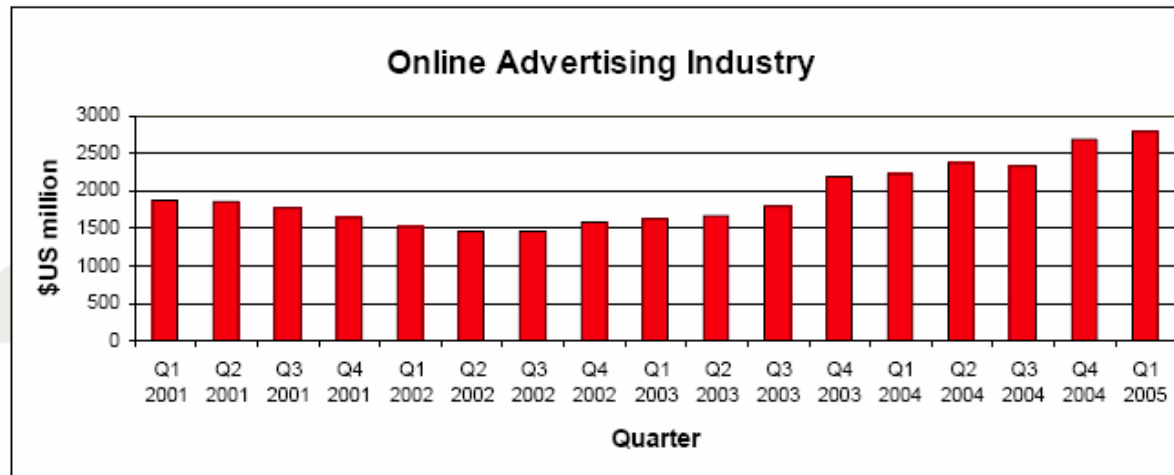


Topics for Discussion

- General Statistics and Trends
- Fundamental Changes Towards A Value Based Market
- Domain Real Estate – Sell, Rent or Develop?

Online Advertising Industry

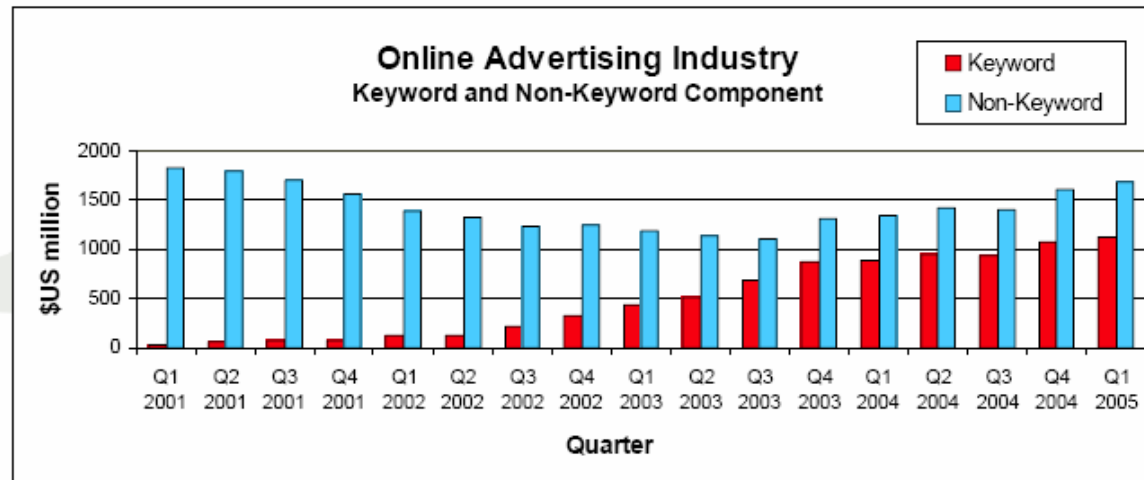
- US\$9.6 billion per annum industry in 2004 – Interactive Advertising Bureau



