

STATE OF THE DOMAIN

October 2001

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SnapNames, the provider of domain name back-ordering and protection services, domain infrastructures and industry data, uses patent-pending technology to facilitate an equal-opportunity secondary domain name market, help industry participants expand profitable product inventories, and provide end-users "the best chance at a second chance"™ for a desired domain name.

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State of the Domain

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State of the Domain is a monthly publication of SnapNames.com, Inc. 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 industry trends. The editors assume that readers are already familiar with the industry and its terminology—for readers who are not, we recommend the www.ICANN.org site as a starting point for definitive historical documents and technical resources.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.**

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Message From The Publisher

When we began publishing *State of the Domain* earlier this year, we didn't anticipate that it would evolve as it has into the premier source for credible industry data and market intelligence. At first, it was a quick look at market share data requested by our current and prospective partners. Then, copies got around to some reporters and Wall Street analysts. Now, almost 2,000 subscriptions and eight months later, our subscriber base includes nearly everyone who needs to have this data close at hand. And your appetite for data seems insatiable.

Thus, the rub: Each month, we find ourselves increasingly immersed in the production of this report, borrowing more and more time from the company's management and staff in order to conduct the research, writing, data collection, statistical analysis, verification, and distribution management necessary to get the report out. The size of this undertaking brought us to a decision: either we'd need to begin charging for the report so we can hire additional analysts and staff to further develop disciplined data tools to meet the demands of our subscribers, or stop publishing the report.

At the November ICANN meetings, and in your hundreds (literally) of e-mails and calls, not only have comments been generous and supportive but also inquisitive: "Why aren't you charging for this?" That validated the decision we'd all but already made to continue publishing.

We will continue to publish a basic monthly report, titled *State of the Domain: **Benchmark Edition*** at no charge, but want to unveil here our plans to introduce two new tiers of service early next year:

*State of the Domain: **Executive Edition*** will include deeper statistical details categorized by registrar, including the invaluable data of the number of new names sold and deleted, plus number of names transferred between registrars, by who and to whom, each month. Also included will be information on other gTLD and ccTLD registries, industry executive and corporate profiles, and analyses of trends beyond what's visible in the data tables.

At the request of industry analysts, *State of the Domain: **Analyst Edition*** will move deeper into exclusive statistical analysis with stratified breakdowns of registrar and registry renewal rates, providing the blended aging projections that will be the best available indicators of industry and specific company growth prospects. ***Analyst Edition*** subscriptions will include access to consultation by our own analysts, some of whom will be brought on board in the coming months.

All three subscription levels will include access to publications and data via a new website currently in development at www.stateofthedomain.com. In the next several weeks, we'll provide there more information on new services as they become available.

Finally, if you'll pardon the self-praise, this month SnapNames was recognized by Oregon's High Technology 2001 Awards Council with the **Internet Company of the Year Award**. While the fundamentals of our business speak for themselves, personally I believe that the success of *State of the Domain* had at least a little to do with our capturing this prestigious distinction. Thanks again for your input and suggestions, and keep them coming.

Regards,

Mason Cole
Publisher

Industry Data Review

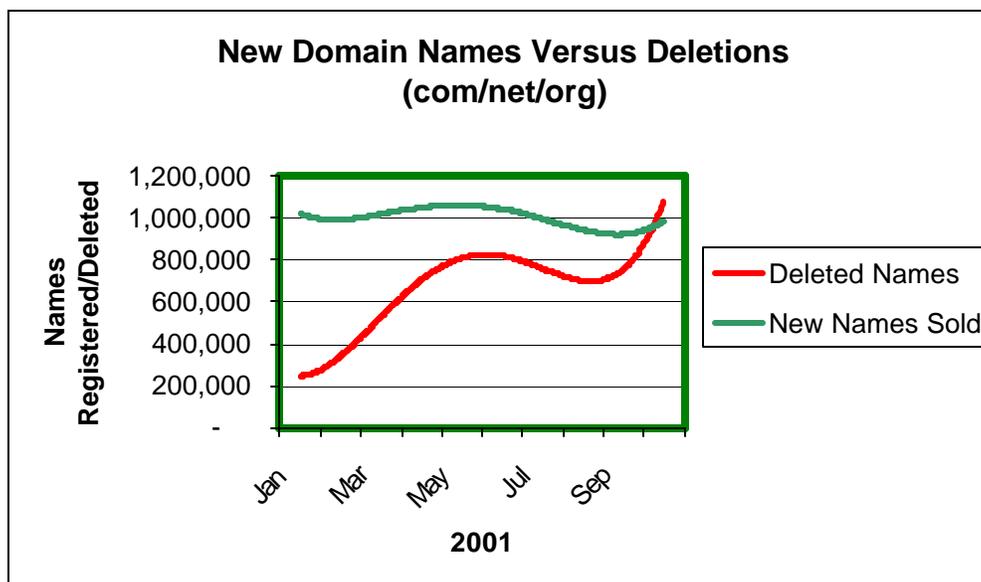
October 2001 Market Overview

Ron Wiener, Chairman and CEO

“Honey, I shrunk the zone file”

In October we witnessed the most significant sea change in domain names since we began publishing the *State of the Domain*. For the first time in history, the CNO (com/net/org) zone file decreased in size, meaning that expirations exceeded new name registrations, and the total number of names actually *decreased* by nearly a quarter-million names. A peek into the data for the first half of November indicates this is no blip on the radar screen; this is a significant reversal after years of consecutive month-to-month growth.

