July 17, 2018

Dear David Redl,

Thank you for taking the time to listen to community input regarding NTIA's direction in 2018 and beyond. While there are many key issues that are essential to keeping an open, secure, and accessible Internet, I would like to focus on one issue that is most urgent.

Specifically, the Cooperative Agreement between NTIA and VeriSign, set to expire November 30, 2018 MUST be amended. This will prevent NTIA from losing control over pricing of .COM domains, and, essentially, VeriSign itself. If NTIA allows the Cooperative Agreement to expire, jurisdiction and oversight over the Internet will be lost.

In renewing and extending the Cooperative Agreement, the NTIA should take this opportunity to force a reduction in the price of the .COM registration fees or open it up to competitive bids.

VeriSign's control on the world's #1 domain extension (.COM) has stifled competition and let the company pocket billions of dollars at the expense of all others. Its cozy relationship with ICANN has compromised ICANN's ability to impartially govern the DNS; **NTIA asserting its jurisdiction (and following its mission) can help to finally break up this monopoly.**

Background

VeriSign's aggressive actions date back at least to 2003 when it unveiled its SiteFinder service, attempting to seize control of all unregistered domains. After an outcry from the Internet community, ICANN ruled the service illegal, but VeriSign sued.

In 2005, to avoid further litigation and end the costly lawsuit, the ICANN board of directors agreed to settle; VeriSign was granted the right to run the .COM domain extension without a competitive bidding process.

Technically, VeriSign's .COM agreement was only good for six years; however, the "presumptive right of renewal" clause meant that unless it was proven in court that VeriSign failed to meet its obligations (after being given ample time to fix them), the contract would roll over forever.[1] The deal also allowed VeriSign to raise prices up to 7% in four of the six years.[2] (That same year, ICANN also awarded VeriSign a similar deal for the .NET domain name extension.)

[1] https://www.icann.org/en/system/files/files/com-registry-agreement-22sep05-en.pdf
[2] https://domainnamewire.com/2009/12/18/verisign-isnt-stupid-thats-why-its-raising-com-prices/

VeriSign successfully leveraged its lawsuit against ICANN into one of the most profitable contracts in the modern business world. Many were outraged. In a press release, GoDaddy said the following:

> *"GoDaddy.com, the No. 1 registrar of domain names worldwide, is outraged by the Internet Corporation for Assigned Names and Numbers' (ICANN) 9-5 vote last night to approve a new .COM registry agreement with VeriSign. The agreement grants VeriSign uncontested price increases and perpetual monopoly power, which will lead to exorbitant profits at the expense of the Internet community.*
>
> *"We are bitterly disappointed, but we're not giving up yet. It's simply a bad deal for the industry and registrants everywhere," said Bob Parsons, CEO and Founder of GoDaddy.com. "The fact that this monopolistic deal was approved is a loud signal that major changes are needed at ICANN."*
>
> *GoDaddy.com joined other top registrars, representing approximately 57 percent of all registered .COM names, in petitioning ICANN to address concerns with the proposed settlement. The ICANN board vote came only one week after the close of the public comment period, and without modifications to any of the raised issues."*

Almost immediately after the deal, the worst fears of registrars came true. In 2006, VeriSign announced an increase of .COM prices from $6.00 to $6.85 and .NET prices from $3.50 to $3.85.[3] This was the first increase in fees since 1999 and would not be the last. By 2012, when the agreement was set to "expire," VeriSign had raised .COM prices to to $7.85, the maximum allowed under the ICANN-VeriSign contract at the time.

2012 Contract Renewal

In 2012, the .COM Registry contract was up for renewal. Rather than act in the best interest of the global stakeholder community, ICANN and VeriSign negotiated this contract behind closed doors. Both parties benefited monetarily:

- VeriSign was granted permission to raise prices in 4 out of 6 years
- ICANN would get a new price structure; a $0.25 fee for every domain registration, transfer, or renewal, an additional $8 million in fees per year at the time.[4]

GoDaddy and others put the pressure on ICANN to end this cushy arrangement with VeriSign. Once again, ICANN ignored calls for competitive bidding for the .COM namespace and renewed its contract with VeriSign.