- Some industry forecasts
 - US \$12.3b in 2005 – Goldman Sachs
 - US \$17.6b in 2008 - eMarketer
 - US \$26b in 2010 – Forrester Research
- Keyword search and rich media are to be the main drivers

Keyword Search Market

- Keyword search market is 40% of the overall online advertising market
- Main driver of overall growth in the advertising industry



- Driven by Google and Yahoo/Overture (95% of the market)
- The internet is not a broadcast media, it is ideally suited to narrowcasting
- Keywords (typing phrases into search engines) is the path to the narrowcast channels
- Google, Yahoo, MSN & AOL have ~90% market share
- EMarketer projects the keyword market to be US\$5.4 billion in 2005
- Forrester projects the keyword market to be US\$11.6 billion in 2010 (33% p.a.)

Use vs Ad Spend

- Online Advertising growth is being driven by the discrepancy between Internet consumption and Ad spend.
- In the Fall of 2003 Online Advertising was only achieving 1/5 of the advertising spend the media usage deserved.
- High growth is expected for the next 5 to 10 years eventually aligning growth to internet usage.
- Adapted from SRI-Knowledge Networks Fall 2003

Future of Direct Navigation

- Direct Navigation contributed \$400 million (10%) revenue towards the key word search market in 2004.
- Using key word search market growth as a guide the direct navigation market should grow 33% pa by 2010 to be worth over \$2 billion
- Adapted from Emarker, Forrester, Marchex, Fabulous Research

Revenue Per Click Annual Growth (14%)

Above Average Growth

- Construction 25%
- Reference 24%
- Pets 24%
- Government 21%
- Insurance 20%
- Law 19%
- Wholesale 19%
- Automotive 18%
- Real Estate 18%
- Employment 16%
- Finance 16%
- Tools 16%
- Astrology 16%
- Adult Industry 15%
- Health 15%
- Weight Loss 14%
- Shopping 14%
- Debt Consolidation 14%
- Business 14%

Below Average Growth

- Family 13%
- Charities 13%
- Free 13%
- Travel 13%
- Games 13%
- Education 13%
- Entertainment 13%
- Beauty Products 12%
- Sports 12%
- Primary Industries 11%
- Gambling 11%
- Computers 10%
- Generic Page 9%
- Dating 7%

In a market growing by 30% per year the greatest growth is from the increased coverage of phrases and to a lesser degree increased bid prices driven by advertiser pressure.

Revenue Per Click Annual Growth (14%)

Low Volume Higher Growth

- Construction 25%
- Reference 24%
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- Government 21%
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High Volume Lower Growth

- Family 13%
- Charities 13%
- Free 13%
- Travel 13%
- Games 13%
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- Entertainment 13%
- Beauty Products 12%
- Sports 12%
- Primary Industries 11%
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- Dating 7%

Revenue Per Click Annual Growth (14%)

Late Adoption Rapid Growth

- **Construction 25%**
- Reference 24%
- Pets 24%
- **Government 21%**
- Insurance 20%
- Law 19%
- Wholesale 19%
- Automotive 18%
- Real Estate 18%
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- **Tools 16%**
- Astrology 16%
- Adult Industry 15%
- Health 15%
- Weight Loss 14%
- Shopping 14%
- Debt Consolidation 14%
- Business 14%

Early Adoption Slowed Growth

- Family 13%
- Charities 13%
- Free 13%
- **Travel 13%**
- Games 13%
- **Education 13%**
- Entertainment 13%
- **Beauty Products 12%**
- Sports 12%
- Primary Industries 11%
- **Gambling 11%**
- **Computers 10%**
- Generic Page 9%
- Dating 7%

Anomalies Worth Discussing

- Construction 25%
- Reference 24%
- Pets 24%
- Government 21%
- Insurance 20%
- Law 19%
- Wholesale 19%
- Automotive 18%
- Real Estate 18%
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- Generic Page 9%
- Dating 7%

“Primary Industries” is the latest adoption market that is yet to boom, “Reference” is booming due to monetization of public record searches. The growth in the “Dating” industry has been hindered due to the adult industry reinventing itself as sex dating.

