

Domain Name with that Latte?

Starbucks founder's VC firm hedges its Internet bets.

Is Starbucks Chairman and founder Howard Schultz a typosquatter? Or is he a typosquasher?

Apparently, he's both. Mr. Schultz, through his venture capital firm, has made a strategic investment decision that is rare, if not unprecedented. He put money into two companies with opposing missions: one that promotes so-called typosquatting, the buying of Internet domain names that closely resemble big brand names, and another that combats it.

It is extremely unusual for a VC firm to invest in two companies with such seemingly opposite goals, according to National Venture Capital Association Vice President of Research John Taylor. "It wouldn't make a whole lot of sense for them to try to build a company that would be at direct loggerheads with the first company," he says.

Mr. Schultz's venture capital firm, Seattle-based Maveron, and H. Ross Perot's investment arm last month plowed \$38 million into iREIT, a Houston-based company that has been accused of typosquatting by telecom giant Verizon. But earlier this year, Maveron also invested in Aliso Viejo, California-based CitizenHawk, which makes software that helps trademark holders identify typosquatters and initiate legal action against them.

No one knows for sure how big the typosquatting market is. Groups like iREIT make money by purchasing domains in bulk with the hopes of selling highly coveted names for huge prof-

its. In 1999, Marc Ostrofsky, a co-founder of iREIT, sold Business.com for \$7.5 million. Typosquatters can also cash in by selling click-through ads on these sites. Some estimates suggest that typosquatting costs trademark owners millions, or even billions, of dollars in lost traffic and advertising.

Mr. Schultz declined to talk to *Red Herring*, but Maveron co-founder Dan Levitan says he doesn't see a contradiction between his firm's investments. He says iREIT's core business is to purchase and monetize generic domain names such as Bands.com and Officesupply.com. All told, iREIT owns more than 300,000 domain names.

He argues that iREIT does not intentionally seek out misspelled domain names, but has in the past acquired them inadvertently when it purchased domains in bulk. "In the process of aggregating a domain portfolio, we have purchased names in large quantities and have systematically weeded out the undesirable ones," says Mr. Levitan.

He notes that iREIT has worked with trademark owners to resolve infringement claims and that, on occasion, the company has simply dropped domain names or transferred them to the trademark owner.

But Verizon sees things differently. The company in March filed a lawsuit against iREIT, alleging that it had "registered over 90 domain names which are confusingly similar to the Verizon marks," including Verizonwireless.com and Verisonsuperpages.com. Sarah B.



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Squash or squat? Apparently Starbucks founder Howard Schultz likes both.

Deutsch, a Verizon vice president, says that as news of the lawsuit became public, iREIT appeared to transfer its Verizon-like domain names to anonymous accounts in the Cayman Islands. iREIT declined to comment for this story.

CitizenHawk, Mr. Schultz's typosquashing investment, says it has worked with iREIT to help cleanse its portfolios of domains that closely resemble brand names, but CEO Graham MacRobie acknowledges that iREIT has some "serious issues." He also agrees that Maveron's investment strategy is a bit unorthodox. "We think it certainly raises eyebrows," he says. "It's

actually very prudent on Maveron's part and on iREIT's part."

In an interesting twist for Mr. Schultz, attorneys familiar with the Verizon case point out that iREIT previously owned at least 13 Starbucks-related names, including Astarbucks.com and Starburcks.com. Attorneys say that after Maveron's investment in iREIT gained attention, the company gave up those domains. They were then bought by typosquatters such as Unasi and UltraRPM, which industry experts claim are a more malicious breed of squatter.

Perhaps Mr. Schultz should stick to frappuccinos.

—Leah Messinger