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[3] https://www.symantec.com/about/newsroom/press-releases/2007/verisign_0405_01

[4] http://domainincite.com/8291-new-com-contract-revealed-verisign-gets-to-raise-prices-icann-makes-millions-more

This time, however, the NTIA led by Lawrence Strickling stepped in with regards to pricing. In a separate Cooperative Agreement, the price of .COM was limited to $7.85 for the six year term unless VeriSign petitioned the NTIA for an exception.

If Lawrence Strickling did not reject the ICANN / VeriSign negotiated proposal, .COM domain names would cost more than $10.00 wholesale today and VeriSign would be generating more than $1 billion in free cash flow per year.

2018 Contract Renewal & The RZMA Switcheroo
To further their control over the Internet, ICANN and Verisign forged the Root Zone Maintainer Agreement, which gave VeriSign control of this essential DNS function formerly under jurisdiction of the NTIA.[5]

The next step, done in secret with the stroke of a pen, was to sync up the agreements. In June of 2012, ICANN and VeriSign renewed the .COM agreement two years early so it would coincide with the RZMA expiration of November 30, 2024.[6]

Under pressure from the IANA Stewardship Transition Coordination Group (ICG), Verisign and ICANN were forced to make a draft of the agreement available for public review and commentary.[7] Once again, many voiced opposition to the move. In spite of the fact that this was sold as a way to preserve the "security, stability, and resiliency" of the Internet, some noted that the root zone and the .COM agreements should not be "inextricably intertwined" (as ICANN put it) and created a single point of failure.

Milton Mueller, a founder of the IGP stated "the two functions should be distinct and separable, both technically and policy-wise. The policy issues affecting the ownership, performance and regulation of .COM are completely different from those affecting the RZM service."[8]

Concerns were also brought up that the $7.85 fee was artificially high and should be lowered or opened up to competitive bids.

But it was commenter Ricarda Koppel who made what I feel is the most important point:

> *"The new Root Zone Maintainer Service Agreement is put into place between VeriSign and ICANN (which replaces most of the functions from the existing Cooperative Agreement.) The Cooperative Agreement (between VeriSign and NTIA) is allowed to*

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[5] https://www.icann.org/news/blog/root-zone-management-transition-update-preservation-of-security-stability-and-resiliency
[6] Ibid.

[7] https://www.internetgovernance.org/2016/07/01/inextricably-intertwined-the-icann-verisign-root-zone-management-agreement/
[8] Ibid.

naturally expire in 2018. The Cooperative Agreement contains the all-important pricing provision. This agreement will longer be necessary because almost all of the functions from the existing Cooperative Agreement have been moved to the new Root Zone Maintainer Service Agreement (besides pricing.) Thus, in 2018 when the Cooperative Agreement expires, VeriSign will no longer be subject to government-mandated price restraints." [9]

VeriSign's .COM Cash Cow

VeriSign literally makes billions of dollars for nothing, while investing very little into the security, safety, and reliability of the Internet, its core mission.[10]

First, VeriSign is making tremendous profit, much of it in cash, from their .COM deal. In 2017, even with the Cooperative Agreement in place, the frozen price point of $7.85 allowed them to generate $972 million in gross income on $1.17 billion in revenue, a gross profit margin of 83.41%.[11]

While VeriSign collects $7.85 for every domain name, registrars who sell them to the public have very thin margins; many make less than a dollar in margins and some lose money by treating domains as a loss leader. This has made it nearly impossible for other registrars to compete.

Not Investing in Infrastructure

While business is booming, VeriSign spends very little of its money on the DNS.

In 2017, VeriSign reported total SG&A expenses of $264.05 million.[12] Operating margins expanded to 60% in 2016.[13] Non-GAAP operating margins additionally increased from 33.3% in 2009 to an astonishing 65.3% in 2017.

