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Q1 2017 Verisign Inc Earnings Call

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CORPORATE PARTICIPANTS

D. James Bidzos *VeriSign, Inc. - Founder, Executive Chairman, CEO and President*
David Atchley *VeriSign, Inc. - Vice President Investor Relations and Corporate Treasurer*
George E. Kilguss *VeriSign, Inc. - CFO and EVP*

CONFERENCE CALL PARTICIPANTS

Gray Powell *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Analyst*
Sterling Auty *JP Morgan Chase & Co, Research Division - Senior Analyst*

PRESENTATION

Operator

Good day, everyone. Welcome to VeriSign's First Quarter 2017 Earnings Call. Today's conference is being recorded and unauthorized recording of this call is not permitted.

At this time, I would like to turn the conference over to Mr. David Atchley, Vice President of Investor Relations and Corporate Treasurer. Please go ahead, sir.

David Atchley ***VeriSign, Inc. - Vice President Investor Relations and Corporate Treasurer***

Thank you, operator, and good afternoon, everyone. Welcome to VeriSign's First Quarter 2017 Earnings Call. With me are Jim Bidzos, Executive Chairman, President and CEO; Todd Strubbe, Executive Vice President and COO; and George Kilguss, Executive Vice President and CFO.

This call and our presentation are being webcast from the Investor Relations section of our verisign.com website. There you will also find our first quarter 2017 earnings release. At the end of this call, the presentation will be available on that site and within a few hours, the replay of the call will be posted.

Financial results in our earnings release are unaudited, and our remarks include forward-looking statements that are subject to the risks and uncertainties that we discuss in detail in our documents filed with the SEC, specifically the most recent reports on Forms 10-K and 10-Q, which identify risk factors that could cause actual results to differ materially from those contained in the forward-looking statements.

VeriSign retains its longstanding policy not to comment on financial performance or guidance during the quarter, unless it is done through a public disclosure.

The financial results in today's call and the matters we will be discussing today include GAAP and non-GAAP measures used by VeriSign. GAAP to non-GAAP reconciliation information is appended to our earnings release and slide presentation, as applicable, each of which can be found on the Investor Relations section of our website.

In a moment, Jim and George will provide some prepared remarks, and afterward, we will open the call for your questions.

With that, I would like to turn the call over to Jim.

D. James Bidzos ***VeriSign, Inc. - Founder, Executive Chairman, CEO and President***

Thanks, David, and good afternoon, everyone. I'm pleased to report another solid quarter for VeriSign. First quarter results are in line with our objectives of offering security and stability to our customers while generating profitable growth and providing long-term value to our shareholders.

We reported revenue of $289 million, up 2.4% year-over-year and delivered strong financial performance, including non-GAAP EPS of $0.96, up 12% year-over-year, and $139 million in free cash flow. As part of managing our business during the first quarter, we continued our share repurchase program by repurchasing 1.8 million shares for $150 million.

Our financial position is strong with $1.8 billion in cash, cash equivalents and marketable securities at the end of the quarter. We continually evaluate the overall cash and investing needs of the business and consider the best uses for our cash, including potential share repurchases.

At the end of March, the domain name base in .com and .net was 143.6 million, consisting of 128.4 million names for .com and 15.2 million names for .net. The domain name base increased by 1.4 million net names during the first quarter after processing 9.5 million new gross registrations. The U.S. market contributed to the better-than-expected performance. Although renewal rates are not fully measurable until 45 days after the end of the quarter, we believe that the renewal rate for the first quarter of 2017 will be approximately 72.2%. This preliminary rate compares to 74.4% achieved in the first quarter of 2016.

In the fourth quarter of 2016, the final renewal rate was 67.6% compared with 73.3% for the same quarter of 2015. As noted in our prior conference calls, the portion of registrations associated with the China names surge that occurred in the first quarter of 2016 continued to renew at lower-than-historic first-time renewal rates in the first and second quarter of 2017 and are contributing to slightly higher deletions in the first half of 2017.

In addition, Q2 tends to have slightly lower seasonal new gross registrations than Q1. Based on these and other factors, we now expect full year 2017 domain name base growth of between 1% and 2.5%, with a change of the domain name base for the second quarter of 2017 of flat to an increase of 0.4 million net registrations. As many of you are aware, we are in the process of reviewing the .net registry agreement with ICANN as the current term expands on -- sorry, ends on June 30. On April 20, ICANN posted the new .net registry agreement for public comment, which is open until May 30th.

From our perspective, the posted agreement does not contain changes to the material terms, such as the fees paid to ICANN, the renewal rights or the 6-year term. We believe we're on track for renewal prior to the expiration of the current term agreement.

Finally, as discussed during our prior earnings call, we decided it was in the best interest of the company to sell our iDefense business. The iDefense sale was completed at the start of the second quarter and VeriSign continues as a customer to benefit from the threat intelligence information provided by iDefense.

And now, I'd like to turn the call over to George.

George E. Kilguss *VeriSign, Inc. - CFO and EVP*

Thank you, Jim, and good afternoon, everyone. Revenue for the first quarter totaled $289 million, up 2.4% year-over-year and up 0.8% sequentially. During the quarter, 60% of our revenue was from customers in the United States and 40% was from foreign customers.

As it relates to our GAAP results, operating income in the first quarter totaled $175 million, up 5.1% from $167 million in the first quarter of 2016. The operating margin in the quarter came to 60.7% compared to 59.2% in the same quarter a year ago.

Net income totaled $116 million compared to $107 million a year earlier, which produced diluted earnings per share of $0.94 in the first quarter of this year compared to $0.82 for the first quarter last year.

