

Interview with Fred Mercaldo, [CitiesPlanet.com](http://www.citiesplanet.com)

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Michael Cyger: Hey everyone, my name is Michael Cyger. And, I'm the publisher of DomainSherpa.com, the Domain Name Authority, and the place where you can learn how to become a successful domain name entrepreneur directly from the experts themselves.

The big question for this interview is, do geographic domain names – or, geodomains – have more development opportunities, greater revenue potential, and more liquidity than other generic domain names?

Joining me to answer this question is Fred Mercaldo. Fred is the owner and managing partner of CitiesPlanet.com. And he owns, partners and/or manages 65 major city.com sites. He's also launched a "City In The Box" product, which is a complete development solution for geodomain owners. Previously, Fred founded one of the largest golf vacation and tee time reservation companies in the industry, which for the past 10 years produced over half a million tee times per year from their Scottsdale based call center.

Fred, welcome to the show.

Fred Mercaldo: Michael great to be here. Thank you

Michael: Fred, you're best known for owning Scottsdale.com. I've visited Scottsdale, Arizona; I've got friends that live there. I know it is a fantastic geographic domain name. But for those in the audience that live overseas and have never been to Scottsdale, what are some of the demographics of Scottsdale.com visitors, businesses and tourists. How many businesses are there in Scottsdale? Let's start there.

Fred: Oh I should know this, but I don't. I think our database, however, is probably 25,000 or more business. It's a wonderful place to live. It's a great tourism destination portal. It's the Beverly Hills of Arizona. Our weather nine

months of the year is perfect. Awful lot of golf; awful lot of conventions; awful lot of spas.; tremendous dining; great place to visit.

Michael: And, average household income is enormous. The people that live there don't necessarily work there. And so, do you know what the average household income is of Scottsdale, Arizona residents?

Fred: You know, it's really number two in Arizona. There's a little suburb right next to; it's called Paradise Valley that is a little above Scottsdale, but Scottsdale is number two in all of Arizona demographics.

Michael: Yeah, I'd venture a guess that it's over \$100,000 easily per household. But..

Fred: Yeah, I've seen \$125,000 – \$135,000 per person.

Michael: And, wow many unique visitors, and pages do you serve per month on Scottsdale.com?

Fred: We tend to be a little more, Scottsdale tends to be a little more seasonal than some of our other sites. So, we are as low as thirty to fifty-thousand dollars. Unique visitors in summer and that will grow to 60,000 to 80,000 visitors the other months of the year. We peaked, three or four years ago, at about 120,000 uniques per month.

Michael: Wow! Alright. And, are you willing to share how much revenue Scottsdale.com brought in over the past year?

Fred: Absolutely. We're in the \$20,000 to \$25,000 per month range right now, which is important to note that is a fraction of what we were doing two or three years ago.

Michael: Okay. And, the Castello Brothers, you know, I had on here talking about PalmSprings.com, another city that sort of tourist and warm weather. A lot of snowbird, a lot of second homes similar to Scottsdale, and they've said something similar in their shows. And so, I'm gonna dig into that a little more, and find out, you know, during the high point and what is happening,

and where you are heading with Scottsdale. But, let me ask you for a few more numbers before we get going. How many domain names do you personally, through your companies and you personally, how many domain names do you own today?

Fred: Pretty close to four hundred.

Michael: Four hundred. And, how does your portfolio break up by TLD, or by geodomain, or by niche?

Fred: You know, I am basically; I am; I would not call myself a typical domainer. I'm a geodomain guy. I'm a development guy. I am a marketing guy. So, but, however, having said that I have probably ten geodomains that we fully own. And, our largest block is 217 citynailsalons.com. Normally, I'm just a pure city.com guy, but we've done quite well with that portfolio. It's getting more, and more visitors every month. Probably 25,000/30,000 visitors per month, and we're monetizing it pretty well. But, that's my only other involvement in things other than pure city.coms.

Michael: Yeah. Great! Alright. Well, I'm going to ask you about that as well. So, let's figure out how you got to where you are today. You know, having developed CityintheBox.com, a software platform for running these geodomain names that you own, and that you service other people's, and having this marketing background. I like to do deep research on my guests Fred, as you know. I like to find out what they did before they began their current career, and achieved their current level of success, because I know that life is about the accumulations of all these experiences, and it forms us and helps us to achieve what we are today. I like to figure out how they all fit together. If I look at your LinkedIn Profile, I see that you graduated Penn State a while ago (I'm not going to say how many years). But,

Fred: Let's not dwell on the word graduating. Alright. I attended Penn State.

Michael: Alright, but the first professional entry on your profile isn't until you entered the Owner of Scottsdale.com in 2005. So, if we go back in time, what were your first few positions out of attending Penn State?

Fred: I actually left Penn State and became a steel worker. I was a steel worker for eighteen months. Left that profession, and became a person that called on automobile dealers, selling them a fully insured auto warranty contract. Actually it was back by Merrill Lynch in those days.

Michael: So, you started off being a sales person essentially.

Fred: Many steel workers have gone right into the profession of sales. Yes, that's exactly what I did.

Michael: Great. And then, where did you go from there?

Fred: I spent two or three years in that business. Born and raised in Philadelphia. Was promoted to a different position within the company in Chicago. I went out to Chicago in my early twenties, and just loved it. And, was given the Wisconsin and Chicago territory, and became very successful in that market. I received the Wisconsin Auto Truck Association endorsement, which is very big in Wisconsin. And, was promoted to National Sales Manager and a few things happened. This is really going back. This was like in 1980. Prime was twenty-one percent. We were basically paid on the fact that automobile dealers carried our product; they would sell it to customers. Real briefly, the factory warranty took care of two years of an automobile, but we were seeing four and five year financing at that time. So what happened in those three years, if there was a breakdown and, you know, an auto service contract in those days was three hundred dollars (ten or fifteen dollars a month). Now, it's well in excess of two thousand. So anyway, when prime rate became so high, sales went down, and we had to discover a different way to market it. So, long story short, we developed a platform where we started a call center in Chicago, and went to automobile dealers, and said, "give us the names of people that bought a car, but didn't buy a service contract, and we will call them on your behalf, and we will give you a commission". And, that turned into 150 employees, three-thousand sales – service contract sales per month -, and ten years of a tremendous business in the eighties in Chicago.

Michael: Wow! So, you know, not having known your background. Now I see a direct parallel between what you did there in the 80s, in the automotive industry, and what you are doing today with City Planet.

Fred: I think there's some similarities.

Michael: Alright. And, I can't wait to dig into Cities Planet, and find that out. And so, from there you got out of the auto industry at some point.

Fred: Well, I did. I Kinda stumbled upon the Andy Warhol Artwork World. I had completely renovated a Lakeshore Drive 1926 co-op. I did everything on the inside; didn't even move in for six months. I needed to put some art on the walls. So, there was a Warhol Gallery in Chicago, and I went down and purchased ten Andy Warhols, and instead of putting them throughout the entire place, I put them all in one room. And, they were the Cowboy and Indian Series. And, they're all big pieces (36 inches by 36 inches). And, they all looked good together, so I went back to the gallery, and said, "okay I need more". And, just you know, my business was very profitable. I didn't have any partners. I was a young kid with money, which is very dangerous. So, I ended up buying probably about forty-five Warhols, and we get the call that he passed away. He passed away very unexpectedly, due to an allergic reaction to penicillin during post gallbladder surgery. So, I probably had seventy five thousand dollars in these Warhol's at the time, and the gallery owner called me; told me the news – I already heard the news -, and offered me \$200,000 for the Warhol's. And, I said no; I really like them, and I'm not going to sell them. And, he says, "well then, would you like to come to New York and buy some more this week? And, be my partner". And I said, "Yeah, let's go", and I bought ninety-nine more. And, one thing led to another, and I ended up, at one time, with four-hundred signed, and numbered Warhol prints that we actively traded for the next three years worldwide.

Michael: And, how many Warhol's do you still own today?

Fred: I have five left.

Michael: Five left?!

Fred: But I will tell you that from 1991 to 1996, I didn't do much but, buy and sell Warhol's. It kept me going for many years.

Michael: So you still own those five Warhol's. Are they in Scottsdale?

Fred: They are at an undisclosed location because they are worth a lot of money.

Michael: After this show, I'm going to ask you where, because the next time I come to Scottsdale, I want to see them. And, if they are in a different location, I want to figure out where they are. I'll make my way over there.

Fred: That Warhol business is an awful lot like domain names, especially geodomain names, because there were times when I would, the market was a little bit of a roller coaster – a lot of it having to do with the economy. So, I won't tell you the things that I bought for two-thousand dollars and sold for eight-thousand dollars is now worth seventy-five thousand dollars. So, did I ever foresee that type of appreciation? No. But, did I mind buying something for two-thousand, and selling it for eight? No, I didn't mind that at all either. And, I really see a lot, with a lot of things that I have done in the past, I believe that Warhol market – because they're such strong commodities, because they're such actionable properties – for instance, if you and I bought an unknown artist at a quarter gallery, and didn't like it after six months, there's no market to sell it. If you and I started Scanectity-NY.net, and failed, no ones gonna buy that name. But, if you buy a Warhol; don't like a year later; send it to Southern Bee's or Christie's, and it'll sell. Most likely for more money than you paid for it. Same thing with Pure City.com's. I really, really strongly believe that. It's been proven many times before; it's been proven in my portfolio.

