The Domain Name Industry Brief

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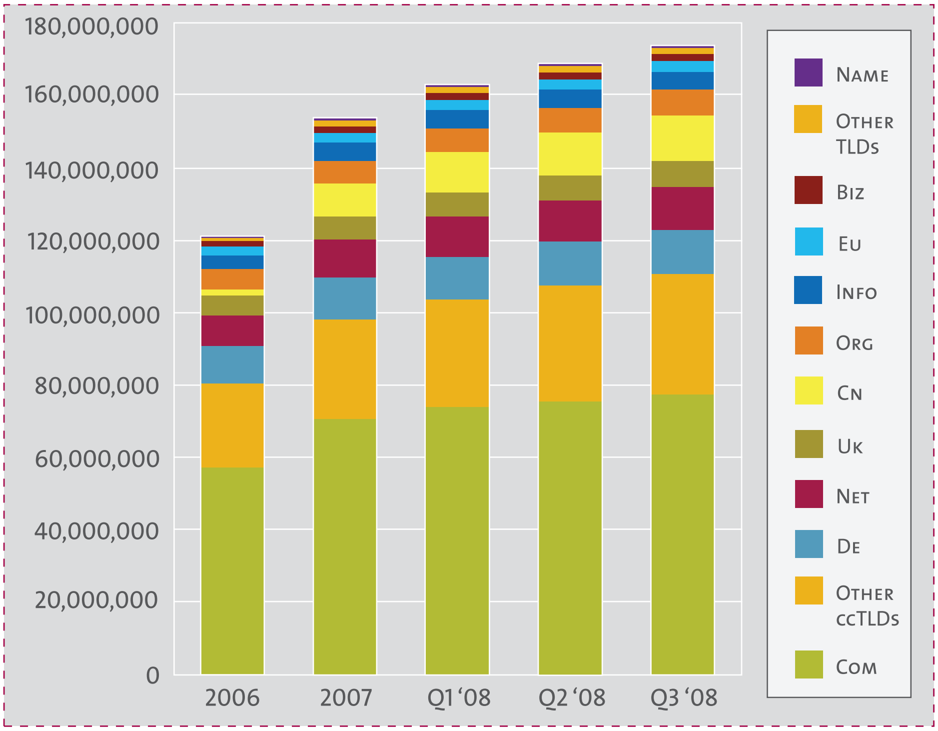
The VeriSign Domain Report

As the global registry operator for .com and .net, VeriSign reviews the state of the domain name industry through a variety of statistical and analytical research. As a leading provider of digital infrastructure for the Internet, VeriSign provides this briefing to highlight to industry analysts, media, and businesses important trends in domain name registration, including key performance indicators, and growth opportunities.

+ Executive Summary

There were 174 million domain name registrations across all of the Top Level Domain Names (TLDs) at the end of the third quarter of 2008. This represents a three percent growth over the second quarter of 2008 and a 19 percent growth over the same quarter last year. The base of Country Code Top Level Domain Names (ccTLDs) totaled 68.9 million domain names, a five percent increase quarter over quarter and a 26 percent increase year over year. In terms of total registrations, .com has the highest base followed by .cn (China), .de (Germany) and .net. Rounding out the list of the largest TLDs, .uk and .org had approximately the same number of registrations with less than 10,000 domain name registrations separating them.[1]

Total Domain Name Registrations



Total Domain Name Registrations

Source: Zooknic, October 2008; VeriSign, October 2008

+ Industry Growth and Composition

The number of new domain name registrations across all TLDs worldwide in the third quarter of 2008 was 11.5 million. This represented a decline of new registrations by two percent from second quarter and two percent from third quarter 2007, driven by declines in both gTLD and ccTLD growth.

