STATE OF THE DOMAIN

First Quarter, 2001

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IMPORTANT: *State of the Domain* is a quarterly publication of SnapNames.com, Inc. This report is provided free of charge to any industry participant, editor or analyst who requests a subscription. SnapNames is a provider of back-ordering and buyer aggregation infrastructures for use by registrars and resellers in the secondary domain name market. In deference to the quarter's-end earnings announcements of the publicly-traded registrars discussed within it, the report is released approximately 35 days after the end of each quarter. At the moment, this report is limited to covering the .com, .net and .org TLDs only. SnapNames compiles data in the public domain in order to present information on registrar market share as well as trends in new domain name sales versus expirations. The editors assume that the reader of this document is already familiar with the industry and its jargon. For readers not familiar with the industry we recommend the www.ICANN.org site as a starting point for definitive historical documents and technical resources. **SnapNames does not warrant the accuracy of information in this document. Please read further disclaimers and information on methodology of research on page 15.**

CONTENTS

Executive Summary

1. First-time domain name registrations, also known as "primary market" registrations, have decreased markedly over the past two quarters. At the same time, the level of competition among registrars has continued to increase

2. Expired and about-to-expire domains – also known as the secondary, re-sale, or after-market – have increased dramatically during the last quarter.

3. Many registrars have focused their attention and resources on new gTLDs/ccTLDs and new language support to bolster the sagging sales of com/net/org primary domain names. Consequently, most registrars have so far been able to do little, if anything, in response to the sea change in the secondary market opportunity.

Overview

In recent months, customers of domain name registration sites have had increasingly greater difficulty registering domain names in the TLDs of dot-com, -net, or –org. Through a straw poll of active operating registrars, we've estimated that as many as 97% of user attempts to register a dot-com name fail because of inventory exhaustion. Similarly, the average successful registrant tries 35 variations of less-preferred names before finally successfully registering a name. In this report, we look into why that is, and what is being done about it.

Although there are dot-com names in many languages, the language of business is English. And while English is by far the most capacious of all languages, it still only holds 500,000 words. That number includes several hundred thousand words no sensible person would use to name a business, like ineluctability.com, defenestration.org, notwithstanding.com, misanthropic.com (although the last three *are* taken), and scads of words that are repulsive without also possessing the merit – if you've ever tracked what's in demand with speculators -- of being pornographic.

Once one further subtracts trademarked names, the number of truly useful and distinct names, including names based on foreign languages, is not very large. Indeed, there are 150 people in the world – put aside for a moment the corporations and the millions of brand names – for every domain name ever registered.

Still, sometimes by employing the ubiquitous myseventeenthchoiceforaname26.net and its cousins, the world's Internet entrepreneurs have managed to fish over 29 million dot-com/-net/-org names out of this shallow pool. It's been a testament to human ingenuity, and, for domain name registrars, to the principle that a fool and his money are soon parted, though we'd all prefer it happen on our site.

In the heyday of domain name registrations - last fall - an average of 60,000 domain names were being registered every day. A year ago, there were only 1000 daily deletions.

Things have changed.

I. The Secondary Market in Domain Names Has Arrived

The primary market pie is shrinking, and dot-com is the first gTLD to exhibit inventory exhaustion. At the same time, more hungry mouths are showing up at the table as new domain name resellers are recruited every day by the large wholesale registrars. In a phrase now becoming cliché throughout the industry, "all the good names are gone," and the growth rate of new name sales is rapidly decelerating as a result.