Figure 1: New Domain Names Versus Deletions, January-September 2001



For the editors of the report, it was the beginning of a whodunit investigation into finding the root cause. Many clues were assembled in order to create a complete picture and to correctly interpret the meaning of this event. While one analyst jumped the gun on November 20th and cited this trend as cause to downgrade VeriSign, resulting in an instant drop in its stock, he couldn't have been more wrong to do so, in our opinion, and in the opinion of numerous analysts who routinely check their facts with our editors. The patient is far from ill. In fact, the patient is doing quite well (new CNO domain names are still selling at a vigorous pace, plus new .biz and .info names selling well in addition), although it did have some less than useful parts removed.

According to quarterly disclosure statements from VeriSign and Register.com over the past six months, Q4 is expected to witness the expiration of a clump of roughly 1.5 million “promotional” domain names, given away by registrars and their resellers a year ago in a webonomics-era marketing adventure. We have observed that other registrars also expect clumps of promotional names to expire soon, especially in Q4. Certain resellers invested millions of dollars in giving away free

domain names, hoping to upsell more domain names or services, or—in some cases—generate advertising revenues from permanent frames or parking pages in the web sites that would go on those names. Some models worked; others clearly did not, and it's housekeeping time.

Registrars gave away hundreds of thousands of names, hoping that many would convert to paying registrants on the registrations' anniversaries. It appears a large portion is .net and .org names given away with each .com registration, which would have been less likely to sell on their own anyway. Conversion of free customers to paying customers for some registrars panned out to only 2% or 3%, while others claim substantially higher rates. Doing conservative math, at a base registry cost of \$6 per name, a 2% conversion rate equates to a \$300 per customer acquisition cost, all on top of the actual promotional marketing costs and customer service burden. Ouch. Back when a "set of eyeballs" was worth as much as \$2,000 in market cap, this was actually seen by bullish dot-com investors as a savvy strategy. Fortunately, we're all past that now.

The good news is that the registrars who held these large inventories of promotional names—predominantly VeriSign and Register.com—adjusted for these low conversion rates long ago and for all practical purposes removed them from their guided revenue estimates. While various registrars' customer bases are obviously going to experience some significant shrinkage in names under management, they should not suffer a significant revenue loss because most of these names were originally sold to resellers at or near cost, or were given away by the registrars themselves. VeriSign Registry could have a more measurable negative revenue impact, but since many of these names were with NSI, where they may have shown up last year as a marketing expense on the registrar side balanced by income on the registry side, on a roll-up view these lost names are, again, a non-event.

Of the private companies, eNom seems to be the most seriously impacted on a percentage basis by this episode, losing about 95,000 net registrations during September and October alone—roughly 16% of its total customer base—against what the company claims have been strong new name sales in the same period. The company's management claims this is a result of low conversion (from free to paid) rates and renewal rates on a great deal of names that one of its resellers gave away last year.

The fourth quarter will see a very large number of promotional names being flushed out, though we already saw some of this purging activity begin last quarter, and expect to see some more next quarter, as well from various registrars. ***This may mean that we will continue to see minor shrinkage in the zone file for at least two more months, but keep in mind that potential renewal revenue from these names would have been removed from registrars' sales projections long ago.*** Since these names were given away, they never accounted for any significant registrar revenue, only a marketing cost which will not be incurred again this year.

Despite strong new name sales so far in Q4, VeriSign and Register.com are taking the brunt of this purge of promotional names, each losing a quarter million registrations in October, as you can see in the market share report. Getting past the raw numbers and looking at the *revenue* picture, this is so far a non-event for VeriSign, Register.com, and most of the other affected registrars, as most of them continue to report impressively consistent quarter-to-quarter revenue growth. The clear winners in terms of margin contribution, once again, are the registrars who are putting customer quality ahead of customer quantity.

As A.G. Edwards & Sons reported later in the day on November 20th:

We believe that VeriSign's current guidance for 2001 and 2002 reflects the absence of these promotional domain names. The market is ripe with confusion; we would view today's weakness as a buying opportunity.

Further:

The bottom line is that VeriSign will trade off for customers that are willing to spend more or receive and up-sell on other services; thus sending non-paying or lower-tier customers down the road.

If You Thought YOU Owned a Lot of Domain Names...

Investigating the promotional names story led us to taking a look at who some of the largest domain portfolio owners are. According to Zooknic.com (see Figure 2), as of July 2001, nearly 9% of the world's CNO domain names were held by just eight entities, some of which are recognized speculator-investors. Because of the methodology used by Zooknic, we suspect there are many more organizations holding five- and six-figure portfolios than show up in their results, including many multi-national corporations. We may tackle a more refined analysis ourselves on some later date, but this is an interesting initial set to examine.

