STATE OF THE DOMAIN™

August 2001

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SnapNames, the provider of domain name back-ordering services, uses proprietary technology to facilitate an equal-opportunity secondary domain name market, help registrars and resellers expand profitable product inventories, and provide end-users "the best chance at a second chance"™ for a desired domain name.

To obtain a free electronic copy of this report, please contact:
SnapNames.com, Inc.
115 NW First Ave., Suite 300
Portland, OR 97209
503-219-9990
e-mail: stateofthedomain@snapnames.com

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Message From The Publisher

First things first:

SnapNames joins friends and colleagues around the world in extending our thoughts and sympathies to those affected by the events on September 11, and in saluting rescue workers for their brave work. Our company and its employees have pledged support to the organizations involved in relief efforts in the affected areas.

The U.S. flag on the front page of our web site is an expression of our support for the victims of the tragedy, those involved in protecting our country, and for everyone committed to the recovery and rebuilding effort. If you're interested in helping, just below the flag is a link providing you with contact information for primary relief organizations.

Our team has returned safely from Montevideo's ICANN meetings and discussions on industry issues—the most critical and rapidly evolving being the one of *fairness* of customer access to deleting names, and how and to whom fairness is applied. We'll summarize our view of the necessary criteria for any solution and critique against those criteria the proposals to date. Our report extends the case for the development and implementation of a "parallel registry" as the best answer to the needs of domain name registrants for fair access, to the potential financial challenges facing registries and registrars, and to DNS structural integrity issues.

We continue to solicit your help in our mission to keep the industry informed. Please forward this report to the industry leaders, editors, analysts or others who would find it valuable, and invite them to subscribe free of charge with a blank e-mail to stateofthedomain@snapnames.com.

In addition, your suggestions and comments are welcome at any time. Please forward them to me at publisher@snapnames.com.

Regards,

Mason Cole
Director of Corporate Marketing

State of the Domain contact information:

Subscriptions **only**:
stateofthedomain@snapnames.com

Comments and suggestions:
publisher@snapnames.com

Registrar Data Review

For those unfamiliar with the registrar market data reports, all registration figures are reported as "net," meaning they represent the sum of new registrations and transfers in from competing registrars less expirations and transfers out to competing registrars (see *Methodologies and Statistical Accuracy* for details).

In perhaps the most uneventful month since we began tracking these statistics in Q1, the trends in August held fast from July, with the top ten registrars remaining firmly in place. No big surprises. The re-named VeriSign Registrar (formerly listed as Network Solutions) and the COREnic consortium were the only leaders with net losses in active registrations. The increase in the top ten's net losses to the bottom 78 was double that of the prior month, at about 30,000 names, although it's still a relatively insignificant number. BulkRegister reversed its losing trend to post a modest gain in August, as it begins to show signs of recovery from its restructuring in the late spring.

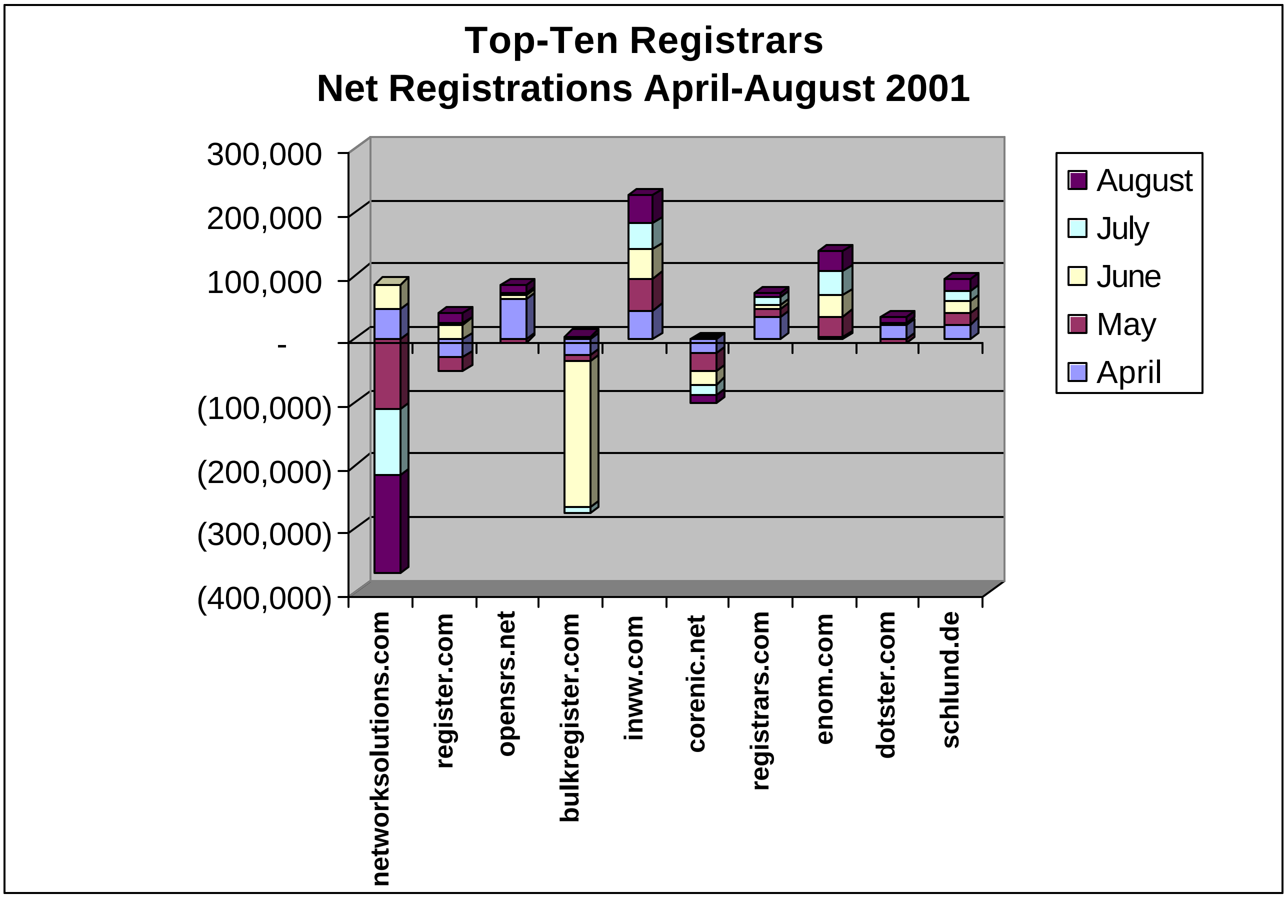
Nearly everyone else made advances in August, with low-price leader GoDaddy again taking home the largest net gain and vaulting to number 12 in net new registrations. Melbourne IT (INWW), eNom, Directnic, DotRegistrar and Joker.com made repeat performances as top gainers in August. There were 9 gainers for every 1 loser in net registrations in August, roughly the same as in July.