Michael: Yeah. Alright. And, what were you doing that had so much free cash flow at the time, that allowed you to buy all of these Warhol's?

Fred: My auto warranty call center business was doing tremendous. We had eight or nine great years, maybe ten great years. And, one of the problems we hit in 1990, was auto leases were starting to get more popular. So, these were two year, three year close-end auto leases. And, in the city about thirty or

forty percent of the buyers. So, they did not need to buy an auto warranty. And, number two, because of technology, the price of these service contracts was hitting a thousand dollars. And, that seemed to be a magic number as well called people. You know, these were the days caller ID was coming around. So, we couldn't call other peoples homes. We never called after nine o' clock. We never called on a Sunday. And, we called actually representing the auto dealer. So, we were a friendly call, but those two things – well, those three things -. Number one, I was tired of the business. Number two, we hit that magical thousand dollar number, which made it difficult to sell. And, number three, auto leases were becoming more, and more popular. And so, I was looking for something else to do. And, the Warhol thing kind of fell on my lap.

Michael: Year. So, you spent a few years doing the Warhol thing, and then, I see that you got into property management. And, I mention in the introduction bio of you, that you had a business that, at a call center, again, coming up, that you produced over a half a million tee times per year. How did you transition from the automotive industry, and in selling warranties basically, to moving into tee time reservations, and luxury property management?

Fred: Well, I moved to Scottsdale, from Chicago in the early nineties. Did some consulting work for Nissan, and Chrysler, and Mitsubishi. And, helping them in set up call centers, to market their service contract. And then, believe it or not, I was at an Arizona Cardinals game, and a person sitting behind me, we got to know each other. And, he was a pretty big real estate developer. And, in between my good years in Chicago, I had six or seven apartment buildings. Anywhere from thirty to seventy units, and bought and sold them over a number of years. So, I was no stranger to real estate investing. And, for some reason, he hired me for three months to help him on some projects that he was trying to close. One of which was a development at the Pointe Tapatio Cliffs, where there were roughly four hundred units, and he still had a hundred left. The other three hundred were already purchased and lived in. So, I said, “why don't we take these hundred; turn them into golf vacation rentals. In the summer time there's a lot of corporate people moving to Arizona. We'll lease them out as corporate relocation. But, in the winter we'll do short term golf packages”. And, I was looking, and he said, “Wonderful!”

We furnished them; we sold them. And, I was looking for a property management company to manage them. And, I interviewed about five or six of them, and was not confident in any of them. So, I said, "Okay. We're gonna do a property management company ourselves". And, that's how we started to become ninety-six, ninety-seven. Oh by the way, I registered the most wonderful name ever; Desert-Golf.com. Can you imagine? That's how brilliant I was in 1996. Probably Scottsdale.com was available.

Michael: Yeah. Uh oh. We just lost your voice, Fred.
Oh, there you're back. So, you got Desert-Golf.com. Did you think to register DesertGolf.com?

Fred: Oh, I tried, and someone else had it. And, whoever had it called me from Colorado, and said that I was going to be subjected to a big lawsuit. That he a trademark. And I said, "I don't know what you're talking about." You know. Serve me. And, we'll see what happens.

Michael: You're not an entrepreneur at this time. So, you know, most entrepreneurs were, they'll do something and ask for forgiveness later. So, you said, you know, let me know when you come up with that.

Fred: It was a pretty bizarre phone call. I didn't have a lot of credibility behind him, but that was in the late nineties. And, we started to get very well known in the Golf wholesale business. Yeah, you know, we are Scottsdale home to some of the same greatest courses; in the top one-hundred courses worldwide, or USA-wide that you need to play. And, more and more courses were being build, and we became a very large golf wholesale business, where we would take care of your golf vacation from rental car to hotel to tee times.

Michael: And, people that are traveling to Scottsdale for, you know, a weekend or something, they'd love that. They'd love everything everything to be set up for them, and they don't mind paying for that service, right?

Fred: Oh, one-hundred percent.

Michael: Yeah. Fantastic.

Fred: They actually needed us Michael. Because, some people said, “Oh. This is great. I want to play one course in the morning, and another course in the afternoon”. It's like, well, it's fifty-four miles away, and it gets dark at six. So, let us do it all for you. It's almost like the first time you go to Scotland on a golf vacation. You really need help. For many people, Scottsdale is their Scotland vacation, so, yes, we counseled them. We helped them. We booked everything, and we arranged their tee times. And, it was a good deal.

Michael: So, people found you on the web, by searching for golf vacations, or Scottsdale golf.

Fred: Well, it even got escalated at around two-thousand and two-thousand one very large brand name golf vacation entities. I was dealing with them, and I said, “look, I would like to take over all of your wholesale operations. I would like to brand name your name with golf vacations. With their brand name; and, these are household names. And, they said, “well, that's great! However, we want you to do one other thing. We want you to start a call center that would answer the phone for any, and all calls that come into the facility”. So, this really put us on the map. It helped fill our units, which at the time had grown to three-hundred twenty properties that we were managing.

Michael: Wow!

Fred: That was a tough business. It's almost like having a Hilton, but you don't have the Hilton name. The three-hundred and twenty properties are all over the valley. So, your maid service has to go from place to place. And, there's three hundred and twenty different owners. And, three-hundred and twenty different electric bills. So, that was a business I never hoped to return to, but the golf vacation buyer filled those units at very good, nightly rates. And so, we had kind of two divisions. We had a division where we answered the phone for thirty-two very high end courses, mostly in Arizona, but a couple in California, and Texas, and Florida – and, we did five-hundred thousand tee times a year. Second thing was, a golf vacation division, where we did eight million dollars a year in golf vacation packages into Arizona, and another million a year from Arizona to Cabo Del Sol, and Cabo San Lucas.

Michael: Wow! And so, when you form these relationships with all of the golf courses around Scottsdale, did you actually have to set up a commission structure with each one, so that when you delivered at tee time they gave you a commission? Or, did you take the money and then give them their portion after the tee time was booked.

Fred: Two different things. If the phone rang where they were calling the course, we got very little compensation. We got two dollars and twenty-five cents, or something per tee time. If it came in a golf vacation request from out of town, to take care of their entire vacation, that was a total different story. We made anywhere from fifteen to forty dollars a tee time.

Michael: What would you say was the average price of a tee time in Scottsdale?

Fred: In season, for the courses that we handled, anywhere from one fifty to three hundred dollars.

Michael: Yeah.

Fred: So, these were big numbers.

Michael: Yeah. Definitely. And, half a million per year; that's a lot of tee times.

Fred: And then, we even took it one step further. We said to the golf course owners, “Look, you've got twenty-seven wholesalers. All at different rates. This guys getting five dollars a tee time. This guys getting twenty. This guys got a credit card on file. This guy you're billing that thirty. Let me handle all of that”. And, they all said, “Yes!” And then, so every wholesaler had to go through my company, and we grew that to a base of a hundred twenty-five wholesalers.

Michael: I love it. So, everybody. So, you built the software system, and then everybody was using your software system to schedule tee times at all of the golf courses.

Fred: Not so much our software system, but our call center. And, a human being had to touch it.

Michael: Yeah.

Fred: To book it.

Michael: Wow! Fantastic. So, clearly you were involved on the Internet at that time. People were finding your golf vacation packages online. When did you actually move into Scottsdale.com? You know, clearly, you sort of taking the whole Scottsdale area at that time, and even out of Scottsdale, right? There's a lot of golf vacation centered that surround Scottsdale.

Fred: Yeah, but ninety-five percent was Scottsdale. And, of course, we had done all the golf vacation, and golf calls for Cabo Del Sol, one of the top courses in the world. And, then eventually the one and only Podmia, down there. So, we became adapted at our doing Cabo Del Sol golf vacations. But, yeah, ninety-five percent was Scottsdale.

Michael: Okay. And, then how did you come to acquire Scottsdale.com?

Fred: I was the largest advertisers on Scottsdale.com. I knew before I owned it that the value of the City.com. And, I contacted the owner, and I think I negotiated a deal for a wonderful one-thousand dollars per month. And, we received all the golf leads. He had asked us to put together a golf guide – a downloadable golf guide. And, we put together a very comprehensive, fifty-two page golf guide that people could download. Printable score cards. Reviews of all the courses. Course difficulty, course location, pricing, etc. And, that became a very popular. And, then the German guy shows up one day and says he would like to sell Scottsdale.com. He believed that I had the best chance of being successful with it. And, that's how it started.

Michael: Okay. So, let me stop it right there. Let me back up to the golf guide. So, Scottsdale.com contacts you. They say, “Fred, you can buy all the leads exclusively for golfing, tee times, everything related to golfing, for a thousand dollars a month. You sign that contract. Is that indefinite? Per year? What was the time frame for that?”