The largest domain portfolio owner in the world—confirmed by the *Guinness Book of World Records*, according to a company press release—is registrar/reseller NameZero, with nearly 1.5 million names hosted. Most of these names were originally given away by NameZero. This is perhaps one of the rare companies that has combined higher-than-average conversion rates together with advertising revenue in order to be successful in the free domain names game. (They also sell domain name value-bundle packages, and they own NamesDirect, the 28th-largest registrar. VeriSign is a significant investor in NameZero.) While NameZero certainly has routine expirations, their business model still revolves around the free name service (see their site for details) so we don't expect their registrants to constitute an inordinate proportion of Q4's anticipated purge.

In contrast, NameDemo, a division of Register.com that in the past gave away free domain names, was still supporting over 227,000 domain names as of July. A visit to this site confirmed that NameDemo is no longer giving away names, although it is continuing to support their existing customer base.

There are too many free other domain name ventures to list here, but you get the picture: a major source of zone file shrinkage for the registry and of customer base shrinkage for certain registrars in Q4 will be the purging of these promotional names. When it's all said and done we're probably looking at a several million additional names that will recycle into the pool to fuel the secondary market.

Of the entities listed below, one is a speculation portfolio owned by a registrar. DomainCollection, with more than half a million names (or 750,000, according to its own web site), is owned and operated by the same people who own and operate DotRegistrar. This was confirmed by use of Alexa Wayback, a web-based archiving and research tool. (For more on DotRegistrar, see our coverage in *State of the Domain, Third Quarter 2001 Editorial Update*.) Direct connections between speculators and accredited registrars constitute an interesting gray zone of the accreditation agreement. However, the

Registrars Constituency never did officially adopt the proposed “Rules of Conduct” that include rules restricting registrars from speculating or warehousing domain names. (DotRegistrar fell from its #1 position in September’s Fastest Growing Registrars table last month and became one of October’s biggest net losers, rubbing out almost 38,000 names (see pp. 11-12).)

Figure 2: Largest holders of domain registrations as of July 2001

Rank	Holder	Names Owned: July 2001
1	NameZero	1,462,575
2	DomainCollection.com	615,750
3	NameDemo.com	227,100
4	24HourNames.com	208,650
5	Movie Name Company	111,450
6	Relocation Director, Inc.	33,975
7	Ultimate Search	33,675
8	Market Development Corp.	33,225
	Total	2,726,400

Source: Zooknic.com

The Impact of .biz and .info registrations

Many wondered whether .biz and .info domain names sales would infringe on CNO sales. Despite the many convoluted relationships in registrar and registry sales projections, we have not so far found any statistical evidence of such a link. In fact, mid-quarter readings show that new names sales in CNO are very strong and aligned with VeriSign estimates.

Registrars by Market Share of Current Registrations: October 2001

(.com, .net., org)

Company	Ranking		Market Share		Registrations		Change
	Sep	Oct	Sep	Oct	Sep	Oct	Change
<i>networksolutions.com</i>	1	1	45.92%	45.44%	14,066,169	13,809,287	(256,882)
<i>register.com</i>	2	2	11.47%	10.74%	3,514,004	3,264,836	(249,168)
<i>opensrs.net</i>	3	3	8.23%	8.39%	2,520,683	2,548,265	27,582
<i>bulkregister.com</i>	4	4	5.40%	5.40%	1,653,853	1,641,710	(12,143)
<i>inww.com</i>	5	5	4.34%	4.52%	1,328,238	1,372,400	44,162
<i>corenic.net</i>	6	6	2.78%	2.71%	850,102	823,260	(26,842)
<i>registrars.com</i>	7	7	2.48%	2.51%	760,293	763,244	2,951
<i>enom.com</i>	8	8	1.69%	1.61%	516,370	488,910	(27,460)
<i>dotster.com</i>	9	9	1.55%	1.60%	474,020	486,614	12,594
<i>schlund.de</i>	11	10	1.27%	1.33%	388,635	402,801	14,166
<i>godaddy.com</i>	12	11	1.10%	1.29%	337,443	392,745	55,302
<i>dotregistrar.com</i>	10	12	1.34%	1.23%	411,200	373,425	(37,775)
<i>joker.com</i>	14	13	0.93%	1.04%	286,037	315,054	29,017
<i>domaindiscover.com</i>	13	14	0.94%	1.00%	288,406	304,966	16,560
<i>gandi.net</i>	15	15	0.87%	0.89%	266,350	271,962	5,612
<i>directnic.com</i>	19	16	0.73%	0.88%	222,965	268,700	45,735
<i>easyspace.com</i>	16	17	0.85%	0.88%	261,713	265,914	4,201
<i>namesecure.com</i>	17	18	0.84%	0.85%	258,082	258,867	785
<i>domainbank.net</i>	18	19	0.78%	0.79%	238,008	238,900	892
<i>itsyourdomain.com</i>	20	20	0.57%	0.61%	173,747	184,698	10,951
<i>domainpeople.com</i>	21	21	0.43%	0.43%	130,437	130,303	(134)
<i>stargateinc.com</i>	24	22	0.35%	0.38%	107,293	116,756	9,463
<i>discount-domain.com</i>	23	23	0.37%	0.38%	112,679	116,042	3,363
<i>names4ever.com</i>	22	24	0.37%	0.38%	113,198	114,146	948
<i>OnlineNIC.com</i>	26	25	0.32%	0.35%	98,336	105,441	7,105
<i>aitdomains.com</i>	25	26	0.32%	0.33%	98,443	100,853	2,410
<i>yesnic.com</i>	27	27	0.31%	0.32%	94,584	96,823	2,239
<i>namesdirect.com</i>	29	28	0.22%	0.24%	67,446	71,963	4,517
<i>doregi.com</i>	28	29	0.23%	0.23%	70,241	71,315	1,074
<i>paycenter.com.cn</i>	31	30	0.21%	0.22%	63,545	66,650	3,105
<i>gkg.net</i>	32	31	0.20%	0.21%	62,520	65,007	2,487
<i>ibi.net</i>	30	32	0.21%	0.19%	64,085	59,150	(4,935)
<i>alldomains.com</i>	34	33	0.16%	0.18%	50,208	55,399	5,191
<i>dotearth.com</i>	33	34	0.17%	0.18%	53,165	53,965	800
<i>iaregistry.com</i>	37	35	0.14%	0.18%	43,503	53,672	10,169
<i>name7.com</i>	35	36	0.16%	0.17%	48,271	52,754	4,483
<i>speednic.net</i>	38	37	0.14%	0.15%	42,845	46,387	3,542
<i>Signaturedomains.com</i>	36	38	0.15%	0.14%	44,974	42,115	(2,859)
<i>enterprice.net</i>	40	39	0.12%	0.13%	37,733	40,256	2,523
<i>awregistry.net</i>	39	40	0.12%	0.12%	38,049	37,780	(269)
<i>activeisp.com</i>	41	41	0.11%	0.11%	32,463	33,282	819
<i>domaininfo.com</i>	42	42	0.09%	0.10%	28,194	29,014	820
<i>nordnet.net</i>	44	43	0.08%	0.09%	24,800	27,050	2,250
<i>psi-domains.com</i>	43	44	0.08%	0.09%	25,993	26,660	667