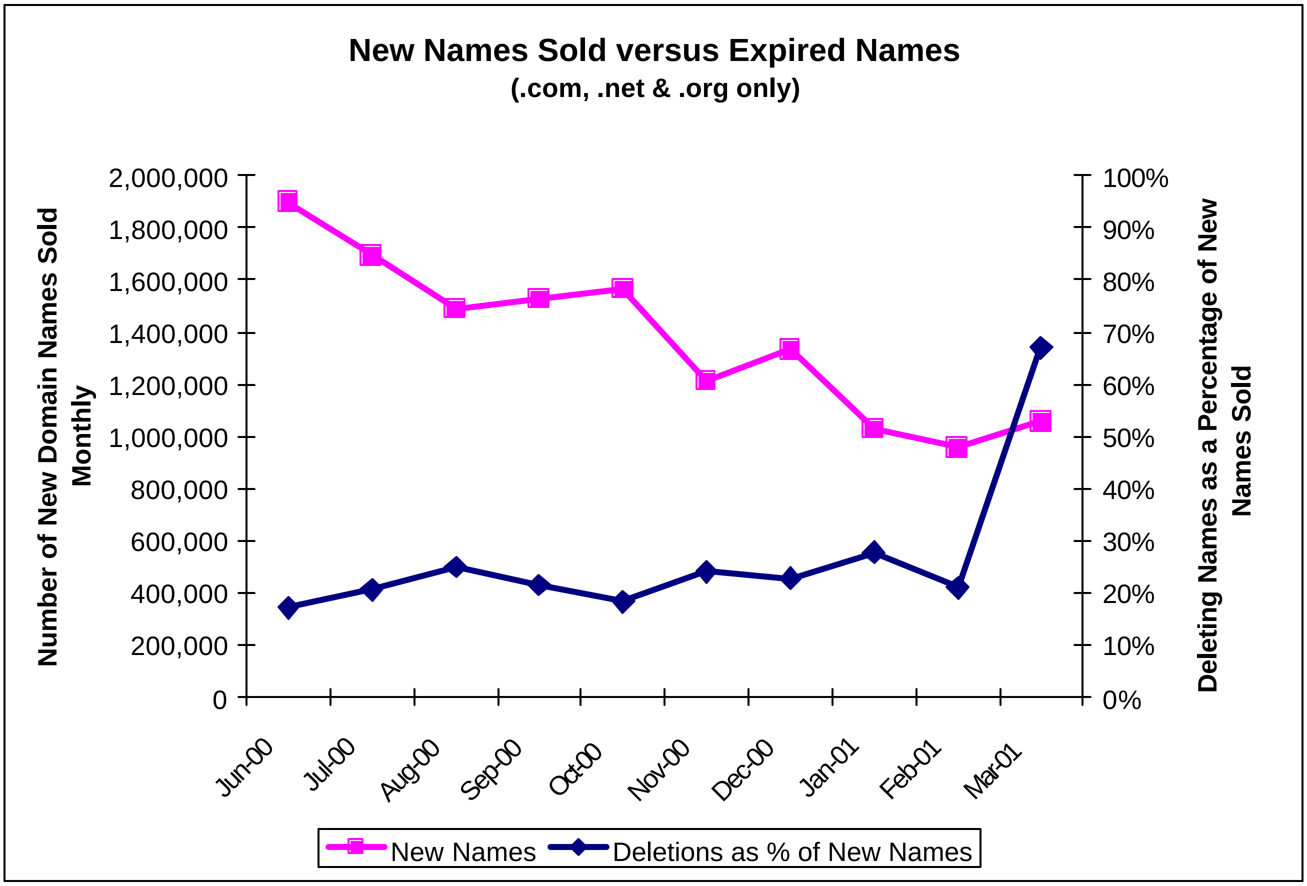
The number of daily dot-com/-net/-org registrations is, as of this writing, already down to about 34,000, on a 15-day moving average. With tens of thousands of registrars and resellers scrambling to sell only 34,000 names, the average reseller sells a domain name every few days. Of course, because 91% of domain registrations go to only ten registrars and their resellers, the remaining registrars and resellers are left with volumes that are clearly untenable, and mergers and acquisitions among domain name registrars should soon be the rule.

Meanwhile, the 15-day moving average of daily deletions is now 25,000 and climbing every week. (All daily figures are available in the "Daily Stats" box on the home page of www.SnapNames.com). The ratio of deleted names to new registrations was 3.2% last April, and as the table below shows, it was 18% in October, and 67% in March. The ratio hit 70% in mid-April, and on some individual days has been as high as 207%. Soon, a ratio of well over 100% will be the rule. The domain name market will begin to look more and more like the housing market, where "expired" domains, like previously-owned homes, may outnumber new ones by six to one.

A. New Registrations – The Basis for Most Registrars' Business Models – Are Rapidly Losing Ground to Deletions

The table and graph below show the number of new domain names sold in dot-com/-net/-org versus the number of names deleted in the same period, as well as the rising change in the ratio of deletions to additions.

	New Names	Deletions	Deletions as % of New Names
June-00	1,898,443	327,492	17%
July-00	1,693,587	349,446	21%
August-00	1,488,731	371,400	25%
September-00	1,526,549	328,986	22%
October-00	1,564,367	286,572	18%
November-00	1,213,370	292,528	24%
December-00	1,332,081	303,617	23%
January-01	1,029,463	285,703	28%
February-01	957,664	201,657	21%
March-01	1,056,806	708,023	67%



B. Why Expirations Have Increased

Why has the rate of abandonment of domain properties begun to rise so precipitously, in recent months? Because one-year registration terms and $35 pricing were first offered in January of 2000, and they generated a land rush among domain name speculators. (We distinguish between speculators, who aim to buy and sell properties as legally and with as much legitimacy as any real estate developer, and cybersquatters, who purchase domains that they know to infringe on the trademark rights of others.) A little over a year after the land rush, allowing for expiration grace periods, the industry is now seeing a sudden decline in renewal rates. There are a number of reasons these names are expiring.

First, due to inefficiencies in the market to be discussed in more detail below, many speculators realized that it wasn't as easy as it looked to sell their properties. For example, where were the buyers? How did one find them? How does one find more than one buyer at a time, in order to create a spread of numerous buyers' data points – data points critical to giving comfort in the winning bid price to the buyer, and in signaling to the seller that the maximum asking price has, by definition, been reached?