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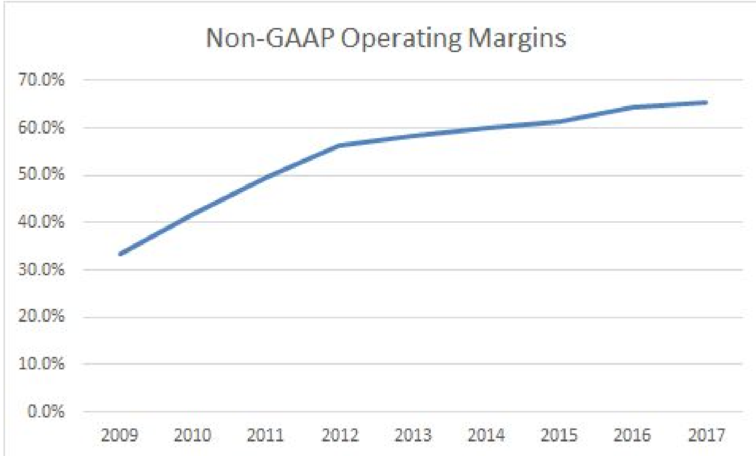
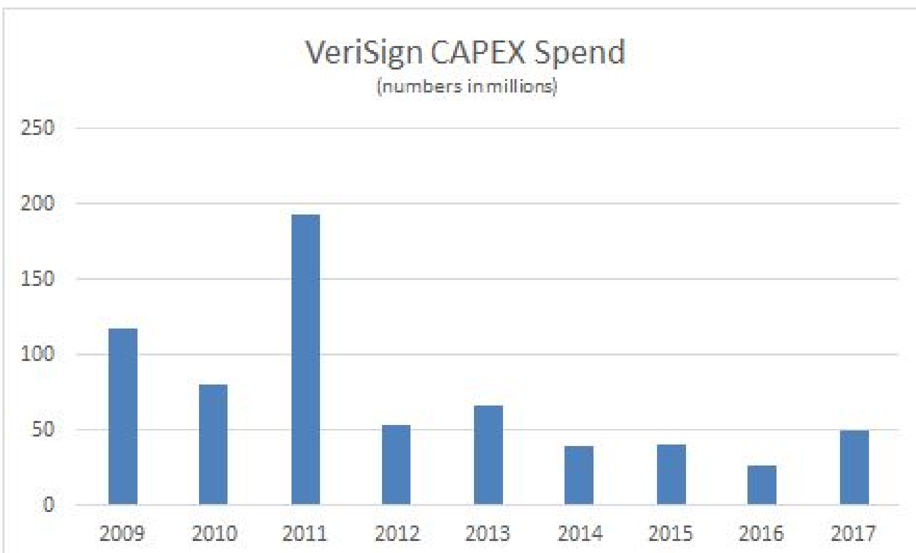
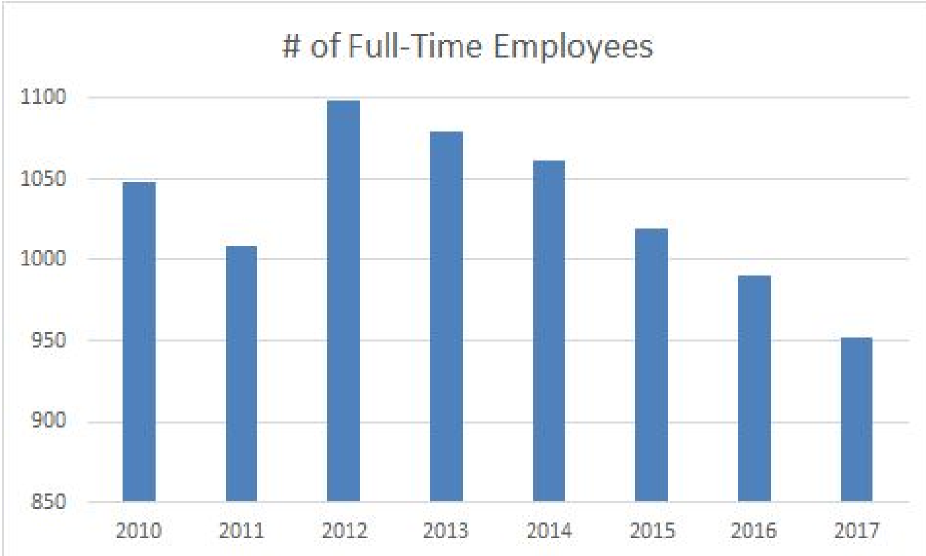
[9] https://www.icann.org/en/system/files/files/report-comments-com-amendment-09sep16-en.pdf
[10] https://www.verisign.com/en_US/company-information/verisign-careers/company-values/index.xhtml
[11] https://www.marketwatch.com/investing/stock/vrsn/financials
[12] https://www.marketwatch.com/investing/stock/vrsn/financials
[13] https://gurufocus.com



