either retain but minimize their planned NFL budgets and hope the lockout would be avoided, or pull out completely.

NFL

Did the potential lockout have an effect on the NFL's ad revenue? It appears that the threat of not having a season had the opposite effect on advertisers after the lockout was lifted. Fans and advertisers were equally excited to have the league back and the 2011-2012 season proved that the NFL is still king.

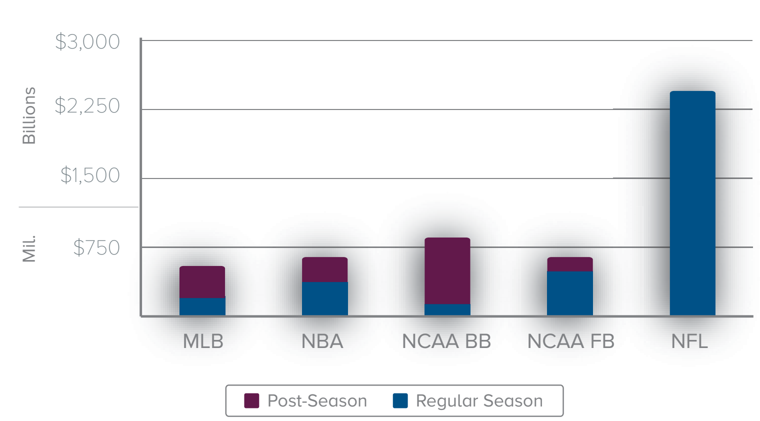
Research shows that this was actually the strongest year for the NFL out of the previous five seasons, racking up more than $2.3 billion in ad revenue. And, more than 111 million viewers watched the New York Giants defeat the New England Patriots in Super Bowl XLVI, making it the most-watched Super Bowl ever. The average 30-second spot cost advertisers approximately $3.5 million, which was also a Super Bowl record.

NBA

Nielsen indicates that compared to the previous two seasons, the 2011 regular season ad spend increased to $406.8 million and the post season totaled $623.2 million. Nielsen also reported that the NBA Finals was the highest-rated program on TV that particular night for each of the six games. Unlike the NFL, at the start of the '11-'12 season, the NBA did close their doors for 149 days to solve a labor agreement between the players and the league owners. The lockout, however, did not extinguish fans' passion for the new NBA season as approximately 35 million viewers watched a least a portion of the five nationally-televised games on the season's opening day (Christmas Day).

2011 SPORTS AD REVENUE

Source: Kantar Media 2012.



NCAA Football

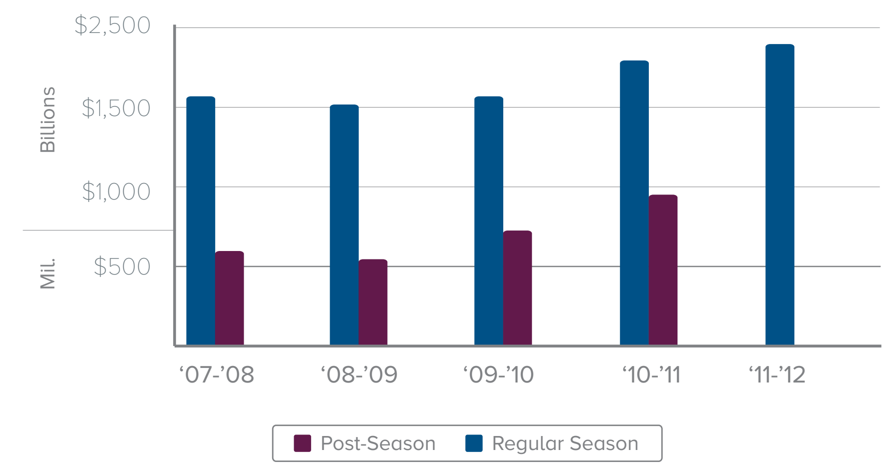
In efforts to maintain a football presence in the wake of a possible NFL season cancelation, the argument can be made that advertisers shifted part of their NFL budget to collegiate football as the NCAA saw a 24 percent increase in ad revenue, totaling $617 million for the season. The ad increase, however, came with some ratings declines. For the 2010-2011 season, Nielsen reported that three of the four BCS Bowl games experienced a ratings decrease with the exception of the Fiesta Bowl (Stanford vs. Oklahoma St.), which saw a 56 percent increase in ratings. The BCS Title game between LSU and Alabama, a rematch of the previously dubbed "Game of the Century," saw an 8 percent decrease from the previous year's BCS title matchup of Auburn vs. Oregon. These ratings declines may affect the NCAA's ability to command higher rates in the upcoming 2012-2013 season. Since the NFL will not experience a work stoppage in the near future, the NCAA Football balance of power will be on the advertisers' side.