Other trends of interest

- Rich Media is booming due to broadband expansion
- Medical Disease domains have been gaining interest as personal interest web sites emerge.
- Mobblogs are the latest thing in wireless. People can now instantly take a picture with their mobile phones and simultaneously have them uploaded into their own web site online.
- .COM domains have the potential to be cost reduced to \$1 with the correct lobbying. With the reduced price domain registrations will boom again.
- Packaging of open source software, cheap web hosting and domains for sale will become a common practice. The added value will boost buyer value and reduce their barrier of entry to be a webmaster. The result will be higher domain sale prices.

Advertisers looking for Value

- Volume is being replaced by value as the defining factor.
- The bulk of current advertisers are using the web primarily to create brand, but the trend is towards actual measurable sales.
- Competition on phrases are forcing advertisers to target their ads more carefully to maintain value for volume.
- Conversion, Click Rate and Value are considerably higher for advertisers when advertising on phrases with 3+ words (findmefaster)(1)
- Strongest growth in domains will come from domains that are:
 - Longer - WholesaleCakeDecoratingSupplies.com
 - More words – RockyMountainHikingTrips.com
 - Low volume – BassFishingResorts.com
 - Most specific – LosAngelesRealEstateValuation.com
 - High value sales – MainFrameComputers.com
 - Late Adoption – ConstructionTowerCranes.com

(1) Morgan Stanley Research

Google is leading the search for Value

- Google was the first to market with a value based domain traffic monetization system – Smart Pricing
- Smart Pricing gauges the value of affiliate account traffic as it compares with the standard of Google.com traffic.
- Google has a percentage of their advertisers that report sales to them so Google representatives can help manage their accounts.
- If advertisers generally experience 70% as many sales using an affiliate account's traffic then the advertiser bid price is adjusted to 70%.
- Example: If the raw Google bid price is \$0.50 and the affiliate Smart Pricing rating is 70% then the advertiser pays \$0.35 for the click.
- This system has worked exceedingly well in most cases. The only place it seems to fall down a little is when domain traffic for an affiliate account has a higher rating than Google.com traffic. This is a very rare case and arises out of the difficulty in charging advertisers more for non-Google traffic than Google itself!

How is Smart Pricing Affecting the Market?

- The net effect is that Advertisers are paying bid prices adjusted to a CPA model.
- Better value is building higher bid prices and advertiser satisfaction.
- “Wild West” affiliates are moving to find other networks with a technology gap to maximize their current revenue while it lasts.
- Domain portfolio owners with high volumes of unqualified traffic are aggressively trying to sell their portfolios. They hope for high multiples based on their legacy revenue before they get caught up in qualitative metrics.
- The first rule of traffic management is “Never allow poorer quality traffic than your own into your network. When it happens it reduces your own revenue and gives it away to the lesser source.” It is just a matter of time before all of the networks start diligently measuring quality of conversion to protect their own interests and the bid prices of their advertisers.
- The long term result of this market evolution will be a system of parity where advertisers bid using their measured ROI and it won’t matter what type of conversion method (CPI, CPC, CPA, CPL, CPCall, CPD) that is used.

Where does traffic come from?

- Resident (PC) applications – MS Office, Open Office, etc.
- Piggyback applications – Toolbars, Adware
- Internet Access – ISP, Mobiles, Wireless
- Browsers – IE, FireFox, New Browsers, White Label
- Direct Navigation – Primary Traffic
- Home Page – My Yahoo
- Search Engines – Primary Traffic
- Web Sites (Secondary Traffic)
 - Display Advertising
 - Rich Media
 - CPA
 - Contextual Marketing
- E-mail Marketing – SPAM, Opt In
- Return Visitor
 - Customers
 - Bookmarked Web Sites – stocks, news, sports
 - Mindshare – types the web site address into the address bar
 - E-mail account login page