As of March 31, 2017, the company maintained total assets of $2.3 billion and total liabilities of $3.5 billion. Assets included $1.8 billion of cash, cash equivalents and marketable securities, of which $316 million were held domestically, with the remainder held abroad.

I'll now review some additional first quarter financial metrics, which include non-GAAP operating margin, non-GAAP earnings per share, diluted share count, operating cash flow and free cash flow. I will then discuss our 2017 full year guidance.

As it relates to non-GAAP metrics, first quarter operating expense, which excludes $13 million of stock-based compensation, totaled $101 million as compared to $103 million in both the fourth quarter of 2016 and in the same quarter a year ago. The sequential decrease was primarily a result of lower marketing spend in the first quarter compared to the fourth quarter.

Non-GAAP operating margin for the first quarter was 65.1% compared to 63.3% in the same quarter of 2016. Non-GAAP net income for the first quarter was $119 million, resulting in non-GAAP diluted earnings per share of $0.96 based on a weighted average diluted share count of 124.5 million shares. This compares to $0.85 in the first quarter of 2016 and $0.92 last quarter based on 131.6 million and 125.5 million weighted average diluted shares, respectively.

For the past 2 years, we have used a tax rate of 26% to calculate our non-GAAP net income and non-GAAP earnings per share. Looking ahead, we believe a more reasonable estimate of the tax rate to calculate our non-GAAP net income and non-GAAP earnings per share is $0.25 -- 25%. As a result, we will begin to use a 25% non-GAAP tax rate when reporting second quarter 2017 non-GAAP results.

Operating cash flow for the first quarter was $148 million and free cash flow was $139 million compared with $150 million and $143 million, respectively, for the first quarter last year.

Dilution related to the convertible debentures was 21.3 million shares based on the average share price during the first quarter compared with 21.1 million for the same quarter in 2016 and 20.6 million shares last quarter. The share count was reduced by the full effect of fourth quarter 2016 repurchase activity and the weighted effect of the 1.8 million shares repurchased during the first quarter.

With respect to full year 2017 guidance, revenue for 2017 is now expected to be in the range of $1,145,000,000 to $1,160,000,000, increased and narrowed from the $1,138,000,000 to $1,158,000,000 range provided on our prior earnings call. Full-year 2017 non-GAAP operating margin is now expected to be between 64.5% and 65.25%, increased and narrowed from the 64% to 65% range as provided on our last call.

Our non-GAAP interest expense and non-GAAP non-operating income net is still expected to be an expense of between $93 million and $100 million. Capital expenditures for the year are still expected to be between $35 million and $45 million. And cash taxes for the year are now expected to be between $20 million to $30 million, changed from the $15 million to $25 million range provided on our last call.

As previously mentioned, the majority of expected cash taxes in 2017 are foreign, primarily because of domestic tax attributes, including cash tax benefits from our convertible debentures. As we said last quarter, these convertible debentures are an important part of our capital structure and our intention based on current conditions is to not redeem these debentures as they become redeemable in August of this year, which will allow these cash tax benefits to continue to accrue. The financial guidance provided reflects the completion of our iDefense asset sale on April 1, 2017.

In summary, the company continued to demonstrate sound financial performance during the first quarter of 2017.

Now, I will turn the call back to Jim for his closing remarks.

D. James Bidzos ***VeriSign, Inc. - Founder, Executive Chairman, CEO and President***

Thank you, George. In closing, during the first quarter, we expanded our work to protect, grow and manage the business while continuing our focus to provide long-term value to our shareholders. We think that our focus on profitable growth and disciplined execution will extend the long trend lines of growth in our top and bottom lines and allow us to continue our consistent track record of generating and returning value to our shareholders in the most efficient manner.

We will now take your questions. Operator, we are ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today will come from Sterling Auty with JPMorgan.

Sterling Auty ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Just a couple of questions. I want to start with, I think I saw the gross additions in the quarter were 9.5 million. If I compare that to pre-uplift from China, that's still pretty good, that's still up from, I want to say like the high 8.8 million, somewhere in that range. Just wondering what you're seeing as the factors that are helping the gross additions in the quarter?

George E. Kilguss ***VeriSign, Inc. - CFO and EVP***

This is George. In short, we saw increased demand from U.S.-based registrars in the quarter, which was aided in part by what we would call domain name-centric advertising by several channel partners in and around the Super Bowl, which happened in the February time frame.

Sterling Auty ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Okay. Great. And looking at it, any change in duration of those names? I think you used to talk about maybe kind of 15-, 16-month average durations when you average everything together. Is that still the same across the .com and .net base?

George E. Kilguss ***VeriSign, Inc. - CFO and EVP***

Yes, that hasn't changed too much over the years. That's still very consistent.

Sterling Auty ***JP Morgan Chase & Co, Research Division - Senior Analyst***

And you mentioned lower marketing spend in the quarter versus the fourth quarter. How should we think about the marketing spend, seasonality-wise, through the rest of the year? So we can think about the shape of the margins towards the guidance goal.

George E. Kilguss ***VeriSign, Inc. - CFO and EVP***

You are correct, Sterling, that marketing spend was down sequentially. The reason behind that is partly because Q4 was so high. We had a large amount of marketing spend going into the market in Q4. And then with regard to our marketing spend this year, the timing of our marketing activities are more heavily weighted toward events later in the year than last year. So as we've outlined in our 10-Q, our expectation for marketing expense is to increase as a percent of sales in the subsequent quarters.

Sterling Auty ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Okay. And very last question, if I could sneak it in. I didn't get a chance to look through, but what were the -- how much did you actually get? What were the proceeds for iDefense?

George E. Kilguss ***VeriSign, Inc. - CFO and EVP***

We're not disclosing the sale proceeds from iDefense.