Second, as domain name ownership became more ubiquitous – at one point there were more domain names sold each day than cell phones – it also became more common for owners to forget to renew their registrations. If companies had domain name management strategies at all, they were implemented haphazardly. Some company's names were registered by the IT department, some by marketing, some by in-house counsel (or one of a company's many outside law firms, where employee turnover is high), and some by the company's outside advertising agency. The listed registrant – along with an email address capable of becoming quickly obsolete – was often an individual employee. In addition, each domain name had a different expiration date and possibly was even registered through a different registrar (there are now over 75 operational accredited domain name registrars). At best, renewals simply got forgotten in the confusion. Worse, when employees quit the IT department, marketing department, outside law or advertising firm, renewal notices sent by the registrars to those employees (particularly to their obsolete company e-mail address) never reached the company.

For these reasons, many corporations lost valuable domain names. Even so, most corporations still do not have rigorous domain name management practices aimed at avoiding such mishaps. A recent survey by NetNames, a UK domain name registrar, found that less than 1 percent of British firms had anyone in their organization whose job it was to register, protect, and manage the company's domain name portfolio.

Finally, Congress' passage of the Anti Cybersquatter Consumer Protection Act, as well as ICANN's institutionalization of the Uniform Dispute Resolution Policy, were designed to help trademark holders defeat cybersquatters at significantly less legal expense and with greater certainty than ever before. The new developments may have led many cybersquatters to abandon their names without renewing them.

We explain below why most domain owners, unlike homeowners, are unable to unload their properties in a properly constituted market. What's important to keep in mind now is that, as a result of this market inefficiency, according to a number of different independent studies, *80% to 90% of all domain names registered are inactive.* The unused names are being warehoused, unable to be sold, and forgotten; and many are thus likely to expire.

Just as with prime real estate, which has been owned and re-sold many times, the sheer number of expiring names tells us we're entering the secondary "real estate" market for domain names.

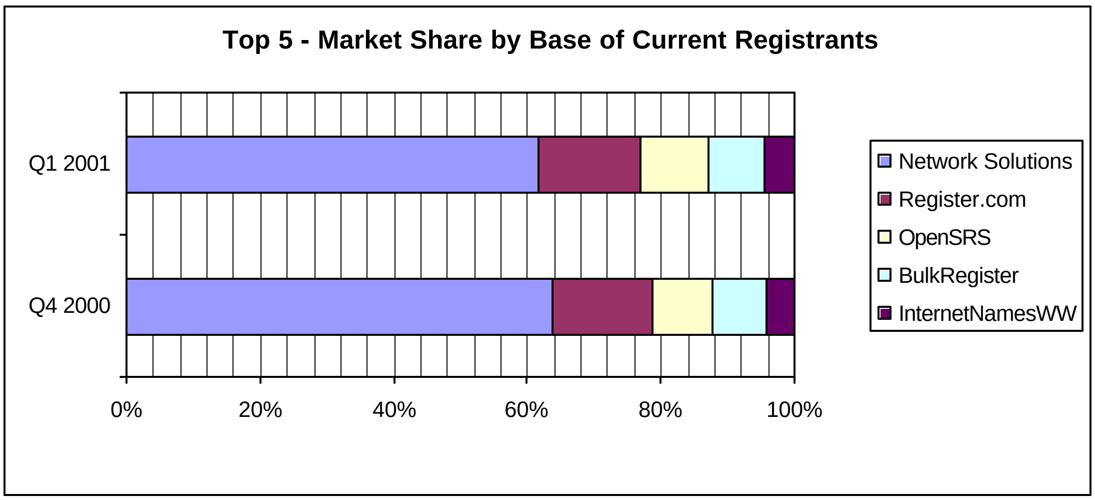
What is the industry doing to prepare for it? We'll take up that question in Section III, but first, a look at what's happening in the primary market of new registrations.

II. Jostling Over a Diminishing Pie: Competition for the Primary Market and Market Share of Total Active Registrations

There are now nearly 160 ICANN-accredited registrars, of which roughly half are operational. The largest five registrars represent 81% of total registrations but only about 46% of new domains sold daily. The largest ten registrars represent 91% of total registrations and 63% of new domains sold daily.

A. Top Five Registrars - Market Share by Total Active Registrations

	Q4 2000	Q1 2001
Network Solutions / VeriSign	53.02%	49.80%
Register.com	12.38%	12.22%
OpenSRS / TUCOWS	7.37%	8.34%
BulkRegister.com	6.64%	6.72%
Melbourne IT (a.k.a. internetnamesww.com, inww.com)	3.55%	3.68%



B. All Registrars -- Market Share by Total Active Registrations

The table below shows registrars ranked by market share of current registrations on March 30, 2001. "Gains" refers to new additions, which may include new customers as well as renewals of existing registrations. "Losses" refers to deletions, which consists mostly of expired domains or domains transferred to another registrar.