<i>tmagnic.net</i>	46	45	0.07%	0.09%	22,946	25,956	3,010
<i>naame.com</i>	45	46	0.08%	0.08%	23,619	25,680	2,061
<i>oleane.net</i>	47	47	0.06%	0.06%	17,830	18,711	881
<i>catalog.com</i>	48	48	0.06%	0.06%	17,477	18,497	1,020
<i>interdomain.net</i>	49	49	0.05%	0.06%	15,169	18,479	3,310
<i>totalregistrations.com</i>	50	50	0.04%	0.05%	13,580	15,506	1,926
<i>totalnic.net</i>	52	51	0.04%	0.05%	13,195	14,329	1,134
<i>e-names.org</i>	51	52	0.04%	0.05%	13,224	13,927	703
<i>domainsite.com</i>	53	53	0.04%	0.04%	12,127	12,997	870
<i>namescout.com</i>	59	54	0.02%	0.04%	6,636	12,392	5,756
<i>domainregistry.com</i>	54	55	0.04%	0.04%	11,722	11,569	(153)
<i>1stdomain.net</i>	55	56	0.04%	0.04%	10,913	11,404	491
<i>netnames.com</i>	56	57	0.03%	0.03%	8,632	10,329	1,697
<i>namebay.com</i>	57	58	0.03%	0.03%	8,083	10,218	2,135
<i>domini.it</i>	58	59	0.03%	0.03%	8,006	8,328	322
<i>nominate.net</i>	60	60	0.02%	0.02%	6,221	6,876	655
<i>worldnet.net</i>	61	61	0.02%	0.02%	5,566	5,908	342
<i>secura-gmbh.de</i>	62	62	0.02%	0.02%	4,895	5,230	335
<i>nameengine.com</i>	64	63	0.01%	0.02%	4,318	4,892	574
<i>omnis.com</i>	63	64	0.02%	0.02%	4,640	4,849	209
<i>domainzoo.com</i>	68	65	0.01%	0.01%	2,731	3,823	1,092
<i>compuserve.com</i>	65	66	0.01%	0.01%	3,730	3,801	71
<i>rrpproxy.net</i>	66	67	0.01%	0.01%	2,994	3,760	766
<i>shop4domain.com</i>	67	68	0.01%	0.01%	2,759	3,443	684
<i>planetdomain.com</i>	71	69	0.01%	0.01%	2,287	2,801	514
<i>eastcom.com</i>	69	70	0.01%	0.01%	2,590	2,796	206
<i>addresscreation.com</i>	74	71	0.01%	0.01%	1,825	2,619	794
<i>domaindomain.com</i>	70	72	0.01%	0.01%	2,347	2,426	79
<i>Mrdomreg.com</i>	72	73	0.01%	0.01%	2,183	2,255	72
<i>vi.net</i>	77	74	0.00%	0.01%	1,152	1,973	821
<i>interaccess.com</i>	73	75	0.01%	0.01%	1,872	1,923	51
<i>nominalia.com</i>	75	76	0.01%	0.01%	1,687	1,740	53
<i>idregister.com</i>	87	77	0.00%	0.00%	82	1,432	1,350
<i>srsplus.com</i>	82	78	0.00%	0.00%	341	1,321	980
<i>webex.net</i>	76	79	0.00%	0.00%	1,176	1,260	84
<i>123registration.com</i>	78	80	0.00%	0.00%	999	1,122	123
<i>Globedom.com</i>	85	81	0.00%	0.00%	291	671	380
<i>enetregistry.com</i>	79	82	0.00%	0.00%	668	663	(5)
<i>pasia.com</i>	80	83	0.00%	0.00%	607	607	0
<i>4domains.com</i>	84	84	0.00%	0.00%	296	575	279
<i>directi.com</i>	88	85	0.00%	0.00%	75	557	482
<i>trustnames.net</i>	81	86	0.00%	0.00%	515	556	41
<i>corporatedomains.com</i>	83	87	0.00%	0.00%	341	408	67
<i>markmonitor.com</i>	89	88	0.00%	0.00%	24	286	262
<i>namesystem.com</i>	86	89	0.00%	0.00%	142	143	1
<i>nametree.com</i>	90	92	0.00%	0.00%	11	11	0
<i>ar.com</i>	92	93	0.00%	0.00%	2	6	4
<i>talk.com</i>	91	94	0.00%	0.00%	4	4	0