D. James Bidzos ***VeriSign, Inc. - Founder, Executive Chairman, CEO and President***

They were not material. I think there might be some more information available in the next quarter since the sale actually closed in Q2, but the divestiture of iDefense was -- the sale of iDefense was not a material event.

Operator

(Operator Instructions) And our last question will come from Gray Powell with Wells Fargo.

Gray Powell ***Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Analyst***

Just a couple if I may. So I might be looking at this wrong, but when I look at the zone files, it looks like domain additions have turned negative so far in April. Your guidance is flat at plus 400,000. So I guess, is there anything going on in the first few weeks of the new quarter? Is there any like residual churn from China or just something that I am potentially missing?

D. James Bidzos ***VeriSign, Inc. - Founder, Executive Chairman, CEO and President***

I think you're seeing the final sort of move out of the China search names. There were some that carried over into April, and we're seeing the final deletions of the so-called China search names from late 2015 and 2016.

Gray Powell ***Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Analyst***

Okay. That's helpful. And then can you give us an update on the international transliterations of .com and .net that you have up and running today? And then just what are your expectations for additional launches over the course of the next year?

George E. Kilguss ***VeriSign, Inc. - CFO and EVP***

We have 3 of the transliterations in market, 2 in Korea and 1 in Japan. At this point, we don't have any additional details on any additional launches. In China, we are still going through the licensing process to operate our Chinese IDNs, but no additional details to share at this time and we'll provide more information on these and future rollouts as appropriate.

Gray Powell ***Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Analyst***

Great. Then last one if I may. Any update on the .web antitrust investigation?

D. James Bidzos ***VeriSign, Inc. - Founder, Executive Chairman, CEO and President***

No substantive update. We are continuing to cooperate with the Department of Justice relative to the CID that we discussed last quarter. Those interactions and dialogues have been constructive. We're producing documents and information and answering the questions as needed. So it's an ongoing process. Nothing substantive to update now. But, of course, as soon as there is, we'll share it with you.

Operator

And ladies and gentlemen, that concludes today's question-and-answer session. Mr. David Atchley, at this time, I'll turn the conference back over to you for any additional or closing remarks.

David Atchley ***VeriSign, Inc. - Vice President Investor Relations and Corporate Treasurer***

Thank you, operator. Please call the Investor Relations department with any follow-up questions from this call. Thank you for your participation. This concludes our call. Have a good evening.

Operator

Thank you. And again, ladies and gentlemen, that does conclude our conference for today. We thank you for your participation.

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Gregg Steven Moskowitz *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*
Matthew Steven Lemenager *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*
Ugam Kamat *JP Morgan Chase & Co, Research Division - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to VeriSign Second Quarter 2017 Earnings Call. Today's conference is being recorded, and unauthorized recording of this call is not permitted.

At this time, I would like to turn the conference over to Mr. David Atchley, VP of Investor Relations and Corporate Treasurer. Please go ahead, sir.

David Atchley ***VeriSign, Inc. - Vice President Investor Relations and Corporate Treasurer***

Thank you, operator, and good afternoon, everyone. Welcome to VeriSign's Second Quarter 2017 Earnings Call. With me are Jim Bidzos, Executive Chairman, President and CEO; Todd Strubbe, Executive Vice President and COO; and George Kilguss, Executive Vice President and CFO.

This call and our presentation are being webcast from the Investor Relations section of our verisign.com website. There you will also find our second quarter 2017 earnings release. At the end of this call, the presentation will be available on that site and within a few hours, the replay of the call will be posted.

Financial results in our earnings release are unaudited and our remarks include forward-looking statements that are subject to the risks and uncertainties that we discuss in detail in our documents filed with the SEC, specifically, the most recent reports on Forms 10-K and 10-Q, which identify risk factors that could cause actual results to differ materially from those contained in the forward-looking statements.

VeriSign retains its long-standing policy not to comment on financial performance or guidance during the quarter, unless it is done through a public disclosure.

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In a moment, Jim and George will provide some prepared remarks, and afterward, we will open the call for your questions.

With that, I would like to turn the call over to Jim.

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO, Executive Chairman***

Thanks, David, and good afternoon, everyone. I'm pleased to report another solid quarter for VeriSign. Second quarter results are in line with our objectives of offering security and stability to our customers while generating profitable growth and providing long-term value to our shareholders.

We reported revenue of $289 million, up 0.7% year-over-year and delivered strong financial performance, including non-GAAP EPS of $1.05 and $171 million in free cash flow. During the second quarter, we continued our share repurchase program by repurchasing 1.7

million shares for $150.5 million. Our financial position is strong, with $1.8 billion in cash, cash equivalents and marketable securities at the end of the quarter. We continually evaluate the overall cash and investing needs of the business and consider the best uses for our cash, including potential share repurchases.

At the end of June, the domain name base in .com and .net was $144.3 million, consisting of 129.2 million names for .com and 15.1 million names for .net. The domain name base increased by 0.68 million net names during the second quarter after processing 9.2 million new gross registrations. Although renewal rates are not fully measurable until 45 days after the end of the quarter, we believe that the renewal rate for the second quarter of 2017 will be 73.9%. This preliminary rate compares to 73.8% achieved in the second quarter of 2016.

We are updating the full year 2017 domain name base growth guidance to be between 2% and 2.75%. Also, we expect the domain name base to increase during the third quarter between 0.8 million to 1.3 million registrations.

I'll comment now on a few recent events. In June, the .net registry agreement between VeriSign and ICANN was successfully renewed. The new agreement does not contain changes to the material terms such as pricing terms, renewal rights, the 6-year term or fees paid to ICANN.

