

Dear Colleagues:

Now that some of the smoke has begun to clear we are encouraged to see the discussion about WLS becoming more productive. A few days ago, SnapNames posted a fairly detailed analysis of the data supporting the WLS pricing model and how it serves the needs of customers and the majority of registrars. The purpose of today's posting is to discuss how – in contrast to the business models of a handful of vocal, speculator-focused registrars – WLS serves the needs of the mainstream consumer of secondary market domain names. We also want to use this opportunity to answer some questions that have been asked of us, and to correct some factual errors.

The WLS Proposal is not, and theoretically can never be, perfect in everyone's mind. However, it remains the only concrete, actionable proposal on the table, and no other proposal can realistically be expected to generate "consensus" among the various parties – registrars in particular – within a reasonable time. The most important thesis of the WLS proposal is this: Because the WLS focuses on equity and competition among *everyone*, including *customers*, rather than limiting itself only to the domain name industry itself, WLS is designed to create the greatest good, for the greatest number of people, and does so in a reasonable timeframe. WLS-like proposals have been on the table for approximately 6 months. And the underlying SnapNames technology has been in actual use for over a year. The time has therefore come to begin an actual trial period to test how well WLS works in the real world. The mere fact that there are so many constituents with differing points of view, even within the registrars constituency, reinforces the desirability both of a rapidly implementable solution and of a testing period to provide experience-based answers rather than interminable speculation.

### **WLS Offers the Greatest Good to Greatest Number – Primarily Mainstream Users**

Unlike some commentators, who concede without embarrassment that they cater primarily to speculators, SnapNames' focus has always been the mainstream customer: the "little guy." Because a number of postings have criticized SnapNames and WLS as either catering to, or unfairly benefiting professional speculators, we feel compelled to demonstrate – by revealing what we generally consider to be highly confidential company data – that precisely the reverse is true. In the dual interest of (1) putting an end to unfair misinformation about our customer base and (2) demonstrating to ALL registrars that the mainstream market is larger and far more lucrative than the speculator market, we are taking the step of sharing the following customer distribution data, which should end baseless speculation about our business and our customer base. We challenge other secondary market participants to do the same:

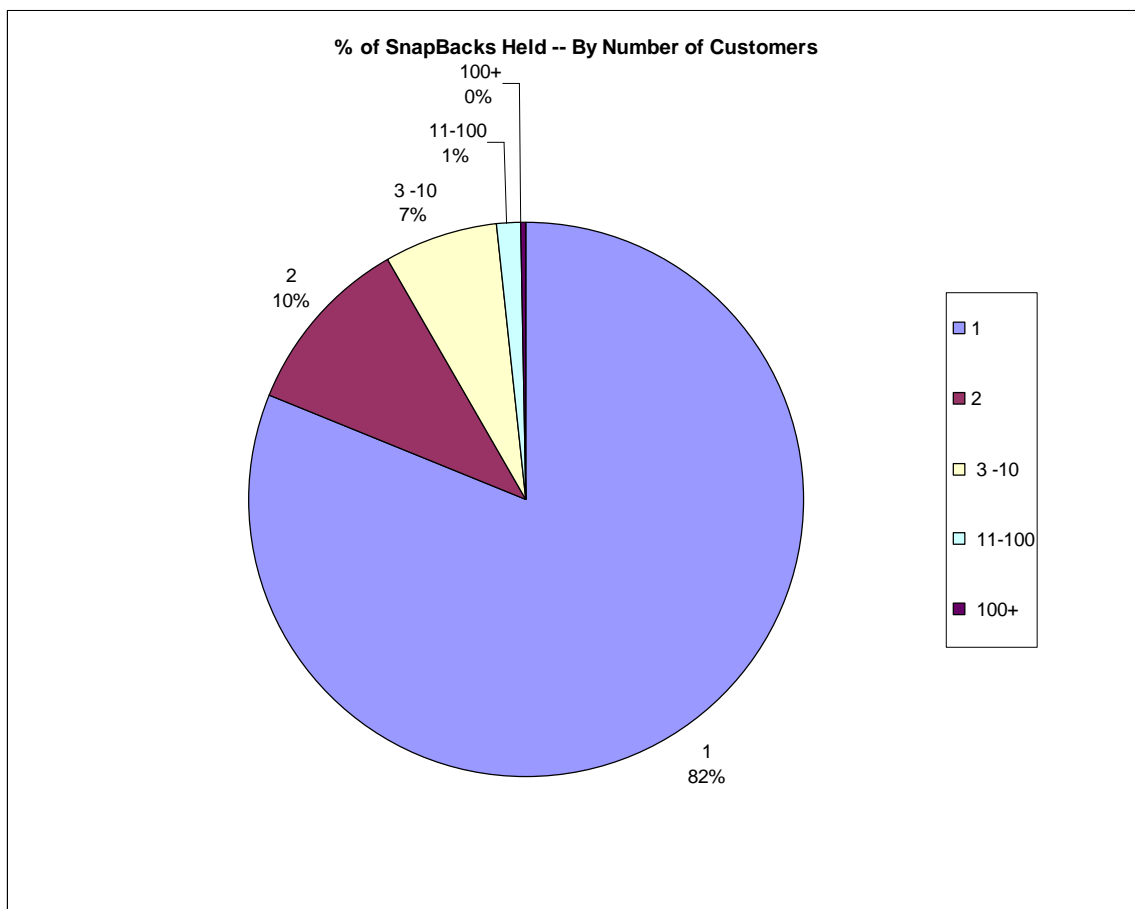
## SnapNames Internal Data

(as of January, 2000)

Percentage of total SnapNames customers holding:

- 1 SnapBack position: 82%
- 1 to 10 SnapBack positions: 99%
- 11 – 100 SnapBack positions: 1%
- Over 100 Snap Back positions: < 1%

The following chart should make these figures crystal clear:



As you can see, speculator customers who take out large numbers of subscriptions – on names that are typically already in the 5-day batch delete purge cycle –account for under 1% of all SnapNames customers. Mainstream customers – who are our bread-and-butter (see above) – don’t even *know* what a purge cycle is, much less how to game it, and do not wait until the DEL command has been piped down to the registry before placing their single- or handful-of-names orders. Speculators will of course be less likely to place such orders in the future (with or without WLS in place) at such time as V-Registrar stops deleting names in batches.

Lest there be any confusion about the actual volume of our business accounted for by each group, I will add that today 54% of our total orders are placed by customers holding *ten or fewer* SnapBack positions. And a full 33% are held by customers having *only one* SnapBack. So, no matter which way you slice the numbers, SnapNames primarily serves the mainstream customer and we believe 100% efficacy of WLS would make it even easier to do so.

In summary, I repeat the challenge to the registrars/purveyors of “alternative” secondary domain solutions to share their data on their customer bases, and explain why they believe they can’t build viable businesses serving the needs of mainstream customers the way SnapNames has already done.

### **Relationship Between Retail Pricing and Customer Base**

Effective on January 15<sup>th</sup> our retail prices rise to \$69 from \$49. As a result, the percentages illustrated above may shift a bit, as explained in the pricing market research document that we posted a couple of days ago. We believe that this is because as the retail price of a SnapBack position inches upward, it becomes less attractive to the speculator. We saw a similar shift when we went from \$35 to \$49 retail back in July. Accordingly, we expect our ‘one-sie, two-sie’ customers to be the greatest beneficiaries of the recent price modifications, and to be the greatest potential beneficiaries of the WLS registry-level solution. The bottom line of all this is that even today – when our SnapBack service operates at only 70% efficacy – 92% of our customers are individuals or corporations in search of literally *one or two specific names*, while only an insignificant number of speculators use our service. We are not aware of any reason why the current SnapNames model – retail prices that are affordable by the mainstream customer seeing a few specific names, but relatively “pricey” for the bulk speculators who cast gigantic drag nets to bottom-fish among the bulk names – would not also work in a similar fashion for WLS.

### **What’s Wrong with the Consensus Process Today?**

On January 9 the registrars constituency held a teleconference in which 21 of 96 accredited registrars gathered to try to reach a consensus on the WLS proposal. The call's moderator asked on participants voting the black-and-white categories of “absolutely for”, “absolutely against” or “abstain.”

- Six registrars expressed interest in offering the WLS to their customers under certain conditions (wholesale price and extended grace period being the most prevalent issues – and easiest to address).
- Six voted “no”. These registrars had a clear interest in maintaining the status quo.
- Five abstained because they had not had sufficient time to read up on the proposals, or recused themselves for conflict of interest.
- 75 operational registrars were not present on the call.

It comes as no surprise that the most vocal opponents to the WLS proposal have been the registrars most actively engaged in the business of providing preferential access to their Registry connections to bulk speculators, thereby *freezing out* mainstream consumers. Based on the information outlined above, the WLS would reduce the benefits of preferential treatment for professional speculators. What weight, therefore, should decision-makers give to the predictable opposition from precisely the registrars who serve those speculators? Under WLS, these registrars would have to compete on an equal footing with the other 70+ registrars, not for speculators seeking preferential access to registrar connections, but for mainstream customers' business, which frequently seeks out superior customer service, even in preference to cut-rate pricing. It is only natural that the parties with the strongest interest in maintaining the status quo seek to delay, sidetrack, block, and raise "red herring" issues. Such tactics should be recognized for what they are.