	Ranking		Market Share		Registrations		Change
	Q1'01	Q4'00	Q1'01	Q4'00	Q1'01	Q4'00	
networksolutions.com	1	1	49.80%	53.02%	14,464,721	14,474,754	(10,033)
register.com	2	2	12.22%	12.38%	3,549,347	3,379,237	170,110
opensrs.net	3	3	8.34%	7.37%	2,422,191	2,011,880	410,311
bulkregister.com	4	4	6.72%	6.64%	1,951,142	1,812,582	138,560
InternetNamesWW.com	5	5	3.68%	3.55%	1,069,105	969,423	99,682
corenic.net	6	6	3.33%	3.54%	968,481	967,185	1,296
registrars.com	7	7	2.35%	2.16%	682,802	588,534	94,268
dotster.com	8	8	1.57%	1.52%	457,291	415,391	41,900
enom.com	9	9	1.47%	1.29%	428,244	351,207	77,037
easyspace.com	10	11	0.96%	0.79%	279,832	214,530	65,302
namesecure.com	11	10	0.83%	0.84%	242,096	228,789	13,307
schlund.de	12	12	0.81%	0.72%	234,348	196,887	37,461
gandi.net	13	14	0.79%	0.66%	229,967	180,959	49,008
domainbank.net	14	13	0.72%	0.69%	209,349	187,507	21,842
dotregistrar.com	15	17	0.55%	0.41%	160,312	111,245	49,067
domaindiscover.com	16	16	0.55%	0.44%	159,687	119,739	39,948
domainpeople.com	17	15	0.48%	0.53%	139,186	145,885	(6,699)
itsyourdomain.com	18	20	0.38%	0.27%	109,452	73,604	35,848
names4ever.com	19	18	0.36%	0.35%	104,425	95,382	9,043
joker.com	20	54	0.32%	0.01%	93,031	1,865	91,166
discount-domain.com	21	19	0.31%	0.28%	91,329	76,093	15,236
yesnic.com	22	24	0.27%	0.22%	79,834	60,205	19,629
OnlineNIC.com	23	22	0.27%	0.24%	78,460	64,381	14,079
nameit.net	24	23	0.27%	0.23%	77,558	62,062	15,496
doregi.com	25	21	0.25%	0.26%	72,492	70,665	1,827
ibi.net	26	27	0.19%	0.15%	54,506	39,822	14,684
awregistry.net	27	25	0.17%	0.17%	48,962	45,326	3,636
godaddy.com	28	48	0.17%	0.01%	48,291	3,708	44,583
dotearth.com	29	26	0.16%	0.15%	46,063	41,243	4,820
paycenter.com.cn	30	29	0.14%	0.10%	40,412	27,793	12,619
signaturedomains.com	31	28	0.14%	0.14%	39,981	37,836	2,145
stargateinc.com	32	34	0.14%	0.05%	39,386	14,863	24,523
namesdirect.com	33	31	0.13%	0.09%	36,556	23,346	13,210
gkg.net	34	30	0.12%	0.09%	36,142	24,074	12,068
speednic.net	35	33	0.08%	0.06%	24,206	17,569	6,637
alldomains.com	36	37	0.08%	0.05%	24,042	13,435	10,607
domaininfo.com	37	32	0.08%	0.08%	23,766	20,893	2,873
activeisp.com	38	35	0.08%	0.05%	23,062	14,118	8,944
psi-domains.com	39	36	0.07%	0.05%	20,262	14,083	6,179
enterprice.net	40	40	0.06%	0.04%	18,438	10,281	8,157
name7.com	41	43	0.06%	0.02%	16,193	6,340	9,853
nordnet.net	42	38	0.05%	0.04%	13,986	12,131	1,855