Fred: I actually contacted him, and said, “we would like to advertise, and be the official partner of the golf section'. And, he agreed. And, we negotiated a thousand dollar deal, and then we did the golf guide.

Michael: And, so the golf guide, was that branded with your business name and phone numbers, or was that branded Scottsdale.com, or was it a co-branding opportunity?

Fred: It was a co-branding. It was a Scottsdale.com golf guide, but all the phone numbers rang in my office.

Michael: So, he did all the promotion for that golf guide. He looked like a hero when people went to Scottsdale looking for golfing, because he had this golf guide that they could download, and use, and they love, but you were getting all the benefits out of the phone numbers on there being your call center for them to reserve tee times.

Fred: Correct.

Michael: Okay. Fantastic. So, he shows up in your office, and he says, “Fred, I know you love Scottsdale. You know the market. You live here. You have a great business. Would you like to buy Scottsdale.com?”

Fred: Yes.

Michael: And, you said, “Yes.”

Hold on, Fred. We lost your audio for a second right there. We're back again. Okay.

So, he came to your office, and you said what?

Fred: I said, “let me think about this for thirty days”. And, it was a Friday afternoon, and my best friend and one of the top attorneys out here in the Southwest, Mike Manning, I got him on the phone. And, I said, “Mike, dictate a two or three sentence contract.” And, he goes, “for what? What are you doing to me? Why do you do this?” And, the German

Michael: Hold on. Okay.

Fred: He said, "I represent Fred, but here you go". And, he dictated a quick little binding contract, and we both signed it. And, thirty days later I made up my mind to purchase it.

Michael: So, it was basically a letter of intent to purchase the property.

Fred: It was a thirty day, first writer refusal.

Michael: Okay. And, when he came to your office, when you said I need thirty days to think about it, did he throw out a price?

Fred: Yeah. It was, you know, it was into the six figured. And, I had to figure out the cash end of it. And you know, quite frankly, over the next two or three weeks of my due diligence, I called upon some people that I had a lot of respect for in the Internet space. And, believe it or not, they did not give me favorable feedback on purchasing the domain name.

Michael: So, this was 2004/2005 time frame.

Fred: Yeah.

Michael: You were spending twelve a thousand a year advertising on Scottsdale.com. He came to you, and said you could buy it. You knew that there was some value there. You were getting more than twelve thousand of value by spending twelve thousand in advertising, but spending six figures, you need to figure out what the finances would be. How, you know, your turn on investment. How long it would take.

Fred: Yes.

Michael: Okay.

Fred: Yeah, there was a lot of emotion in it. There was a lot of what I can do in the real estate end of it. There was a lot of how much could it really help the rest of my business. And, I really; probably a lot of people don't know

this, but one of the reason I went ahead and purchased it, I went to some other City.com's, and reviewed their sites. And, loved the Richmond.com. And, just thought that was an incredible job, and not a major city. You know. I mean Richmond is not in the top ten cities in the country. And, thought their partnerships, and all the other things they brought to the table, and the look and feel of the site was fascinating. So, I saw the potential of what could be done. I would really say that Richmond, and I didn't speak to anyone there, became very good friends with Bary Hage, who was the general manage/vice president, and who helped build that system. But, Richmond.com was one of my inspirations, and twenty-five days into the thirty day writer first refusal, I exercised my options.

Michael: And, do you remember, from that initial meeting, what the revenue, and/or profit was of Scottsdale.com?

Fred: This is very interesting. Yes. Tehy were losing six figures a year.

Michael: Okay. So, they were losing six figures per year. He came to you and said, you can buy this for the six figures. And, clearly your analysis was the domain name has value. As a property it has value. But, I need to completely change the business because they cost structure was out of whack with their revenue.

Fred: Totally.

Michael: Okay. Makes perfect sense. And so, did you look, and you mentioned going to Richmond.com, and that you called some people that you trusted in the marketplace. Was anybody making money at the time that you said, I could build Scottsdale.com to be similar to what this geodomain is doing.

Fred: I didn't know anybody in the city.com space. The first thing I did was, we closed on it in August. I wanted to dwell on three different specific areas. Travel for hotel room bookings. Golf, and real estate. And so, by October 15th, we had a working site up, and then I was still preoccupied with my seventy-five employee golf vacation and golf reservation business. And, didn't do an awful lot with Scottsdale.com for the next year. And then, kind

of a lightbulb, very funny, I applied to associated cities for membership. And, I was rejected, which really got me upset. And, they said, “we just need more content.” So, we build out a bunch of content. Hired a tremendous woman named Becky Kelly, who is still with me today – my true right arm and, just an incredible person. And, one of the things that really started to work was, not only the real estate portion of the site, but the golf package portion of the site. Even with my other brand names at the time, for every ten quotes, we would close six of them. And, all of a sudden on Scottsdale.com, we were closing nine out of ten. And, I would call that tenth one, and say, “Who did you book with?” And, they'd say, “Oh. We didn't book at all. We decided not to come.” Something went off in my head. And, it's as simple as this. When you combine the credibility of a City.com, and combine with quality content; I mean, my golf section had everything, printable scorecards, reviews; how tough it is; how easy it is; what kind of handicap would like it; different itineraries we presented. When you present the credibility of the City.com with the credible, and complete content, the customers says, “Okay. These are the people.”

Michael: Yeah.

Fred: “I don't have to search any longer. These people have it going on, and I trust them. I'm gonna call them, talk to them, and book my package”. And, at that point in time, while we were trying to fill out condo and private home inventory, we realized that some people wanted to live, to stay at a hotel. They wanted, you know, room service, or other amenities that the hotel head. So, we became large buyers of hotel rooms in the Scottsdale market. At that point in time, we didn't care if you wanted to stay in a condo, you wanted to stay in a hotel or resort, a fifty dollar a night place, a five hundred dollar a night place, we had it.

Michael: Right. Fantastic. So, when you first launched, you were first focused on the tee times, the hotels, and property. When you say property, am I to assume that, like the Castellos, you partnered with some real estate company that was big in the area, and they paid you a certain fee per month to get all the leads for property?

Fred: Absolutely. I don't like fifty real estate agents on the site. I don't think it helps the user experience. I don't think I can make a difference in fifty different agent's lives, but I can make a difference in the event that I partner with a small group of realtors, and that's what we did. Up until two years ago, for three years prior to that, our revenue was nine thousand dollars a month in fees; just a monthly fee. We didn't get any part of any closing, or anything like that. But, we made nine thousand dollars a month just from a group of realtors for three years straight.

Michael: Wow. And so, hindsight is always 20/20, Fred. If you were doing it again; if you could go back in time, would you take a fee, and a commission, or would you just focus on the fees, since you were growing your business at the time, and that's a fair way to do it?

Fred: That's a good question. Knowing what I do now, I would've probably sold for 3.5 million four a half years ago, when I had the option. But, I'm glad... space where I think it could be much better. Bear in mind that Scottsdale, like Phoenix, like most of the country that has been hit very hard by the downturn in economy, all those golf packages, and you know, I'll tell you our demographics, Michael. It was eight guys taking their third vacation of the year, because the first two were with the wife and kids. Forty-five year olds. Stockbrokers and bear-sterns, or Layman Brothers. You know, spending three hundred a days around the golf. Going to Morton's or Maestro's for dinner, and dropping another hundred and fifty dollars. Playing thirty-six holes the next day. That went away completely.

Michael: Wow.

Fred: Same thing with real estate. You know, we've had our fair share of short-sales and foreclosures out here. And so, honestly, if I had to do it over again, I would be one of the first reality companies that would be brick and mortar, that would be hatched from an Internet rather than visa versa. Most brick and mortar's have a web site. I really had a dream, and just got side tracked to start Scottsdale.com reality. Even in the newspaper, every week, I think it's Wednesday's, we have the top five or six sales of the week. And, they're all multi-million dollar sales. And, I'm telling you, sixty percent of the people, of the buyers are from out of state. You know, it's a doctor from

Scanectity. And, when you are searching for real estate in Scottsdale, and you live in Chicago, or New York, you don't have an agent. When you look at some of the other agent's web sites, there's still a perception that, Oh, you're only going to get their listings. But, oh, here's Scottsdale.com. I will get every listening, and I'll learn about the city. And so, geomain very much lend themselves to a very strong real estate development for lead generation. So, if I had to do it to do over again. I would have stated Scottsdale.com, brick and mortar reality a couple years ago.

Michael: Wow.

Fred: And, I still may do it.

Michael: Alright. We won't mention that to your partner. So, the business launched, you focus on those three areas, you applied the associated cities. They, at the time, the membership associate for geo-publishers, you got rejected because they said that you didn't have enough content on the web site, and they were trying to present themselves as an association of well developed geomain. So, you went back, and you developed more content. Wasn't that a very costly process to develop that content? You know. You mentioned earlier the golfing guide. I can understand if your business if very profitable in golfing, you could expend that as sort of a marketing expense. But, just creating a beautiful golf guide, with all of the golfing around there, it must of cost thousands of dollars, if not tens of thousands to write the content, to lay it out, to make it beautiful.