The composition of the domain name industry and rank order in terms of base size shifted as .cn surpassed .de to become the second largest TLD. The largest TLDs in terms of base size were .com, .cn, .de, .net, .org, .uk, .info, .nl (The Netherlands), .eu (European Union), and .biz.

ccTLD Breakdown

At the end of the third quarter, the number of ccTLD domain name registrations grew to 68.9 million. This represents a five percent growth over the second quarter of 2008 and a 26 percent growth over the same quarter last year. The Chinese ccTLD, .cn, surpassed .de to become the largest ccTLD in terms of the total base of domain

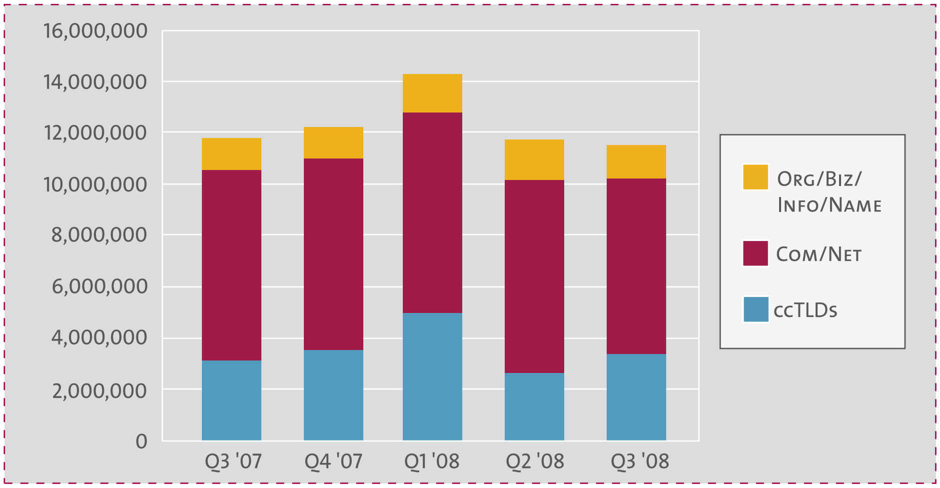
1 The gTLD and ccTLD data cited in this report are estimates as of the time of this report and subject to change as more complete data is received.

name registrations. Among the top ten largest ccTLDs, there were several changes as .br (Brazil) climbed up to the eighth position and .au (Australia) joined the top ten for the first time, displacing .ch (Switzerland). Brazil and Australia continued their growth trends from the previous quarter driven by changes in their registration policies.[2]

New Registration Growth

Source: Zooknic, October 2008; VeriSign, October 2008; ICANN Monthly Reports

New Registration Growth



Two of the top 25 ccTLDs grew at double-digit quarterly growth rates including .ru (Russian Federation) and .pl (Poland). Among the top 25 largest ccTLDs, four .eu (European Union), .kr (South Korea), .es (Spain) and .tv (Tuvalu) experienced larger quarterly growth rates than in the second quarter; the remaining ccTLDs experienced growth rates that were flat or slowing compared to their growth rates in the second quarter. There are more than 240 ccTLD extensions globally but the top ten ccTLDs contribute 66 percent of the total.

TOP CCTLD REGISTRIES BY DOMAIN NAME BASE, THIRD QUARTER 2008

1.	.cn	(China)
2.	.de	(Germany)
3.	.uk	(United Kingdom)
4.	.nl	(Netherlands)
5.	.eu	(European Union)
6.	.ar	(Argentina)
7.	.it	(Italy)
8.	.br	(Brazil)
9.	.us	(United States)
10.	.au	(Australia)

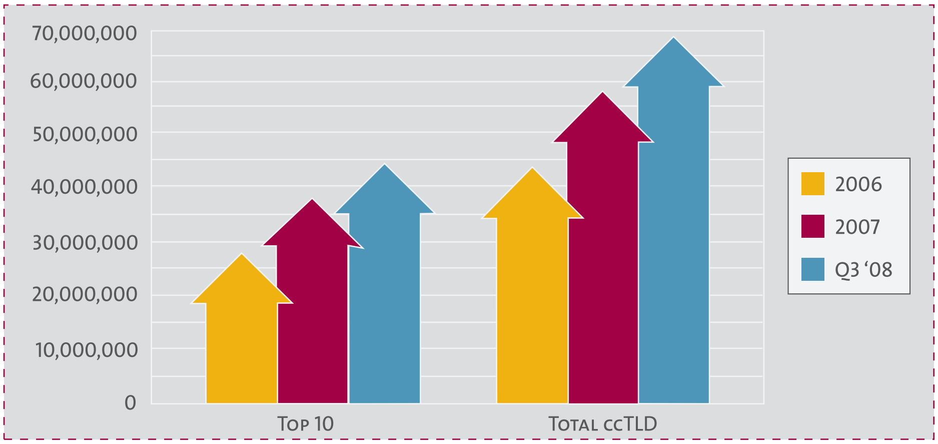
Source: Zooknic, October 2008.