NCAA Basketball

March Madness is regarded as one of the most exciting sporting events of the year and the advertising revenue during this period proves that it is an important month for advertisers as well. The significant growth in ad spend during March Madness over the past several years versus the fairly low level spending during the regular season (NCAA Basketball carries the lowest regular season ad revenue of all major sports) continues to help NCAA Basketball remain on the map.

NFL AD REVENUE

Source: Kantar Media 2012. Data through January 2012 included in chart



Last year was the first year that the tournament partnered not only with CBS, but added Turner networks (TNT, TBS and truTV). The new partnership meant each game was broadcasted nationally on network/cable TV, while games were also accessible via streaming on desktops, tablets and smart phones. The partnership with Turner was successful as Nielsen reported that more than 94 million viewers watched at least a portion of the Round of 64 (+17 percent increase from '10) and 86 million watched a portion of the Round of 32 (+21 percent increase from '10).

MLB

Major League Baseball came to an exciting close in the 2010-2011 season as the St. Louis Cardinals defeated the Texas Rangers in a thrilling Game 7, which was the most watched MLB game since the 2004 World Series (more than 25 million viewers).

Separating the regular and post seasons, examination of the past five seasons of MLB ad revenue reveals that revenue gained from the 2007 season through the 2010 season remains mostly constant. However, the 2011 season saw a big leap in the post season. The sudden revenue increase can be attributed to re-allocation of NFL budgets.

2012 Olympic Summer Games

The 2012 Summer Olympics in London are expected to exhibit significant increases in household ratings from years passed. In efforts to help support the games' ratings, paidContent.org reports that NBCU has already sold more than $50 million in digital inventory, which represents 5.5 percent of the total $900 million in advertising sold so far. The 2008 games in Beijing's digital sales only represented 3 percent of total Olympic advertising. Why the jump for this summers' games? More than 3,000 hours of video will be placed online for viewers to stream live content at their leisure versus 2,200 streaming hours in the 2008 games.

Biggest TV Advertisers in Sports Q4 '10 - Q3 '11	
AT&T Wireless	$423.5M
Bud Light	$210.2M
Verizon Wireless	$207.7M
McDonalds	$164.9M
DIRECTV	$160.5M
Geico	$158.1M
Sprint Wireless	$147.4M
Southwest Airlines	$143.5M
State Farm Insurance	$127.5M
Miller Lite	$126.6M

The biggest advertisers in sports accounted for 26% of the total spend during the time period.

Source: Nielsen

2012 KSM Forecast

Live sports will always be a major asset for advertisers. Sports programming provides mass audiences of live viewers, providing timely, DVR-proof television. It cannot be denied that sporting events are becoming more accessible across multiple platforms, such as streaming online, smart phones or tablets. As these innovative technologies continue to grow, these platforms will boost sports ratings and ad spending. The fragmentation raises questions, however, regarding ad dollar allocations. Hopefully this will force advertisers to gain a greater understanding of multi-platform viewing for each sport and potentially each tournament or regular season game. Accordingly, brands must adapt fresh strategies for smooth integration across all platforms to be able to compete in the forever growing landscape that is live sports.

OUT-OF-HOME

Consider out-of-home the last "mass" medium. Even as we search for more complex and targeted platforms to reach niche consumer categories as close as possible to point of purchase, one of the most basic media formats remains strong. Though the out-of-home industry faltered slightly with the U.S. economic setback in 2008, it seems to be bouncing back, experiencing revenue increases for the last three years.

Out-of-home advertising can be classified into five categories:

1. billboards, which includes posters
2. street furniture such as bus benches and kiosks
3. transit such as bus kings or train wraps
4. digital networks such as office building screens, elevator TVs, in-store video at check-out counters, and doctors' office screens
5. alternative, a broad category that encompasses all non-traditional out-of-home like pizza boxes, dry cleaning bags, street chalk, sky banners, coffee cups and in-store advertising.

The Outdoor Advertising Association of America estimates that there are approximately 400,000 outdoor bulletin faces in the U.S. Of these, only approximately 3,200 are digital. Because of the high cost of conversion, digital bulletins will remain the minority in the overall bulletin sector for quite some time, though industry estimates predict that new digital faces will be converted at a rate of several hundred per quarter over the next few years. Digital billboards are stand-out money-makers for out-of-home vendors, and the cost of conversion is well worth the increased revenue from a single billboard that can accommodate a rotation of multiple advertisers. In addition, advertisers enjoy far more creative flexibility with the digital format, which enables them to adjust messaging by time of day, temperature, or date.

Adaptation to new technology has been expensive but well worth the effort for the outdoor industry.