oleane.net	43	39	0.05%	0.04%	13,908	11,493	2,415
naame.com	44	44	0.04%	0.02%	11,752	5,323	6,429
domainregistry.com	45	41	0.04%	0.03%	11,464	9,440	2,024
catalog.com	46	42	0.04%	0.02%	10,691	6,730	3,961
tmagnic.net	47	56	0.03%	0.01%	8,386	1,697	6,689
1stdomain.net	48	45	0.03%	0.02%	7,782	5,058	2,724
totalnic.net	49	47	0.02%	0.01%	6,897	3,875	3,022
iaregistry.com	50	57	0.02%	0.01%	6,772	1,584	5,188
e-names.org	51	50	0.02%	0.01%	6,379	2,819	3,560
domainsite.com	52	46	0.02%	0.02%	6,055	4,252	1,803
domini.it	53	51	0.02%	0.01%	5,444	2,767	2,677
interdomain.net	54	55	0.01%	0.01%	4,284	1,848	2,436
worldnet.net	55	65	0.01%	0.00%	3,885	587	3,298
totalregistrations.com	56	58	0.01%	0.01%	3,881	1,517	2,364
namebay.com	57	59	0.01%	0.01%	3,549	1,448	2,101
secura-gmbh.de	58	53	0.01%	0.01%	3,235	2,292	943
compuserve.com	59	49	0.01%	0.01%	3,144	2,970	174
omnis.com	60	60	0.01%	0.01%	2,655	1,383	1,272
enetregistry.com	61	52	0.01%	0.01%	2,621	2,568	53
nominate.net	62	64	0.01%	0.00%	2,424	982	1,442
eastcom.com	63	61	0.01%	0.00%	1,573	1,141	432
interaccess.com	64	62	0.00%	0.00%	1,346	1,058	288
mrdomreg.com	65	76	0.00%	0.00%	1,244	7	1,237
nominalia.com	66	63	0.00%	0.00%	1,124	1,001	123
nameengine.com	67	67	0.00%	0.00%	1,066	254	812
domainzoo.com	68	66	0.00%	0.00%	731	308	423
shop4domain.com	68	68	0.00%	0.00%	422	239	183
pasia.com	69	69	0.00%	0.00%	548	152	396
webex.net	70	71	0.00%	0.00%	518	58	460
domaindiscount24.net	71	72	0.00%	0.00%	472	26	446
planetdomain.com	73	73	0.00%	0.00%	410	24	386
namesystem.com	74	70	0.00%	0.00%	107	60	47
vi.net	75	75	0.00%	0.00%	14	10	4
idregister.com	76	74	0.00%	0.00%	12	12	-
talk.com	77	77	0.00%	0.00%	3	4	(1)

C. Fastest Gainers in Net Registrations for Q1, 2001

This table shows which registrars are gaining or losing market share the fastest, based on net registrations (names sold, transferred in or renewed, minus expirations and transfers to other registrars) between Q4 of last year and Q1. TUCOWS/OpenSRS was by far the largest gainer. Only two major registrars actually lost ground (net of expirations and transfers) - Network Solutions and DomainPeople.

	Registrar	Gain/Loss
1	opensrs.net	410,311
2	register.com	170,110
3	bulkregister.com	138,560
4	InternetNamesWW.com	99,682
5	registrars.com	94,268
6	joker.com	91,166
7	enom.com	77,037
8	easyspace.com	65,302
9	dotregistrar.com	49,067
10	gandi.net	49,008
11	godaddy.com	44,583
12	dotster.com	41,900
13	domaindiscover.com	39,948
14	schlund.de	37,461
15	itsyourdomain.com	35,848
16	stargateinc.com	24,523
17	domainbank.net	21,842
18	yesnic.com	19,629
19	nameit.net	15,496
20	discount-domain.com	15,236
21	ibi.net	14,684
22	OnlineNIC.com	14,079
23	namesecure.com	13,307
24	namesdirect.com	13,210
25	paycenter.com.cn	12,619
26	gkg.net	12,068
27	alldomains.com	10,607
28	name7.com	9,853
29	names4ever.com	9,043
30	activeisp.com	8,944
31	enterprice.net	8,157
32	tmagnic.net	6,689
33	speednic.net	6,637
34	naame.com	6,429
35	psi-domains.com	6,179
36	iaregistry.com	5,188
37	dotearth.com	4,820
38	catalog.com	3,961
39	awregistry.net	3,636
40	e-names.org	3,560
41	worldnet.net	3,298
42	totalnic.net	3,022
43	domaininfo.com	2,873
44	1stdomain.net	2,724
45	domini.it	2,677
46	interdomain.net	2,436
47	oleane.net	2,415
48	totalregistrations.com	2,364
49	signaturedomains.com	2,145
50	namebay.com	2,101
51	domainregistry.com	2,024
52	nordnet.net	1,855
53	doregi.com	1,827
54	domainsite.com	1,803
55	nominate.net	1,442
56	corenic.net	1,296
57	omnis.com	1,272
58	mrdomreg.com	1,237
59	secura-gmbh.de	943
60	nameengine.com	812
61	webex.net	460
62	domaindiscount24.net	446
63	eastcom.com	432
64	domainzoo.com	423
65	pasia.com	396
66	planetdomain.com	386
67	interaccess.com	288
68	shop4domain.com	183
69	compuserve.com	174
70	nominalia.com	123
71	enetregistry.com	53
72	namesystem.com	47
73	vi.net	4
74	idregister.com	-
75	talk.com	(1)
76	domainpeople.com	(6,699)
77	networksolutions.com	(10,033)

D. Market Factors

There are a number of factors that have contributed to this movement among the registrars and the volumes of their registrations. During the past six months members of the domain name industry have attempted several new strategies. For example, we have seen:

- Dramatic swings in marketing budgets as registrars have vacillated between grabbing market share and attempting to improve profitability
- Numerous mergers and acquisitions
- Extremely aggressive pricing on renewals and transfers
- Innovative marketing programs
- Certain companies retrenching from the domain name business
- Registrars offering financial incentives to resellers to switch exclusively to them