Also in June, we issued $550 million of senior unsecured notes with a 4.75% coupon maturing in 10 years. This offering closed in early July, and we're pleased with the result of this issuance.

Lastly, today, we announced an increase in the annual wholesale fee for a .net domain name registration as allowed by our agreement with ICANN. As of February 1, 2018, the annual wholesale fee for a .net domain name registration will increase from $8.20 to $9.02. We believe this positions .net competitively in the marketplace while keeping .net price lower than other popular legacy TLDs.

And now I'd like to turn the call over to George.

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Thanks, Jim, and good afternoon, everyone. Revenue for the second quarter totaled $289 million, up 0.7% year-over-year. During the quarter, 60% of our revenue was from customers in the U.S. and 40% was from foreign customers. As it relates to our GAAP results, operating income in the second quarter totaled $175 million compared with $176 million in the second quarter of 2016. The operating margin in the quarter came to 60.6% compared to 61.5% in the same quarter a year ago.

Net income totaled $123 million compared to $113 million a year earlier, which produced diluted earnings per share of $0.99 in the second quarter this year compared to $0.87 for the second quarter last year. The second quarter include a pretax gain of $10.6 million on the sale of the iDefense business, which increased GAAP diluted earnings per share by $0.09.

As Jim mentioned earlier, the company continues to manage its capital structure. Earlier this month, we took advantage of what we felt were favorable market conditions and added another long-term fixed rate piece of debt into our capital structure. The 10-year note issuance, which totaled $550 million, is scheduled to mature on July 15, 2027, and carried an interest rate of 4.75%. As this offering closed in early July, our second quarter ending balance sheet does not reflect the net proceeds from this issuance.

As of June 30, 2017, the company maintained total assets of $2.3 billion and total liabilities of $3.5 billion. Assets included $1.8 billion of cash, cash equivalents and marketable securities, of which $269 million were held domestically with the remainder held abroad.

I'll now review some additional second quarter financial metrics, which include non-GAAP operating margin, non-GAAP earnings per share, diluted share count, operating cash flow and free cash flow. I will then discuss our 2017 full year guidance.

As it relates to non-GAAP metrics, second quarter operating expense, which excludes $13 million of stock-based compensation, totaled $100 million as compared to $99 million in the same quarter a year ago and $101 million in the first quarter of 2017. Non-GAAP operating margin for the second quarter was 65.3% compared to 65.4% in the same quarter of 2016. Non-GAAP net income for the second quarter was $130 million resulting in non-GAAP diluted earnings per share of $1.05 based on a weighted average diluted share count of 124 million shares. This compares to $0.91 in the second quarter of 2016 and $0.96 last quarter based on 130.6 million and 124.5 million weighted average diluted shares, respectively.

Results for the second quarter included pretax gain of $10.6 million on the sale of the iDefense business, which increased non-GAAP diluted earnings per share by $0.06. As noted in our last earnings call, beginning with the second quarter financials, we are now using a 25% non-GAAP tax rate when reporting non-GAAP results.

Operating cash flow for the second quarter was $181 million and free cash flow was $171 million compared with 161 -- $167 million and $161 million, respectively, for the second quarter last year.

Dilution related to the convertible debentures was 22.5 million shares based on average share price during the second quarter compared with 21.9 million for the same quarter of 2016 and 21.3 million shares last quarter. The share count was reduced by the full effect of first quarter 2017 repurchase activity and the weighted effect of the 1.7 million shares repurchased during the second quarter.

With respect to full year 2017 guidance, revenue for 2017 is now expected to be in the range of $1,155,000,000 to $1,165,000,000 increased and narrowed from the $1,145,000,000 to $1,160,000,000 range provided on our prior earnings call. Full year 2017 non-GAAP operating margin is still expected to be between 64.5% to 65.25%. Our non-GAAP interest expense and non-GAAP nonoperating income net is now expected to be an expense of between $103 million and $110 million as compared with the $93 million to $100 million range provided on our last call, reflecting the additional senior note interest expense from the recent issuance.

Capital expenditures for the year are now expected to be between $40 million and $50 million, changed from the $35 million to $45 million range provided on our last call. And cash taxes for the year are still expected to be between $20 million and $30 million. The majority of expected cash taxes in 2017 are foreign, primarily because of domestic tax attributes, including cash tax benefits from our convertible debentures.

As we said in prior calls, these convertible debentures are an important part of our capital structure and our intention, based on current conditions, is not to redeem these debentures as they become redeemable in August of this year, which will allow the tax benefits to continue to accrue.

In summary, the company continue to demonstrate sound financial performance during the second quarter of 2017.

Now I'll turn the call back to Jim for his closing remarks.

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO, Executive Chairman***

Thank you, George. In closing, during the second quarter, we continued our work to protect, grow and manage the business while continuing our focus on providing long-term value to our shareholders.

We have marked some significant milestones since our last call. In addition to renewing the .net registry agreement with ICANN for another 6 years, earlier this month, the company surpassed 20 continuous years of 100% availability in the .com and .net DNS. This record is the result of the expertise of our people and our specialized infrastructure.

We believe our focus on profitable growth and disciplined execution will extend the long trend lines of growth in our top and bottom line and allow us to continue our consistent track record of generating and returning value to our shareholders in the most efficient manner.

We will now take your questions. Operator, we're ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll go first to Rob Oliver with Robert W. Baird.

Matthew Steven Lemenager ***Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst***

This is Matt Lemenager on for Rob. Question on the strength of the domain name activity quarter to date in the guidance, it's a little bit above what maybe we expected at least a few quarters ago at $0.8 million to $1.3 million. Because we think about what is driving that strength. Is there any direction that you can point us? Is it perhaps promotional activity or international domain name? I don't know, if there's any color you could add there.

