

VeriSign wins .com renewal, but can't hike prices (Update)

November 30 2012, by Anick Jesdanun

The U.S. government has cleared VeriSign Inc. to manage the databases that house ".com" domain names for another six years, but the company won't be allowed to raise prices without approval.

Under the current contract, which expires Friday, VeriSign was guaranteed four price increases of up to 7 percent each on domain name registrations. VeriSign sought a similar guarantee as part of the contract renewal, but the Commerce Department rejected it. The new contract freezes the annual price at the current \$7.85 per name, barring special circumstances.

"Consumers will benefit from VeriSign's removal of the automatic price increases," Lawrence E. Strickling, assistant Commerce secretary for communication and information, said in a statement. "At the same time, the agreement protects the security and stability of the Internet by allowing VeriSign to take cost-based price increases where justified."

Anyone who wants a ".com" name can obtain one from various companies, which pay VeriSign \$7.85 of what they collect on each name. The new contract lets VeriSign continue receiving those fees, but won't guarantee more.

The ".com" suffix is the most popular Internet domain name in use, with about 105 million names registered. Although hundreds of other suffixes exist—and hundreds more are coming in the next few years—none has matched the success of ".com." VeriSign's ".com" directories are used by

millions of computers and mobile devices around the world to locate websites and send email to addresses ending in ".com."

The \$7.85 fee translates to \$824 million a year in revenue for those 105 million names. Had VeriSign been allowed to raise prices four times by 7 percent each, as called for in a draft of the new contract, the company could have charged as much as \$10.29 by the end of the six-year term. That would have meant an additional \$256 million a year on those 105 million names.

VeriSign's stock fell \$5.42, or 14 percent, to \$33.92 in midday trading Friday. Calling the new price cap a surprise, Citi Investment Research analyst Walter Pritchard reduced his price target on VeriSign to \$35, from \$42.

VeriSign, which is based in Reston, Virginia, had justified previous price hikes by pointing to its need to ensure that ".com" directories run smoothly amid increases in Internet traffic and heightened security threats.

In a statement, VeriSign CEO Jim Bidzos said the new contract "provides certainty and sets a clear direction for the company."

The annual fee had been \$6 for several years, until VeriSign was guaranteed price increases in its 2006 contract. The company took advantage of that and raised the fee to \$7.85, a penny short of what had been permitted.

The new contract allows VeriSign to request an end to price caps if it can demonstrate that "market conditions no longer warrant such restrictions." Factors could include reduced demand for ".com" names, competition from other Internet suffixes and increased use of alternative navigation techniques such as search engines.

The contract also extends a provision giving preference to VeriSign for any renewals in the future, without requiring an open-bidding process.

VeriSign's contract is with the Internet Corporation for Assigned Names and Numbers, a nonprofit organization that oversees Internet address policies. ICANN tentatively approved a contract extension with price increases in June, but it needed the Commerce Department's approval. Commerce removed the price hikes and approved the modified contract Thursday.

VeriSign also runs the database for the less-popular ".net" suffix, but that is not subject to government oversight. Under its contract with ICANN, VeriSign is allowed to raise prices on ".net" names by up to 10 percent a year.

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