

THE ZONE

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FREE TURN

SOUTHLAND NET FIRMS GIVE IT AWAY



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Broadband Digital Group
President Ryan Steelberg

PRESTO!

CAN BROADBAND DIGITAL GROUP CONJURE PROFITS FROM FREE DSL?

It's one thing to give away stuff no one really wants, like mouse pads and homepages.

But free DSL? That's pretty cool, if you can make it work.

At a time when Pacific Bell, Earthlink Networks and others charge around \$40 per month for a digital subscriber line, Broadband Digital Group, an aggressive Newport Beach ISP, began giving away high-speed Net access in April in the form of FreeDSL.

User Zero, 19-year-old Greg Popowitz, a student at Georgia Tech University, said browsing the Net at his Atlanta apartment rocks, especially since he's not paying a dime.

"This service is great and the company has been quick to fix problems I came up with on installation," Popowitz said. "It's just as fast as my network at school, and their browser assistant actually makes searching for stuff a lot easier than using a search engine."

While many new users are having fun with FreeDSL, news that BDG has begun rolling out its product in six cities has generated controversy, confusion and above all attention—arguably just what the company is after.

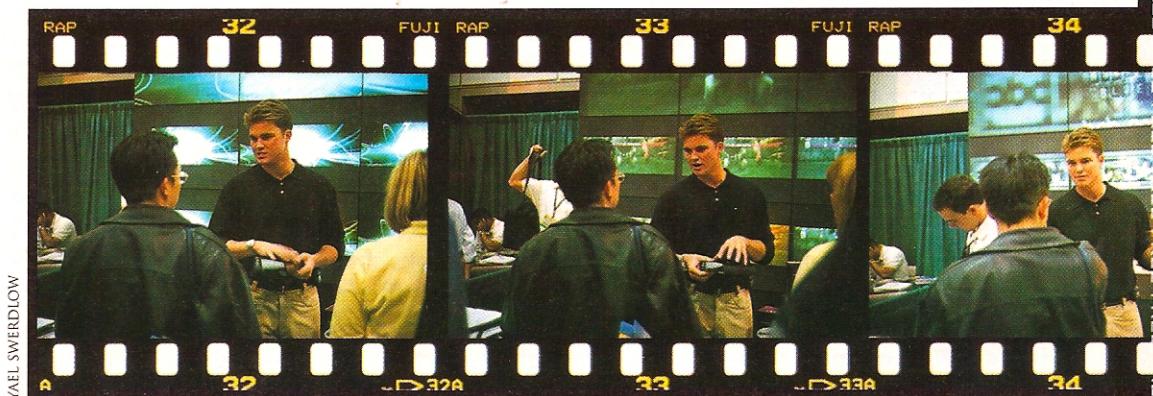
And while competitors pick apart BDG's business plan and analysts kick around its survival prospects, the company said it's already looking beyond the free model, eyeing movies on demand, news and sports clips in an instant, and a vast dungeon of

online gaming. In fact, listen to BDG execs awhile and giving away DSL starts to sound like small potatoes.

"I don't care about free. It's just a means to get a lot of users," said BDG President Ryan Steelberg, 26,

is generating in the Internet world, Steelberg said.

"We're going to be that really high-end storefront in the broadband world," he said. "DSL providers like Flashcom and



Yael Swerdlow

who co-founded the firm with his brother and CEO Chad Steelberg, 28.

"I'm more concerned with creating the dominant broadband entertainment network for my generation and generations to come, and it's not a fantasy to expect Generation X or Y users to spend about \$100 per month in disposable income (online)," he said. "There's a lot of it out there."

To build that empire the company must build market share, and that's where FreeDSL comes in. To date BDG has 670,000 applications for connections in Los Angeles, Chicago, Atlanta, Dallas, Seattle and San Francisco. By year's end they hope to have the service active in 40 markets with 500,000 subscribers online. Steelberg wants 10 million registrants by 2001, and 2 million to 5 million customers up and running.

There's good reason for the fear, anger and controversy BDG's plan

InternetConnect should be worried."

Officials at InternetConnect said not all DSL is created equal, and that businesses using the Internet and online applications see the advantages of paying for connectivity.

Steelberg said BDG could go the standard route and charge like others. "But we need market share to do what we want. We can't make this model work with 50,000 users. I need 500,000," he said. "In the process, resellers like the Flashcom may have a lot of problems."