Keep in mind that it's easier for newly accredited registrars like GoDaddy and DotRegistrar to post large *net* gains, since their customer bases are so new that they do not yet experience any expirations. When adjusting for industry average expirations rate, it is apparent that old-timer registrars like Melbourne IT (INWW), eNom and Schlund.de had to work much harder than the new guys to get so high up on the roster.

Five-Month Aggregate View of the Top Ten Registrars

Another interesting trend view on the data for a more holistic perspective is the following table and graph showing the aggregate of net registration activity for each top-ten registrar over the past five months.

Registrar	April	May	June	July	August	Aggregate
networksolutions.com	46,009	(112,065)	39,288	(102,532)	(156,750)	(286,050)
register.com	(29,262)	(21,394)	22,710	376	16,228	(11,342)
opensrs.net	61,060	(5,819)	8,055	1,963	12,685	77,944
bulkregister.com	(25,687)	(9,433)	(231,892)	(9,085)	3,647	(272,450)
inww.com	45,061	50,414	45,787	41,833	43,167	226,262
corenic.net	(22,541)	(28,404)	(21,570)	(15,964)	(13,786)	(102,265)
registrars.com	33,312	12,397	7,238	11,797	7,006	71,750
enom.com	1,658	33,956	32,266	37,690	31,108	136,678
dotster.com	20,164	(7,014)	2,370	2,664	9,367	27,551
schlund.de	22,178	18,599	18,272	16,170	17,743	92,962
Monthly Total	151,952	(68,763)	(77,476)	(15,088)	(29,585)	(38,960)



While VeriSign pays the statistical penalty for having the largest and oldest customer base, and hence is seeing larger expiration numbers earlier than the other registrars, its overall registration base is still incredibly strong (especially when adding the net gains of the other registrars that corporate parent VeriSign, Inc. owns: Registrars.com and NameSecure.com). The one-time hit that BulkRegister.com took in June when it lost a couple of major customers is also clearly behind it. Of the top-ten registrars only COREnic has consistently lost market share each and every month, possibly because some members have left the consortium and obtained their own accreditations.

Registrars by Market Share of Current Registrations: August 2001

(.com, .net, .org)

Company	Ranking		Market Share		Registrations		Change
	July	Aug	July	Aug	July	Aug	
verisign.com	1	1	47.51%	46.59%	14,335,421	14,178,671	(156,750)
register.com	2	2	11.67%	11.63%	3,521,777	3,538,005	16,228
opensrs.net	3	3	8.24%	8.21%	2,487,450	2,500,135	12,685
bulkregister.com	4	4	5.55%	5.52%	1,675,045	1,678,692	3,647
inww.com	5	5	4.15%	4.26%	1,252,200	1,295,367	43,167
corenic.net	6	6	2.92%	2.85%	880,002	866,216	(13,786)
registrars.com	7	7	2.48%	2.48%	747,546	754,552	7,006
enom.com	8	8	1.83%	1.92%	552,320	583,428	31,108
dotster.com	9	9	1.51%	1.53%	456,969	466,336	9,367
schlund.de	10	10	1.18%	1.22%	355,051	372,794	17,743
dotregistrar.com	11	11	0.90%	1.00%	270,359	303,147	32,788
godaddy.com	17	12	0.77%	0.94%	231,145	284,763	53,618
domaindiscover.com	15	13	0.83%	0.90%	251,800	273,200	21,400
gandi.net	12	14	0.85%	0.86%	255,987	262,504	6,517
joker.com	18	15	0.77%	0.85%	231,067	258,707	27,640
easyspace.com	14	16	0.84%	0.85%	253,483	257,935	4,452
namesecure.com	13	17	0.84%	0.84%	253,884	256,460	2,576
domainbank.net	16	18	0.77%	0.78%	232,891	236,526	3,635
directnic.com	20	19	0.46%	0.60%	139,002	181,878	42,876
itsyourdomain.com	19	20	0.54%	0.55%	161,449	168,168	6,719
domainpeople.com	21	21	0.43%	0.42%	129,154	126,973	(2,181)
names4ever.com	22	22	0.35%	0.36%	106,883	110,823	3,940
discount-domain.com	23	23	0.35%	0.36%	105,521	109,139	3,618
aitdomains.com	24	24	0.31%	0.32%	92,745	96,515	3,770
stargateinc.com	27	25	0.28%	0.31%	83,469	95,301	11,832
OnlineNIC.com	25	26	0.31%	0.31%	92,365	93,315	950
yesnic.com	26	27	0.29%	0.30%	89,006	91,523	2,517
doregi.com	28	28	0.23%	0.23%	69,601	69,148	(453)
ibi.net	29	29	0.22%	0.22%	66,815	67,285	470
namesdirect.com	30	30	0.19%	0.21%	57,358	62,934	5,576
paycenter.com.cn	32	31	0.19%	0.20%	56,154	60,134	3,980
gkg.net	31	32	0.19%	0.20%	56,546	60,040	3,494
dotearth.com	33	33	0.17%	0.17%	50,840	52,415	1,575
alldomains.com	35	34	0.14%	0.15%	42,548	45,817	3,269
signaturedomains.com	34	35	0.15%	0.15%	44,364	44,764	400
name7.com	37	36	0.13%	0.14%	38,579	43,550	4,971
speednic.net	38	37	0.12%	0.13%	36,528	39,784	3,256
awregistry.net	36	38	0.13%	0.13%	39,175	38,908	(267)
enterprice.net	39	39	0.10%	0.12%	31,523	35,057	3,534
iaregistry.com	41	40	0.10%	0.11%	29,686	34,423	4,737
activeisp.com	40	41	0.10%	0.10%	30,828	31,354	526
domaininfo.com	42	42	0.09%	0.09%	26,682	27,432	750
psi-domains.com	43	43	0.08%	0.08%	24,674	25,353	679
nordnet.net	44	44	0.07%	0.07%	20,425	21,696	1,271