New Registrars

<i>registrationtek.com</i>	0.02%		70	
<i>000domains.com</i>	0.00%		3	
<i>enetregistry.net</i>	0.00%		1	
Totals		30,631,853	30,388,474	-243,453

Gains and Losses in Net Registrations: October 2001

(.com, .net., org)

Company	% of October's Net Registrations	Actual +/- Change In Net Registrations
<i>godaddy.com</i>	0.1805%	55,302
<i>directnic.com</i>	0.1493%	45,735
<i>inww.com</i>	0.1442%	44,162
<i>joker.com</i>	0.0947%	29,017
<i>opensrs.net</i>	0.0900%	27,582
<i>domaindiscover.com</i>	0.0541%	16,560
<i>Schlund.de</i>	0.0462%	14,166
<i>dotster.com</i>	0.0411%	12,594
<i>itsyourdomain.com</i>	0.0358%	10,951
<i>iaregistry.com</i>	0.0332%	10,169
<i>stargateinc.com</i>	0.0309%	9,463
<i>OnlineNIC.com</i>	0.0232%	7,105
<i>namescout.com</i>	0.0188%	5,756
<i>gandi.net</i>	0.0183%	5,612
<i>alldomains.com</i>	0.0169%	5,191
<i>namesdirect.com</i>	0.0147%	4,517
<i>name7.com</i>	0.0146%	4,483
<i>easyspace.com</i>	0.0137%	4,201
<i>speednic.net</i>	0.0116%	3,542
<i>discount-domain.com</i>	0.0110%	3,363
<i>interdomain.net</i>	0.0108%	3,310
<i>paycenter.com.cn</i>	0.0101%	3,105
<i>tmagnic.net</i>	0.0098%	3,010
<i>Registrars.com</i>	0.0096%	2,951
<i>enterprice.net</i>	0.0082%	2,523
<i>gkg.net</i>	0.0081%	2,487
<i>aitdomains.com</i>	0.0079%	2,410
<i>Nordnet.net</i>	0.0073%	2,250
<i>yesnic.com</i>	0.0073%	2,239
<i>Namebay.com</i>	0.0070%	2,135
<i>naame.com</i>	0.0067%	2,061
<i>totalregistrations.com</i>	0.0063%	1,926
<i>netnames.com</i>	0.0055%	1,697
<i>ldregister.com</i>	0.0044%	1,350
<i>totalnic.net</i>	0.0037%	1,134
<i>domainzoo.com</i>	0.0036%	1,092
<i>doregi.com</i>	0.0035%	1,074
<i>Catalog.com</i>	0.0033%	1,020
<i>srsplus.com</i>	0.0032%	980
<i>Names4ever.com</i>	0.0031%	948
<i>domainbank.net</i>	0.0029%	892
<i>oleane.net</i>	0.0029%	881
<i>domainsite.com</i>	0.0028%	870
<i>vi.net</i>	0.0027%	821