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO, Executive Chairman***

I think probably the biggest contributors there are or there is some strengthening in the economy. There's more economic activity, which generally contributes to domain name growth. But I also think the strong brands that common net represents, their strong, recognized, trusted global brands are showing their strength and contributed to that good performance as well.

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

The only other point I'd put on that, Rob, is as you saw in the first quarter, we had also good demand coming out of the U.S. market and that strength in the U.S. continued into the second quarter.

Matthew Steven Lemenager ***Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst***

Great. And then just one other question on the -- on the expense structure. Are there any expenses that are kind of more second half weighted as we think about the EBIT margin guidance, we've kind of been above -- the word -- at the high end of that range for the full year guide? Is there anything for the second half, that may be expenses that are second half-specific that would cause that EBIT margin to come in at that lower end of that guide?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Well, we provided our guidance for our non-GAAP operating margin for the full year just now, but as far as how expenses flow, what we've outlined in our 10-Q is we do expense our sales and marketing expenses to be higher in the second half of the year. But we'll continue to manage all the expenses of the business, and we expect to be within the non-GAAP operating margin of between 64.5% to 65.25%, just given earlier.

Operator

And we'll go next to Sterling Auty with JPMorgan.

Ugam Kamat ***JP Morgan Chase & Co, Research Division - Analyst***

This is Ugam Kamat on for Sterling Auty. Just to expound on the domain name question. You said about the strengthening economy in the U.S. that is driving the growth in domains. What are you seeing within the international market currently versus what you saw about a year ago? And how should we think about it going forward?

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO, Executive Chairman***

Well, is that -- let me see if I understand your question properly. By international markets, I can point to one thing that has changed. We did mention in several past quarters that the so-called China surge, which began in late 2015 and continued into 2016 including the second quarter, of course, affected renewals for 2017. We believe now that, that effect, the China effect, so to speak, has pretty much pushed through the system. So I think that might be a factor. Certainly, some activity I would point to in terms of the international market. There is general strong growth in the international market. But as George pointed out, some growth in the U.S. market in the first quarter continued into the second quarter as well. So there are good signs. There's general growth outside the U.S. and an economic activity in the U.S. has contributed to some continuing growth here.

Ugam Kamat ***JP Morgan Chase & Co, Research Division - Analyst***

Perfect. That's really helpful. And another one on expenses. Operating margins came somewhere around 65.3% versus somewhere 66% we were estimating. Any particular expenses that were higher within the quarter that related to -- that led to the dipping of margins?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

So we did see a slight increase in G&A expense in the quarter. During the quarter, we purchased some additional software licenses for the core business, and we also had slightly higher legal fees in the quarter. But again, on a non-GAAP basis, we were pretty much flat. We can consistently be around that $100 million non-GAAP operating expense level.

Ugam Kamat ***JP Morgan Chase & Co, Research Division - Analyst***

Okay. And if I could sneak one more in. Where are you currently in the .web entry lawsuit? And what is the normal procedure and time line you are expecting with that particular suit?

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO, Executive Chairman***

Well, there's really no update to provide on .web at this point. With respect to our interactions with the Department of Justice, we continue to cooperate with DOJ as it pertains to the CID we discussed last quarter. That dialogue is constructive -- has been constructive. We produced the documents with information. We'd answered questions as needed. And we're meeting with the department. So that's an ongoing process and beyond that, there's really nothing to say at this point.

Operator

And we'll take our last question from Gregg Moskowitz with Cowen & Company.

Gregg Steven Moskowitz ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***

Just, I guess, to start off, a follow-up on that last -- on one of those last questions. I was wondering if you might be able to, George, put a finer point on the amount of excess G&A expense in Q2 just for us to get a little bit of a more normalized sense of the OpEx?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Not sure what you mean by excess expense, Gregg. We continue to manage all the lines of expenses throughout the business, pretty much on a quarterly and monthly basis. And each quarter, there's always going to be some type of expense that comes in that might not have been planned or one might call nonrecurring. But I think if you continue to call those out, any expense you could almost view is nonrecurring. As I said, in the quarter, we did purchase some additional software licenses in the quarter, and we did have some higher legal costs in the quarter. But we will have, from time to time, the need to purchase additional software licenses in the business, and we'll have the need to spend additional money from a legal perspective for the company. And so again, I'd look back at the big picture, on a non-GAAP basis, total expense was a little over $100 million, $100.7 million. And compared to last quarter, which was a similar amount and year-over-year, I believe, it was $99 million a year ago quarter versus $100 million there. We did have a little bit higher stock-based compensation in the quarter on a GAAP basis and that's really a function of 2 areas. One, since last year, we have brought on some additional senior management to the company, in particular, (inaudible), an SVP of Product. And then we also, as a senior management team, do have some longer-term incentive programs and as we continue to execute on our plan and deliver on results over and above some of the goals that were set, we do have some accelerators that are going to accrue there as we continue to execute. So we'll continue to try to do that. But again, from a GAAP perspective, we had a little bit more stock-based compensation. And as I said, we had a few other nits and nat in the quarter. But in general, very consistent with the year-ago period as well as sequentially.

Gregg Steven Moskowitz ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***

Okay. That's helpful. And then I guess, just one other question. As you noted in your prepared remarks, you recently issued a little over $500 million in debt. Are you looking to put that to work in relatively short order? Or can you give us an update on what you plan to do with the cash?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Sure. So as you point out, we absolutely added some additional debt to capital structure. And as you know, as a company, we try to actively manage that capital structure. One of the things that we clearly look at and monitor is our ability to erase debt in the market and the ability to execute it and also with the -- with interest rate, we can do that. And when we look at the market, we felt that where the market was, it was an attractive time for us to go add another piece of long-term capital to our capital structure. So as far as use of proceeds, as we mentioned in the offering, we plan to use those proceeds for general corporate purposes that would also include potential share repurchases. As you know from following us, we don't guide the share repurchases. But we try to be very prudent with the capital of the company, and we'll continue to look for ways to generate positive returns for the shareholders.