naame.com	45	45	0.06%	0.07%	19,586	21,632	2,046
tmagnic.net	46	46	0.06%	0.07%	17,507	19,964	2,457
oleane.net	47	47	0.05%	0.06%	16,498	17,193	695
catalog.com	48	48	0.05%	0.05%	15,047	16,292	1,245
interdomain.net	53	49	0.03%	0.04%	10,120	12,939	2,819
e-names.org	50	50	0.04%	0.04%	11,762	12,481	719
totalnic.net	51	51	0.04%	0.04%	10,918	11,932	1,014
domainregistry.com	49	52	0.04%	0.04%	11,990	11,782	(208)
totalregistrations.com	55	53	0.03%	0.04%	9,839	11,707	1,868
Domainsite.com	52	54	0.03%	0.04%	10,188	11,139	951
1stdomain.net	54	55	0.03%	0.03%	10,026	10,468	442
domini.it	56	56	0.02%	0.03%	7,436	7,643	207
namebay.com	57	57	0.02%	0.02%	6,550	7,160	610
netnames.com	58	58	0.02%	0.02%	5,538	6,828	1,290
nominate.net	60	59	0.02%	0.02%	4,861	5,686	825
worldnet.net	59	60	0.02%	0.02%	5,134	5,397	263
secura-gmbh.de	62	61	0.01%	0.02%	4,131	4,612	481
omnis.com	61	62	0.01%	0.01%	4,163	4,378	215
nameengine.com	63	63	0.01%	0.01%	3,500	4,090	590
compuserve.com	64	64	0.01%	0.01%	3,421	3,651	230
rrpproxy.net	68	65	0.01%	0.01%	1,807	2,496	689
eastcom.com	66	66	0.01%	0.01%	2,174	2,384	210
domaindomain.com	65	67	0.01%	0.01%	2,307	2,335	28
Namescout.com	85	68	0.01%	0.01%	28	2,150	2,122
mrdomreg.com	67	69	0.01%	0.01%	2,008	2,084	76
Interaccess.com	69	70	0.01%	0.01%	1,785	1,849	64
planetdomain.com	71	71	0.00%	0.01%	1,332	1,720	388
Domainzoo.com	73	72	0.00%	0.01%	1,138	1,612	474
addresscreation.com	75	73	0.00%	0.01%	920	1,385	465
nominalia.com	70	74	0.00%	0.00%	1,356	1,340	(16)
shop4domain.com	76	75	0.00%	0.00%	811	1,251	440
webex.net	74	76	0.00%	0.00%	1,005	1,078	73
vi.net	77	77	0.00%	0.00%	733	936	203
enetregistry.com	72	78	0.00%	0.00%	1,192	895	(297)
123registration.com	78	79	0.00%	0.00%	711	884	173
pasia.com	79	80	0.00%	0.00%	612	609	(3)
Trustnames.net	80	81	0.00%	0.00%	279	449	170
corporatedomains.com	81	82	0.00%	0.00%	165	333	168
namesystem.com	82	83	0.00%	0.00%	136	142	6
idregister.com	83	85	0.00%	0.00%	52	129	77
nametree.com	86	87	0.00%	0.00%	6	7	1
talk.com	84	88	0.00%	0.00%	4	62	58
TOTALS					30,175,093	30,434,271	259,178
New Registrar							
Globedom.com		84		0.00%		129	

Gains and Losses in Net Registrations: August 2001
(.com, .net, .org)

Company	% of August's Net Registrations	Actual +/- Change In Net Registrations
godaddy.com	0.18%	53,618
inww.com	0.14%	43,167
directnic.com	0.14%	42,876
Dotregistrar.com	0.11%	32,788
enom.com	0.10%	31,108
joker.com	0.09%	27,640
domaindiscover.com	0.07%	21,400
schlund.de	0.06%	17,743
register.com	0.05%	16,228
opensrs.net	0.04%	12,685
Stargateinc.com	0.04%	11,832
dotster.com	0.03%	9,367
registrars.com	0.02%	7,006
itsyourdomain.com	0.02%	6,719
gandi.net	0.02%	6,517
namesdirect.com	0.02%	5,576
name7.com	0.02%	4,971
iaregistry.com	0.02%	4,737
easyspace.com	0.01%	4,452
paycenter.com.cn	0.01%	3,980
names4ever.com	0.01%	3,940
Aitdomains.com	0.01%	3,770
bulkregister.com	0.01%	3,647
domainbank.net	0.01%	3,635
discount-domain.com	0.01%	3,618
enterprice.net	0.01%	3,534
gkg.net	0.01%	3,494
alldomains.com	0.01%	3,269
speednic.net	0.01%	3,256
interdomain.net	0.01%	2,819
namesecure.com	0.01%	2,576
yesnic.com	0.01%	2,517
tmagnic.net	0.01%	2,457
namescout.com	0.01%	2,122
naame.com	0.01%	2,046
totalregistrations.com	0.01%	1,868
dotearth.com	0.01%	1,575
netnames.com	0.00%	1,290
nordnet.net	0.00%	1,271
catalog.com	0.00%	1,245
totalnic.net	0.00%	1,014
Domainsite.com	0.00%	951
OnlineNIC.com	0.00%	950