Fred: I will tell you that the cost was incredible. I don't wanna make this sound like a commercial for City in the Box at twelve thousand, five hundred dollars, but I have a minimum of five hundred thousand dollars in actual payments to software development entities to get this software where it is today. If there was a solution, like City in the Box available for when I started Scottsdale.com, I would have been accepted right away with Associated Cities. And, yeah, it was an awful lot of trial and error. There was an awful lot of knowledge learned from other City.com members who have always been very generous in their recommendations, and everything, because let's be honest, Scottsdale doesn't compete with Richmond. Richmond doesn't compete with Palm Springs. And, as many of my colleagues say, what's good

for you is good for all of us, and good for the industry, but yes, it was a very big financial commitment. But, at that point in time, I've owned Scottsdale.com for about a year now. I started to see the results of, I mean the second or third year in business, we did eight hundred thousand dollars in golf packages, with a twenty-one percent margin.

Michael: And, additional business as a result of Scottsdale.com.

Fred: Right. Yeah. I mean, the eight million was still being developed by my other company.

Michael: Right.

Fred: But, Scottsdale.com very quickly went from zero to eight-hundred-thousand dollars. And, we made twenty percent on those dollars. So, I also feel a responsibility. You know. I wasn't born and raised in Scottsdale. But, I felt a responsibility to the project. First of all, I live in Scottsdale, and I love Scottsdale. Been there twenty years, now. But, I felt a responsibility to the city, to the project, and I felt that I was the right person to do the development. And, really put most of my time and energy into Scottsdale.com.

Michael: So, you hadn't developed not only content for Scottsdale.com, but also the software that would run the content. So, an event calendar. A blog. And, you developed out to software all integrated into the platform that ran your geodomain.

Fred: Yes. We had some troubles in the beginning, and then we ran into Michael Goul from the Michael Macallster designs. Contact designs has since been purchased by Mccmurry. But, these two kids – I'm not de-aging myself, because I'm calling them kids; they're in their thirties, but they're brilliant. And, they really started the framework for Scottsdale.com. Turned it over to our in-house developers. Turned it over to Becky Kelly. And so, really started to get a handle on the software probably in year three. I wanted everything to be proprietor. I didn't want plugin things that would, you know, that a company went out of a company, well now what do I do. So, everything that we have is

pretty much proprietary. And, then I got contacted by an individual to buy Tenanapeda.com

Michael: Sorry, what was the name of that company?

Fred: Tempie.com, which is home of ASU.

Michael: Yes.

Fred: And, attached to Scottsdale. And, I bought it. And then, I was an auction, probably my one and only auction I've ever been to, at the Associated Cities Geodomain conference in San Francisco, and found Hills.com was available. And, found Hills is right next to Scottsdale, and I bought that. And, then it was Nat Cohen, who owns Masa.com, asked me if I'd like to partner, and do the marketing, and do the software development for Masa.com. And, I said, yes. And, the Castello brothers own ApacheJunction.com, and that's attached. And, we did that deal. And then, I contact Digi Media, who owns Chamber.com. So, now we had six City.com's in the Scottsdale market all connected, and all related.

Michael: Wow! And, you know, before our interview started here, Fred, I went and I grabbed the ten largest cities in Arizona by population. So, you either own or are partnered with, You've got Mase, Arizona, 439,000 people. Chandler, Arizona, 236,000 people. Scottsdale, Arizona, 217,000 people. And Tempe, Arizona, 161,000. And, that doesn't include a couple others that you mentioned, which are probably in, you know, close to 100,00 people as well. So, you got easily over, a million people that are in those areas that you control as a media.

Fred: That's right. I control the lives of each and every one of these people. No. But, you're right. I've never really added the population, because each city has its own personality. Where Scottsdale is more a tourism. Down Hills is a little different. But, yeah, we've got a pretty big footprint in this market.

Michael: Yeah. Fantastic. And so, just going back to Scottsdale.com, who do you consider your main competitors in the marketplace? Do you like at it by, you know, golf companies that are book tee times? Do you like at is as travel

companies that are in the area? Do you look at the local newspapers? Who are your main competitors?

Fred: Our biggest, pure web competitors is AZCentral.com. And, you probably never heard of them. Most people outside of Arizona have not heard of them, but they are owned by Ginect, who also who owns the Arizona republic, and also owns our NBC affiliate channel 12 here, which is my favorite television station here. So, they get – I think the last number I heard – something like 1.8 million unique viewers a month. So, from a business that decides to advertise on the web, really the way they choose me, or AZCentral.com. So, AZCentral.com is my largest competitor.

Michael: Okay. And, when you go to businesses in the area, and you try to sell them on Scottsdale.com advertising, or Chandler.com, or Masa.com, what differentiation do you use with your City.com names that your competition can't, you know, can't say?

Fred: That's a really good question, and it talks about the strength of our brand. And, I'll make some general comments here. When you go to a City.com site, you're there for a reason. And, it's to research something about the city. Whether it's a restaurant; whether it's a calendar of events; whether it's what to do this weekend; whether what Indian casino – you know, we have Indian casinos out here now – to go to, or just a phone number of a veterinarian, or a chiropractor. Versus the mass traffic of someone going to a newspaper site. For instance, AZCentral gets very little traffic from out of state, for their tourism dollars. So, you wouldn't go to AZCentral to book a hotel room, or a golf package, or look for real estate. Those are my three biggest things.

Michael: Good point.

Fred: So, you know, people coming from out-of-state, are gonna end up on Scottsdale.com. So, if I'm talking to anything tourist related, it's a no brainer. Number two, an awful lot of people go to these newspaper sites because they will Google Lindsay Lohan latest probation problem, which is timely because this was an issue this morning. And, AZCentral.com will have it. They'll click on the story. Wonderful journalists at AZCentral.com. They'll click on

the story, read about Lindsay Lohan, and leave. So, there's a difference in the quality of visitor. One of the ways I like to explain it, is there is no doubt about it that some of these sites – and, we compete with them all – really in sixty-five other markets. It's not just Scottsdale for me right now. But, the way I explain it, and paraphrasing, you know, every time you go to one of these Associated Cities expos, or Nat Geo Publishers expos, and you interact with these other owners, you come away with some gems that are really relevant to your business. And, I'm sorry to not give credit where. And, I'm sure people have used thing that I've said without giving me credit. So, here it is. Let's just say we're talking to a casino. And they say, well, you know, you get a hundred-thousand uniques a month, someone else gets 1.8 million, why should I use you? We will deliver a mini bus of gamblers that will stay for twelve hours. The other will put your ad in front of two tour buses of people, but the two tour buses will drive right past. So, that to me has always been a very good way of explaining that we actually deliver customers. And, I saw it first hand with our golf guide packages. You know, most of the time, when someone buys a City.com, they will go out and find, if it's a golf destination, somebody to do their golf. Well, that was me. And, we closed ninety percent of everyone we talked to. So, the trust, the credibility, the research that the consumer was doing on a credible and very well put together City.com site pays off. That's how we fight some of the larger sites.

Michael: Got it. So, it's really the user intention. When they come to one of your City.com sites, they're looking for something that they want to do. They have intent to buy, to spend, to go do something. Whereas, when they're visiting an enormous media site, a newspaper, they're looking for the news, they're not necessarily looking for, you know, to become a customer.

Fred: David Castello is the number one person that has told me to stay away from these CPM; all of that stuff. Because, even though major media buys that way, that really is not relevant to our City.com brands. What we deliver. Per every hundred, or every thousand visitors, it's a much more qualified prospect for that business owner. I believe it. I have seen it. And, it's just a fact.

Michael: Yeah. Alright. Okay. So, clearly, you developed Scottsdale.com. You had the finances to be able to do that. You know, a lot of times I

interview some great domainers; some great domain investors. And, you know, the difficulty I have is translating what they've done to other people, because they reserve these fantastic, single word, generic domain names that have enormous keyword search popularity on Google, and Bing, and other sites. But, that can't be reproduced. You can't go register something for free by having, you know, a fantastic vision of what it's gonna become in the future. You paid a lot for Scottsdale.com, and probably Tempe.com. I'm gonna ask you how much you paid for that. But, really you used the success of your previous business to finance those opportunities. And, that's something that somebody can do – I'm gonna let you respond to that – but, that's something somebody can do today. If they have a day job today, and they're putting money away in the bank, and they're putting money in their 401k, and they're putting money into their holiday savings account, they could take a small portion as well, and save that for maybe a larger purchase.

Fred: Let me give you, in my mind, the definitive example as an answer to your question.

Michael: Yeah.

