

Domain name auction house admits internal bidding corruption

by David M Williams
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Domain name broker SnapNames.com has always had its measure of detractors complaining the company permitted dubious practices. One grievance is now proven true with SnapNames admitting a staff member was bidding on domain name auctions, winning some for personal gain and inflating the price of others.

Chances are if you've looked up a domain name of interest using a whois service only to find it already taken you'll have had SnapNames.com recommended to you.

Like its name suggests, SnapNames claims to 'snap' up domain names the moment they become available should the current holder fail to renew in time.

I used SnapNames myself once in the past to secure vanity domain name davidmwilliams.com. I paid a small fee for SnapNames to monitor the domain, attempting to register it if it lapsed. Months later, pleasantly, SnapNames.com did advise me the domain had not been renewed and they had secured it but it was going to be auctioned.

I was surprised by the auction because I had believed their service was securing the name for myself. It does stand to reason multiple parties might use SnapNames for the same domain name but in my case there were no other bidders. After a couple of days davidmwilliams.com was mine. (After all, that domain has no value unless your name is, well, David M Williams.)

I thought nothing more about this until I read blogs and forum posts by others who felt indignant that SnapNames were effectively preying upon customers to determine which domain names were valuable, charging them in the process, and then gouging more money in a competitive process opened up to everyone.

Jeff Kupietzky, President and CEO, and Craig Snyder, General Manager, today released a joint announcement to customers, like myself.

“Recently, SnapNames discovered that an employee had set up an account on the SnapNames system under a false name and, under this name, bid in SnapNames auctions. This is a clear violation of our internal policy and was not approved by the company. We deeply regret that this conduct has impacted our customers.”

The announcement continues, stating that bidding affected approximately 5% of total SnapNames auctions since 2005, most of which occurred between 2005 and 2007 and that the incremental revenue from the bidding represented approximately 1% of SnapNames' auction revenue since 2005.

What does this mean, and who was the employee?

This means, without any doubt whatsoever, that auctions took place on SnapNames and an internal employee placed bids which resulted in auction winners paying more than they otherwise would have.

{mosloadposition david08}Additionally, on occasion the employee won the auction. This thus caused the legitimate auction bidders to miss out. Further, the employee was not entirely out of pocket because it appears this person “secretly arranged to refund from SnapNames ... a portion of the winning bid amount.”

It is not stated what the employee did with the winning auctions but it would stand to reason they were re-sold. Perhaps even by direct approaches to the second-highest bidder.

The executives go on to list mechanisms they are instituting to prevent further internal corruption and to compensate affected parties.

While SnapNames did not identify the individual others have been less discrete. Dotsnews.com names the employee as Nelson Brady who used the handle halvarez when bidding on SnapNames auctions. Brady was Vice President of Engineering for SnapNames until being fired over the incident.

Brady’s actions as halvarez had received attention and he was the subject of at least one lengthy topic on the Domain Name forums web site due to his seeming inside knowledge and winning streaks.

This scandal has potentially vast reach with DotsNews going on to say that halvarez/Brady dumped a large number of domains to Internet REIT (iREIT) in 2006 - domains that were snatched away from sincere, back-ordering customers.

For many, this confession by SnapNames merely reinforces what has long been always believed about domain name backordering services.

Further, such corruption could not have occurred had SnapNames delivered to its customers the domain they requested rather than opened it up for auction, allowing speculators to make money through buying and selling domain names that never occurred to them until it came up in auction.

It will take a lot of work for SnapNames, and the domain name selling industry as a whole, to regain trust, particularly while shady deals between domain registrars and back ordering services continue to go undisclosed.