Adware & Search Engine SPAM

- > 80% of all CPA traffic comes from these sources (major CPA network insider)
- Almost all of the tier 2 & 3 PPC search engines rely heavily on this traffic to survive.
- Most arbitrage traffic comes from these sources (most of the remainder is run of network)
- Adware is on the brink of destruction. Freeware development and distribution is driven by customer service costs. Microsoft is leading the charge and is likely to distribute a free Adware killing solution in the next version of Internet Explorer. Large volumes of customer complaints about Microsoft products and Dell computers being “broken” attributed to Adware are the key driver.
- After the death of Adware:
 - CPA networks will have to realign with the PPC values of traffic or they will perish.
 - Most 2nd and 3rd tier PPC search engines will fail.
- Search Engine Spam – Primarily this is constituted by product spamming. Commission Junction, Performics, and Linkshare all have considerable product catalogs available from their merchants. The millions of products from these CPA networks form the content used by a great many SEO companies. The general use is to create web sites that have thousands of web pages based on search terms and populating those pages with product images, text and links from the various databases. Currently Google, Yahoo and Microsoft organic search engines index this content and rank them highly because they have search engine friendly content and no PPC links.
- Its only a matter of time before Google with “Froogle”, Yahoo with “Yahoo Shopping” and Microsoft (CPA program to be announced) will drop all web sites in the SERPS with competing content.

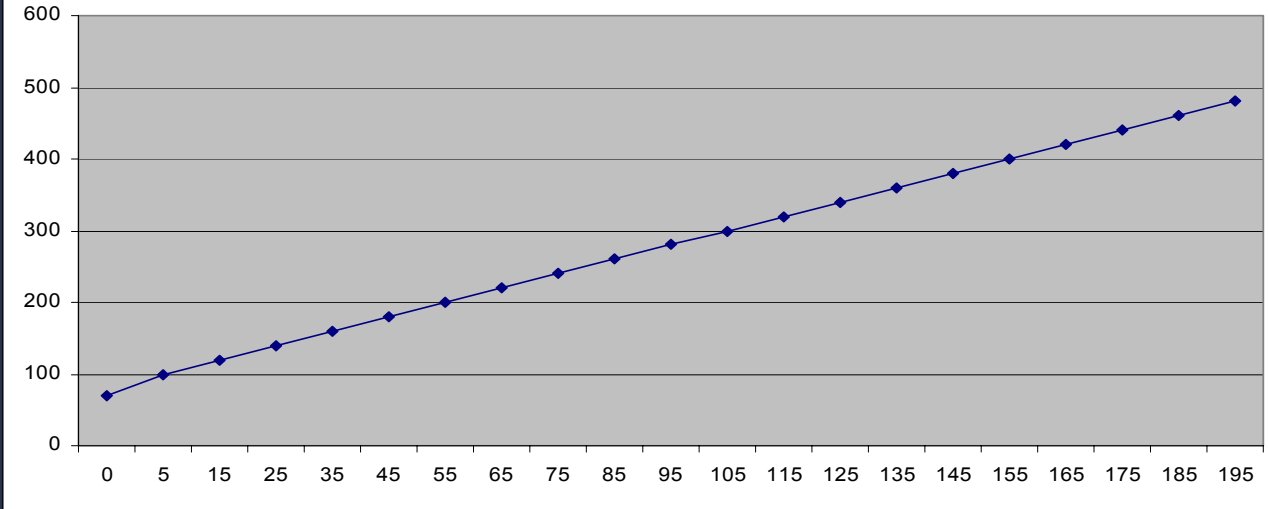
Qualifying Domain Values

- Domain = Domain Phrase
 - example: seattlemusic.com = “Seattle Music”
- Domain Phrase = Search Value
 - Seattle Music is searched for approximately 34 times via the search engines daily.
- Search value is a great indicator of traffic volume, advertiser conversion rates and generic intent.
- Heartbeat = Number of times a domain is mistakenly typed into an search bar instead of the browser address bar. As odd as this is the results are a very good proxy on how many type-in visitors a domain gets per day.
- Heartbeat domains that have no search value tend to be branded intent (typo, trademark, pseudotrademark) type domains. These domains have high volumes of traffic but low conversion value. They also can have legal connotations.
- Advertiser Bid Prices on the domain phrase are a good indicator of commerciality of domain traffic but have little relevance to qualifying a domain as properly formed or generic intent. Many typo, trademark, reverse phrase, and nonsense phrases have bid prices due to phrase correction and shaping by search engines.
- % of type-in traffic is a good indicator of long term domain sustainability. Search engine listings and expired links are poor indicators of future revenue potential for domains or their underlying value.