Fred: I'm sitting in that auction in San Francisco on a Saturday. And, there is three-hundred names. And FountainHills.com was two-hundred forty-five on the list. And, I'm like, “Oh my god. I gotta be here for four hours, until it gets to me”. And, I got it for fourteen thousand dollars. Now, I felt ashamed in my mind as I'm sitting there thinking, “Well, I'm only gonna go twenty-thousand dollars”. And, why would I say that? And, anyway, I get FountainHills for fourteen. Didn't feel like it was the deal of a century, or whatever. But, it's a pretty good town attached to Scottsdale. Put our software on it. You know, it was a duplicate of Scottsdale.com at the time. It wasn't called City in the Box. It was all proprietary software. And, the first year, we did fifty-thousand dollars in revenue. So, we had, you know, we shared our program, our expenses with Scottsdale. We didn't have any expenses other than some sales commercials. So, I said to myself, you know, being from the real estate world in the past, I said to myself, “Okay. Here's an asset that I paid fourteen-thousand for. Let's say it cost me ten-thousand dollars in software development”. So, I'm at twenty-four, twenty-five thousand. I just did fifty thousand dollars in revenue. What is that now worth? You know, it's no

different than a shopping center, or let's say, and ocean-front condominium project that's empty. The shell building is the domain name. The software development is when I take it and put furniture in it. And, now start to get tenants in it. Now, that ocean front real estate apartment complex, or condo project is worth awful lot more. Because it's based on the revenue. So, first of all, that's the difference between me and pure domainers, from a development standpoint. Number two, I said, "you know, people flip homes. People invest in real estate. Oh my! Fourteen thousand dollars, another ten in software development. And, I've got something I can probably sell to an end-user for two-hundred-thousand dollars in the FountainHills market". And, that financial example has been proven time, and time again. And, it's the driving force why I'm getting involved in so many City.com's.

Michael: Yep. It's so true. You know, I just ran yesterday, an interview with Thomas Male, who flips web sites, and is based purely on the profit, and a multiple of that monthly revenue. You know, I usually base things I know about on yearly revenue. He did it on monthly profit. Yeah, if you're making twenty-thousand dollars, you can usually expect to see a seven to ten times multiple, easily. And so, you know, two-hundred-thousand dollars from a fourteen-thousand dollar investment.

Fred: Well, you know, speaking about flipping domains. Let's say I bought it – Fountainhills for fourteen thousand dollars, and thought it was worth fifty. And, went to somebody as an end user, not as a domainer, or investor, and said, "Would you like to buy this for fifty thousand dollars?" Well, and he would say, "that sounds like a fair deal, but where do I go to put software on it. And, then what do I do from a sales perspective?" If the geoname already has the software included, and is bringing in a revenue of fifty-thousand a year, which would stay with the property, why wouldn't he give me two-hundred thousand dollars for it, because he's already got a twenty-five percent return. Now, I want you to know, when I differentiate myself as a developer versus a domainer, we're two different animals, and my hat goes off to these domainers. I mean, I just think there's nothing more fun than buying something for two-thousand dollars, and selling it for five, within a week. I think it's an art. I think they are; I have a lot of respect for them. So, when I say I am pro development, it is no way I am against people that buy and sell, or invest in domains to sell them undeveloped. I respect those people

totally. It's just that I've gotten my blinders on, and I'm a geodomain developer, and asset appreciation in those names.

Michael: Yeah. No, I completely agree. I'm fascinated by people that spend their entire day going from drop to drop, to auction, to drop, and they're buying and selling, and they know the value, and they have the connections where they know they can flip something. But, you know, I can't do that. I'm a developer like you, but I'm in the media space. So, this is a good transition to you know, clearly your idea for City in the Box. And, if people want to go and learn more about this, it's at CityattheBox.com. And, I don't want to make this into a sales pitch, but what I do want to do, is help people understand how something they're doing today could actually grown into a business in its own. So, City in the Box actually has a whole host of features. And, I'm gonna rattle on down, so you don't have to go over it, Fred. But, you do a custom logo design, you have a content management system, like wordpress, or you know, Jumler, or Druple, but it's built for geodomains. You do a business directory; you have local content; a real estate home section; business listings; banner ads that you can sell; real estate press release section; forums; blogs; weather; special events calendars; Google maps. What you built, and what you offer today, is much different what you built for Scottsdale.com, after Associate Cities said we're not gonna let you in, Fred, because you don't have enough content. Clearly. But, your current evolution of City in the Box, does it continue to evolve every single year? And, you roll out all of those upgrades to all the geodomains that are on there, or is it pretty well developed right now in your mind?

Fred: No. There are probably two to four major enhancements that get added every single year. A really good example is, you know, four years ago, we didn't have a Facebook, or Twitter feed. Now, we have a pretty extensive Facebook, and Twitter presence on our sites. So, it's always evolving.

Michael: Gotcha ya. And, you know, from what I've seen, clearly, Facebook is dominating the world. And, everybody is looking at Facebook, connecting with their friends. You know, I've only got thirty, you know, that live around me. And, I try to get my mom on there, but she won't do it. But, what I see is that everybody in my city is on Facebook, because they use it for the school system. And, they use it for sharing pictures of the kids hanging out at the

soccer games. And so, geodomains and Facebook seems like a tremendous pairing opportunity. What have you seen in the geodomain space with respect to Facebook and Twitter, and which one is getting more attraction?

Fred: I see Facebook for my clients being a better monetization target for the simple reason that it's almost like an E-mail blast. If one of my clients can develop eight-thousand likes, and people following them on Facebook as a result of clicking, and doing an action on Scottsdale.com. Then, when that client has an event, or a call to action for a weekend, or an event, or an evening, they can broadcast out. It doesn't get anymore complicated for me for that. I think that's a big benefit for any business.

Michael: Yeah. Definitely. And so, we mentioned previously that somebody with geographic domain name can spend twelve-thousand five-hundred dollars, and they can get their geodomain up on the City in the Box platform. Twelve-thousand five-hundred dollars is that per month, per year?

Fred: It's a one-time fee.

Michael: One-time fee. Twelve-thousand five-hundred dollars. And, they're on for the rest of the life of the domain name?

Fred: If we host it for an average price of eighteen-hundred dollars a year. And for that, they get all our updates.

Michael: Gotcha. So, they buy a license to the software. And, if they continue to host with you, then they get upgrades forever.

Fred: Yeah. And you know, I remove the license out of there. I thought that was, what a lot of people in the software was doing, Michael if you owned a City.com, and you paid us twelve-thousand five-hundred, you own the software. Now, there are some restrictions. If you sell the software, the contact goes to the new owner. And, it's his. The only thing that you, or he cannot do, is duplicate it for other City.com's.

Michael: Right. And, that makes sense.

Fred: Yeah. That's all our restrictions.

Michael: Wow.

Fred: You don't have to take my hosting. You can host it yourself, but if you host it yourself, and it leaves my servers, then we cannot give you the updates that we provide. And, if something goes wrong, we can't fix it.

Michael: Understandable. So, if I buy the software, and I take it to my own servers, I'm really responsible for maintaining the code then.

Fred: Correct.

Michael: Okay. And so, for twelve-thousand five-hundred dollars, plus eighteen-hundred a year hosting, can I, as a City, as a geodomain owner, what assurances do I have that I'm gonna make more than, you know, using your software. Are there any assurances that I'll make more in revenue as a result of it.

Fred: No. We have certain monetization platforms built in, which are ever-changing. We have certain paid content. We have syndication writers now. We have paid feeds that are very lucrative for us, but at the end of the day, you know, there's actually a couple models. If we sell you the software, and you can hire us to help develop and monetize once it's launched. Or, you can do that on your own. It's totally up to you.

Michael: I got it. So, if I buy the software, I can go out and sell my own ads. I can sell the upgraded display listing. I can go out and sell the real estate section to a particular real estate agent if I live in a golf community. I can sell things like that. But, it's all upon me to sell.

Fred: It's up to you.

Michael: You run the back end. I'm the front-end guy.

Fred: Right.

Michael: But, there's also an opportunity to have you be the front-end guy as well.

Fred: Well, yeah. I mean, when this economy changed, there were a lot of people in the speculation business of buying and selling City.com names. And, a lot, again, the economy changed. Major media, who I still believe is the ultimate owner of these City.com domains. Now only did major media have problems with their print publications, and their balance sheets, and their cash position. But, individual end-user investors, you know. So, their 401k's get cut in half. Their other investments go sideways. Anything to do with real estate was horrible. So, a lot of them left that speculation market. So, a lot of City.com owners were left with, you know, somebody living in Washington D.C that owns RentroMirage.com, what do I do with it? So, you know, just as trying to figure things out, it's like wow. If we put the software on your site, maybe can we keep the marketing right, and help sell advertising from Scottsdale? And the answer is yes. I think Cities planet was born out of, really, the economy.

Michael: Yeah. Okay. So, tell me exactly. So, you have the City in the Box software platform, which we've been discussing. And, now you have another business, which is called Cities Planet. Tell me what Cities Planet does.

Fred: Well, let me tell you very briefly how it was formed.

Michael: Okay.

