



The Domain Name Industry Brief



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>> The VeriSign Domain Report

As the global registry operator for .com and .net, VeriSign closely monitors the state of the domain name industry through a variety of statistical and analytical research. This brief details current trends in the industry, highlighting key performance indicators and growth opportunities.



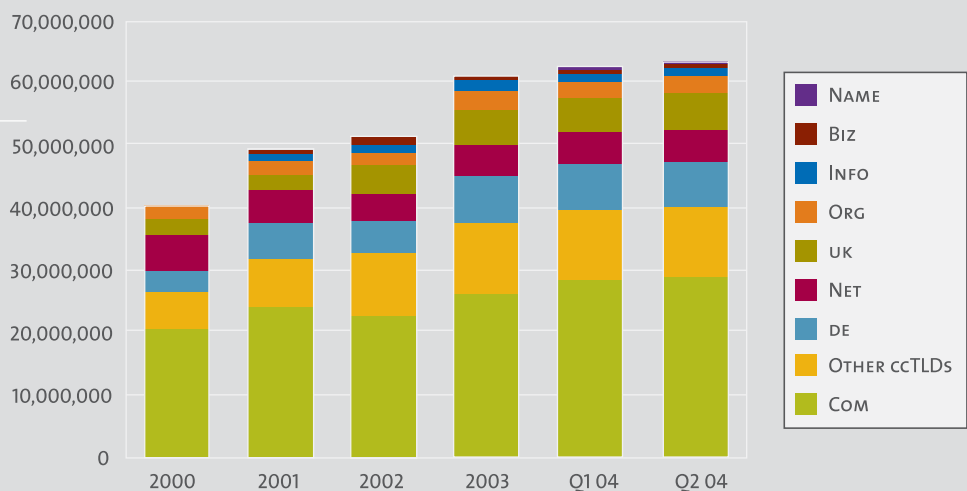
Executive Summary

The domain name market continues to show a strong rate of new registrations and an increasing base of domain names through the second quarter of 2004. Historically, domain name registrations have been an indicator of overall Internet usage trends, correlating with a growth or decline in eCommerce and Web communications. With 2.5% growth in the second quarter, 2004 (over the first quarter 2004) and 7 percent growth over the year ending, 2003, the aggregate number of domain name registrations is now at an all-time high of 64.5 million domain names. Com remains the largest Top Level Domain (TLD) in terms of total registrations, with .de and .uk holding at the number two and three ranks, respectively as of June 2004. Country-code Top Level Domains (ccTLDs), like .de and .uk, represent a fast growing segment of TLDs, indicating a proliferation in the use of the Internet locally and internationally. The current demand for domain names remains strong and the outlook for continued expansion in the domain name industry can be characterized as positive.