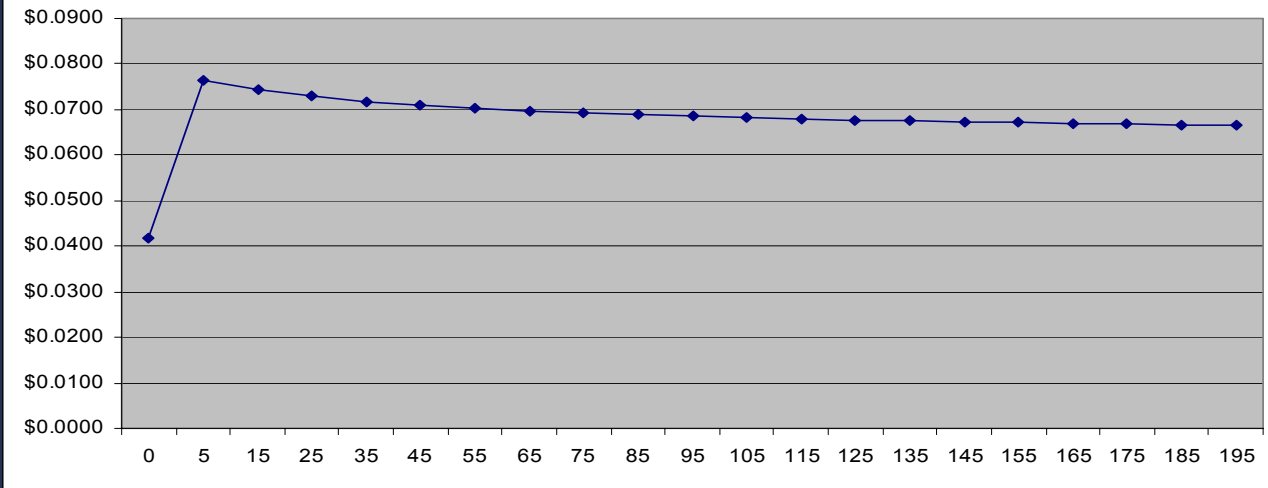
Domain Sales

- Real Estate is the primary value of domains
- Domain sales are booming with the average sales multiple being 60 years revenue for single domain middle market sales.
- Domain revenue is the rent we collect for owning the property
- Supply of qualified generic intent domains with traffic has finally dried up.
- Domains that have brand but no significant traffic are still widely available for purchase via new registration.
- These new “brand only” domains without traffic are difficult to sell unless they are sold via a highly trafficked destination domain sales web site. (BuyDomains.com, Fabulous.com, Sedo.com, Afternic.com)
- Domain Valuation is a combination of:
 - Buyer perception
 - Natural brand
 - Traffic value
 - Sustainability (Type in %)
 - Quality
 - Consumer acceptance
 - Cost of development vs. domain price
 - Value of domain brand to a buyers offline business
 - Business competition in the domain category
 - Trademark considerations