Fred: When the economy changed, I went. My golf vacation from eight million dollars to 3.2 million dollars very quickly. The courses that I was dealing with, decided that they would put their inventory online at half price ten days out; making it very difficult for myself, my customers, or my hundred and twenty-five wholesalers to make a living. And, the customers weren't coming to Scottsdale as they used to be. So, that business after ten years, we decided to close it.

Michael: Even though you're making 3.2 million every year. Your expenses were just too much.

Fred: Well, 3.2 million in gross golf vacation packages, down from eight million. But, I could not, there was only a handful of people that I could do without. I have seventy-five employees. And, we were a labor intensive business, not a technology company.

Michael: Okay.

Fred: So, when the economy changed, I remember a day when I walked out. You know, I started to get back involved myself. And, I walked out of a large automobile franchise with ten luxury auto franchises, where I have patronized since 1998, ten different times. And, very wealthy big company. And, I made them a deal at two-thousand dollars a month, to be the exclusive auto partner for Scottsdale.com, and they turned me down. And, you know, I wasn't gonna lower my price anymore than that. They had ten franchises in this big auto mall; it's two hundred dollars a month per dealership. I also lost a fifteen-hundred a month assisted living facility. And so, I'm like, "Alright. I don't know how long this economy is gonna be bad". And, this had to with money. This had nothing to do with Scottsdale.com, or whether they agreed with what we did. And so, it was a shock to me, and so, I looked around with my personnel, and I said, "I have to tell you guys something. These six cities that we have here in Arizona, I never get a time out error. Those sites are never down. You guys have done a great job in building this software. We could sell this to other people". And they go, "Yeah, I guess so. Well, how long would it take". Well, probably two or three months per site, but you could do multiple sites at one time, right? Yeah, I guess we could. So, I came up with CityintheBox.com, and I know a lot of people in the business because I was on the Board of Directors of these Trade Associations, and travelled, and went to the meetings. And, prices it at twelve-thousand five-hundred dollars. And, in two weeks, sold eight packages, which was a quick hundred-thousand dollars. And, I said, "Well, I like this. But, I'd like it to do more in volume". So, I got together a group of investors, and said, "Look, you all own about forty City.com's. What if I sold you the software at a slight discount, so I can get a volume deal". And, they said, "What am I gonna do once it's developed? We live eight-hundred miles away, or three-thousand miles away". And, that's when I came up, well, why don't we keep the marketing rights. And, hence, Cities Planet was formed. Scottsdale.com put us in software development. Cities Planet does the marketing after the fact.

Michael: Got it. But, it's more than marketing, right?

Fred: Well, it is total monetization and development of that City.com, no matter what it takes. Now, we are eighteen months into this project. Scottsdale.com we've owned for seven years. But, we're eighteen months into this project, and really the only success that we've had is monetizing these sites on a national basis. When they really need to be hyper local. I've never really gotten away from the philosophy of hyper local. But, as so many people came, and became Cities Planet's clients, I have significant traffic. I now have a national city network. And, before I can get people on the street in, you know, there's some markets that are too small to have dedicated sales people. But, a lot of my markets need people in the street. And, as I'm developing these individuals, we are monetizing Cities Planet by Yellow Pages, by some national buys, and things of that nature. Ultimately, they will be very hyper local sites.

Michael: Okay. So, if I understand it correctly, you're looking at the companies that are coming onto Cities in the Box software, and then you're using your marketing and sales organization, Cities Planet to then, drive more people to that business. So, it's a marketing play, because you'll partner with Yellow Pages, for example, and you'll drive more people to those geodomain names. But, marketing is usually a cost center, and so, how do you actually bring in more revenue to these domain names that are using your software that have agreed to enter a relationship with Cities Planet.

Fred: In this environment, it's been difficult. And, you're right. We have a cost associated every month, by updating all the calendar events, by unique content of things of that nature.

Michael: Right.

Fred: I will tell you that we are cash flow positive. I will tell you that I'm six to eight months behind my projections. I will tell you that Cities Planet has a tremendous client base, that have been very patient with the process, because they understand that it is not the easiest to go out and secure local business advertising dollars these days. But, they see some progress every single

month. And, I could not do it without the good will, the patience, and the support of our City.com client-owner base.

Michael: Sure. And, you know, online property is very similar to real estate property; real property that you can buy, except that you don't have to pay the taxes every single year, like you do with the real property. And, I think that a lot of property investors understand that it's a down market right now – they may be underwater. But, you know, they understand that real estate has ups and down, and that if they want to sell, they will sell during an up market, and they will hold during a down market. And, that over a long period of time there is gonna be growth in the value of that property. And, the same is true with online property as well. You're gonna have up markets. You're gonna have down markets. I'm sure all of these people woulda loved to be on your platform, and have your sales force selling in the two-thousand five to the two-thousand seven time frame, because everything was blowing up back then. It was great! There was lots of money flowing online. And, it was really easy to get a sale back then.

Fred: Back in those days, you're correct. If you developed your own City.com, and you lived in that marketplace, it was easier to get an advertiser, number one. Number two, if you didn't develop it, your parking dollars were significant. Or, number three, you were able to flip it much easier, as there were much more investment dollars in that space.

Michael: Right. And so, CitiesPlanet.com. When somebody comes on, do they pay an upfront fee? Do they pay a rate-recurring fee? How does it work to have a sales person representing their city using your platform?

Fred: We have numerous types of contracts with clients. Some at the beginning, where we did not charge them for the software, however, we own certain rights to that name in the event of a sale.

Michael: Okay.

Fred: And, the contracts. I mean, we don't want to work hard for two years, and build up a revenue, and have the domain owner say good bye.

Michael: Sure.

Fred: So, we have negotiated a small base price of the worth of the site. So, let's just say a site. Not really important to mention a name, but a certain City.com is thirty-thousand dollars. And, I think that if we just get a minimum of three or four-thousand dollars a month, you know, we can probably do twenty-thousand a month for that medium smaller-sized if we lived there, and had people on the street. But, if we can get three or four-thousand dollars a month in revenue, again it's the FountainHills example. Arguably, we can sell that for two-hundred-thousand. The first thirty-thousand go to the domain owner. The next twelve-five goes to me for my software. Everything else is split fifty-fifty on top of that. So, Cities Planet has a lot of contracts, where the monetization happens – and, it's getting better every month – , and when the economy turns, and some sales are getting made, you know, we may even end up keeping the customer once a sale is made. But, we are entitled to X amount of dollars upon the sale along with a fifty-fifty revenue split along with the way, because we did not charge for the software up front. Other people that we have charged for the software up front, we do not own any part of the upside. So, if we build the site, you know, you're building a company right now that are going to be mega sites, with Tuscany, and French Riviera. If, and when, we can help these domain owners get to that level of, realizing the potential of those sites, those are multi-million dollar sites, we don't get a percentage of that sale. So, it was pretty much up to the domain owner. We were as accommodating as possible. Unless you're an existing domain owner that has a history with me, we do not instal our software with no upfront fees anymore. So, we're getting aware from the rev-share model, and doing pure development, and pure marketing.

Michael: So, you know, we mentioned the cities that you own. They're major cities. It I go to Cities in the Box, I can look at a list of all the cities that are using your software; a lot of them are major cities that have over a hundred thousand people, and populations, as well as some sort of tourist, or additional, you know, base of people who are interested in traveling to that location. Do you recommend your software, or do you find that it's only large cities that can get most out of your software? Or, do you think that it'll work for, you know, a city with a twenty-thousand population?

Fred: You know, there were some blog things saying, you know, I really like City in the Box, but I have a city that's got twenty thousand people. I don't think it's for me. I'm gonna put a WordPress thing up there, or something. I totally disagree with that. Let's look at a twenty-thousand person city, and how many business do they have in there. If your City.com only has the potential of even with you being on the street, or you having a salesperson's street, of doing two to three-thousand a month in total revenue, that's twenty-four to thirty-six thousand dollars a year. You will never get there putting up a five page WordPress site. The first thing that that perspective dry cleaner, or chiropractor, or auto dealer is gonna do is, "Oh, I didn't know blah blah blah. I didn't know our City.com had a web site. Let me look at it". If it's not aesthetically pleasing, if it's not a complete build up, if it doesn't have the calendar of events, and all of the features that we have, and other have, they're not gonna advertise. So, if you can bring a minimum of two or three thousand dollars a month, that's twenty-four to thirty-six thousand dollars a year. And, your software development was six-five. It works for small cities too.

Michael: Right. Okay. And, that makes sense.

Fred: I like French Rivas, and Tuscany's of the world.

Michael: And, I'm gonna ask you about that, because that's not just a city. That's an entire region. So, I'm gonna ask you about that, but I got a few more questions before we get there, Fred. So, let's see here. So, what I want to say you; you understand your domains. You've worked with tens of fantastic cities. You interact with the owners on a regular basis. What we haven't mentioned, you've alluded to us of GeoPublishers, and industry non-for-profit associate for cities that are running geographic domain names as sort of a hub for those cities, and publishing, and doing all the same things that we've mentioned that you're doing during this interview. How do you value a geographic domain name? Do you certain factors that you consider? Is there a general rule-of-thumb?