TOTAL DOMAIN NAME REGISTRATION

Sources: Data provided by ZookNIC July 2004; VeriSign July 2004

TOTAL DOMAIN NAME REGISTRATIONS

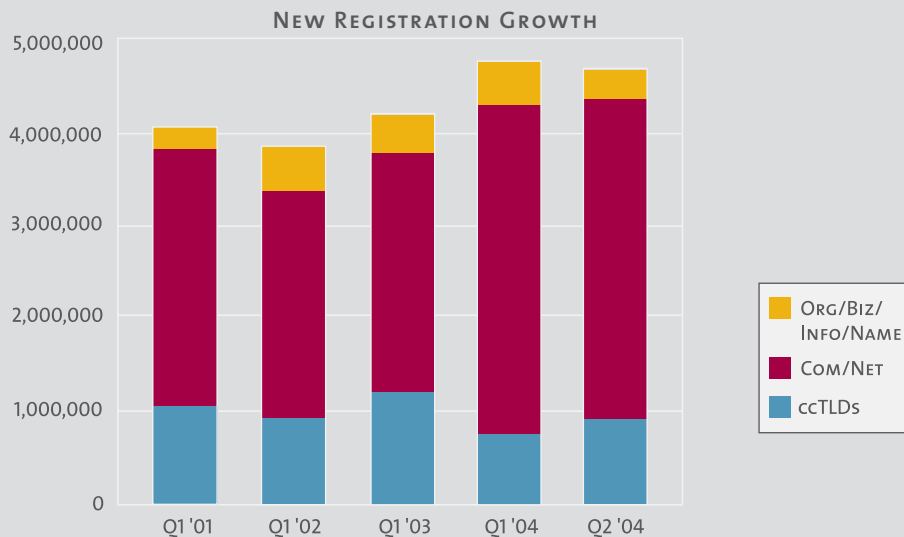


Industry Growth and Composition

GROWTH

Growth statistics for domain name registrations recently surpassed levels previously seen during the late 1990s Internet boom. For instance in the second quarter 2004, 4.6 million new domain names were registered, continuing the trend of increasing registrations seen in the first quarter of 2004. Key factors contributing to the growth trend include the increasing utilization of the Internet amongst consumers and small business owners who are striving to connect with the ever growing number of global Internet users, and increased access to domain names by end-users in markets previously underserved by domain name sellers.

Individuals and businesses are registering domain names primarily to create niche, local, regional, national and international Web sites and to facilitate email marketing. They also register for other purposes as diverse as protecting a domain name from competitors or hoping to sell it for a profit. This secondary market for domain names is seeing a resurgence as domain names once again are fetching prices as high as US\$2.75 million (creditcards.com). For more information on “who” the registrants of domain names are, see the VeriSign Domain Name Industry Brief entitled “The Domain Name Registrant Profile,” published June 2004 at www.verisign.com/domainbrief.



NEW REGISTRATION GROWTH

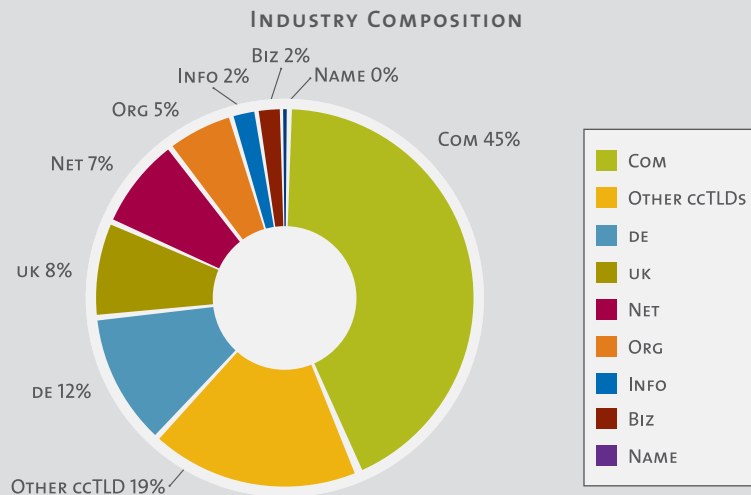
Sources: Data provided by ZookNIC July 2004; VeriSign July 2004; Cyveillance June 2004

INDUSTRY COMPOSITION

Sources: Data provided by ZookNIC July 2004; VeriSign July 2004; Cyveillance June 2004

INDUSTRY COMPOSITION

Com accounts for 45 percent of all domain names registered, followed as a group by Country Code Top Level Domains (ccTLDs) (39 percent), .net at 7 percent and the alternate Generic Top Level Domains (gTLDs) extensions, such as .org, .biz, .info and .name (9 percent). While .com remains the naming leader in many countries, a handful of ccTLDs now show marked increases within their specific countries. For example, .de represents 90 percent of the total domain name market in Germany.



In addition to the advent of the newer alternate gTLDs (.biz, info, .name, and others), significant potential still remains for additional name competition on the Internet. While the current ratio of newer domains to .com and .net is low at one alternate domain for every 90 .coms, the new extensions still continue to add registrations at an average rate of more than 70,000 per month in total.

ccTLD BREAKDOWN

The majority of registrations across all ccTLDs are attributable to a handful of ccTLDs. Out of more than 240 ccTLDs, the top ten account for 71 percent of all ccTLD registrations. The marketing strengths of these specific ccTLDs are low price, the ability to offer “non-traditional” merchandising, and the direct appeal to local Internet users. Factors that limit the potential for other ccTLDs include additional registration processes which make inclusion in primary purchase flows difficult and higher prices. Some of the more restrictive ccTLD operators require potential registrants to have a local presence or will only permit domain names that match a registrant's registered trademark exactly.

ccTLD BREAKDOWN



ccTLD BREAKDOWN

Source: Data provided by ZookNIC July 2004

Com and Net Dynamics

On average, VeriSign processes over 14 billion .com and .net queries each day, more than 3 times the number of telephone calls made each day in the United States. Of these queries, 70% are for .com and 30% are for .net.