<i>domaininfo.com</i>	0.0027%	820
<i>activeisp.com</i>	0.0027%	819
<i>Dotearth.com</i>	0.0026%	800
<i>addresscreation.com</i>	0.0026%	794
<i>namesecure.com</i>	0.0026%	785
<i>Rrproxy.net</i>	0.0025%	766
<i>e-names.org</i>	0.0023%	703
<i>shop4domain.com</i>	0.0022%	684
<i>psi-domains.com</i>	0.0022%	667
<i>nominate.net</i>	0.0021%	655
<i>nameengine.com</i>	0.0019%	574
<i>planetdomain.com</i>	0.0017%	514
<i>1stdomain.net</i>	0.0016%	491
<i>directi.com</i>	0.0016%	482
<i>globedom.com</i>	0.0012%	380
<i>Worldnet.net</i>	0.0011%	342
<i>Secura-gmbh.de</i>	0.0011%	335
<i>domini.it</i>	0.0011%	322
<i>4domains.com</i>	0.0009%	279
<i>markmonitor.com</i>	0.0009%	262
<i>omnis.com</i>	0.0007%	209
<i>Eastcom.com</i>	0.0007%	206
<i>123registration.com</i>	0.0004%	123
<i>webex.net</i>	0.0003%	84
<i>domaindomain.com</i>	0.0003%	79
<i>mrdomreg.com</i>	0.0002%	72
<i>compuserve.com</i>	0.0002%	71
<i>corporatedomains.com</i>	0.0002%	67
<i>nominalia.com</i>	0.0002%	53
<i>interaccess.com</i>	0.0002%	51
<i>trustnames.net</i>	0.0001%	41
<i>ar.com</i>	0.0000%	4
<i>namesystem.com</i>	0.0000%	1
<i>pasia.com</i>	0.0000%	0
<i>nametree.com</i>	0.0000%	0
<i>talk.com</i>	0.0000%	0
<i>enetregistry.com</i>	0.0000%	(5)
<i>domainpeople.com</i>	-0.0004%	(134)
<i>domainregistry.com</i>	-0.0005%	(153)
<i>awregistry.net</i>	-0.0009%	(269)
<i>signaturedomains.com</i>	-0.0093%	(2,859)
<i>ibi.net</i>	-0.0161%	(4,935)
<i>bulkregister.com</i>	-0.0396%	(12,143)
<i>Corenic.net</i>	-0.0876%	(26,842)
<i>enom.com</i>	-0.0896%	(27,460)
<i>dotregistrar.com</i>	-0.1233%	(37,775)
<i>Register.com</i>	-0.8134%	(249,168)
<i>networksolutions.com</i>	-0.8386%	(256,882)

Total Registrations Per gTLD: October 2001

(.com, .net, .org)

gTLD	As of 9/30/01	As of 10/31/01	Change
.com	23,294,058	23,215,180	(78,878)
.net	4,472,030	4,446,818	(25,212)
.org	2,908,814	2,911,923	3,109
TOTAL	30,674,902	30,573,921	(100,981)
.info	N/A	539,382 (As of 10/29/01)	N/A

Editorial note: There is a discrepancy between the total number of names in the CNO zone files (above) and the total number of names reported on registrar market share table (pp. 8-10). The reason for this difference is that the registrar totals require about a week of compilation time, and during that time additional names are added or deleted. While zone file statistics are a one-time snapshot on the day quoted, registrar totals are more a moving target, and thus the gap in the two sets of figures. Slow WHOIS server response time this month lengthened the compilation time by an additional week, and so the gap is more acute than normal.

Monthly Report

Even in the Domain Industry, In Problems Lie Opportunities

Cameron Powell, VP Business Development and General Counsel

History

Readers of this space may recall that during the ICANN meeting in Montevideo, Uruguay, in early September 2001, we reported that a handful of registrars met at short notice to discuss an issue facing the industry as a whole.

Now, as any policymaker, lawyer, or software developer (to name a few) knows, the *statement*, or *definition*, of the issue is critical to—and ineluctably defines—the solution. In the case of the Montevideo meeting, the few registrars present narrowly defined the issue to be discussed as “the delete issue”—specifically, the issue of how the registrars’ race to register deleting names was burdening proper VeriSign Registry operations. That these registrars viewed their discussion as an attempt to resolve a purely technical issue was revealed by their settled-upon criteria for any solution:

- Should be fair to registrars
- Should address the technical problems of the registry at their root
- Should have no impact on normal registry operations
- Should involve ICANN, registry, and registrars but not require a drawn-out process for approval
- Should maintain registry stability
- Solution should be simple as a matter of technology and customer experience

At the time, SnapNames’ own representatives made the point that criteria implicating technology and policy could not reasonably be divorced from their effect on the customer and the quality of the customer experience, and therefore that any criteria that left the customer and revenue out of the equation would necessarily leave the customer and revenue out of the solution. However, a vote was taken, and the above six criteria (as condensed here) comprise a summary of the criteria that the assembled registrars viewed as fitted to the issue as defined.

The assembled registrars’ view of the issue as a strictly technical one was further illuminated by the criteria they explicitly rejected – that is, that a system to address secondary market demand:

- Should result in equal access to the secondary market for all customers, rather than preferential access for speculators
- Should maintain or repair, in customers’ eyes, the legitimacy of the industry and its procedures for fairly distributing deleted names
- Should result in an improved customer experience all around, from the improved predictability and certainty businesses who know whether they will get the name they want to answering customer demand for the secondary market of deleting names
- Should maximize the revenue (and correspondingly the customer service) of the industry

This omission of the customer experience and the industry's potential to maximize its revenue by delivering the best possible customer experience would for some weeks continue to distinguish the two primary ways of looking at "the delete issue": was it a "problem," and a purely technical one at that, or did it present an opportunity—particularly one that opened the door to an entirely new and potentially more profitable market, the secondary market in previously owned domain names? At a time when sales of primary domain names are tumbling, the business managers of these registrars are more concerned with revenue enhancements than creating ideal technical solutions that don't solve the problem of how to meet payroll.