nominate.net	0.00%	825
Domaininfo.com	0.00%	750
e-names.org	0.00%	719
oleane.net	0.00%	695
rrpproxy.net	0.00%	689
psi-domains.com	0.00%	679
namebay.com	0.00%	610
nameengine.com	0.00%	590
activeisp.com	0.00%	526
secura-gmbh.de	0.00%	481
domainzoo.com	0.00%	474
ibi.net	0.00%	470
addresscreation.com	0.00%	465
1stdomain.net	0.00%	442
shop4domain.com	0.00%	440
signaturedomains.com	0.00%	400
planetdomain.com	0.00%	388
worldnet.net	0.00%	263
compuserve.com	0.00%	230
omnis.com	0.00%	215
eastcom.com	0.00%	210
domini.it	0.00%	207
vi.net	0.00%	203
123registration.com	0.00%	173
trustnames.net	0.00%	170
corporatedomains.com	0.00%	168
idregister.com	0.00%	77
mrdomreg.com	0.00%	76
webex.net	0.00%	73
interaccess.com	0.00%	64
talk.com	0.00%	58
domaindomain.com	0.00%	28
namesystem.com	0.00%	6
nametree.com	0.00%	1
pasia.com	0.00%	(3)
nominalia.com	0.00%	(16)
domainregistry.com	0.00%	(208)
awregistry.net	0.00%	(267)
enetregistry.com	0.00%	(297)
doregi.com	0.00%	(453)
domainpeople.com	-0.01%	(2,181)
corenic.net	-0.05%	(13,786)
networksolutions.com	-0.52%	(156,750)

Total Registrations Per gTLD: August 2001

gTLD	As of 7/31/01	As of 8/30/01
.com	22,934,631	23,077,198
.net	4,421,015	4,442,460
.org	2,849,145	2,877,287
TOTAL	**30,204,791**	**30,396,945**

Publicly Held Registrars: Market Performance

While the economic aftermath of the September 11th terrorist attacks has destroyed billions of dollars in stock values of countless companies worldwide, the domain name industry not only came through unscathed, but possibly in a better position than they were in at the beginning of the month. There are a number of factors contributing to the higher share prices being now enjoyed by companies like VeriSign and Register.com, and we're not talking about the land rush on domain names containing phrases like "worldtradecenter" or "WTC" (see Peter Edmonston's September 19, 2001 article in the online edition of *The Wall Street Journal* for that story).

Domain name revenues are subject to GAAP and FASB rules which require registrars and registries to amortize their revenues over the service period. So, if a registrar sells a domain name for a two-year term, it can only report 1/24th of the registration fee each month, over a 24-month period, the balance being accumulated on the "Deferred Revenue" line of the company's balance sheet. While this has the effect of making P&L statements appear understated, analysts give a bonus valuation multiple on companies that carry large deferred revenues, because the horizon on future revenues is that much longer and more predictable (see analyst statements below). In times like this, when many companies are predicting drastic revenue shortfalls as a result of the post-attack economic reality, the stock pickers are willing to pay an even higher premium than before for stability and predictability of future revenues.

Most domain name-related companies also offer other "internet trust services," like digital certificates. In the post-attack business climate, spending on security products has been reprioritized to the top of the budget list. Security agencies like the FBI, CIA and NSA have long been concerned that the next major attack on "civilized countries" may be in the form of cyber-terrorism, and now their warnings are being given respect, rather than lip service. In a surprise move by ICANN, the November meeting, in Marina del Rey, California, has been completely redirected to focus predominantly on issues of security and Internet stability in the wake of the terrorist attacks and in light of feared future attacks on computer network infrastructures. (See www.icann.org for announcement.) "Trust services" and "web identity products" go hand in hand, so analysts are expecting to see a positive ripple effect for many of the companies in the domain name industry.

Many high tech companies are seeing their market caps slashed because of the expectation that corporations worldwide are now halting or postponing big-ticket purchases. However, domain-name-related products are not only essential to day-to-day business, they are very low-ticket items that are usually budgeted under "miscellaneous," and thus, once again, stocks like VRSN and RCOM are fairly insulated from the general B2B malaise as well as the post-attack bearishness on tech stocks.

One of the leading factors in the upcoming months sure to affect growth for the major players in the industry is the launch of new gTLDs such as .biz, .info and .name. These upstarts have already encountered turbulence as a result of, variously, lawsuits, discontent over the .info sunrise period mechanism, unfortunate timing coincident with the terrorist attack, delays in deployment of systems and API hook-ups.

The new registries have already indicated that their initial business plan projections may have been a bit optimistic, and that their business models are now being revamped to expand value-added services as quickly as possible. Lower sales for the new registries would impact the registrars' sales projections as well, so analysts are watching closely to see how the first few days, weeks, and months of new gTLD sales unfold.

At least one of the converted ccTLDs that originally positioned itself as a "dot-com alternative" is now seeking significant cash infusion or a buyer, as registrants begin to exhibit TLD fatigue. For many corporations that already have a good dot-com name the question becomes "just how many variants of our name do we need?" Even for intellectual property owners, the incentive to rush out and grab your trademarks before some cybersquatter does is not as great as it was before the UDRP and the ACPA made it possible to not only get valid trademark names back quickly, but also to force a cybersquatter to pay the legal costs.