In terms of the total base of domain name registrations, .cn, .de and .uk were the largest ccTLDs. They all experienced relatively flat growth rates in the third quarter. Year over year, growth rates were 76 percent for .cn, eight percent for .de and 14 percent for .uk. Together, the bases of domain name registrations for these three ccTLDs represented 47 percent of all ccTLDs.

ccTLD Breakdown

Source: Zooknic, October 2008

ccTLD Breakdown



2 The .cn Registry (CNNIC) continued to offer an aggressive price promotion with a 1 RMB (US$0.13) fee for a one-year .cn domain name registration. The .au Registry changed their transfer policy in second quarter 2008 to permit .au domain names to be sold in the secondary market, thus opening up .au to a new outlet. In Brazil, the .br registry liberalized their registration rules in May 2008 to allow consumers, and not just businesses, to register .com.br domain names.

+ .Com/.Net Dynamics

VeriSign processed peak loads of more than 50 billion Domain Name System (DNS) queries per day in the third quarter of 2008, resulting in millions of Internet users accessing Web sites or sending email. The VeriSign DNS continued to maintain operational accuracy and stability for 100 percent of the time during the third quarter of 2008, as it has for the past decade. VeriSign's unique capability to operate global networks of this nature at this scale and reliability remains unparalleled.

The .Com and .Net Base and New Registrations

At the end of the third quarter, the overall base of .com and .net domain names was 89.4 million domain names. The overall .com and .net domain names adjusted base increased by two percent quarter over quarter and 16 percent year over year.[3]

New .com and .net registrations were added at an average of 2.3 million per month in the third quarter of 2008 for a total of 6.9 million new registrations in the quarter. This is a nine percent decline over the second quarter and an eight percent decrease over the same quarter last year. Historically, there has been slowing in the third quarter due to seasonality. New registrations averaged 7.2 million per quarter in 2007 and are averaging 7.4 million to date in 2008.

VeriSign estimates that the number of .com and .net domain names registered for traditional purposes represented 92 percent of the base. The percentage of .com and .net domain names registered with the intent of generating online advertising revenue is estimated at eight percent of the base.[4] The number of new .com and .net domain names registered with the intent of generating online advertising revenue saw pronounced weakness again in third quarter due in part to changes in Google's Ad-Sense program and lower spending trends in Internet advertising. As some US-based registrars forecast that economic conditions may contribute to lower than expected growth rates in the coming quarter, coupled with continued weakness in online advertising, the base of .com and .net domain names is estimated to increase one to two million domain names in the fourth quarter.

