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**COVER STORY** By Ron Jackson, Editor/Publisher

## Be Careful what You Wish For: The Continuing Saga of Gary Kremen and Sex.com

**Just about everyone** in the domain business dreams of one day selling a name for enough money to retire on. A few weeks ago it happened for 42-year-old **Gary Kremen**. He sold **sex.com** in a cash and stock deal worth at least **\$12 million** to fulfill a burning desire to be rich that dated all the way back to his high school days in **Skokie, Illinois**.



**Gary Kremen at home in San Diego**

For most people that's the **happy ending** and the story would stop right now. However, for Kremen the sale of sex.com is just the midway point in a journey that has already taken him to hell and back on a quest for justice that may **never** end.

As a kid who could be described as half geek and half hoodlum in high school, Kremen didn't look like a good bet for success. "I got involved in the usual juvenile stuff - busting windows, breaking into the school and trashing it as well as computer hacking," Kremen said. Since his parents were both teachers, you can imagine what a source of consternation his behavior was at home.

With their blessing, the police department picked Gary up one day and gave him a glimpse of what life looked like from the inside of a jail cell. That experience had the desired effect. As a kid who wanted to make big bucks, Kremen realized a guy's income opportunities could be severely limited if he was locked up.

Kremen didn't have the good looks or athletic prowess that insures popularity in high school, so he looked to business as an arena where the playing field was level, where anyone could compete whether they were fat, thin, male, female, black, white, or anything in between. He believed the business world was a place where he could beat all comers and elevate the self esteem that teenage peers sometimes mutilate.

"In our culture one measure of success is the amount of money you earn," Kremen said. "While we might start with different amounts, the change in the amount of money you have can be compared between people. Our society is competitive and this was a way for me to compete."

Having been scared straight, Kremen made it through high school and managed to convince a highly-ranked private school, **Northwestern University** in **Chicago**, to let him in even though his grades were not the best. Kremen said he did it by looking at the admissions officer as his "customer". He understood what this customer wanted and tailored his message to convince him that he could deliver something that would be worth having.

"My grades were just a little above average, but what is really the point of grades? To prove something to your parents, to prove something to yourself or to show some college that you are not as dumb as a rock? There are other ways to prove these things," Kremen said.

He knew the school wanted diversity so in his admissions essay he played up his

ability to bring an entrepreneurial zeal, inquisitive mind, technological skills and other contributions to the classroom. It was all about differentiating himself from the crowd and it worked.



Kremen convinced Northwestern he could add something unique to their mix and post good enough grades to keep from embarrassing them or himself. In 1981, he began work on a double major in **business** and **electrical engineering** while holding down an after-class job. By the time graduation rolled around he had done so well that multiple corporate recruiters turned up on campus with job offers. He decided to go with a government aerospace contractor and on that first job he was introduced to **ARPANET** (the **U.S. Defense Department's** original version of the online network that led to today's Internet).

With this early peek at a force that would change the world in the years ahead, Kremen decided he wanted to bet on himself by becoming an entrepreneur. He moved to **California's Silicon Valley** to attend the prestigious **Stanford Business School** and hone his skills. In the early 90's he began working for himself, first selling software, then security programs for computers that were plugging into this new thing called the Internet.



**Kremen as a young entrepreneur in the early 1990's**

**.Com** and **.net** domains were just being introduced and initially, even though they were **free of charge**, Kremen was one of the very few people interested in getting them. "**I saw the future**," Kremen said, "I could see the next 15-20 years laid out in front of me. I knew there would be a real estate grab and that generic domains would be **BIG**."

Kremen was also convinced that someday classified advertising would move from newspapers to the Internet, so he started registering names based on what he saw in classified ad headings, picking up **Jobs.com**, **Autos.com**, **Housing.com** and **Sex.com** to name a few (all free of charge!).