At least one of the new gTLDs—.name—has decided to voluntarily delay its launch until the registrars are done digesting the .info and .biz land rushes. They are wisely taking the time to improve their product offering and make their systems more robust and reliable before launch. At Montevideo several industry pundits were predicting that .name's revised product strategy may prove to become the largest of the new gTLD after the first couple of years. While .biz and .info will likely see a much steeper initial ramp-up of new registrations, .name's adoption curve will probably be slower but more sustained, as millions of people continue to join the ranks of internet users at a much faster rate than new businesses are created.

For the smaller stocks like OpenSRS / TUCOWS, Melbourne IT, NetBenefit and NetNation, a major hurdle is their penny-stock valuation range. With the stocks under $5 per share, key analysts are not covering these companies, and valuations are suffering as a result. Melbourne IT's very respectable revenue and profitability numbers, plus their ownership stake in NeuLevel (.biz registry), are all under-recognized in a market cap that is substantially lower than its annual revenues. After executing its reverse merger with Infonautics (formerly NASDAQ: INFO, now OTCBB: TCOW) the recently de-listed TUCOWS stock has experienced a two-thirds drop in share value in the two months since the announcement of the merger. Like Melbourne, TUCOWS' market cap (at a September 25, 2001 share price of $0.30) is below its annualized revenues. One reason for the disparity in valuations between VRSN / RCOM and MBT / TCOW is the strength of their balance sheets, as having a high cash balance is a hyper-critical factor for stock pickers in the current climate.

We've added NetBenefit PLC (LSE: NBT), owner of NetNames, to the public company tracking table. This company went through fairly massive downsizing and restructuring, including a change-out of top executives (see "Investor" section at www.netbenefit.co.uk for details) as it struggled to quickly redefine its business model and recapture lost market share. Its stock suffered a 96% loss in share value over the past year as a result of the internal turmoil and external slow-down in overall domain name sales.

Of great interest in the coming period will undoubtedly be the impact on these stock values resulting from the launches of the various new TLDs.

Registrar	Rank	Market/Symbol	Price 7/31/01	Market Cap 7/31/01	Price 8/31/01	Market Cap 8/31/01
VeriSign Registrar	#1	NASDAQ: VRSN	$54.61	$11.1B	$41.05	$8.3B
Register.com	#2	NASDAQ: RCOM	$13.48	$505M	$8.42	$316M
TUCOWS / Infonautics	#3	OTCBB: TCOW	$0.80	$58M	$0.70	$51M
Melbourne IT / InternetNamesWW	#5	AU: MLB (Currency: Australian $)	A$0.60	A$30M	A$0.38	A$19M
DomainPeople/ NetNation Communications	#21	NASDAQ: NNCI	$2.14	$32M	$1.69	$26M
NetBenefit/ NetNames	#58	LSE: NBT (Currency: British Pound)	26.00p (quoted in pence)	N/A	25.50p (quoted in pence)	N/A

Source: Bloomberg, CBS Marketwatch

To illustrate the relative strength of domain-related companies in the post-attack economy, we've included below a spot-check on their share prices on August 31 and September 25 and compared the change in their values to the change in the major indices over the same time period.

Registrar	8/31/01	9/25/01	% change
VRSN	$41.05	$42.22	+3
RCOM	$8.42	$8.66	+3
TCOW	$0.70	$0.30	-57
MLB	A$0.38	A$0.34	-11
NNCI	$1.69	$2.00	+18
NBT	25.50p	17.00p	-33

Index	8/31/01	9/25/01	% change
NASDAQ	1,805.43	1,501.64	-17
S&P 500	1,133.59	1,012.27	-11
DJIA	9,949.75	8,659.97	-13

Source: StockPoint

Methodologies 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 transfer, 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 being permanently dissociated from the domain.
- Name server changes are made during the cycle when the zone file is generated.

Oftentimes, registrars will 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. In order to avoid double-counting, in the compilations you’ll find in this report each registration is to the actual registrar of record in the zone file, regardless of the reseller that technically sold the name and 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 publisher@snapnames.com.

Monthly Report

Preface: On Sustainability

Ron Wiener, CEO

Industry analysts are clear on this point: TLDs are like oil wells or fish stocks—limited natural resources. They can be pumped out quickly or they can be pumped out slowly, but they will all eventually reach a level of exhaustion. To keep valuation multiples high, TLD registries must continuously find compelling new products and services to offer to their installed base of registrants, or simply find new wells to exploit (more TLDs). Like the .com TLD in October of 2000, each new TLD's early accelerating growth will eventually turn to decelerating growth, as its lexicon is exhausted of good names. The game will then become one of leveraging growth in value-added services (refinement, distribution, conversion to other products).

Registries are already under pressure to explain to investors how they intend to build sustainability and continuous value extraction from what appears to be a limited natural resource. At ICANN's recent meeting in Montevideo, top management from the new TLD registries were projecting a more sober version of future revenues than they had been espousing in the heady days of last November, when each new registry awarded was considered to be a billion dollar opportunity. Some registries will have to generate enough revenue to get a return-on-investment for eight- to nine-figure capital infusions— and in a relatively short time. Thus, many observe of registry managers a deep new concern for opportunities that will provide such sustained growth for them in years two, three, four and beyond, after the euphoria of the land rush has dissipated.

One thing that is abundantly clear to most industry executives is that speculators are going to recreate the land rush effect in every new TLD, then slowly will begin the gradual turnover of soil from investor to end user. Many a name will expire and delete before a successful transaction is struck with the person or corporation who has an actual use in mind for the name. Others will be turned over at a substantial profit for the investor who had time and money to invest in homestead properties while end-users went off to work their day jobs. The rub is that due to the construct of their ICANN contracts, the registries themselves will not benefit one penny more from these transactions than the annual ~$6 rental fee they'll receive from the registrants.