Perhaps the most dramatic gains between Q4 and Q1 were those posted by OpenSRS/TUCOWS of Toronto, which, while still in third place overall, managed to unseat Register.com from its long-held second position in new registrations. The gains appear to have been generated at least in part by an aggressively priced renewal/transfer offer of $6.75 per name. Other registrars offered similarly tempting cross-renewals, sometimes targeting specific competitors like Network Solutions or BulkRegister.com. Some resellers offer cut-rate prices as a matter of course: you can buy a domain for $8.88 on NameCheap.com, $6 of which must go to VeriSign Global Registry, a few dimes to ICANN for each name, with the remainder to be split between both NameCheap and its registrar.

Recent M&A transactions of note: Registrars.com was recently sold to Network Commerce of Seattle, ostensibly to allow it to leverage the parent company's customer base for growth. NameSecure.com was recently sold to Network Solutions, although it continues to register names independently. NameZero, the largest owner of domain names in the world, acquired NamesDirect; if renewals for NameZero's 1.3M+ names were done through NamesDirect's account, NamesDirect would be instantly catapulted from 33rd to the 5th-largest registrar.

Finally, near the end of the quarter TUCOWS did a reverse merger into a public corporation – Infonautics (NASDAQ: INFO). This now brings the number of publicly held registrars to five:

Registrar	Rank	Market/Symbol	Price 12/29/00	Price 3/30/01	52-Week Hi/Lo
Network Solutions / VeriSign	#1	NASDAQ: VRSN	$74.19	$35.44	$214.38/$26.25
Register.com	#2	NASDAQ: RCOM	$7.00	$6.29	$65.25/$5.00
TUCOWS / Infonautics	#3	NASDAQ: INFO	$0.72	$0.79	$7.00/$0.41
Melbourne IT / InternetNamesWW	#5	DE: BMBD	$0.38	$0.44	$2.70/$0.34
Registrars.com / Network Commerce	#7	NASDAQ: NWKC	$0.76	$0.13	$7.94/$0.06

E. More TLDs: The Universal Panacea?

Some dot-com/-net/-org registrars are sparing no expense to stake their futures on new gTLDs and ccTLDs. While the new TLDs undeniably open up more real estate for the industry, they will soon present the same challenges we now see in dot-com, and businesses relying on the new TLDs will also need to develop strategies for their own secondary markets.

While there is certainly money to be made in planting flags in the new continents of .uk, .de, and .co, it would be a mistake to abandon the old countries, like dot-com, while prospecting for the new territories. The registrars and resellers who figure out how to profit from the re-sale of properties in the old country will be better prepared for the future, as even the new countries will eventually become old. All TLDs will eventually be driven by secondary market dynamics after the best inventory is cleared out.

More fundamentally, the demand created by dot-com is not so elastically transferable to other TLDs as some would believe: by a wide margin, dot-com is still the preferred address extension, even outside the United States. While numerous articles have appeared in the media about the dot-com bust and its effect on domain name values, the two are probably not related. A fundamental rule of economics is that as a commodity becomes scarcer, price goes up. Dot-com addresses are still the “800 number” of the Internet, and as the supply continues to dwindle, their resale values should continue to rise.

If dot-com weren’t in as much demand as it is, there would not be well over one million attempts to register dot-com names each day, and successful registrants wouldn’t make the over-30 attempts it takes to finally find a suitable name. Even in the face of such effort, registrants do not abandon the dot-com extension.

However, like dot-com, all ccTLDs and gTLDs will reach a point of effective inventory exhaustion, which we define as the point at which the majority of customers are likely to balk at trying to get a name with a particular extension rather than continue to search for names that are further and further afield from the one they wanted. Some registries will reach exhaustion sooner than others, all probably sooner than dot-com. All will need to develop strategies for the secondary, or re-sale, market.

III. Strategies for the Secondary Market

To the extent the domain name industry has developed strategies to deal with the secondary market, they have for the most part not proven to be scalable or sustainable. Almost all of the strategies have attempted to address the problem of falling registrations, renewals, revenues and profitability by means *other than* addressing the secondary market in dot-com/-net/-org. To extend a prior metaphor, the domain industry has largely ignored the very large new pie in the oven.

A. Whether and How to Monetize Legions of Frustrated Buyers

As stated above, by some estimates 97% of all attempts to register a domain name result in the customer being informed that the name is unavailable. We do know that only 3% of registration attempts result in sales. For the rest, the customer, credit card in hand, is pointed the way to the door. In other words, although over 700,000 names are expiring every month, most registrars have no way to take the orders of customers on their sites, at the moment of the customer's greatest motivation and greatest frustration, in order to connect those customers with millions of about-to-expire names. Only a few registrars have contrived means to convert this enormous frustrated demand into revenue.