He did open his wallet to get a domain that put his entrepreneurial career in orbit, paying **\$2,500** in 1994 to buy a small email-based dating service at **Match.com**. Kremen invented a database to streamline the operation and pitched his vision for a national singles network to venture capitalists who quickly came on board. Within two months he had **7,000** members and a business that was growing **10% a week!**

Kremen wanted to take the newspapers on and expand into other traditional classified ad areas, but his investors were satisfied with the horse they were on and he wound up being outvoted. Kremen exited (with a huge pile of stock) and went off to seek a new adventure. However before he had a chance to saddle back up, trouble, in the form of a career criminal named **Stephen Michael Cohen**, found him and drew Kremen into an **11-year nightmare** that, despite his sale of sex.com, isn't over yet. He will likely be tracking down the millions of dollars that Cohen owes him for many years to come.

Though Kremen was a hell raiser in high school, he was a choirboy compared to Cohen who grew up in a broken home in **Van Nuys, California** (an **L.A.** suburb in the **San Fernando Valley**). In 1995, Cohen (who was 46 years old at the time) was released from his latest jail term, this one a 46-month stint in federal prison for fraud. His rap sheet already included such niceties as failure to pay child support (for a daughter who later became a police officer), passing bad checks, car theft, forgery and grand theft. Cohen's criminal trail was littered with five ex-wives along the way.

Just months after Cohen got out of prison in 1995, Kremen learned that the registration for his valuable sex.com domain had somehow been switched into Cohen's name. It was later learned that Cohen had forged documents that convinced registrar **Network Solutions** to transfer the domain to him. He then quickly shuffled the domain through a string of corporate entities to try to cover his trail.



**Stephen Michael Cohen  
1966, Van Nuys High School**

Partly because Kremen had registered sex.com at no charge, Network Solutions showed no interest in helping him get the domain back. Kremen filed suit against Cohen and Network Solutions and began a six-year battle to get the domain back, a battle that would drain him financially and emotionally. He went through **\$5 million** in legal fees, a mountain of money that included not only his last dollar at one point, but the last dollars of investors who had agreed to help bankroll the litigation in return for a share of sex.com if and when it was ever recovered.

As the fight dragged on year after year, the investors bailed out. Attorney **Charles Carreon** helped keep Kremen in the fight by agreeing to represent him and take payment only if he won. In 2000, another lawyer, **Jim Wagstaffe**, joined Kremen's legal team as the lead attorney. Wagstaffe documented that Cohen has already moved **\$25 million** in earnings from sex.com offshore. He was reportedly making **\$750,000** a month in pay per click and affiliate revenue earnings from the stolen domain. Finally, on Nov. 27, 2000, the ruling Kremen had hoped for was handed down. A judge ordered that sex.com be returned to him and that Cohen pay him **\$65 million** in damages and stolen revenue (with interest constantly accruing, that figure stands at approximately **\$83 million** today).

The judge's decision was Cohen's cue to flee the country and live off the money he had stashed around the world. Amazingly, on the same day the decision came down, Cohen was able to transfer another **\$1 million** offshore while no one was watching. Having won the battle, but seemingly lost the war (with Cohen and his assets still out of reach), Kremen fell into a period of depression that led to drug abuse, a habit he was fortunately able to kick with support from his family.



**Gary Kremen - 2006**

Despite the hell Cohen has put him through, Kremen isn't crying over spilled milk. To the contrary he says some positive things have come out of his experience. "You can look at a glass as half full or half empty," Kremen said. "I see it as half full. My life **could** have been much better without Cohen in it, or it could have been much **worse!** I actually learned a lot as a victim. I learned a lot about people's character and a lot about the law. My life wouldn't have been **as full** if I had not been a victim!"

Still Kremen is only human and there were times he questioned whether he should continue the fight. "I did think of throwing in the towel, but only when I thought chances of recovery were low. I will actually stop my efforts if they are not worth the potential return," Kremen said.

The cards did start falling Kremen's way in late 2001 when the court handed him the first major asset Cohen had purchased with sex.com earnings, a 8,900 square foot 6-bedroom mansion in San Diego's exclusive **Rancho Santa Fe** community. The house remains Kremen's home today, though he splits his time between the 3-acre estate and his business office in **San Francisco** where he runs his own PPC search engine, [GrantMedia.com](http://GrantMedia.com).