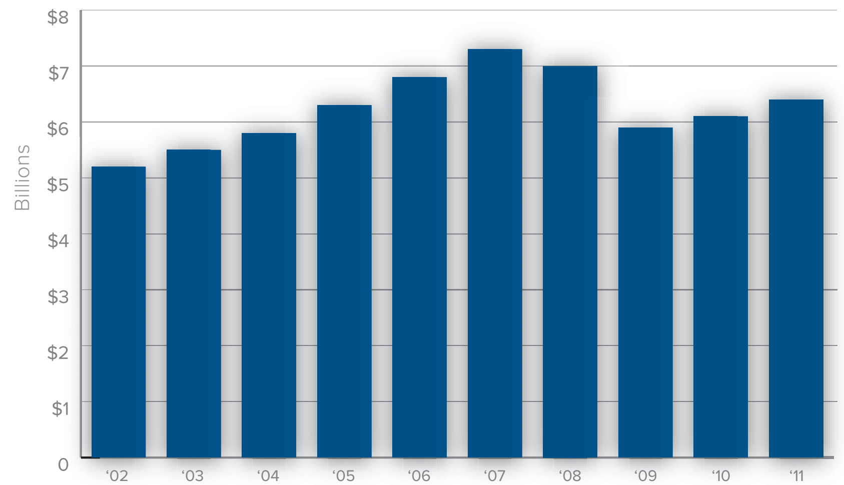
Digital conversion has not been limited to billboards. The installation of digital screens in venues like 7-Eleven, McDonald's, Wal-Mart, and office buildings has increased available out-of-home consumer touchpoints and allowed for more point-of-purchase advertising. Adaptation to new technology has been expensive but well worth the effort for the outdoor industry.

Tough Economic Times & Creativity

Out-of-home is arguably one of the most creative media formats since the medium operates under such a broad definition and can encompass nearly any non-traditional ad placement in existence. This means vendors are constantly trying to come up with new ways to reach consumers in a buzz-worthy and/or targeted manner. Illustrating this, an LA-based brand marketing firm, Brainiacs, recently offered to pay consumers' mortgages in exchange for painting their houses with a client's advertisement. Appealing to consumers' current economic woes while proposing an over-the-top ad platform helped them garner more PR than the ad itself may have generated alone.

The tough economy has also prompted more government entities to lift restrictions on advertising in areas that were previously off-limits.

OUT-OF-HOME AD REVENUE



Source: OAAA (Kantar Media & Miller Kaplan 2011), Out-Of-Home Ad Revenue. Includes billboard, street furniture, transit, and alternative media as well as digital platforms

In order to increase local government revenue, some cities have solicited permanent sponsorship of popular public transportation stops as well as lifted long-term ad bans on alcohol advertising. In addition, school systems have begun allowing advertising in some unique areas. Forced to trim budgets and considering cuts from extracurricular activities first, the National Federation of State High School Associations (NFSH) will now allow advertising on high school football fields. The advertising sold could offset the cost of new turf and general upkeep for athletic programs.

Perhaps even more controversial is the addition of advertising on public school bus exteriors. Currently, seventeen states allow advertising on their school buses and generate on average $2,500 - $5,000 in revenue per bus, per year. Protestors feel that allowing schools to run advertising in or around school property is exposing children to undue commercialism, and the fairly small revenue enjoyed by the school districts is not worth the exposure. The schools have responded with restrictions on the types of advertising they accept. Bars, drug companies and religious organizations are off-limits, but the environment is very productive for banks and insurances companies with education initiatives. A weak economy can create a more advertising-friendly environment and opens many avenues for engaging consumers at various points outside of their homes.

2012 KSM Forecast

It is expected that out-of-home will enjoy another positive growth year as technology helps create vast digital OOH networks and advertising is more welcome in outdoor environments. In addition, political years are always good to OOH and 2012 will carry strong political spending. Though the medium is not necessarily a “go to” format for major elections, OOH does pick up revenue when TV and radio inventory becomes tight and advertisers need an efficient alternative. Advertisers considering OOH in 2012 should be aware of increasing digital measurement opportunities for their campaigns. Amplifying the impact of an alternative OOH campaign requires social media and/or mobile elements that extend the geographical reach of a stunt or unique message. Identifying ROI can also be simplified using the addition of QR codes or mobile phone activation drivers within OOH creative. As OOH technology advances, engagement will increase and advertisers will no longer need to view OOH advertising as a passive complement to their campaigns.

UPCOMING 2012 MEDIA REPORTS

Look for reports and forecasts relating to the following topics:

- Privacy: Targeted Advertising and the Consumer
- Regulation: Government and the Advertising Industry
- Promotional Trends: Grassroots and Experiential
- Video Advertising: Integrating Online and Offline Video Effectively
- Audio Advertising: Integrating Online and Offline Audio Effectively
- Spectrum Update: Are We in a Crisis?
- Tablets: Adoption and Usage

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