The brothers have already earned something of a reputation in the Internet world for marketing shrewdness. Ryan co-founded online advertising agency AdForce, which delivers more than 11 billion online ads per month for clients like America Online, Netscape and 24/7 Media. The company was sold to

- user's regular phone line.
- A free dial-up account with no banner ads to use away from home.
- A free e-mail account and Web-based calendar via the FreeDSL application, or any Web browser.
- The opportunity to earn a free high-speed FreeDSL modem.
- A free copy of the firm's Winfire browser assistant.
- First access to future high-speed (broadband), full-service offerings as they become available.

THE COST:

- Users agree to provide certain demographic information that the company uses to provide targeted advertising.
- Users must purchase a \$200 DSL modem.
- Users must download and install FreeDSL's Winfire browser assistant.
- For \$9.95, users can have banner ads removed. For \$19.95, FreeDSL will upgrade the line to 384k. And for \$34.95, users can have a full 1.54 megabit version.

CONTACT:

www.freedsl.com or (949) 955-0554

CMGI Media last year for \$500 million. Ryan earlier served as president of Adsmart, after that firm bought another company he'd started.

Chad, meanwhile, was CEO, CTO and co-founder of AdForce.

The brothers say together they have the experience in Internet startups, advertising and management to make FreeDSL work.

Here's the blueprint: Users get free DSL Internet access, tech support for installation and a free dial-up account to use on the road. In return, they must use BDG's software and modem, which cost \$200, and put up with a steady stream of half-inch ads as long they remain online. If a person can corral 10 friends into also signing up, the modem's free.

Like other free Internet access providers, BDG requires users to disclose a fair amount of personal information, which it uses for demographic and marketing purposes, but lets customers opt out of revealing further data down the road.

Once online, the service connects at 128 kilobits per second upstream and downstream, with higher speeds available for a price.

So far more than 670,000 applicants seem to think the deal is worth it. But analysts aren't buying in.

Among other concerns, they note that BDG must pay phone compa-

nies between \$10 and \$20 to lease each broadband line. Whether the firm can sell enough customers on premium services to offset that expense is uncertain, they say.

"It doesn't seem likely to be financially viable for a long time," said Emily Meehan of The Yankee Group.

Dylan Brooks,

an analyst with Jupiter Communications, said he's has taken a close look at BDG's plan and that it's filled with holes.

"From what they say, they are being reliant on x-factor revenue, and they don't know what that x factor is yet," Brooks said. "The known revenue sources they're using—basically venture capital and ads—are not enough to meet the cost. Their offering so far isn't a positive cash flow."

Steelberg counters that he and his brother know where to find the real money, but acknowledge it could take a little time. DSL is currently available to just 10 million or so households, but is expected to reach 35 million by 2001. That's a lot of users and Steelberg says they're just preparing for that explosion early.

The company's ace-in-the-hole, Steelberg said, is partnerships, and their patented Winfire browser assistant, which the brothers developed before launching BDG. While BDG's revenue model now is based on advertising, in its second phase the business plan calls for BDG to grow by "monetizing" customers, primarily by charging for premium services a la pay-per-view channel on cable TV.

Steelberg sees a world in which customers buy premium broadband services, such as movies-on-demand, pay-per-view sporting events and Internet phone service,

and receive the goodies over FreeDSL. And all the content and services would be fed to a user by accessing the Winfire assistant.

Winfire is a "super toolbar" that runs on top of an Internet browser and is small enough to reside in Microsoft Window's start bar. The customizable toolbar will let BDG pump it full of links to premium services that users can access with one click—similar to ordering a movie in hotel rooms.

When using FreeDSL, Winfire will always be on the desktop.

"Say you have a free 128k DSL line of ours and you want to watch a movie on demand. We'll pump up the bandwidth on your DSL for the film, then drop it back down later," Steelberg said. "Say you want to see clips of your favorite golfer playing today, but his footage was left on the cutting room floor. We'll develop services to deliver that footage on demand."

Second, BDG is building a national radio campaign, and is looking for as many partners as it can to fill the service holes, from modem manufacturers to bandwidth resellers that will provide the actual DSL connections, to advertising networks and rich media providers.

It's a huge undertaking and hinges on the brothers' survival instincts.

"They could survive, depending on what size they scale up to," Brooks said. "They'll definitely be able to keep banging around if VC keeps flowing. But when will we see them scale up? I don't think they'll grow like they hope it will. There are just too many variables."

Steelberg insists they know exactly where they are going.

"We know that building a business model on banner ads is no good," Steelberg said. "Consumers need to keep paying for stuff. That's what makes the world go round-and-round. We're going to give them—especially the younger generation—a reason to spend that money with us." 