Operator

And with that, I'd like to turn the conference back over to David Atchley for any additional or closing remarks.

David Atchley ***VeriSign, Inc. - Vice President Investor Relations and Corporate Treasurer***

Thank you, operator. Please call the Investor Relations department with any follow-up questions from this call. Thank you for your participation. This concludes our call. Have a good evening.

Operator

Again, this does conclude today's presentation. We thank you for your participation.

THOMSON REUTERS

EDITED TRANSCRIPT

Q3 2017 Verisign Inc Earnings Call

EVENT DATE/TIME: OCTOBER 26, 2017 / 8:30PM GMT

CORPORATE PARTICIPANTS

D. James Bidzos *VeriSign, Inc. - President, CEO & Executive Chairman*
David Atchley *VeriSign, Inc. - Vice President Investor Relations and Corporate Treasurer*
George E. Kilguss *VeriSign, Inc. - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Matthew Steven Lemenager *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*
Robert Cooney Oliver *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to VeriSign's Third Quarter 2017 Earnings Call. Today's conference is being recorded, and unauthorized recording of this call is not permitted.

At this time, I would like to turn the conference over to Mr. David Atchley, Vice President of Investor Relations and Corporate Treasurer. Please go ahead, sir.

David Atchley ***VeriSign, Inc. - Vice President Investor Relations and Corporate Treasurer***

Thank you, operator, and good afternoon, everyone. Welcome to VeriSign's Third Quarter 2017 Earnings Call. With me are Jim Bidzos, Executive Chairman, President and CEO; Todd Strubbe, Executive Vice President and COO; and George Kilguss, Executive Vice President and CFO.

This call and our presentation are being webcast from the Investor Relations section of our verisign.com website. There, you will also find our third quarter 2017 earnings release. At the end of this call, the presentation will be available on that site, and within a few hours, the replay of the call will be posted.

Financial results in our earnings release are unaudited, and our remarks include forward-looking statements that are subject to the risks and uncertainties that we discussed in detail in our documents filed with the SEC, specifically, the most recent reports on Forms 10-K and 10-Q, which identify risk factors that could cause actual results to differ materially from those contained in the forward-looking statements.

VeriSign retains its long-standing policy not to comment on financial performance or guidance during the quarter, unless it is done through a public disclosure.

The financial results in today's call and the matters we will be discussing today include GAAP and non-GAAP measures used by VeriSign. GAAP to non-GAAP reconciliation information is appended to our earnings release and slide presentation, as applicable, each of which can be found on the Investor Relations section of our website.

In a moment, Jim and George will provide some prepared remarks. And afterward, we will open the call for your questions.

With that, I would like to turn the call over to Jim.

D. James Bidzos ***VeriSign, Inc. - President, CEO & Executive Chairman***

Thanks, David, and good afternoon, everyone. I'm pleased to report another solid quarter for VeriSign. Third quarter results are in line with our objectives of offering security and stability to our customers while generating profitable growth and providing long-term value to our shareholders.

We reported revenue of $292 million, up 1.7% year-over-year and delivered strong financial performance, including non-GAAP EPS of $1 and $153 million in free cash flow.

During the third quarter, we continued our share repurchase program by repurchasing 1.5 million shares for $147 million. Our financial position is strong with $2.4 billion in cash, cash equivalents and marketable securities at the end of the quarter. We continually evaluate the overall cash and investing needs of the business and consider the best uses for our cash, including potential share repurchases.

At the end of September, the domain name base in .com and .net totaled 145.8 million, consisting of 130.8 million names for .com and 15 million names for .net. The domain name base increased by 1.47 million net names during the third quarter after processing 8.9 million new gross registrations. Gross additions during the quarter benefited from continued strength from U.S.-based registrars.

Although renewal rates are not fully measurable until 45 days after the end of the quarter, we believe that the renewal rate for the third quarter of 2017 will be 74.3%. This preliminary rate compares to 73.0% achieved in the third quarter of 2016. We expect an increase to the domain name base during the fourth quarter of between 0.4 million to 0.9 million registrations, which is consistent with the full year 2017 domain name base growth rate of 2.8% to 3.1%.

And now I'd like to turn the call over to George.

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Thank you, Jim, good afternoon, everyone. Revenue for the third quarter totaled $292 million, up 1.7% year-over-year and up by 1.3% sequentially. During the quarter, 59% of our revenue was from customers in the United States and 41% was from foreign customers.

As it relates to our GAAP results, operating income in the third quarter totaled $181 million compared with $175 million in the third quarter of 2016. The operating margin in the quarter came to 61.9% compared to 60.8% in the same quarter a year ago.

Net income totaled $115 million compared to $114 million a year earlier, which produced diluted earnings per share of $0.93 in the third quarter this year compared to $0.90 for the third quarter last year.

As of September 30, 2017, the company maintained total assets of $2.9 billion and total liabilities of $4.1 billion. Assets included $2.4 billion of cash, cash equivalents and marketable securities, of which, $757 million were held domestically with the remainder held abroad.

I'll now review some additional third quarter financial metrics, which include non-GAAP operating margin, non-GAAP earnings per share, operating cash flow and free cash flow. I will then discuss our 2017 full year guidance.