One example of registrars' attempts to carve some revenue out of the secondary market is the acquisition of listing services and creation of virtual brokerages. As most readers of this report know, late last year Register.com acquired secondary market player Afternic, and shortly thereafter VeriSign/Network Solutions acquired Afternic's competitor, Great Domains. Both registrars have also since introduced a "virtual broker" feature which allows frustrated domain name buyers to make a bid for a taken domain name, whether it is actively in use or not, with a single mouse click. It is too early to know how effective these forms of addressing the secondary market are in generating substantive revenue, but it is at the least entertaining to watch the two giants play spy-counterspy, move after move. The activities of these two largest registrars also underline the importance of the secondary market as a partial remedy for diminishing dot-com/-net/-org revenue.

Other registrars, for example, www.NamesDirect.com and www.eNom.com, have attempted to stanch the flow of frustrated customers by integrating secondary market infrastructures, including those, in full disclosure, built by SnapNames. On these registrars' sites, a buyer who would otherwise be frustrated with the result, "Not Available," can back-order the desired domain name and have a good chance of getting it, given the high rate of expirations.

To our knowledge, SnapNames' patent-pending SnapBack™ service is still the only conventional means by which ordinary users can "back-order" domain names that may expire in the future, virtually guaranteeing their position next in line to own the name they want. However, regardless of who provides the infrastructure for back-ordering, what remains clear is that no one registrar could effectively offer the service on its own.

A single registrar alone could offer effective back-ordering only of names already held by it, significantly diminishing the valuable network effect of being able to offer *all* customers access to *all* names, whether held by that registrar or other registrars or ccTLD registries. This is so because effective industry-wide back-ordering would require all registrars and registries to share certain necessary elements of their data sets – sharing that is only possible through an independent third-party, since there are too many competitive relationships in the mix. This data is the core information about each registrar's or registry's business: in the hands of a competing registrar or registry, customer data could be used to facilitate front-running or other anticompetitive practices. Attempts to access customer data from registrars can also result in law suits. (See Register.com v. Verio).

A centralized data pool eliminates such concerns for all registrars and registries and is the most effective way to build a real solution for centralized monitoring and back-ordering.

Furthermore, *when* a domain name is released, following expiration, is at the whim of the registrar holding the name. It is entirely possible for a registrar never to release a domain name, or to wait far longer than the normal Registry grace period. An industry-wide consortium knitted together by an independent party is required to motivate registrars to make domain names available as soon as they expire. The result will be a much faster turnover of inventory, with consequently more profits sooner.

B. Expired-Name Services Get Part of the Concept

There are those who've realized the demand for about-to-expire names. They are the expired-name services, web sites that list all recently expired names. Names that have expired but not yet deleted are so noted, as are names that have been deleted and are now available. For names that have deleted and become available, such sites sometimes point visitors to a registrar. But for names that are expired but not yet deleted, most of these sites suffer from a problem similar to those at the registrars: they have no way to allow visitors to order the name at the moment the information on its imminent availability is presented. Through partnerships with SnapNames, some of these services, such as www.DomainsBot.com, have so far been able to convert the demand on their sites.

On most sites, however, the visitor is left to try to get the name when it finally does delete – ***if*** the visitor can predict when that will be, and ***then*** win the race against the professional speculators. A subterranean industry has developed around professional speculation. Those with the technical savvy and resources are using highly optimized servers and automated scripts to "ping" registrars and registries at extremely high rates in order to win races to the best names. The average individual or corporate domain name buyer cannot possibly compete with these night owls and their basement server farms.

C. Listing Services Can't Find or Aggregate the Buyers

Because the domain name industry is so new, early business models focusing only on sales of primary domain names still provide registrars' default roadmaps. While many registrars have taken stabs at harvesting revenue from the secondary market, the so-called "auction" sites and virtual brokerages have succeeded in turning over only a tiny fraction of the exchange market. That is, most names that are sold between two registrants do not involve a registrar in the revenue stream.

What about auctions? Can't listing services simply hold auctions? It's not so easy. Simply put, a true auction is based on buyer demand. The listing services are all based on seller supply. And in today's industry ne'er the twain do meet.

A true auction, like a Sotheby's art auction, is one in which all of the interested buyers in, say, a Picasso, have been called into the same room at the same time. The buyers have been previously identified, tracked, and contacted for a live bidding event. The auction thus has multiple buyers who can bid against each other.

1. The Lack of Objective Market Prices Makes Visitors to Listing Services Balk

In a classified listing service, by contrast, there are a lot of sellers. The sellers unilaterally propose the price of their names. Because there is no market by which to draw comparisons, and quite possibly due to the unrealistic values accorded the names by the appraisal services (see below), the sellers invariably ask too much. Any tour of a listing service's site will immediately confirm this proposition. Meanwhile, interested buyers don't know how to find their way to the listing service's site in the first place, or when they do, they find their way there one buyer at a time. Certainly the odds that all the interested buyers, around the world, will find their way onto a listing site on the same day are vanishingly small. The equivalent off-line model would be for Sotheby's to neglect its Rolodex file of interested buyers and wait for buyers to walk in off the street.