Evolution

At the November 2001 ICANN conference in Marina del Rey, California, the current members of the Registrar Constituency formally began talking about "the delete issue," as it was listed on the agenda. But this time there was a difference. Of course, the interminable discussion about the proper procedure for having a discussion was the same. But then representatives of one registrar, perhaps unwittingly, reformulated the terms of the debate.

Bruce Tonkin, CTO of Australia-based MelbourneIT and co-author of one of the proposals for how to handle the *technical* problems posed by "the delete issue," twice made the point that VeriSign Registry should simply be relied upon to set a direction for the registrars, because, in his words, "A committee approach would be disaster for the customer."

Rick Wesson, CTO of the Registrars Constituency and moderator of the 30-minute discussion, then asked the registrars whether they would be willing to support a registry solution in which the registry was able to recover its costs (no mention was made of VeriSign also recovering the market value of any service it provided). Several registrars said that would be acceptable; one registrar representative rejected any proposal that would benefit VeriSign Registry, asserting that VeriSign had "caused the problem" and should not get any more money to fix it.

Adrian Kloeden, CEO of Melbourne IT, then shared his opinion with the assembled group: "Look," he said, "there are risks and uncertainties in anything we do. That's what business is about. But I'm here to make money." He briefly surveyed the room. "I assume that's what we're all here for. I'm inclined to get behind the proposal that stands to make the most money for my company and just deal with minor risks and imperfections like we always do in business."

After a moment of silence, there was a chorus of nodding by many of the assembled registrar representatives.

With lunch in the offing, Wesson noted a consensus among the assembled registrars to ask VeriSign Registry to provide a statement of how it intended to address both the technical problems posed by the industry's lack of infrastructure for a secondary market, as well as a means to revive and maximize registrar revenue and valuation. The date for submission of VeriSign's plan is unclear, but in the current environment, it is unlikely to be long in coming.

Trick or Treat

*Ron Wiener
Chairman and CEO*

It was an unusual Halloween in the domain name industry as the diversity and sophistication of the sleight of hand used by certain speculators, and registrars catering to speculators, reached new highs. In addition, criminal fraud has been on the rise, as savvy hackers have learned to use the same loopholes speculators often use to further their own cause, be it politically or economically motivated.

Last month we exposed certain abuses by registrars feasting on the booming secondary market for deleting domain names. One of the practices we illustrated was that of certain registrars/speculators grabbing deleting names, then canceling them within the five-day grace period if the traffic-squatting value of the names did not create enough revenue to justify the annual registration cost. Since our report, the practice appears to have been drastically curtailed. We have since learned of other equally disturbing and somewhat related abuses.

The acquisition attack

Numerous registrars have recently been hit by cyber attacks in which a hacker cracks the account codes of a group of customers and takes control of their domain names. The hacker typically has reseller accounts with multiple registrars. The hacker deletes the names he has obtained control over, and then immediately re-acquires them through one of his reseller accounts at a different registrar. Within the five-day grace period he does the same thing again, in effect moving the name to yet a third registrar.

The pattern continues until the hacker runs out of reseller accounts, and deletes the names one last time, releasing them into the pool of available names for speculators to nibble at. This sort of attack has left many registrants completely befuddled, if not economically kneecapped. Many registrars have been on the phone to one another in a frustrated effort to identify the hacker(s) responsible for these attacks. The tactic of deleting names within five days of their registration served to further confuse registrar customer service folks trying to follow the trail of breadcrumbs. Brilliant, though, unfortunately, evil.

Credit card fraud

There have also been numerous registrars recently hit by an even more insidious group, suspected to be out of the region of China or Indonesia. These hackers routinely purchase countless domain names, usually for 10-year terms, using fraudulent or stolen credit card numbers, causing the registrars to spend cash buying \$6 names they'll never get paid for. A similar practice is the purchase of a large number of domain names by credit card, after which the customer issues a "charge-back" through the credit card issuer—often a bank in Southeast Asia. Many registrars did not notice the massive scale of these offenses before suffering substantial financial losses from uncollectible credit card charges. Because of the high transaction volume they deal with every day, it is likely that some registrars are still not aware that it is happening to them.

To make matters worse, in cases where these fraudulent domain name buyers are economically motivated, they first open reseller accounts through Commission Junction or similar third-party banner ad interchange vendors. They click on their own banner ads before placing their fraudulent orders, in order to collect commissions on these fraudulent purchases. Adding insult to injury, registrars have been jilted of their domain registration fees, credit card processing fees, and even the affiliate commissions, all before learning that the buyer is defrauding them.

The perpetual motion acquisition

Recently discovered is another abuse of the five-day grace period in which a name is sequentially purchased and canceled every five days—through the same registrar—in an endless automated cycle. The motive? While the name generates revenue through traffic-squatting (*e.g.*, a parking page with search links and banner ads), the registrant never pays for the registration. Because this kind of activity is relatively easy to spot we expect it won't last very long before the powers that be catch up with the perpetrators.