The VeriSign Domain Name System (DNS) (see the VeriSign Domain Name Industry Brief entitled, “The Domain Name Primer” published February 2004 at www.verisign.com/domainbrief for more information on DNS) continued to maintain operational “accuracy” for 100 percent of the time during the second quarter, 2004, as it has for the past 7 years.

THE COM AND NET BASE

In terms of marketing and brand awareness, .com still remains the most appealing TLD to new and second-time domain registrants. While .net is number four in terms of the number of domain names registered, it remains an integral part of the Internet's current functionality and operational efficiency. For instance, .net is the largest Top Level Domain in terms of number of hosts (machines connected to the Internet). More than 44 percent of all hosts connected to the Internet use .net.* The majority of organizations that depend heavily on .net for their Internet infrastructure tend to be network and telecommunications providers that are critical to the operational efficiency of the Internet. Net hosts remain distributed throughout the globe.

* International Software Consortium (ISC) host data, March 2004

THE TRANSFER DYNAMIC

Renewal rates cited in this report include domain names that have been transferred from one registrar to another. To a TLD Registry a transfer between registrars appears in the system as a renewed domain name. The monthly percentage of transfers to total renewals has stayed steady at around 14 percent over the past two years.

COM NET REGISTRY RENEWAL RATES

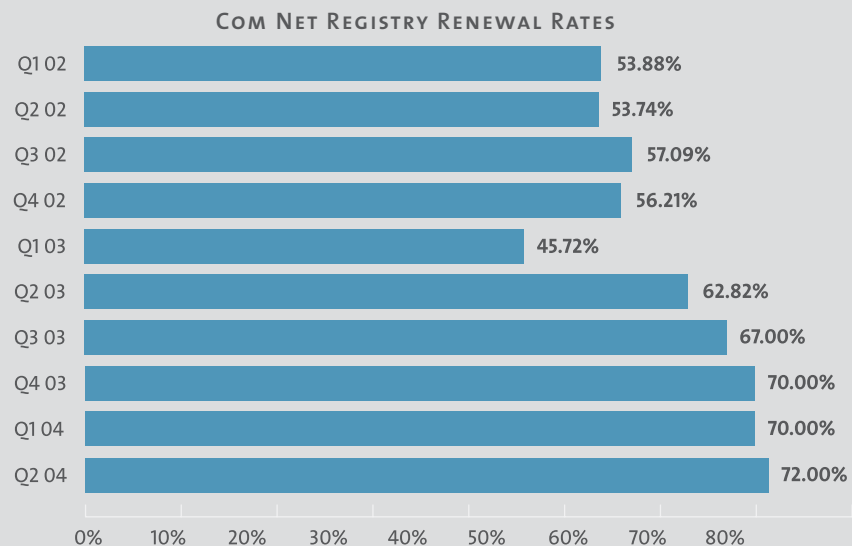
Source: VeriSign internal data

NEW REGISTRATIONS

On average, the market has been adding about 1.1 million new .com and .net registrations monthly through the second quarter, 2004. 70 percent of total new .com and .net registrations in 2004 have been for domain names that had never been registered before. This indicates that there is a steady supply of domain names that registrants want and need.

RENEWALS

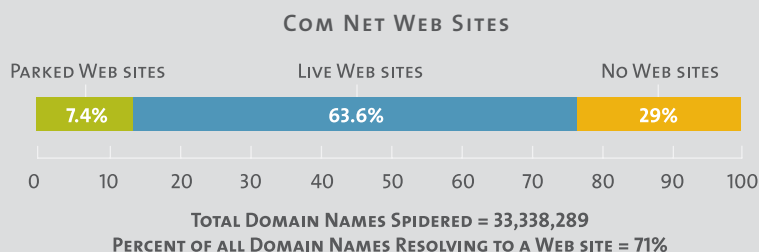
Strong renewal rates are crucial to the industry's continued success. With rates ranging from 50 percent in January 2003 to 72 percent in June 2004, renewals continue to show a positive trend. The overall number of domain names registered shows evidence of maturing. For instance, the renewal rate for domain names that previously have been renewed is 78 percent compared to a renewal rate of 60 percent for domain names going through their first renewal cycle.