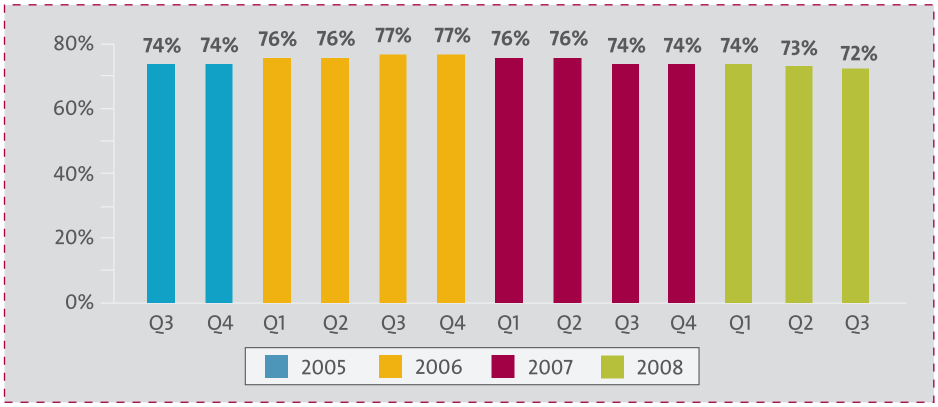
Renewals

As a result of the transition currently underway in online advertising, the renewal rate for .com and .net for third quarter rounded up to 72 percent.[5] Renewal rates have historically been in the mid-70 percent range over the last few years. Quarterly renewal rates may deviate a few percentage points in either direction each quarter based upon the composition of the expiring base and the contribution of specific registrars.

.Com/.Net Registry Renewal Rates

Source: VeriSign, November 2008

.Com/.Net Registry Renewal Rates



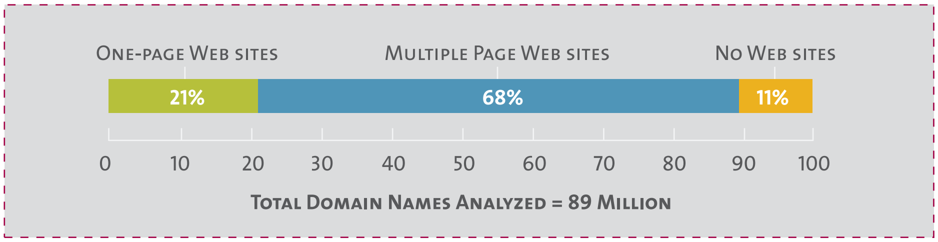
3 For .com and .net domain name registrations, VeriSign reports an adjusted base of active domain name registrations, which reflects deletions that occur within the five-day Add Grace Period beyond the quarter end. This figure may differ from other non-authoritative publicly available sources which do not adjust the base.

4 Online advertising-driven domain names have been registered with the intention of developing a Web site with PPC advertising links to generate advertising revenue. These domain name registrations and their associated Web sites are typically part of a larger portfolio of domain names.

5 The registry renewal rate includes ASCII .com and .net domain names.

Whether a domain name resolves to a Web site is a key factor in the renewal rates since domain names that resolve to Web sites are more likely to be renewed. VeriSign estimates that 89 percent of .com and .net domain names resolve to a Web site, meaning that an end-user visiting that domain name would find a Web site. These Web sites can be further described as those having multiple pages or as one-page Web sites. One-page Web sites include under-construction, brochure-ware and parked pages in addition to online advertising revenue generating parked pages.