Capital Expenditures
VeriSign is not investing in core infrastructure anymore and continues to allocate less money towards capital expenditures. Between 2009 - 2017, VeriSign only spent $222 million on their infrastructure (which includes an unnecessary building purchase in 2017 for $118 million.)



VeriSign also has less employees than ever before, further proof that additional resources are not needed to handle the growing base of .COM domain names.



VeriSign has spent over $5 Billion in share repurchases between the years 2009 and 2017. During the first quarter of 2018 alone, Verisign repurchased 1.1 million shares of its common stock for $125 million.[14]

When looking at share repurchases over the past five years (2013 through 2017), VeriSign has spent $3.719 billion. During this same period of time, VeriSign generated top-line revenues of $5.345 billion. Thus, 69% of the VeriSign's revenues have funneled into share buybacks:

VeriSign					
($ in millions USD)	2013	2014	2015	2016	2017
Revenue	$ 965	$ 1,010	$ 1,060	$ 1,140	$ 1,170
Share Repurchases	$ 1,000	$ 867	$ 622	$ 637	$ 593
As a Percent of Revenue	*104%*	*86%*	*59%*	*56%*	*51%*

Analysts predict VeriSign will retire 25-28% of outstanding stock in the next 5 years.[15]

Share repurchases is the primary way VeriSign hides how insanely profitable the company really is.

A Predictable Business Model

[14]https://investor.verisign.com/news-releases/news-release-details/verisign-reports-first-quarter-2018-results

[15] https://seekingalpha.com/article/4063233-verisign-stock-repurchase-capacity?page=2

Since VeriSign operates much like a SaaS with a recurring revenue model and no tangible product or cost, it is very easy to predict how VeriSign will perform over the next 6 years (domain names usually renew unless cancelled).

At the end of Q1 2018, VeriSign announced 133.9 million names for .COM and estimated their renewal rate at 74.9%.

Seeing that their expenses have plummeted and investment in R&D is very small, we have to wonder why .COM pricing remains so high. In fact, due to economies of scale, it should be cheaper to manage domains, not more. As Bob Parsons noted in 2006:

- VeriSign provides no customer service.
- The registration process is completely automated.
- The same system can be used for the .NET extension, which they also govern. [16]

Since the company has mostly stopped investing in infrastructure and increased their operating margins, the physical costs are obviously negligible.

For this very reason, in 2012, Phil Corwin, counsel for the Internet Commerce Association (ICA) wrote a 16-page letter to the DOC & DOJ asking for a $2 reduction in .COM registration fees and to tie any price hikes to CPI.

Amongst other points, Corwin quoted from a tech stock analyst's 2009 assessment of Verisign:

> *"We are attracted to VRSN primarily for stock-specific reasons. VRSN holds a legal monopoly on the DNS industry…We touched on VRSN's monopoly position in DNS… As a result, VRSN holds one of the stronger competitive positions of any stock in our portfolio…."*[17]

Economies of Scale

VeriSign currently manages 146.4 million domain names. The cost for each additional registration is practically zero.

Therefore, the cost of .COM domains should be going down. If you look at VeriSign's base of domain names, it is easy to understand how VeriSign generates more than $700 million per year[18] in free cash flows. There were only 50 million .COM domain names in 2005 when ICANN gave them the contract - but today there are more than 133.9 million.