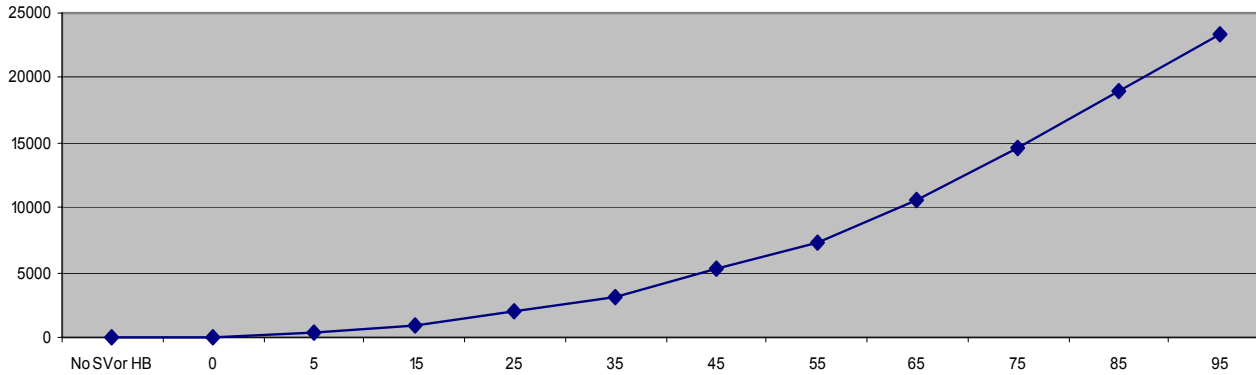
Annual Uniques by Search Volume



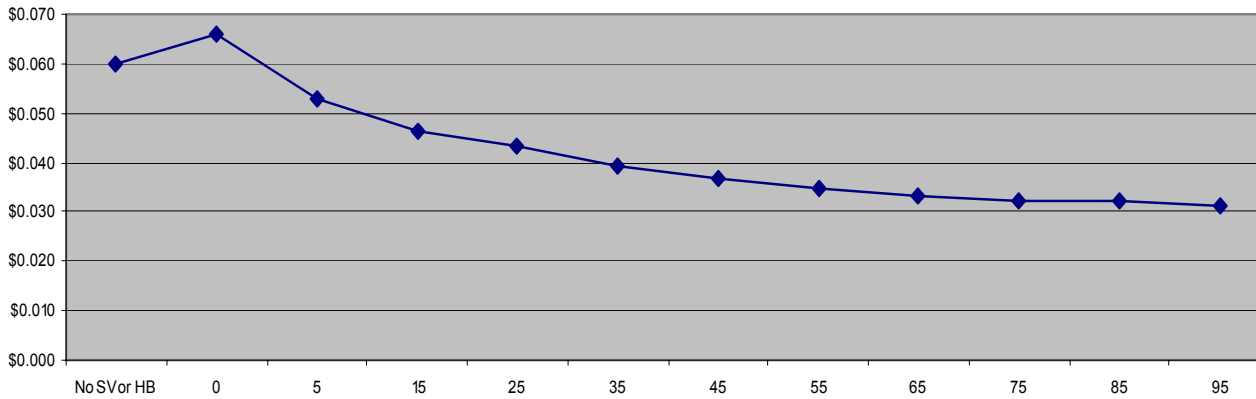
Revenue Per Impression by Search Volume



Annual Uniques by Heartbeat Count



Revenue Per Unique by Heartbeat



Domain Sales Viability

- When selling domains as a business, cash flow has to be a consideration for most people.
- The basic formula of sale is something like this:

Number of domains * % of domains sold per year = number of domains sold * average sale value = annual gross revenue – registration costs – marketing costs – administrative costs = profit

Example: 100,000 domains * 1.5% = 1500 domains * \$900 average sale = \$1,350,000 – 650,000 – 270,000 – 100,000 = \$330,000

- What this doesn't show is the natural appreciation of the domains, the extra money made via domain revenue (rent), research or risk.
- It is however a very nice business that works very much like owning a shop.

How can domains be worth 12 - 15 years revenue?

- The domains we are talking about are not whole portfolios
- Separate out all of the domains that have generic intent, no typo, no trademark, no adult, gambling, pharmacy, illicit, etc.
- Remove all the domains with high volume but are not search backed.
- Remove the revenue currently coming from search engines or expired links leaving only type-in
- The resulting domains and revenue value can be justified at a 15 year multiple based on quality, brand and conversion.

Fabulous and You

- If you have high quality domains that are going to convert for the advertiser we would like to work with you.
- Please don't expect that we will monetize all of your domains for you. We don't deal in trademark domains.
- We specialize in converting the domains that represent value for advertisers and in turn pay affiliates the highest payout.