Yet what are lacking, in contrast to the real estate industry, are mechanisms for the orderly transfer of properties between sellers and buyers. There are no valid appraisals or comparables for domains as there are for homes or commercial buildings. There is no title insurance available. Escrow and transfer is so haphazard that many transactions fail at the eleventh hour. Most of all, there are no brokers to aggregate knowledge of buyer demand for specific names, short of looking up who owns the same SLD in .com, .net or .org and selling defensive registrations to keep cybersquatters off trademarks, thus defeating the purpose of creating all this new namespace. Any "realtor" in this domain business is a seller's representative only, tracking thousands or millions of available names *for sale*, but not the critical other half of the transaction: the people who want to *buy* specific properties.

That is why SnapNames has been adding to its platform certain technologies making registries and registrars central to the process of property transfer. While we don't yet know that any ICANN-accredited registry will become a customer for this technology, there are some 250 registries that do not at present operate under ICANN governance, and many of those registries have already expressed their desires to capitalize on the secondary market opportunity in a more orderly and sustainable fashion than the existing examples.

A few years ago, when the primordial soup of the domain industry began to congeal, ICANN, VeriSign, and the other constituencies who were responsible for establishing the present-day system simply didn't foresee the need for an orderly system for assuring *registrants* equal access to deleting domain names—only equal access for registrars. Likewise they could not foresee the need for ironclad, orderly mechanisms for the transfer of properties between registrants. The registry / registrar / community is now rushing to backfill this infrastructure pothole, in light of the system stability issues, which we reported on in the July issue.

A secondary issue the participants didn't necessarily foresee at that time was the maintenance of a healthy business climate for registrars and registries after the land rushes were over. If Wall Street continues to question the valuations of companies in this industry, in essence saying they no longer believe the future will be as rosy as it once seemed for these pioneering oil barons, the stability of the internet and its commerce itself could be seriously jeopardized as registrars go out of business. It is for this latter reason that many believe ICANN should recognize the importance of this issue and the criticality of creating, through a coordinated effort with the registries under its government, a sustainable, sensible business model for the ongoing vitality of the industry, and protection of registrants' equal rights to domain names.

The Evolving State of the Domain Name Industry, or, An Introduction to the Customer

Cameron Powell
VP Business Development & General Counsel

Before and during the quarterly ICANN conference that took place in Montevideo, Uruguay, from September 7-10, 2001, a handful of registrars had begun informally to offer suggested solutions to the problem of how aspiring domain name owners should be allowed to register previously registered names that become available again. This year, these deleted names are expected to number roughly the same, if not more, than first-time registrations. During the discussions in Montevideo, it became readily apparent that each proposed solution was necessarily premised upon certain fundamental assumptions about the domain name industry, including why and for whom domain names exist. These assumptions were rarely expressed, but, rather, remained implicit.

Our View. It has long been SnapNames' position that domain names were not created solely or even primarily to give registrars something to register. As the circularity of such reasoning makes clear, SnapNames and its registrar partners and colleagues are, instead, merely means to an end. That end is the purchase and use of domain names by customers for use in websites, for e-mail, or as registrations defending intellectual property.

In other words, we believe that solutions for deleting names must have as their first priority the domain name customer. Open access for individuals, corporations, intellectual property owners, speculators, and registrars alike is mandated by the origins of the system, by ICANN public policy and its guiding spirit, and by the mandates of business, legitimacy, and the credibility of the industry.

However, today, access to means to place orders on already-registered names is far from equal, or open, or scalable to all registrars. It is not equal because some registrars, in the absence of a solution to the deleting name problem, have (perhaps understandably) developed business models of giving preferential access to a handful of select speculator-customers. It is not open because no one else—other customers, other registrars, or ICANN—knows of such preferential access, and its implications for the average customer's inability to register and then use a deleted name. It is not scalable because registrar effectiveness in getting deleting names for their customers will continue to diminish as more registrars compete for the same names, and because, without cooperating, registrars cannot offer customers the ability to back-order, now, *all* domains ever registered (32 million and growing in .com, .net, and .org alone), rather than merely the few hundred in any 5-day delete cycle.

I. Foundational Principles of Domain Name Resources

A. Because Domain Names are Limited Resources, the Public Should Have Open and Transparent Access to Them

As ICANN explained in a landmark announcement in February 1999, "One of the major reasons for the creation of ICANN was to foster *fair and open ground rules* in the domain-name system." Then-Chairman Dyson went on to confirm the necessity of "develop[ing] guidelines that strike everyone as reasonable, sound, *and transparent*."[1] Transparency of a registrar's accredited activities, including its use of public resources such as connections, is critical to both the legitimacy and the fairness of the system.

Accordingly, first-come, first-served is a principle already enshrined in the Registrar Accreditation Agreement. Section 4.2.4 requires that "principles for allocation of SLD names" shall include the policy of "first-come / first-served." Likewise, the Statement of Registrar Accreditation Policy (adopted March 4, 1999) contemplates that "initial SLD registrations received from accredited registrars are assigned on a first-come, first-served basis."[2]

The only solution to the domain industry's lack of secondary market infrastructure that is durable for the long-term, and yet fair and even profitable to all registrants and all registrars alike, is one that mirrors this current system for first-time registrations. The guiding principle of the existing registries' distribution is equal and transparent access for all customers, a principle that in the case of .com, .net, and .org can only be effected through a policy of first-come, first-served for all customers. We have been informed and believe that ICANN, intellectual property owners and business representatives, various registries, mainstream customers, and many others agree that the founding principle of the domain system is fair and open access for customers.

Because the system is too complex, too international to be nationalized, or run by any government or not-for-profit entity, all registrars were necessarily granted certain limited private rights in what ICANN has called a "public trust."[3] Accordingly, by accrediting registrars, ICANN carefully distributed among them a right to manage limited resources. As with television or radio channels, airways and runways, the fairness and transparency of that distribution is therefore a matter of great public interest, and the distribution mechanism should never be concealed from the public, as it is sometimes today.

[1] *See* http://www.icann.org/announcements/icann-pr08feb99.htm (emphasis added)
[2] *See* http://www.icann.org/policy_statement.html#IIIH.
[3] ICANN, "A Unique, Authoritative Root for the DNS" (9 July 2001) Abstract: http://www.icann.org/icp/icp-3.htm.