The registrars hit the hardest have been ones that offer an API interface to resellers, but even those with only simple retail sites have been hit. It is possible that many still have not detected some or any of the hacker attacks directed at them.

Blending registry threads

Finally, we've seen recent evidence of certain registrars, well known for catering to speculators hunting deleting names, violating the rules of usage of the standard registry connections pool. As you may recall, VeriSign Registry and ICANN established a new system, in effect since August 30th, in which intensive querying was to take place exclusively in a bulk pool of 50 connections per registrar. Attempting to use the standard connection pools for intensive shared registry system (SRS) pinging is strictly forbidden, punishable by suspension of a registrar's connections.

Given the intensive and rapidly increasing competition for deleting names, some were tempted to find ways to blend automated pinging together with mainstream activity from their retail sites, hoping to fly under VeriSign Registry's radar and thus expand their effective bandwidth for bulk querying. While some may be succeeding in doing so, we have recently noticed certain players disappear from the game for days at a time. A reason could be that they were being disciplined for incorrect use of connections, though when asked, VeriSign Registry would neither confirm nor deny, citing registry policy to keep confidential the operations of specific registrars.

VeriSign Registry has stated repeatedly that the current structure is only a temporary solution and not the final answer to the problems caused by certain registrars gaming the system to favor their speculator customers, at the expense of other registrars' routine transactions. This is perhaps another vivid example of the inadequacy of the temporary solution.

Final Chapter to the Third Quarter 2001 Editorial Update

And Now for the Rest of the Story, Hopefully

Cameron Powell, VP Business Development and General Counsel

Any one is to be pitied who has just sense enough to perceive his deficiencies.

-- Hazlitt, *Characteristics*, 1823.

The reader will be forgiven for having lived a long life without having experienced the classic publishing tradition of a *revision* to an *update*, a proud tradition that we continue here today. We're furnishing this follow-up to our Editorial Update of November 1 because we reject Nietzsche's dictum that it is easier to cope with a bad conscience than with a bad reputation.

It seems the reasoning set forth in our Editorial Update—on how it appeared that certain registrars were having names deleted *en masse* following the giant August 30, 2001 batch delete—may, in the case of TUCOWS at least, have been turned upside-down by a most unlikely culprit.

By a leap-year bug. Honestly.

Rewind. In mid-August, VeriSign Global Registry announced it would be batch-purging a list of names whose purgation had been suspended for some weeks. That list ultimately grew to include some 160,000 names. The only names whose purge had been thus suspended by the registry were legacy deletes, or names deleted by registrars *after* the 45-day grace period for registrant renewal. The registry's announcement made clear that the batch-purge would include names "delet[ed] by registrars *outside* of [their] grace periods." (Emphasis added).

When we checked the registry's logs after the batch-purge on August 30, we found that about 7,900 names appeared of record at Tucows, indicating Tucows had registered them that day. The next time we checked, a few weeks later, about 7,500 of those names were no longer listed at Tucows. What had happened?

We concluded there were only two explanations:

One, Tucows had been (as we now know they actually were) the original registrar of the 7,900 names—even before the August 30 batch-purge—but the registry's update was sufficiently delayed that when we looked at the end of the day on August 30 we were still looking at slightly outdated information. It's like looking at the light of a distant star, which leads us (here at SnapNames, at least) to believe in the existence of an object that may have blown up a half-billion years ago. But if Tucows had been the original registrar of those 7,900 names, then Tucows would be guilty of exactly what it has often complained of other registrars doing: deleting names beyond the 45-day grace period.

On the basis of Tucows' frequent public representations that it always deletes expired names within 45 days after their expiration, we decided upon another option:

Two, Tucows had not been the original registrar of those names and, instead, was the current registrar of record for their re-registration, as suggested by the registry's logs. In that case, the 7,500 that were missing from the same logs a few weeks later must have been deleted during the 5-day period allowed for deletions. This we reported as the probable explanation.

Little did we know that there was, as certain presidents and prime ministers insisted in the mid-1990s, "a Third Way."

According to Tucows, VeriSign Registry had told Tucows there was a leap year bug associated with a number of Tucows' domain names. In order to freeze the problem pending a fix, Tucows tells us, VeriSign Registry locked the names down. When Tucows tried to delete the names 41 days after their expiration, as is the company's policy, according to a Tucows representative, the delete command failed. Instead, the registry appears to have included these on-hold names in the batch-purge on August 30, 2001, which was only supposed to have included names deleted after the 45-day grace period. (VeriSign Registry declined to comment, consistent with its policy of not revealing information about any of its registrar customers.)

So if Tucows' information is correct, then the names that appeared to have been registered there one minute, and not registered there the next, were in reality names deleted in a highly unusual fashion and then viewed at the registry through a delayed lens.

All of which reminds us of a quotation, of course, or at least of the need to look one up.

It's bad taste to be wise all the time, like being at a perpetual funeral.

-- D.H. Lawrence, "Peace and War," *Pansies*, 1929

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 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.

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.

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