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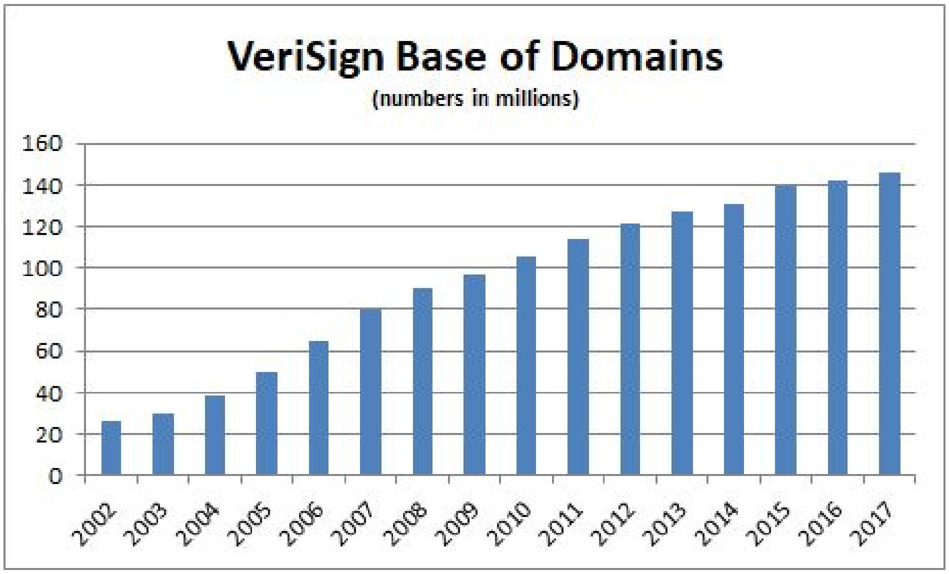
[16]https://www.namepros.com/threads/the-verisign-com-money-scam-what-to-do-when-450-million-is-not-enough.171889/
[17]https://www.thedomains.com/2012/11/26/ica-tells-dept-of-commerce-to-make-verisign-roll-back-com-prices-by-2-to-match-net-limit-increases-to-cpi/
[18] https://www.marketwatch.com/investing/stock/vrsn/financials/balance-sheet



In 2005, the price of a .com domain was $6.00 per year. The only reason why prices have increased to $7.85 is because VeriSign was contractually allowed to increase the prices of .com domain names in 4 out of 6 years. Not because of need or necessity.

> *"VeriSign said the cost increase is necessary to pay for the increased volume of domain name system queries it handles -- up from 1 billion queries a day in 2000 to 30 billion queries in 2007 -- and to fortify the Internet's infrastructure against cyberattacks. Not everyone buys that explanation, however. 'If you look at what Web hosting went for in 2000, compared to what it costs today, the amount of space and transfer limits for a typical account have grown far higher than thirty-fold, and at the same time prices have gone down,' said George Kirikos, president of Canadian financial software company Leap of Faith Financial Services, in a post on CircleID.com, an Internet policy discussion site."*[19]

VeriSign argued price increase was necessary in 2006 to "protect the security and stability of the internet" but only a tiny fraction of its actual revenues were put into CAPX or research and development. Almost all of it went into share repurchases and dividends. <u>If price hikes, in fact were to continue building its infrastructure, why has such a tiny percentage of this money gone into capital expenditures?</u>

Computing Power and Infrastructure Costs Substantially Less

Computing power and infrastructure costs are at an all-time low. Open hardware and hardware solutions have allowed companies like Google, Apple, and Microsoft to benefit from low-cost manufacturing to make larger returns on software development.

[19] http://www.informationweek.com/verisign-domain-price-increase-criticized/d/d-id/1053803?