II. The Flaws in the Status Quo: Registrars' Preferential Treatment of Script-Miners

Any proposed solution to the industry's failure to supply all demand in the secondary market or resolve the access problems plaguing the industry should be able to show itself superior to the status quo. So we begin here.

A. Today, the Preferential Access of Some Denies Deleted Names to the Mainstream

The status quo, today, in spite of SnapNames' partners' success in bringing deleted names to true, mainstream end-*users* and intellectual property owners, is the sole province of a new type of speculator, one with preferential access rather than superior foresight. We call such people *script-miners*, because some registrars permit them to run high-speed repetitive scripts, or programs, through the registrars' connections to the registry. With the exception of customers of SnapNames' partners, today, script-miners get all of the good names. On August 30, 2001, there were 160,000 names deleted by the registry. *Within minutes*, 40,000 had been re-registered. These were not registered by average folk, pecking at their computers to input their contact information.

Therefore, equivalent access for all registrars has nevertheless done nothing for the average consumer, who is locked out of Registry connections often devoted to the well-connected (no pun intended), well-monied script-miner. Even domain name resellers are unable to participate in today's deleting-name market. Will they stand for solutions that continue to exclude them?

The status quo -- for the customer and the plan-making businessperson, the registries, the legitimacy of the system—is not working. Today, 90% of all domain names are not being used—a temporary boon for registrars (temporary because low renewal rates render the number unsustainable), but rather beside the point of a system created for domain names to be used rather than to become collector's items. The status quo ensures that these domain names, on the one hand, and the businesspersons, individuals, and trademark owners who would use them, on the other, shall seldom meet. Rather, at the time of many deletions, an enterprising script-miner will be there to pick up the name first, and to re-sell it to the runner-up who had inferior access to it. A premium is of course attached.

But this system does not work well for even those ICANN- accredited registrars now participating, and it will only get worse as more do. And no reseller of domain names is able to participate at all.

B. Today's System Doesn't Work for Most

Today's system is bad for registrars. Ironically, the more registrars that begin to try to participate in the secondary market, the less success and customer satisfaction they will have. Because each registrar in a non-cooperating free-for-all tries to register the same names as many of the other registrars—particularly where they serve all the same speculator customers!—each registrar's effectiveness in getting names is very low—*and the success rate for each registrar will only go down as more begin to compete.* Differentiation of registrar-level technology alone has shown itself not to be a basis for competitive advantage.

Because each registrar has the same number of connections, there's an inverse relationship between the number of participating registrars and their success rate. Once all 93 operational registrars, or even 160 accredited registrars, begin to fight over the same names, each individual registrar's percentage effectiveness in securing names for its customers could well drop to the single digits (it may be a higher % than 100%/160, but not much). Such a model is not scaleable, sustainable, or profitable.

Meanwhile, most registrars earn little or no revenue at all on the giant market for deleting names.

Today's system is bad for customers. The vast majority of all customers has a 0% chance of registering a valuable delet*ing* name (so-called because there is only a millisecond during which the name is actually delet*ed*) by trying to register the name through a registrar website. Zero. Instead, the valuable names are always gotten by a few script-mining speculators.

While script-miners with preferential access to registrars' connections are the *only* customers who get the most valuable deleting names (because they can concentrate a registrar's entire bandwidth on these most valuable names), the solo registrars who allow such preferential access still have at most a marginal (and falling) success rate in getting names requested by their script-mining customers. Even SnapNames, with its broad association of registrars who combine their bandwidth cooperatively to serve their thousands of customers, does not have 100% efficacy.

That is, most of the time, customers are disappointed, frustrated, even angry and disillusioned. And the lack of predictability stalls business plans and holds up desirable business ventures and ad campaigns. The resulting uncertainty creates a friction of inefficiency and delay that is not good for business or the economy.

Today's system depresses demand. Registrars acting solo, today, can only effectively take and fulfill orders for names that have just imminently been announced as about to delete -- they cannot take orders for any name ever registered, certainly not for names with an expiration of months or years in advance, despite the fact that 90% of all names are inactive, many of those will expire, and many customers know *now* that they want to order them. The result is unanswered, and unanswerable, demand. Thus, the solo-registrar method of harvesting revenue from the booming deleting name market is not scaleable beyond the relatively small number of good names deleting every day (perhaps half of the 25,000 deleting every day), divided by all the people going after them. Here's another reason why this is unfortunate.

Today's system depresses market valuations. Market valuations in the domain name industry, like any other, are largely based on visibility into future revenue, including renewal rates. Witness, just for example, numerous recent analysts' statements on VeriSign, Inc.'s ability to weather the current stock market downturn because of all the revenue still visible in the pipeline. If there is one truism domain industry analysts have hammered home to the market, it's that analysts need visibility on revenue and renewal rates. Lehman Brothers in the news:

> VeriSign is one of the few tech companies with predictable earnings, analysts said. Israel Hernandez, an analyst at Lehman Brothers, said the company's stock should do better than

> most tech stocks since the company has "strong revenue visibility." He upped VeriSign to "strong buy" from "buy."[4]

Or as Bear Stearns has put it, two of the four “key positives” for VeriSign stock were “deferred revenues” and a “high degree of revenue visibility.”[5] Similarly, Bear Stearns also said Afilias’ multiple-year registration capability “bodes well for long-term deferred revenues—and visibility.”[6] A.G. Edwards confirms that:

> In times of market duress, business models such as VeriSign’s are very attractive. VeriSign starts a quarter with over 75% revenue visibility and we believe the companies with high revenue visibility will shine.[7]

As these analysts will tell you, back-orders on all inactive names provide exactly such visibility, showing precisely how much demand is in the pipeline, and only back-orders allow orders on 27 million inactive names in com, net, and org alone. By contrast, last-minute orders are far fewer in number and only create uncertainty. With back-orders, analysts can say, “At least this many names will be registered, and most will have value-added services attached.” Just as valuations rise with visible multi-year registration terms in the pipeline, so they will go up with visible back-orders in the pipeline.