Fred: There are some people that are so technical, as they take the population and divide it by a certain fraction. I don't do that. There are so many different

thing that have nothing to with population. Look at PigeonForge.com, and Jessica. I don't think the population that's big, but the tourism is really big. So, when I look at certain cities that are for sale right now, I think it's a tremendous buying opportunity for those with the where worth all to purchase. There are so many cities available right now in the fifty-thousand dollar range. Again, these are people with fifty to two-hundred thousand population, with eight thousand businesses, and all of which are tremendous buys, but they have to be developed.

Michael: Okay. So, a general rule-of-thumb, that I'm taking away from you is that, if there's a city that has a fifty to two-hundred and fifty thousand population, that order of magnitude, and they got someone around eight thousand businesses, you might expect to pay somewhere around the order of magnitude of fifty-thousand. Maybe it's forty; maybe it's eighty-thousand dollars for the domain name, but a general rule-of-thumb.

Fred: I noticed a City.com today, on an E-mail, that's available for fifty-two thousand dollars. I looked, there's a hundred and seven thousand people there. I think to myself, why wouldn't someone buy that immediately and develop it. So, no. What I had just said is not my rule-of-thumb, but really just some of the logistics that are involved in the City.com prices. I've seen people buy a city for close to two million dollars, that has nothing to do with the existing revenue. It has to do with what they think they can do. The same thing happened to me. At one point in time, we turned down two offers of over three million, and the real interesting thing about it, is no one asked for my financials. They did not care, which really was a lightbulb to me. I had a different exit strategy. And, we all know that MyrtleBeach.com sold for 6.5 million dollars. We all know that Boston.com was recently valued at twenty million dollars. Why? Because of their revenue. My whole game plan are revenue multiples. So, I want to take each of these City.com's, monetize them to the point where it's not about population or tourism. It's about what the site bring each year. And, what you can sell to and end-user for. So, that's how I look at it. So, you take a fifty-thousand dollar city, and if you completely fall flat on your face in that market, and do three thousand dollars a month, that's thirty-six thousand dollars a year. Again, you've taken that asset, and made it arguably a hundred and fifty to two-hundred-thousand purchase for someone.

Michael: So, you base your multiple, your evaluation of the developed geo domain web site on revenue typically?

Fred: I think it's no different than we have to use to buy real estate. Whether it's a commercial shopping center, or it is an apartment building. It all has to do with return on investment. And, a lot of those people are looking at seven and eight percent returns, and hopping in, and buying. There's an awful lot of people that are buying foreclosures. That are gonna sit around for five years, and hope to double their money. What I'm talking about is a fourteen-thousand dollar purchase, a two-hundred-thousand dollar purchase, a fifty-thousand dollar purchase, that you can make five, or six, or seven times that within two years. There is nothing in the real estate market, or in the stock market, that is anywhere close to the return on investment by properly running a geo domain site.

Michael: Gotcha. Alright. So, let's back up. 2007, you received two unsolicited offers, to buy Scottsdale.com for you, for 3.5 million dollars. Is that what you said?

Fred: One of them was 3, one was 3.5.

Michael: Why didn't you sell?

Fred: It wasn't my exit strategy. It wasn't my game plan at the time. I didn't need the money. And, I just felt that, when I rededicated myself two or three years ago to Scottsdale.com, I really saw it as a six or seven-million dollar business. Now, there's some people out there's some people that may say it's worth three-hundred-thousand. There's other people that say it's a billion dollar name at one point in time. I'm much more realistic than that, and I really look at it as one of these days, there's gonna be, again, three components to this sale. Number one, the domain name, which is an asset in itself. Number two, the software development. There's probably sixty-thousand pages behind Scottsdale.com; they are all indexed by Google. And, number three, it's bringing in 1.2 million dollars a year. And, I don't mean in gross. When I'm talking about eight-hundred-thousand dollars in golf, I'm really counting only the hundred and sixty-two-thousand length of the bottom of the twenty-one percent margin commission range. But, the gross doesn't

matter. It's really only about the net. So, if I can get Scottsdale.com again up to 1.2 million, I've got a four, or five, six, seven million dollar investment. And, that, I believe, would be the rate the number.

Michael: Yeah. Alright. So, we talked about your background in creating a call center in the automotive industry to do sales. We talked about your Cities Planet being a call center, and helping to sell advertising. Let me give you an example of who own a geo domain name. They're trying to do sales. They're not on your software. They're not using your services. Is it possible to write a script, outsource a call center, and cell upgraded directory listing, and display advertising on City.com web sites? Or, do you need people on the street to those sales?

Fred: For forty-nine dollar premium directory upgrades, it can be done with a call center. And, we're launching a ten person call center at the end of this month. For any significant partnership, and a significant partnership, I mean a five-hundred dollar to thirty-five-hundred dollar a month partnership with either, a legal team, an automotive company, a real estate development company, a golf company, anything like that, I think that needs to be done in person.

Michael: Okay. That's a good guideline to go for. And, when you say forty-nine dollars can be sold by the phone. Is that forty-nine dollars per year, or per month typically?

Fred: Per month.

Michael: Okay.

Fred: Per month.

Michael: Alright. So, I hear some domain investors were referred to liquidity of the generic domain name market, but I actually think the market's fairly illiquid, unless your selling to another domain investor at a fraction what an end-user would pay. When it comes to geo domain names, do you feel like the market is more liquid than the rest of the domain market?

Fred: I think you need to see the return of major media, and you need to see the return of entrepreneurs and private investors that re-enter the marketplace looking for something to do, and get involved in these purchases. If you have cash right now, the amount of offer that comes across your desk on a daily basis, whether it's a real estate deal, a shopping center deal, a list of generic geo domains, or a list of generic domains itself, people will only buy if they can get perceived value of twenty, thirty, forty cents on the dollar. There is a tremendous domain name available right now in the Texas market that is not selling, and it really has to do with unsure that local newspaper, that local television station, that local radio station covets that name, but they're having trouble selling advertising like the rest of us. So, until those balance sheets get written, and they healthier, and they get in a better cash position, which they will do, I think most of generic and geo domain are facing a liquidity problem. I certainly would rather have a geo domain than a generic name, but you never know. There's a lot of exceptions to be made, but I am not a seller to another investor. I am a seller, because then you're, I believe, you're giving up value. I am a seller to end-user.

Michael: So, why would you rather have a geo domain than a generic domain?

Fred: I think there's more people to get it. And, again, if it's a category killer, generic domain, and again, that's not my thing, I'm sure there's a liquid market for that. But, again, not for a hundred cents on the dollar, or what you believe it's worth. You know, we've worked very hard to survive the last couple years. I know people that haven't survived. And, I would hate to be out there having to sell Scottsdale.com within thirty days in this marketplace.

Michael: Yeah.

Fred: I think the offers would be ridiculous.

Michael: And, so what you're saying is; let me try and rephrase it, and you tell me if I'm correct or not, Fred. That even in a down market, you're still making money on your geo domains. You're not making anywhere near the money you used to be making in the up market. But, you're still making money. You're still have the cash flow. And, you're surviving in this market.

And, you know the market is gonna turn around. Whereas a lot of these fantastic generic domain names aren't necessarily producing the type of revenue that you are in the geo domains, even though, you know, in an up market, both generic, and geo domains are gonna do well.

Fred: Correct. I will tell you though, in the last eighteen months, our revenue today, again, I'm a few months behind where I thought I'd be, but you know, it's significant. It's coming from places I couldn't identify way back when. We have had to reinvent the wheel along the way, and it's no different then a generic portfolio owner that was making a lot of money parking. And, now is saying, I don't know about it, but I was never a parker. I keep working. That is way off, so they have to re-invent the wheel to try monetize their domains. We've had to do the same thing. Probably fifty percent of our monthly revenue is coming from sources I couldn't identify eighteen months ago.

Michael: Give me an example of a source you couldn't identify eighteen months ago, that now is generating revenue for you.

Fred: Yellow Pages is close to ten thousand dollars a month in our network, and we were never a Yellow Page client.

Michael: Interesting. Okay.

Fred: Paid content. Where we get paid for certain articles that, you know, we used to have to pay for unique content. Now, we're getting paid to publish unique content. Pretty cool.

Michael: Yeah. Alright, so, now I want to go back. I want to ask you a few more questions, and dig in. I've done some research. In the introduction to the call, you mentioned that you own, I think, – correct me if the number is not correct – 217 related manicure, nail type.

Fred: PheonixNailSalons.com; ChicagoNailSalons.com; AustinNailSalons.com; that group.

Michael: And, you're making money off of that portfolio of domain names.

Fred: Correct.

Michael: And, when I go to those locations, which I haven't before, I will actually find a directory of nail spa locations that I can, you know; I assume those companies are paying for listings and those web sites.

Fred: Well, it's mostly coming from AdSense and Yellow Pages.

Michael: Okay. And, are you cash flow positive on that portfolio of domain names?

Fred: Well, I pay eighteen-thousand two-hundred dollars for them. Probably spend another ten-thousand dollars in developments. And, we're bring in two-thousand dollars a month, and we're not touching it.

