

Dear Colleagues,

The domain Wait List Service (WLS) proposed by VeriSign to maximize registrars' revenue on expiring domain names would provide more revenue, to more registrars, than anything the registrars are now doing or could do instead. As many of you are aware, SnapNames is the domain name infrastructure technology company that would provide the technological back-end for the WLS if adopted.

SnapNames has lived, slept, breathed, and intensively studied the reality of the secondary/expiring domain names market. We are confident that registrars' revenue and customer service opportunities have never been greater than they can be through WLS. For the benefit of our colleagues and partners, we have prepared a simple table to summarize the benefits of WLS, and to compare it to the status quo (as used here, "status quo" includes as-yet unsupported claims of speculative future innovation). We have also briefly outlined what we see as the most significant benefits of WLS to registrars and to the broader community.

In structuring the WLS the same principles of the primary domain name business were incorporated. Key among these was the flexibility for registrars to price and brand the product any which way they please, to suit their own unique business models. This is the opportunity that many registrars have been waiting for to boost their margins and replace their diminishing revenues from primary name sales with a sustainable new growth source.

Please take a moment to review the following information, which I and my SnapNames colleagues have prepared in order to keep you well-informed on WLS. As always, we welcome your thoughtful comments and encourage you to contact us directly by telephone if we can assist in any way to help every registrar get the maximum leverage out of this new opportunity.

A final note. VeriSign's WLS proposal was never intended to go outside of the Registrars Constituency that requested it, including to the media. A member of that Constituency forwarded the proposal to resellers, speculator customers, and the media, and that resulted in the story becoming, well, a story. After this process was set in motion, and an information vacuum created, VeriSign and SnapNames were obliged to release further information for public consumption.

My phone number is: 503/219 -9990 x. 229. I look forward to speaking with you personally.

Sincerely,

Cameron Powell
Vice President of Business Development
SnapNames

**Comparison Table:
Current Offering and Wait Listing Service**

Registrar Margins:	CurrentSystem	WLS
Retail Prices per Name	\$6.75 to \$35 for all names, no matter their value	\$69.00-99.00+ for WLS names
Registrar Margin per Name	Mean: \$4 - \$5 for all names Range: from \$0.25 to \$20+	\$23 - \$53+ for WLS names

Registrar/Reseller Experience:	CurrentSystem	WLS
Registrars able to participate at reasonable rates of effectiveness	About 10	All ICANN-accredited registrars
Resellers able to participate	0	All
Registered domain names capable of being ordered should they expire	Only the handful of names in a Registry's 5-day delete cycle	Nearly all 32+ million registered domain names
Renewal rates	Low, and no proposals for meaningful improvement offered	Existence of WLS order will give original registrant strong incentive to renew <i>by the customer</i> . Having the next customer already in line in the event of an expiration also boosts renewal rates <i>for the name</i> .
Company valuations	Decreasing; lack of revenue visibility hampers increase	High revenue visibility on wait-listed names anticipated to improve overall valuations

Customer Experience:	CurrentSystem	WLS
Success Rate in Registering Average Expiring Name – <i>Speculator</i>	5 - 30% (and decreasing as more registrars compete for limited Registry connections)	100%
Success Rate in Registering Average Expiring Name – <i>Mainstream</i>	0 - 10%	100%
Equality of customer access	None	Total
Customer Experience	Relatively complex, inconvenient, frustrating, uncertain	Simple and certain
Customers able to participate	A select few – under 1%	All
Registered domain names capable of being ordered	Only the handful of names in a Registry's 5-day delete cycle	Nearly all 32+ million registered domain names
IP owners able to participate	None	All

Summary of WLS Benefits

Wide Margins on Retail Pricing

Registrars currently earn gross margins on domain name sales ranging from \$0.25 to the high \$20s. The mean is probably about \$2 - 5 per name.

Although most registrars currently derive no revenue at all from the secondary market in expiring domain names, customers have long clamored for an effective way to purchase such names.

The WLS answers this demand and effectively, reliably, and profitably allows all registrars to charge retail prices of \$69 to \$99+ for valuable priority access to expiring names. The WLS therefore results in profit margins to registrars of \$23 to \$53+, net of wholesale cost and \$6 registry fee upon realization of the waiting customer's registration. The rate of customer adoption of WLS need be only a very small percentage of first-time registrations for this to provide very substantial revenue. Customers' ability to transfer their WLS subscription to a new name (if the customers change their minds, or if the registrant renews) will also ensure that customers get excellent value for their money.

