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Thanks to Web Ads, Some Find New Money in Domain Names

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(See Corrections & Amplifications item below.)

Internet domain names are a hot commodity again. But unlike the 1990s, when speculators bought up Web addresses in hopes of reselling them later for a big payday, many of today's purchases are aimed at cashing in on the boom in online advertising.

Firms are snapping up scores of generic domains, like mutualfunds.com and videocamera.com, and loading them with pay-per-click advertisements using services from **Google Inc.**, **Yahoo Inc.** and others. Visitors to these Web sites see little more than a list of text ads for products or services related to the domain name.

The domain-name market also is attracting new types of investors. Once largely the province of entrepreneurs, it is now drawing venture capitalists, wealthy families and public companies. Domain aggregators such as Internet REIT LP, which is raising \$250 million to buy domains, see the Web addresses as long-term investments that yield a steady stream of income for shareholders.

"The business model has shifted," said Matt Bentley, chief executive of domain broker Sedo.com LLC, which managed the sale of website.com for \$750,000 this year. "The fact that it is moving from individuals to larger corporations ... represents a legitimization of the domain-name industry." For years, the industry had a less-than-rosy reputation because many domain owners dealt in "cyber-squatting," registering names associated with famous brands in hopes of selling them to a big company at a hefty price, which fueled legal squabbles.

A FISH.COM STORY

Not all Web-address purchases these days are driven by an effort to earn money from ads. In July, the owner of dog.com bought fish.com for \$1 million. The dog-bites-fish story was driven by the buyer's plans to expand an online pet-supplies business.

Pets United LLC, parent of [Dog.com](http://dog.com), acquired [Fish.com](http://fish.com) from Dan Farmer, a technology executive, through domain broker Afternic Inc. Alex Tabibi, chief executive of Pets United, wanted to expand his firm's list of pet-related domains, which include [Horse.com](http://horse.com) and [Bird.com](http://bird.com). The site will sell fish food, fish tanks and accessories.

Mr. Farmer, chief technical officer and founder of computer security firm Elemental Security Inc., bought [Fish.com](http://fish.com) in the early 1990s and used it for a personal Web site and email. He said in an email that he has probably had thousands of offers for the domain over the years. "I glibly decided that if anyone offered me a million dollars that I'd sell," he said. He said he used the after-tax proceeds to pay off the mortgage on his San Francisco condominium


The more generic, advertising-oriented domains are known in industry parlance as "direct navigation" sites because they attract visitors searching for information by typing an address, such as "newyorkrealestate.com," directly into their Web browsers, rather than using a search engine. Domain owners are paid each time someone clicks on an ad placed on one of these sites by ad brokers like Google.

Revenue from text ads on these sites will total \$400 million to \$600 million world-wide this year and may reach \$1 billion by 2007, according to Susquehanna Financial Group analysts Marianne Wolk and Roxane Previty, who track the online ad industry. They estimate revenue for the entire online advertising market will reach about \$21 billion this year, up from \$15 billion last year.

Large Portfolios

Several firms have quickly amassed portfolios of thousands of Web addresses. A single domain may get relatively little traffic, but the aggregators aim to earn enough ad revenue across their network of sites

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and "gave a bunch to charity."

to cover the cost of buying existing domains and registering new ones, and still turn a tidy profit. Anyone can register a new or expired domain for less than \$10 a year.

Houston-based Internet REIT, launched last year, has quickly acquired tens of thousands of domains, including mutualfunds.com. The closely held company's lead investor is Jacobson Family Investments Inc., an investment vehicle for a wealthy New York family.

Internet REIT's president and co-founder, Marc Ostrofsky, is well known in the domain industry. He purchased business.com in 1995 for \$150,000, and sold it four years later for \$7.5 million -- a symbol of the halcyon days of the Web.

Internet REIT takes its name from real-estate investment trust, a legal term for a company that buys, sells and operates properties. "The analogy is that we look at it as similar to owning and developing real estate that you can hold over time," said Bob Martin, the company's chief executive and a former merchant banker. "Rather than having a speculative approach to what a domain name could be worth, you can now generate cash flow from these assets and value them like securities."