Technology lowers operating costs. VeriSign states it completes 30 billion DNS queries a day – and yet OpenDNS does over a billion without many problems. Somehow .info operators are able to run a registry at $1-$2 per domain and with a much smaller volume. Scale up from 5 million domains to 65 million domains, and the cost per domain goes down, not up. The size of the registry is not an excuse for increased prices.

The Market Power of .COM

When it comes to Internet addresses, there is no question of the dominance and importance of .COM. Even with the release of thousands of other extensions, .COM is by the far most used and recognized domain name extension. The numbers easily back this up.

- 485 of the Fortune 500 use the .COM domain as their primary URL.
- 974,000 out of the top Alexa 1,000,000 sites are in the .com extension.
- 133.9 million names for .COM.
- Only 14.4 million names for .NET, the second most popular extension.
- Less than 22 million names for the 1000+ Internet extensions released in the past few years **combined.**[20]

According to a survey conducted by ICANN, .COM, .NET, and .ORG are chosen by more than 90% of market players as the domain extension they trust.

In Corwin's 2012 letter to the DOC & DOJ, he states: "The term "dot com" is now the world's biggest brand and it is used and respected globally as the gold standard of the internet."[21]

Ramifications of no Oversight

We don't need a crystal ball to predict what will happen to .COM pricing if the Cooperative Agreement is allowed to expire.

The other, even more significant factor in losing the Cooperative Agreement is **this will allow VeriSign to slip free from NTIA oversight.** As it stands now, the Cooperative Agreement is the only thing in place to retain control, protecting registrars, registrants, and the Internet from being fleeced.

As Senator Ted Cruz noted in a letter to the Department of Justice in 2016:

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[20] https://www.theregister.co.uk/2016/07/01/verisign_retains_dotcom_cash_cow_until_2024/
[21]https://www.thedomains.com/2012/11/26/ica-tells-dept-of-commerce-to-make-verisign-roll-back-com-prices-by-2-to-match-net-limit-increases-to-cpi/

> *"In light of ICANN and Verisign's history, the unique nature of the .com registration market, and its susceptibility to anti-competitive outcomes that could hurt businesses and consumers, the public would be well-served by continued and active oversight."*[22]

ICANN's Multistakeholder Model Doesn't Work

ICANN has been championing the multistakeholder model for years. On paper, this position seems to have some merit. The multistakeholder model allows input from governments, private institutions, academia, and other members of society on crucial policy decisions; it is often pointed out that this is the model that brought us the open, interconnected, decentralized Internet as we know it today.

ICANN's model consists of stakeholder groups, advisory councils, and supporting organizations. However, not everyone is on board with multistakeholder model for the future of Internet governance. As Katim S. Touray, International Development Consultant, and ICT for development advocate pointed out in 2012:

> *"To paraphrase George Orwell, although all groups are seen by ICANN as equal, some are more equal than others. The inequality also extends to the inner workings of the individual stakeholder groups, because not all eligible target groups participate equally in these groups. And therein lies the weakness of ICANN's multi-stakeholder model."*[23]

The Association for Progressive Communication echoed the same sentiment in 2017, saying "being influential in ICANN requires a degree of effort and consistency which is difficult to sustain."[24]

Michael Gurstein, Executive Director of the Centre for Community Informatics Research, Development and Training, Vancouver, Canada wrote a long blog post on the inherent problems with the multistakeholder model:

> *"... a key element of MSism is that policy (and other) decisions will be made by and including all relevant 'stakeholders'. This will of course include for example, the major Internet corporations who get to promote their 'stakes' and make Internet policy through some sort of consensus process where all the stakeholder participants have an 'equal' say and where rules governing things like operational procedures, conflict of interest, modes and structures of internal governance, rules of participation etc. etc. all seem to be made up as they go along."*[25]

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[22] https://www.cruz.senate.gov/files/documents/Letters/20160812_DOJ-ICANNLetter.pdf
[23] http://www.circleid.com/posts/20121009_multi_stakeholderism_revisited_icann_we_can_do_better/
[24] https://www.apc.org/en/pubs/apc-priorities-12th-Internet-governance-forum
[25] https://gurstein.wordpress.com/2014/03/26/the-multistakeholder-model
-neo-liberalism-and-global-Internet-governance/

The Electronic Frontier Foundation pointed out that “there is a strong tendency for ICANN working groups to be stacked with private sector stakeholders such as lawyers for intellectual property rights holders and the domain name industry, who are able to dominate discussions, to obstruct attempts at compromise, and to push for one-sided outcomes, such as the right for a single company to control a generic word domain.”[26] (Need we remind you who this single company is?)