Curiously, it is precisely this handful of conflicted registrars who purport to speak on behalf of the 75 that have not spoken publicly; indeed, several of them have also appointed themselves to a drafting committee for another round of alternative "proposals" (a process that we thought had started six months ago). These conflicted registrars constitute fewer than 10% of all registrars, yet their captive drafting committee is nominally charged with representing the interests of all registrars. This is almost a defining case of conflict of interest.

Therefore, we urge the broader community not to let these special interests hijack the decision-making process to the detriment of the other registrars, and of the mainstream consumer.

### **Specific Answers, Comments and Factual Corrections**

While I would prefer to keep this message brief, several points raised in recent postings deserve direct attention. Because they appear to be erroneous. I will address each in turn.

**1. "Defensive WLS Subscriptions."** Rick Wesson's posting of 1/13/02 warned that current domain name owners would be compelled to take subscriptions out on their own names. I'd like to nip this fallacy in the bud. Even Paul Stahura of eNom, in a posting of the same date, pointed out that this concern is unfounded, because any deleting or expiring names are either accidental (in which case remediable), or intentional. In any case, experience demonstrates that this is a non-issue: (1) speculators' access to preferential access to registrar connections hasn't compelled trademark owners to respond in kind; and (2) the best defense is simply to renew the registration at a much lower cost. Of course, if a registrant can't rely on itself to pay its own bills, then WLS is theoretically an excellent backstop, as are a variety of "lock down" services offered by registrars. Kind of like wearing suspenders. And a belt. And Krazy Glue™.

**2. “WLS will not solve the system load problems.”** This point is another red herring meant to divert attention toward VeriSign and away from the real issue – equality of customer access. It’s also a textbook example of inventing a *theoretically* perfect/complete solution to set up as the enemy of an *actual* good one. As Chuck Gomes has repeatedly made clear, yet others continue to pretend he never said it, the WLS was not intended to solve the load problem. Still, we do believe that system load will decline because of efficient EPP commands incorporated into the WLS (using hindsight of the problems in the existing system). We also agree with various registrars and VGRS’ own statements that changes can be made to the current system to alleviate some of the load.

As for WLS demands on system load, determining that a WLS position is taken is a matter of a simple CHECK command. The scenarios painted of spiking loads and “WLS add storms” are preposterous. The WLS position is binary – it’s either available, or it isn’t, as can be determined with a single query. Some registrars and/or third parties may even innovate to provide information products for speculators so that they do not have to waste time and resources going after taken positions.

**3. “The WLS will be gamed by speculators as much as the current system is” and “If SnapNames spent \$3M building their part of this system, someone overpaid.”** Building a system to wait-list domain names is straightforward. The hard part is building one that (a) cannot be easily gamed, (b) can withstand heavy loads, (c) is connected to the A Root and thus must pass incredibly rigorous QA and reliability standards, likely the highest in the industry, and (d) supports a layer of registrars with perfectly equal-access distribution. Such a system is a second registry. Perhaps Afilias and NeuLevel can appreciate better than anyone else how difficult it is to construct a shock-proof and reliable registry platform. The end-cost seems to always far exceed the initial estimate, as with many software development projects, once all the requirements are truly understood.

SnapNames has taken great pains to study the weaknesses in the current system and to make it extremely challenging for anyone to create unfair access in the future. Every claim made to date of “gaps” that would allow speculator abuse in the WLS is wholly speculative, factually incorrect, and again, promulgated by those with a vested interest in maintaining the status quo. SnapNames’ intellectual property in this case is especially valuable, as our patent-pending technology solves significant problems that other approaches do not begin to address effectively. Some of the alternative proposals contain elements that VGRS can apply to the deleting names mechanism – no doubt about it – but the WLS system is iron-clad, by design, from the outset.

**4. “Differentiation between registrars will decrease.”** Detractors who repeat this canard appear most concerned about *additional* registrars being able to finally participate in the secondary market. Yes, competition for deleting names will, in essence increase, just as additional registrars adding .Biz or .Info names increases competition for those who offered them first. Registrars who offer WLS will have complete freedom to price, bundle and brand the offering. There remains endless opportunity for differentiation

through site design and features, information products, package deals, bulk deals, notification of previously wait-listed names' recent availability, etc. Here's a real opportunity for registrars to innovate.

**5. A philosophical question – can one have one's cake and eat it too?** One philosophical item perplexes me: namely, the paradoxical claim that WLS is both overpriced (and therefore won't attract purchasers), and that it will attract so many speculators that no mainstream customer could possibly be served (implying a large gap arbitrage delta between retail price and speculative value). I concede that WLS could, theoretically, be either overpriced or underpriced. It can't be both.