The company generally is interested in buying domains from hobbyists and others and retaining them, rather than focusing on resales, Mr. Martin said. Internet REIT participates in a service called "Google AdSense for domains," a variation on Google's popular search-ad network. Google helps owners of large numbers of domains -- their sites must generate more than 750,000 page views a month -- place ads on their sites. The companies and Google share the revenue. Such sites may rank low in Google's traditional search-engine results if they consist "of solely commercial links," a Google spokesman said. But the sites that use AdSense for domains aren't automatically excluded.

Other big domain buyers focus both on making money off pay-per-click ads and shopping their domains to small businesses. BuyDomains Holdings Inc., Waltham, Mass., has amassed 500,000 domains, such as jobfinder.com and travelchoices.com, over several years and is increasingly developing domains as advertising portals. It has advertising-oriented domains in 90 "verticals," including travel, music and finance. Highland Capital Partners Inc., a venture capital firm in Lexington, Mass., recently bought a stake in the closely held company.

Marchex Inc., another big domain owner, aims to turn its portfolio of more than 200,000 domains into destination sites filled with relevant content, though they're largely filled with ads today. A year ago, the publicly traded online advertising company paid \$164 million for a portfolio of more than 100,000 domains from Name Development Ltd., a British Virgin Islands company. Seattle-based Marchex owns sites such as debts.com and camcorders.com, as well as many ZIP Code-oriented sites like 90210.com. Ad revenue from Marchex's direct navigation sites totaled \$7.7 million in the third quarter, up from \$6.4 million in the second quarter.

Domain Parking

The transformation of the domain market also has spawned several sub-industries. For example, more than a dozen companies now sell "domain parking" services. Any domain owner hoping to one day sell the name can pay a parking service to create a page filled with pay-per-click ads so the owner draws revenue in the interim. Revenue is distributed among the domain owner, the parking company and the advertising broker, which could be Google, Yahoo or a smaller online ad company like Kanoodle.com Inc.

DomainSystems Inc., which helps domain owners find buyers, offers a parking service called TrafficClub.com that touts itself as a "domain profit maximization tool." A visit to a site like cd.com will show a parked page from TrafficClub loaded with sponsored links, along with a for-sale sign in the upper right-hand corner. Viewers can click on a link that says "make an offer," and submit a bid for the domain to DomainSystems. The closely held company has managed the sales of thousands of sites this way, said Monte Cahn, its chief executive.

DomainSystems was tapped this year by the liquidating trust for Excite@Home, the failed Internet company, to help sell some of its domains to help pay creditors, Mr. Cahn said. Two of the domains, stuff.com and home.net, have attracted bids between \$300,000 and \$500,000 each, he said.

Booming Sales

Pay-per-click advertising is prompting increases in the number of domain-name sales and the dollar value of deals, according to two of the biggest brokers of domain sales in the secondary market.

Cambridge, Mass.-based Sedo managed the sale of \$17 million worth of domains in the first 10 months of this year, up from \$8 million in the same period last year and \$3.1 million two years ago, said Mr. Bentley, the CEO. Domain sellers pay closely held Sedo a commission of 10%.

Afternic Inc., of Orlando, Fla., brokered the sale of \$4.9 million of domains this year through Nov. 10. In all of last year, the privately held firm managed the sale of \$2.2 million of domains, and in 2003 it did less than \$1 million. Its standard commission is 10%.

The surge in online ads also is contributing to a big increase in the number of registered Web addresses, a boon to domain-name registrars and companies that manage databases of domains. Total domains registered worldwide rose to 85.6 million in the third quarter, up from 66.3 million in the year-earlier period, according to VeriSign Inc., the company that manages the registry of domain names ending in .com and .net. VeriSign estimates that about 10% of all .com and .net domains being registered are created to host pay-per-click advertising.

Firms focused on advertising-related domains face some risks, said Ms. Wolk, the Susquehanna Financial Group analyst. Advertisers, largely unaware of where all their search ads appear, may decide they don't want to be affiliated with such sites. In addition, some consumers may be turned off by the barrage of ads. A user looking for information could be frustrated when they "instead find ads that point them to other sites to look at," Ms. Wolk said.

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Corrections & Amplifications

The domain names bachelor.com and consulting.com were purchased by Marc Ostrofsky. An earlier version of this article incorrectly said that Internet REIT LP, where Mr. Ostrofsky is the president, purchased the domains.

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