Where there's no market (that is, more than one buyer), there's no sale. There is therefore no bidding event, and the result is usually a stalemate: the seller thinks his name is worth $15,000 but the single buyer hasn't seen anyone bid $12,000 or $8000 or even $5000, and so the buyer balks at bidding against himself for $15,000. The buyer balks because there is no market for the name to establish its value. In the absence of an established value, nothing can get sold. And even if something were sold, it should be clear that, by definition, without multiple buyers to bid up the price, the final sales price is artificially depressed.

2. Because Listing Services Cannot Capture Buyer Demand for Their Names, Much Less All Names, They Sell Relatively Few Names and Must Rely on Appraisal Fees

There is another limitation that listing services share with classified ads. Listing services have no way to profit from any names other than the relatively small number they own or list on their site. If a potential customer is looking for a name a listing service does not have, the listing service must send the customer away. Compounding this deficiency, if a buyer does want a name on the service's site but does not like the price the service is asking, the service has no way to capture and preserve the buyer's demand – no way to add that buyer to a larger pool of interested buyers for a later, true auction.

The revenues of even the most renowned listing services, or "auction"-like sites, have thus fallen short of most projections. Indeed, insiders report that the majority of many listing services' revenue comes from appraisals. Once popular, appraisals, with their breathless promises, have rapidly lost the confidence of the domain sellers and buyers alike. One need only sample the appraisal engines. The same name, typed into different appraisal engines, will yield figures an order of magnitude apart. It also appears true in many cases that the higher the appraisal fee, the higher the appraised value.

Conclusion

In this report, SnapNames found new registrations, comprising the primary market, are diminishing, while deletions of once-registered names are rising rapidly. Registrar competition appears to be healthy, as the U.S. Department of Commerce intended when it opened Network Solutions' business to new entrants. Finally, the primary market on which many registrars' and resellers' business models was founded is rapidly giving ground to a secondary market of both stagnant name properties and about-to-expire names, for which most are unprepared. In next quarter's report, SnapNames hopes to take up, among other issues vital to the industry, the question of how to address the deficiencies of the industry's secondary market structure in order to allow the industry to hold live, heated bidding events, or true auctions.

Methodology and Statistical Accuracy

SnapNames' domain name industry data is generated using domain names listed in the .com, .net, and .org zone files. Only *active* domain names appear in the zone file, although a domain name does not have to be attached to a web site to be considered active. It is possible that a registrar could have domain names that are on hold, or domain names that do not have name servers listed, thus causing our report-generating process not to "credit" the Registrar with such domain names. Overall industry reports are run monthly from zone files produced on the first day of each month. Because some domain names may be transferred, expire, or expire and be re-registered by another registrar while the report is being produced, it is possible for those names not to be included in the report.

Daily reports are the result of the difference between two zone files monitored 24 hours apart. A domain name appears on or disappears from a zone file if:

It was just registered and is being placed into the zone file.
Its status is being changed from Registrar or Registry "Hold" to "Active".
It is being placed on hold in the normal process of expiration.
It is being placed on hold because of a dispute.
Its name servers are being permanently dissociated from the domain.
Name server changes are made during the cycle when the zone file is generated.

Registrars will often report larger numbers of current registrations and larger percentages of market share than the numbers shown in this report. This is because many registrars were resellers for Network Solutions or some other ICANN-accredited registrar prior to themselves becoming ICANN-accredited, and both NSI and the reseller-turned-registrar may count the same registration among their inventory. In order to avoid double-counting, in the compilations you'll find in this report each registration is credited to the actual registrar of record in the zone file, regardless of which reseller-turned-registrar technically first sold the name and now manages the customer.

The above information is accurate to the best of SnapNames' knowledge and within reasonable margins of error. SnapNames is not liable for any reliance on this information. Persons with corrections or other comments are encouraged to bring them to SnapNames' attention. Please forward comments to stateofthedomain@snapnames.com

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Prior to joining SnapNames, Len was Project Manager of AWRegistry, the 11th operational ICANN accredited domain name Registrar. While serving in this position he managed all aspects of the Registrar's operations, including development, marketing, and sales, and positioned AWRegistry as the eleventh ICANN Registrar to go operational in September of 1999. He also worked closely within the ICANN process, attending and participating as a voting member of the Registrars Constituency that influenced the operational environment under which accredited Registrars operate today. Prior to this he owned and operated his own consulting firm, Innovative Systems Design. As a consultant he assisted in the startup and operation of many Internet Service Providers and provided consulting services in the areas of: software and computer hardware development, network design and implementation, and consulting in voice and data communications. He has an extensive communications background stemming from his 17-year career at AT&T/Mountain Bell/USWest.

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