.Com/.Net Web Sites



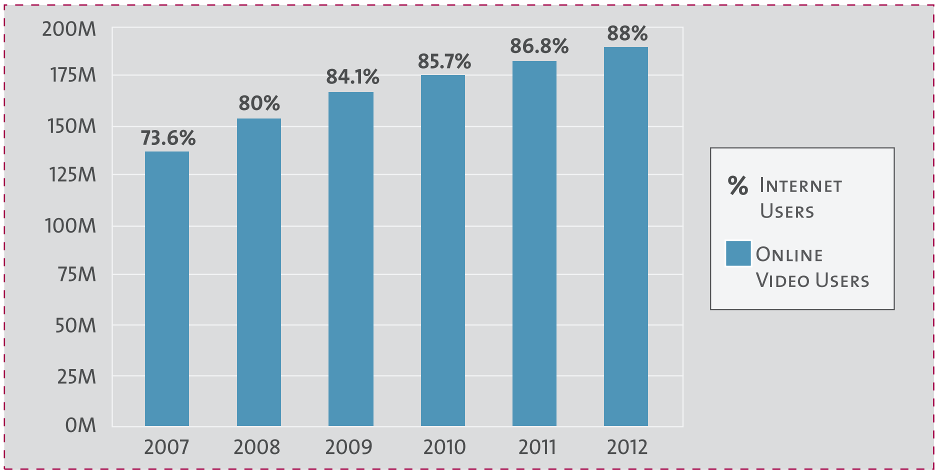
.Com/.Net Web Sites

Source: VeriSign, October 2008

+ Online Video is Coming of Age

With approximately 80 percent of the Internet users in the United States watching online video at least once per month, online video is quickly becoming a mainstream activity. The number of online video viewers is expected to grow to 88 percent of Internet users in the United States or 190 million people by 2012. Online video watchers are slightly more likely to be women with women representing 55 percent of online video viewers in the United States. This statistic closely mirrors the gender split for traditional television. Interestingly, the age of video viewers is very similar to the age breakdown for overall Internet users as online video has become more of a mass-market activity from its origins as a youth-oriented activity.[6]

US Online Video Viewers 2007-2012
(millions and percent of Internet users)



US Online Video Viewers 2007-2012 (millions and percent of Internet users)

Source: eMarketer, November 2008

In a recent study among Internet users in the United States who have high speed access at home, 92 percent stated that they watch videos online at least occasionally.[7] More than one in three users aged 18-29 view video online daily. What are these viewers watching? News, current events and comedy are the most popular forms of online video programming, followed by movie trailers. Over half the respondents reported watching these three types of online video content. TV clips and sports highlights are

6 All data in this paragraph drawn from "Video Content: Harnessing a Mass Audience." eMarketer, November 2008.

7 "Consumer Online Video and Domain Name Study." Greystones Consulting Group, July 2008. This research focused exclusively on consumers in the United States who have high speed Internet access at home and use the Internet for a minimum of three hours per week from home for personal reasons.

Recent advertising icon promoting the connection of .tv to online video

Source: VeriSign, October 2008

viewed by the fewest consumers. When it comes to professional quality video compared to user-generated video content, 46 percent of the respondents preferred professional quality video. Consumers most often watch online videos that run between one and five minutes. The most popular format is clips lasting one to three minutes.

In terms of creating online video content, respondents were more likely to be viewers than creators with only 10 percent stating that they create and post videos online. That number grows to 15 percent in the 18-29 age group.[8] Internet users tend to be engaged with online video participating in social activities related to the online video content. Forty percent of online video viewers reported that they had read others' comments, 28 percent had looked at the ratings others had given the video and 21 percent had shared the video or link with others.[9]

Three in four consumers use search engines to find interesting video content. Recommendations from friends, bookmarked favorites and information from news, advertisements and other media sources are other frequently used strategies.[10]

Given the growth in online video, many companies are offering products and services related to online video. From creation and distribution to equipment, advertising and promotion, companies are seeking to service this growing online activity. In the domain name space, the .tv TLD is positioned as the TLD for rich media and video content. Registrars and registrants are promoting .tv to both businesses and consumers who would like to take advantage of online video. It appears that a mix of businesses and consumers have registered .tv domain names. A recent study that sampled .tv Web sites found that approximately 60 percent are registered by businesses and approximately 40 percent are registered by individuals.[11] While .tv is still a relatively small TLD in terms of base size, it was the fifth most recognized TLD behind .com, .net, .gov and .org among the more Internet savvy users in the US.[12] Given the more mainstream adoption of online video, the .tv TLD is well positioned for continued growth.

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+ About VeriSign

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Zooknic Methodology

For gTLD data cited with Zooknic as a source, the analysis uses a comparison of domain name root zone file changes supplemented with whois data on a statistical sample of domain names which lists the registrar responsible for a particular domain name and the location of the registrant. The data has a margin of error based on the sample size and market size. The ccTLD data is based on analysis of root zone files. For more information, see www.zooknic.com.

8 "Consumer Online Video and Domain Name Study." Greystones Consulting Group, July 2008.

9 "Video Content: Harnessing a Mass Audience." eMarketer, November 2008

10 "Consumer Online Video and Domain Name Study." Greystones Consulting Group, July 2008.

11 VeriSign analysis, September 2008.

12 "Consumer Online Video and Domain Name Study." Greystones Consulting Group, July 2008.