If NTIA does not have any voice or oversight, the Internet as we know it will fundamentally change based on a narrow group of parties that have undue influence.

The Trump Administration’s 2017 National Security Strategy reaffirmed that ‘‘[t]he flow of data and an open, interoperable Internet are inseparable from the success of the U.S. economy,’’ and stated unequivocally that, ‘‘the United States will advocate for open, interoperable communications, with minimal barriers to the global exchange of information and services.”

If NTIA does not have oversight authority, the Internet will become more restrictive, less open, less transparent, and ultimately relinquish more power to other governments and organizations throughout the world.

If NTIA has direct oversight, it will be able to act swiftly to make sure it preserves the integrity of the Internet. ICANN, under the multistakeholder model will not be able to do so, as its policymaking process is extremely long, solicits feedback from everyone (but only listens to a select few), and takes years to implement even the smallest of changes.

Even ICANN admits that its multistakeholder model doesn’t necessarily have the public interest in mind, as this 2006 exchange between then ICANN chairman Vint Cerf and attorney Bret Fausett shows:

> Vint Cerf: *Just keep in mind that a multistakeholder organizations have more than just public interest to represent. Is that a fair observation, Bret?*
>
> Bret Fausett: *I think in an organization like ICANN, public interest is the overriding interest that should be represented.*
>
> Vint Cerf: *We should talk about that because I have a different model.*
>
> Bret Fausett: *Then I think that your different model and my model of the public interest being paramount might be exactly at the source of the tensions that we are feeling.*

[26] https://www.eff.org/deeplinks/2017/12/multi-stakeholder-Internet-governance-dying

Vint Cerf: *See you over a pinot noir.*[27]

Recommendations

First, and foremost, I strongly recommend that the Cooperative Agreement be amended.

Additionally, the NTIA should immediately force the reduction of .COM prices.

VeriSign is generating too much profits and an immediate fix is in order.

If there is not a reduction for .COM domain names, the only alternative is to open up a competitive bidding process and allow for openness and competition. I believe the public review will warrant a price reduction of .COM domains to $3.85 or less.

VeriSign will argue against, but here are three important points to consider:

- If Verisign needs more capital it can simply sell more stock. They have repurchased more than $5.039 billion in stock since 2009 and they will very easily be able to tap into this additional company valuation caused by share repurchases.
- VeriSign has more than $2.4 Billion[28] in cash and short-term investments on hand
- Additionally, Verisign has the contractual option to put in a request to increase prices if any extraordinary event happens to impact the stability or the security of the Internet. This is the mechanism and protection that will ultimately ensure the stability of the DNS for years to come. Verisign will have to justify its claims for additional capital to build its infrastructure.

It's time for the NTIA to show true leadership for the American people. **Mr. Ridl, your predecessor, Lawrence Strickling froze .COM prices at $7.85 back in 2012 because it was the right thing to do.**

Now, with VeriSign managing more than 146.4 million domain names and generating in excess of $700 million[29] in free cash flow per year (and sitting on more than $2.4 Billion in cash), a fee reduction is long overdue.

The NTIA should also consider building in other mechanisms into the Cooperative Agreement which will give the NTIA more control, as government and other proposed changes impact the DNS.

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27 https://web.archive.org/web/20120424183518/http://www.domainarts.com:80/2011/11/22/upcoming-verisign-price-increase-reminder-of-icanns-failure/

28 https://www.marketwatch.com/investing/stock/vrsn/financials/balance-sheet

29 https://www.marketwatch.com/investing/stock/vrsn/financials/cash-flow

Sincerely,

Donald Smith