A significant contributor to recent high renewal rates is the usage of domain names. In a quarterly study, contracted by VeriSign, 71 percent of all .com and .net domain names are associated with a Web site—64 percent are live and 7 percent are parked sites. Live Web sites are those actively being used by an organization or an individual. The percentage of live Web sites has increased over the past 12 months from an average of 61 percent to the current 64 percent. Parked Web sites are

defined as Web sites that are not actively being used but are associated with a domain name. The percentage of parked Web sites has decreased from an average of 12 percent over the last 12 months to 8 percent currently.

The overall domain market can be characterized as stabilizing as customers continue to show interest in renewing domain names and renewing previously renewed names.



COM NET WEB SITES

Source:
Cyveillance July
2004

Opportunities for Growth

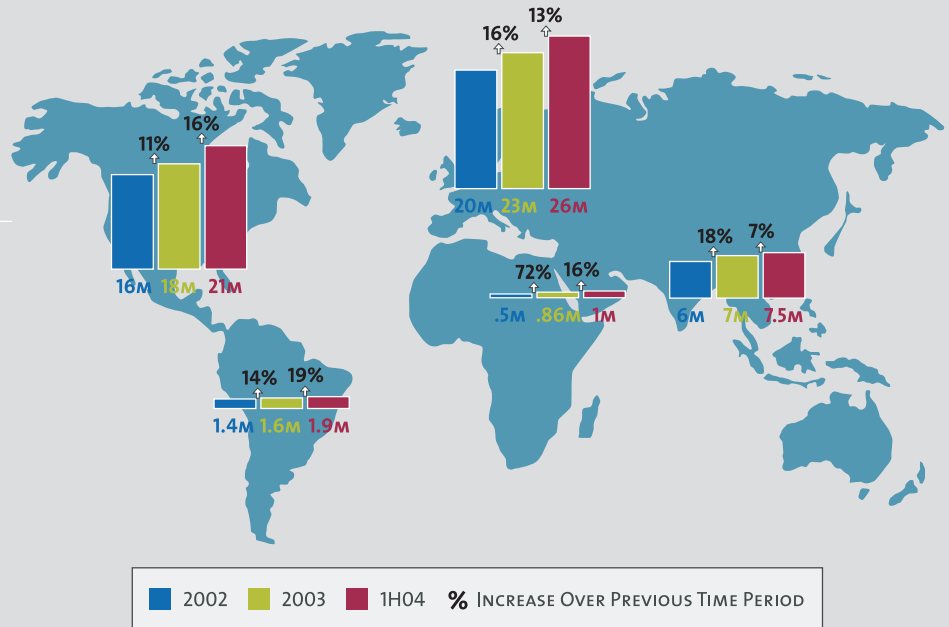
The strength of the world's Internet infrastructure continues to remain a factor in the growth of domain registrations and Internet usage. There are currently more than 250 active Registrars and thousands of domain name resellers operating around the world which account in part for the increases in registrations seen in the various geographies.

Increases in domain registrations are occurring in every geographic region. The mix of .com and .net verses ccTLDs varies widely however. North America has very few ccTLDs in comparison to Europe in which ccTLDs represent 76% of all domains registered. North America, as a region, has the highest Internet usage rates and 11 active domain names for every 100 people. The European market shows a greater number of domain name registered, attributable in part to multiple language and country sites for an organization. Other regions show much lower ratios, which though due partially to lower internet penetration rates, still suggest significant market potential as domain name registrations continue to grow in the double digits. As new registrars and resellers enter these regions, Internet usage rates continue to rise and the name base continues to mature, the outlook for the market in both the traditional .com and ccTLD arena as well as the newer TLDs remains strong.

**GEOGRAPHIC
COMPOSITION:
COM/NET AND
ccTLD'S**

Sources:
Cyberatlas;
ZookNIC July 2004;
VeriSign internal
data

GEOGRAPHIC COMPOSITION: COM/NET AND ccTLD'S



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About VeriSign

VeriSign, Inc. (Nasdaq:VRSN), delivers critical infrastructure services that make the Internet and telecommunications networks more intelligent, reliable and secure. Every day VeriSign helps thousands of businesses and millions of consumers connect, communicate, and transact with confidence.



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