By the time Kremen got sex.com back, the internet bubble had burst. He did earn about **\$500,000** a month the first few months after the domain was returned to him, but revenue quickly fell off after that. With the domain business entering what turned out to be a three-year downturn, Kremen's hope rested on recovering more of the assets Cohen had bought with his money and collecting damages from the registrar that had handed his domain over to the criminal.

He succeeded on the latter count in 2003 when Network Solutions agreed to a settlement with him that was reportedly worth close to **\$15 million**. With those new resources he continued his pursuit of Cohen and his assets. Cohen had been spending a lot of time in **Tijuana** and due to Kremen's persistence, Mexican authorities finally took an interest in the fugitive and arrested him on Oct. 27, 2005. He was turned over to U.S. authorities who promptly moved Cohen to a Silicon Valley jail cell where he remains today.

You might think Kremen would take special delight in Cohen's current situation but that is not the case. "Actually I am sorry it has led to anyone being in jail. It's very sad because it did not have to come to this," Kremen said. "I don't believe much in retribution. It doesn't get you as much as you think it does."



**Stephen Michael Cohen's current home, The Elmwood Men's Correctional Facility Milpitas, California**

Kremen was recently awarded ownership of a shrimp farm Cohen had in Mexico, as well as a minority interest in a Mexican strip club. He has also recovered two parcels of Tijuana land but the vast majority of the assets Cohen acquired with sex.com money are still unaccounted for

and Cohen is not cooperating with authorities trying to locate them. That leaves him in contempt of court and undergoing a slow rot in jail until he decides to start singing.

In the meantime, Kremen decided it was time to part company with the domain name that had made his life both rich and wretched. In January he accepted an offer from a Boston-based group (**Escom LLC**) to sell sex.com in a deal he told us was structured to give him approximately **90%** in cash and **10%** in stock. Kremen said the package was worth a minimum of **\$12 million** to him and could wind up being worth as much as **\$20 million** depending on how the stock component performs. Whether you take the high figure or the low one, it would be the biggest pure domain sale of all time (revenues produced by sex.com came from the inherent type-in traffic attracted by the name itself – it was never a business that sold products or services directly to the public).

So why did he sell? "I realized that the value of sex.com as a **brand name** was actually worth more than the current type-in revenue value of the domain," Kremen said. Sex.com accounted for 10 to 20% of GrantMedia.com's total traffic, but Kremen was able to quickly restore a significant portion of that traffic by purchasing a portfolio of 4,000 domain names with part of his proceeds from the sale. "I plan to keep at least one foot in the traffic space and my business is more non-adult than adult now," Kremen said.

While he didn't specify the multiple of earnings that Escom paid for Sex.com, Kremen said he personally wouldn't pay more than 4-5 times annual PPC revenue for a domain because the future of technology was too uncertain. In the adult arena, he said he wouldn't pay more than two times earnings because the category has very limited exit opportunities due to there being fewer buyers in the space (one that is shunned by public companies for obvious reasons).

In addition to his windfall from sex.com, Kremen still owns **sex.net** and also has a trademark on **sex.xxx**, even though he believes the proposed .xxx extension will never go anywhere, even if it does eventually become part of the domain name system.



**The sex.com battle hasn't killed him, so Kremen says he is only getting stronger!**

He can also look forward to the likelihood that his story will one day appear in bookstores and possibly even in motion picture (if that happens Kremen thinks **Jack Black** would be a good choice to play him). **Michael Gross** has already written a very well researched and highly detailed article titled "**The Taking of Sex.com**" that appeared in the February 2006 issue of **Playboy Magazine**. His account (which includes his own face to face encounter with Cohen before he was arrested in Mexico) has all of the elements needed to write a top notch screenplay about the biggest theft in Internet history.

Though a lot has already been said and written about him and sex.com, Kremen said his story is just beginning. "**Nietzsche** said that which does not kill you makes you stronger and I think that is true," Kremen said. "Learning new and old things and proving myself up to a task is good for self esteem. I have a lot more to prove in my life – **stay tuned!**"

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