As it relates to non-GAAP metrics, third quarter operating expense, which excludes $14 million of stock-based compensation, totaled $97 million compared to $100 million, both last quarter and the same quarter a year ago. While non-GAAP operating expenses were lower in the third quarter, we do expect an increase in sales and marketing spending in the fourth quarter.

Non-GAAP operating margin for the third quarter was 66.7% compared to 65.3% in the same quarter of 2016. Non-GAAP net income for the third quarter was $124 million, resulting in non-GAAP diluted earnings per share of $1 based on a weighted average diluted share count of 124.1 million shares. This compares to $0.93 in the third quarter of 2016 and $1.05 last quarter based on 127.7 million and 124.0 million weighted average diluted shares, respectively.

Operating cash flow for the third quarter was $175 million and free cash flow was $153 million compared with $171 million and $165 million, respectively, for the third quarter last year. Free cash flow in the third quarter was lower, partially due to the timing of some capital expenditures.

Dilution related to convertible debentures was 24 million shares based on the average share price during the third quarter compared with 20.8 million for the same quarter in 2016 and 22.5 million shares last quarter. The share count was reduced by the full effect of second quarter 2017 repurchase activity and the weighted effect of the 1.5 million shares repurchased during the third quarter.

With respect to full year 2017 guidance, revenue for 2017 is now expected to be in the range of $1,161,000,000 to $1,166,000,000 increased and narrowed from the $1,155,000,000 to $1,165,000,000 range provided on our prior earnings call.

Full year 2017 non-GAAP operating margin is now expected to be between 65% and 65.5% increased and narrowed from the 64.5% to 65.25% range provided on our prior earnings call. Our non-GAAP interest expense and non-GAAP nonoperating income net is still expected to be an expense of between $103 million and $110 million.

Capital expenditures for the year are now expected to be between $45 million and $55 million, changed from the $40 million to $50 million range provided on the last call. And cash taxes for the year are still expected to be between $20 million and $30 million.

The majority of expected cash taxes in 2017 are foreign, primarily because of domestic tax attributes, including cash tax benefits from our convertible debentures. As we said in prior calls, these convertible debentures are an important part of our capital structure and our intention, based on current conditions, is not to redeem these debentures, which will allow the cash tax benefits to continue to accrue.

In summary, the company continues to demonstrate sound financial performance during the third quarter of 2017.

Now I'll turn the call back to Jim for his closing remarks.

D. James Bidzos ***VeriSign, Inc. - President, CEO & Executive Chairman***

Thanks, George. In closing, during the third quarter, we continued our work to protect, grow and manage the business while continuing our focus on providing long-term value to our shareholders. We think our focus on profitable growth and disciplined execution will extend the long trend lines of growth in our top and bottom line and allow us to continue our consistent track record of generating and returning value to our shareholders in the most efficient manner.

We will now take your questions. So operator, we're ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will go to Rob Oliver, Baird.

Matthew Steven Lemenager ***Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst***

It's Matt Lemenager on for Rob this afternoon. Can you give us any update on the .web civil investigative demand that I think we had talked about a couple of quarters ago? Is there any update on that process or how that's sitting?

D. James Bidzos ***VeriSign, Inc. - President, CEO & Executive Chairman***

The update is really the same. There's no new news. Although there is activity, the process is ongoing. We are continuing to cooperate with the Justice Department. Regarding the CID that you asked about, there's an ongoing constructive document -- dialogue. We're producing documents and information. But beyond that, there's nothing new to say at this point. Of course, as soon as there is, we'll let you know.

Robert Cooney Oliver ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Got it. And my next question is just -- do you have any thoughts on -- as I think about speculators or squatters and we think about the rise in with things like Bitcom -- Bitcoin and Ethereum and things like that, is there any -- have you guys seen any impact of people who may be before would have been coming and buying domains? I'm just curious to get your thoughts on kind of the impact of Bitcoin and other things like that people are maybe out purchasing.

D. James Bidzos ***VeriSign, Inc. - President, CEO & Executive Chairman***

I don't know of any direct relationship between people purchasing Bitcoin and domain names. I can tell you that we do report on trends in domain name registration and that Bitcoin trends frequently, consistently and often. So people are registering names related to Bitcoin and cryptocurrency and those types of things. So we do see those, and we do report those registration trends. Beyond that, I don't think there's any unusual activity that we have to report.

Operator

And Mr. Atchley, I'll turn things over to you for any final comments.

David Atchley ***VeriSign, Inc. - Vice President Investor Relations and Corporate Treasurer***

Great. Thank you, operator. Please call the Investor Relations department with any follow-up questions from this call. Thank you for your participation. This concludes our call. Have a good evening.

Operator

And that does conclude today's conference call. We thank you all for joining us.

THOMSON REUTERS

EDITED TRANSCRIPT

Q4 2017 Verisign Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 08, 2018 / 9:30PM GMT

CORPORATE PARTICIPANTS

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Walter H Pritchard *Citigroup Inc, Research Division - MD and U.S. Software Analyst*

PRESENTATION

Operator

Good day, everyone, welcome to VeriSign's Fourth Quarter and Full Year 2017 Earnings Call. Today's conference is being recorded, and unauthorized recording of this call is not permitted.

At this time, I would like to turn the conference over to Mr. David Atchley, Vice President of Investor Relations and Corporate Treasurer. Please go head, sir.

David Atchley ***VeriSign, Inc. - VP & Corporate Treasurer***

Thank you, operator, and good afternoon, everyone. Welcome to VeriSign's Fourth Quarter and Full Year 2017 Earnings Call. With me are: Jim Bidzos, Executive Chairman, President and CEO; Todd Strubbe, Executive Vice President and COO; and George Kilguss, Executive Vice President and CFO.