SnapNames has more experience than anyone else in understanding the retail price points that the market will bear for an expiring name service. For several months, we have been charging \$49 for a 70% effective service and yet we continue to receive customer complaints that usually go something like this: ". . . all the desirable wait-listed names are already *taken!*" Sound familiar? "Taken," at \$49. Because of the tremendous response we have generated at \$49, it is apparent that – even for only a 70% success rate – our current retail prices are below market price. Accordingly, SnapNames is in the process of raising the retail price of our current (70% effective) service to \$69 (scheduled to be effective on January 15th).

So what will customers pay for a service that is virtually 100% successful, as WLS will be? Our research indicates that *up to \$100* is a good rule of thumb. And if it turns out that the market will not bear this price level, then basic economics dictates that prices seek a more appropriate level. In any case, we anticipate that the registrars who have long been eviscerating each other's margins in price wars may become increasingly careful about setting their initial retail prices too low.

It will be registrars' job to keep retail prices at reasonable market levels. As the co-founder of Speednames put it recently, in discussing WLS, "To my best knowledge, there is no reason that registrars have to continue the malpractice of marking services up \$0.50." We quite agree.

Further, we think that if registrars set retail WLS prices high enough to approach actual market prices, they might thereby eliminate the incentive for intermediaries (who have preferential access to names) to buy names merely for re-sale to end-users (who have inferior access). As Bruce Tonkin of MelbourneIT put it: "I agree that the 'price point' should be set high enough so as not to encourage abusive speculation of WLS subscriptions."

Company Valuations – Increased Visibility of Top-Line Revenue

Market valuations in the domain name industry, like any other, are based largely on visibility of future revenue, including revenue dependent on renewal rates. One truism among domain industry analysts is that they value visibility on revenue and renewal rates. As Lehman Brothers recently noted:

VeriSign is one of the few tech companies with predictable earnings, analysts said. Israel Hernandez, an analyst at Lehman Brothers, said the company's stock should do better than most tech stocks since the company has "strong revenue visibility." He upped VeriSign to "strong buy" from "buy."¹

Bear Stearns states that two of the four "key positives" for VeriSign stock are "deferred revenues" and a "high degree of revenue visibility."² Similarly, Bear Stearns has stated Afilias' multiple -year registration capability "bodes well for long-term deferred revenues – and visibility."³ A.G. Edwards confirms this:

In times of market duress, business models such as VeriSign's are very attractive. VeriSign starts a quarter with over 75% revenue visibility and we believe the companies with high revenue visibility will shine.⁴

As any of these analysts will tell you, wait-listed names provide exactly such visibility and show precisely how much demand is in the pipeline at any time. Only wait-lists allow orders on the 30+ million names currently in .com, .net, and .org. Unlike the current service, in which unpredictable last-minute orders from speculators can make predictions difficult, the WLS back-order system permits analysts following a particular registrar to state with much greater confidence that "at least X many names will be registered in the coming period, and most of those will have value-added services attached." Thus, WLS provides an

¹ See Larry Dignant, "VeriSign to buy Illuminet for \$1.2 billion," CNET News.com (Sept. 24, 2001) at <http://news.cnet.com/news/0-1004-200-7279551.html?tag=lh>.

² Bear Stearns Equity Research, January 24, 2000 at 1.

³ Bear Stearns Equity Research, November 14, 2000 at 1.

⁴ A.G. Edwards & Sons, Inc., Equity Research - INTERNET SERVICES (September 24, 2001) at 2.

important tool that industry analysts can use to make more confident – and therefore more favorable – assessments of registrars’ values.

Attractive Wholesale Price for 100% Efficacy

Stock analyst A.G. Edwards has validated VeriSign’s wholesale price point for back-order services:

So what is a service like this worth to the GRS, registrars and end -users? We are aware of a few companies that offer back -ordering capabilities to registrars including SnapNames. The company offers its service at \$49 retail⁵ . . . To our knowledge, SnapNames roughly receives 70% efficacy on domain name availability through its service . . . GRS could possibly offer 100% efficacy on all available domain names. So with 100% efficacy at stake, we would assume that this service should be worth more at retail than other back-ordering services. Taking into account what services like SnapNames currently charge at retail as well as the prior comments, we believe that the VeriSign GRS could offer the back -ordering service at roughly \$35 to \$45 wholesale (excludes any revenue share at the wholesale level and also excludes the actual domain registration at \$6 each).

A.G. Edwards & Sons, Inc., Equity Research - **INTERNET SERVICES** ,
December 17, 2001.

Based on our own experience, the experience of our current registrar partners and affiliates, ongoing market research, and the validation provided by well -regarded industry analysts, SnapNames believes that the proposed WLS w holesale price is appropriate, and offers registrars an unparalleled opportunity to generate excellent margins on an excellent service.

⁵Note: increasing demand has justified SnapNames raising this to \$69. (Footnote supplied).