C. The Primary Intended Beneficiaries of the Domain Name System Are Domain Name *Users*, Who Today Often Lack Access to Deleting Names

Any proposal for a solution to the deleting-names matter must pass the test of whether it best serves the domain name *users* for whom the system exists in the first place. What do users of deleting domain names want? They want greater certainty than they have today, where, depending on their personal connections and knowledge of the industry, they have a 0% to 70% chance of registering the average deleted name, and virtually no chance of registering the most valuable names.

Customers also want greater convenience than they have today, where, to have a reasonable probability of success in contacting registrars and striking behind-the-scenes deals to get the deleting name they want, they must give up their day jobs and become professional domain name buyers.

It is probably also not unreasonable to suppose customers would like prices either to be more reasonable or more firmly rooted in some market metric more rigorous than the pseudo-market created by speculators who leverage preferential access to a name in order to mark it up for sale at an even greater price to an ultimate user. Do speculators provide a value-added service to justify this mark-up in price? Perhaps cases exist. And we are at pains to point out that in many cases, a speculator does not get to a name first because he had preferential access, but because he had greater *foresight*. For this, an efficient economic system should and does reward him with a premium. However, some speculators are able to charge end-users more for a deleted name simply because a registrar gave the speculators preferential access to the name. Not to put the case too bluntly, but too many customers today are able to argue that preferential access too often leads directly to extortion.

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[4] *See* Larry Dignant, “VeriSign to buy Illuminet for $1.2 billion,” CNET News.com (Sept. 24, 2001) at *http://news.cnet.com/news/0-1004-200-7279551.html?tag=lh*.
[5] Bear Stearns Equity Research, January 24, 2000 at 1.
[6] Bear Stearns Equity Research, November 14, 2000 at 1.
[7] A.G. Edwards & Sons, Inc., Equity Research – Internet Services (September 24, 2001) at 2.

III. Solution Criteria: Taking a Position on Customer Access and Scalable Revenue Participation by All Registrars

Building on criteria begun by a handful of registrars at the Montevideo meetings of ICANN and supplementing those criteria to represent the needs of other interested parties, we believe any solution should provide:

1. **Equal and open access for all customers.** Deleting names should be equally available to all customers (for example, no registrant, such as a speculator with no intent to use a name for any purpose, should have a greater chance to get a name than a mainstream, technologically unsophisticated individual or business customer). In other words, the system should prefer no one would-be registrant to another.
2. **Simplicity of customer experience.** Complex, confusing, high-maintenance procedures will ensure only that customers continue to have negative experiences with their unanswered demand and that only full-time professional domain buyers will have access to good names.
3. **Predictability and closure for customers**. No games. Many customers need names to start or continue businesses and simply need to know—now, yes or no—if they can move forward in reliance that the name will be theirs, or if they must choose another name or even initiate dispute proceedings. They have no time to play extended roulette or drawn-out lotteries, and they want more than anything certainty, not casinos and confusion.
4. **Equivalent access for all registrars.** All registrars should have the equivalent opportunity to sell a given name to a customer.
5. **Technical simplicity and reasonable cost/benefit.** The principle of Occam's Razor: the simplest solution is quite often the best.
6. **Operational soundness and sustainability.** The solution should address the deleting names problem at its root and have no adverse impact on regular operations or harm the stability of the registries.
7. **The highest possible revenue capability that is scalable to all registrars.**
8. **The ability of resellers to participate in serving customers and earning revenue.**

As usual, we welcome your thoughtful comments and suggestions.

Contact Cameron Powell directly:

Office: 503-219-9990 x229
Cell: 503-502-5030
E-mail: cameronp@snapnames.com

Disclaimers

State of the Domain is a quarterly publication of SnapNames, with addendums published for the first and second months following the last quarterly report. To accommodate inclusion of a full set of data, including quarter-end announcements of publicly traded registrars discussed herein, the report is released approximately 35 days after each quarter-end. At present, this report is limited to covering the .com, .net and .org TLDs. 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 readers are already familiar with the industry and its jargon—for readers who are not, 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 our methodology within.**

Contributing Editors

Len A. Bayles

Chief Technology Officer and Vice President of Domain Name Industry Relations, lenb@snapnames.com

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.

Cameron Powell

Vice President of Business Development and General Counsel, cameronp@snapnames.com

Prior to joining SnapNames, Cameron worked at Internet and software start-ups in Austin, Texas. Cameron has a background in best practices consulting and public speaking, having worked at the Corporate Executive Board in Washington, D.C. Prior to working at the CEB, Cameron practiced law as an intellectual property lawyer and litigator at Foley & Lardner, the nation's tenth-largest law firm; as a trial lawyer in the Attorney General's Honor Program at the U.S. Department of Justice; and as a judicial clerk to a chief federal judge. Cameron has also taught advanced intellectual property at the George Washington University Law Center, and he founded and ran The Caedmon Agency, a literary agency. Cameron holds a B.S. in Business Administration, summa cum laude, from the University of Colorado at Boulder, and a J.D. from Harvard Law School.

Publisher

Mason Cole

Director of Corporate Marketing, masonc@snapnames.com

Before joining SnapNames, Mason counseled early-stage technology companies in the Pacific Northwest, Bay Area, and Austin, Texas as Account Director and partner at New Venture Communications, a Portland-based marketing consultancy. Mason has a wide background in corporate marketing and communications in the technology, financial services and health care industries. He is the former Director of Communications for The Crabbe Huson Group, a $5B contrarian-style capital management firm in the Liberty Financial Companies family, and also has held roles in communications and institutional marketing for American Century Investments. A former journalist and freelance writer, he was associate editor of *Emerging Science and Technology* and is a published author on a number of financial services issues.