Michael: Wow!

Fred: So, you know, and again, and I think this is what the domainers of the word, the generic guys have done. I wish I could do that twenty more times, but I can't do everything. But, yeah, that's pretty cool.

Michael: That's a pretty fantastic store. And, you don't even sell directory listings; you're not even calling up those.

Fred: We tried.

Michael: You tried.

Fred: We tried for a grand total of three weeks.

Michael: Yeah.

Fred: And, we had language issues; getting into the nail salons. We had immigration issues. You know, when we asked for the owner, the decision maker, you know the person who answered the phone wants to schedule a pedicure. You know, and didn't want to tell us who the owner is. So, we had communication problems and privacy problems, and so, we pulled the plug

on that really quickly. But, that was a call center directory upgrade type thing. In the regular geo domain business, when you call a chiropractor, or a doctor, or a real estate agent, it's much more smoother than the nail salon industry.

Michael: Sure. So, two-thousand dollars a month just from AdSense, and you don't even have to do anything. You're paying your hosting, it continues to run, and fantastic.

Alright. So, let me ask you this. In October 2009, you formed a joint-venture with the Castello Brothers and their CCIN network, to develop Manicure.com, a fantastic, premium, generic, category killer domain name. And then, you partnered with your over two-hundred city nail salons properties. But, when I type in Manicure.com today, it doesn't resolve. What happened?

Fred: Here's what happened. I bought ChicagoNailSalons...

Michael: Oh, Fred. I think we might've locked up there. Fred, can you hear me? Fred? Hold on one sec. Okay, go for it.

Fred: Well, I bought ChicagoNailSalons.com just a whim, and then got a call from the auction house. They say, "you know, Fred, you can buy two-hundred and sixteen more for eighteen-thousand two-hundred dollars". And, I was golfing in Palm Springs, and I said Okay. It was just one of those spur of the moment things. Didn't do anything with them. Months later then a Castello brother called me, and said, "Fred, we're trying to build up some of our properties. We liked what you've done with ApacheJunction.com. We like interacting with you. We've been on the board together. We've become friends. And, there's a lot of trust on both ends of the spectrum". And now, to this day, we're also doing LongBeach.com and Cataluna.com for them. So, they started to go over a list of web sites, generic web sites, that they wanted my potential assistance in developing, and the third, or fourth one down the line was Manicure.com. And I said, Oh my God. I've got two-hundred and sixteen nail salons that, bingo!. Let's do it. We'll build them manicure. We'll have all the city nail salons supported. And, you know, we'll do the partnership. So, that's what we did. It probably took about six months to develop the way we wanted to. We took care of all the development, and

their call center. We really didn't have a lot of; we had a couple months people going to the sites online, and upgrading their directory listing themselves. But, when the call center couldn't get through that language barrier, and privacy issue, I just said, David and Michael, here's Manicure.com back. Run with it. Keep my software. You know. So, that project actually failed.

Michael: Alright. So, it's really the language barrier, and the fact that you just couldn't sell those directory listings. Couldn't get the owner; couldn't get the decision maker.

Fred: Now.. the basis with just Manicure.com. You know, not through a call center issue, but just by the traffic and their revenue. And again, we're making a small living with Yellow Pages and AdSense.

Michael: Yeah. Alright. So, you just announced with CityintheBox.com, that you're not working with Toby Hardy and Andy Bott, so to build our FrenchRiviera.com. French Riviera, fantastic brand. Everybody thinks about the French Riviera, but it's not just a city. It's a region, and has multiple cities; twenty cities. How do you plan to customize your software so that it serves a region, not just a city?

Fred: Our software, number one, from our end, is very customizable. Number one. Number two, you're exactly right. In between San Trope, Cane, Monaco.

Michael: Nice. You've got the film festival.

Fred: Monte Carlo. It doesn't stop. And, there's three-thousand restaurants. Something like seventeen-hundred hotels. It's a major undertaking. It's not a typical; it's not a twelve-thousand five-hundred build, and it's something that's going to go on for probably years to come. It will launch, and have hundreds of relevant, unique content behind it, in January. We're gonna be building this up on a monthly basis. Every single month to provide. I will tell you Toby is completely committed to this project, and we interact whether it's on the phone, or E-mail, three or four times a day. The excitement level, with him and his family, very large level. They actually visited the region a few months ago, and just came back blown away by the wealth, and

everything else that exists there. So, we really look forward to that. And, the same thing with Tuscany. Tuscany has ten provinces. Three-hundred cities. Again, is a major tourist destination region, and again, major project, but we're tackling it. We will end up with an International sales force on both of these projects.

Michael: Fantastic. And, I attended the Geo Publishers conference that you held a few weeks back in Chicago. I had a fantastic time there. I learned a tremendous amount. Toby was at my table; great guy. I look forward seeing the launch of FrenchRiviera.com, and the growth of that. And, then having you, and maybe Toby, back at a future date to talk about what that experience has been like. And, how you've had to put people on the street there. And, how sales at the ultra wealthy, sort of spectrum, has been different than what you've experienced at, say Scottsdale.com, or ElliotSilversBurbank.com.

Fred: Well, we're gonna do some different things. We're going after American Express, Air France, and sponsors. We're going after a much different category quality of advertiser. With the same thing as Tuscany.com. And, I will tell you let's get Toby one of these days on one of these interviews. You haven't lived, until you get a guy with a southern accent from Birmingham, Alabama, that starts to recites the cities, and the names of the hotels in French Riviera. It is a beautiful thing to be home.

Michael: Sounds good. I think that's a great idea.
So, let's leave the audience with an action plan for geo domains, Fred. If a geo domain name owner is not going to use your City in the Box software platform, or your Cities Planet sales team and marketing efforts, what would you recommend to them to get started? What's the high level game plan that they should be thinking? You know, starting to form a strategic vision for and, that they should execute again. How should they get going?

Fred: Well, you have to have a credible software solution. Again, you can have the brand name, but when you go to this site, if the margins are off, if there's miss-spellings, and there's time out errors, you don't have a chance. So, and you also have to watch your overhead. So, you know, to have one or two programmers full-time, on-site, is a pretty expensive proposition. So, I don't know. There are probably a couple other alternatives to City in the Box

out there. I would tell them to; the first thing you do is launch with credible software that is aesthetically speaking, that works. You've also next, have gotta identify your market. You can't treat Rockford like Scottsdale. Rockford is a local play. Rockford is not a vacation destination. So, it cannot be tourism based. So, your actions there are to connect with the local market, become hyper local, get the dry cleaners on there; get the chiropractors on there; get the lawyers on there; get the auto dealers on there. And so, identify your city strong points, and dwell on that as you build up the software. And then, you know, it's becoming a hot term right now because a couple people used it; Don Jones and Bill Ham, and so did the Castelllos. You really have to get involved in that community. You have to go to the Chamber of Commerce. You have to be involved, as Sarah Mattic said, at the charity events. You have got to get your message, and your name out there. You saw my Scottsdale.com camper app. I mean little things like that. You've got to involve yourself in the community. And depending on; my recommendation is you don't even sell advertising the first six months. You know, you do feature interviews with businesses. And, it also doubles as unique content that helps you with your Google rankings. Get involved. These are not quick. These are get rich schemes, not get rich quick schemes. You need to grow deep, and you need to be there for the long haul.

Michael: Alright. Just a second. These get rich slow schemes; not, get rich quick schemes.

Fred: They're definitely get rich is in the equation.

Michael: Yeah. Alright. If you have a follow-up question, please post it in the comments below this interview, and we'll ask Fred to come back and answer as many as he can. If people want to follow you, Fred, I believe you're on Twitter. Are you active on Twitter? Do you still use it?

Fred: I've got the @FMercalo name, I think, but no.

Michael: FMercaldo.

Fred: Fred@Scottsdale.com.

DomainSherpa.com: The Domain Name Authority

Michael: Fred@Scottsdale.com. His web sites are CityintheBox.com, CitiesPlanet.com, and of course you can go check out Scottsdale.com. It's the poster child for what Fred is doing. You know, one thing we didn't touch much on, Fred, is Geo Publishers, the association of geo domain owners, and publishers. If people want to; their thinking about coming into the industry, they can attend your conference. They can learn from some fantastic people that are a part of that organization; that Non-for-Profit organization. I'd highly recommend it.

Fred, thank you for the time. Thank you taking your time; coming on the show; and, being a Domain Sherpa for entrepreneurs, and investors.

Fred: Thank you. Let me add one thing about Geo Publishers.

Michael: Yes.

Fred: If you are, we have many different categories of membership, and we really have something for everyone in the Geo space, so drop me a line at Fred@Scottsdale.com. I'll put you in touch with our executive directory, Andrew Martin, and you will be able to interact and share ideas, and will definitely help in your success.

Michael: That sounds great. Thanks again, Fred. Thank you all for watching. We'll see you next time.

Fred: Thank you.

Watch the full video at:

<http://www.domainsherpa.com/fred-mercaldocitiesplanet-interview>