This call and our presentation are being webcast from our Investor Relations website, which is available under About VeriSign on verisign.com. There, you will also find our fourth quarter and full year 2017 earnings release. At the end of this call, the presentation will be available on that site. And within a few hours, the replay of the call will be posted.

Financial results in our earnings release are unaudited, and our remarks include forward-looking statements that are subject to the risks and uncertainties that we discuss in detail in our documents filed with the SEC, specifically the most recent reports on Forms 10-K and 10-Q, which identify risk factors that could cause actual results to differ materially from those contained in the forward-looking statements. VeriSign retains its long-standing policy not to comment on financial performance or guidance during the quarter, unless it is done through a public disclosure.

The financial results in today's call and the matters we will be discussing today include GAAP and non-GAAP measures used by VeriSign. GAAP to non-GAAP reconciliation information is appended to our earnings release and slide presentation, as applicable, each of which can be found on the Investor Relations section of our website.

In a moment, Jim and George will provide some prepared remarks. And afterward, we will open the call for your questions. With that, I would like to turn the call over to Jim.

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO & Executive Chairman***

Thanks, David, and good afternoon, everyone. I'm pleased to report another solid quarter, which capped a strong 2017 for VeriSign. Fourth quarter and full year results were in line with our objectives of offering security and stability to our customers while generating profitable growth and providing long-term value to our shareholders.

For 2017, VeriSign delivered strong financial performance, reporting $1,165,000,000 in revenues, resulting in $653 million in free cash flow and generating full year 2017 non-GAAP operating margins of 65.3%.

2017 was a strong year for the .com and .net domain name base in which the company processed 36.7 million registrations and finished the year with 146.4 million names. During the year, we marked more than 20 years of uninterrupted availability of the VeriSign DNS for .com and .net. Also last year, we renewed the .net registry agreement for another 6 years until 2023.

During the fourth quarter, we continued our share repurchase program by repurchasing 1.3 million shares for $145 million. During the full year 2017, we repurchased 6.3 million shares for $593 million. Effective today, the Board of Directors increased the amount of VeriSign common stock authorized for share repurchase by approximately $586 million to a total of $1 billion authorized and available under the share repurchase program, which has no expiration.

Our financial position is strong with $2.4 billion in cash, cash equivalents and marketable securities at the end of the quarter. We continually evaluate the overall cash and investing needs of the business and consider the best uses for our cash, including potential share repurchases.

At the end of December, the domain name base in .com and .net totaled 146.4 million, consisting of 131.9 million names for .com and 14.5 million names for .net. During the fourth quarter, we processed 9 million new registrations and the domain name base increased by 0.57 million names. During the quarter, we continued to see strength from domestic registrars, which was offset by a lower second-time renewal rate associated with the remaining China surge names from late 2015.

Although renewal rates are not fully measurable until 45 days after the end of the quarter, we believe that the renewal rate for the fourth quarter of 2017 will be 72.2%. We expect full year 2018 domain name base growth of between 2% and 3%. For the first quarter, we expect an increase to the domain name base of between 1.5 million to 2 million registrations.

I'd like to comment now on a recent positive development in our efforts to become the registry operator for .web. You may have seen the 8-K we filed in January. In it, we disclosed that the U.S. Department of Justice's Antitrust Division notified us that it had disclosed its investigation regarding the .web top level domain. We are now engaged in ICANN's process to move the delegation of .web forward. However, as this is ICANN's process, we cannot say when it will conclude. And while it's possible that our operation of .web will commence this year, the 2018 revenue guidance we will provide does not include any revenue from .web. Of course, we'll provide you with updates as appropriate.

And now I'd like to turn the call over to George.

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Thank you, Jim, and good afternoon, everyone. For the year ended December 31, 2017, the company generated revenue of $1,165,000,000, up 2% from fiscal 2016, and delivered GAAP operating income of $708 million, up 3% from $687 million for the full year 2016.

Revenue for the fourth quarter totaled $296 million, up 3.2% year-over-year and up by 1.1% sequentially. During the quarter, 60% of our revenue was from customers in the U.S. and 40% was from customers abroad.

As it relates to fourth quarter GAAP results, operating income totaled $176 million compared with $169 million in the fourth quarter of 2016. The operating margin in the quarter came to 59.7% compared to 59% in the same quarter a year ago. Net income totaled $103 million compared to $106 million a year earlier, which produced diluted earnings per share of $0.83 in the fourth quarter this year compared to $0.84 for the fourth quarter last year.

As of December 31, 2017, the company maintained total assets of $2.9 billion and total liabilities of $4.2 billion. Assets included $2.4 billion of cash, cash equivalents and marketable securities, of which $729 million were held domestically with the remainder held abroad.

I'll now review some additional fourth quarter financial metrics, which include non-GAAP operating margin, non-GAAP earnings per share, operating cash flow and free cash flow. I then will discuss our 2018 full-year guidance.

As it relates to non-GAAP metrics, fourth quarter operating expense, which excludes $13 million of stock-based compensation, totaled $106 million compared to $97 million last quarter and $103 million in the same quarter a year ago. Non-GAAP operating expenses were higher in the fourth quarter as we had indicated on our last call, primarily due to an increase in sales and marketing spending in the fourth quarter.

Non-GAAP operating margin for the fourth quarter was 64.1% compared to 63.9% in the same quarter of 2016. Non-GAAP net income for the fourth quarter was $119 million, resulting in a non-GAAP diluted earnings per share of $0.96 based on a weighted average diluted share count of 124.3 million shares. This compares to $0.92 in the fourth quarter of 2016 and $1 last quarter based on 125.5 million and 124.1 million weighted average diluted shares, respectively.

Dilution related to the convertible debentures was 25.2 million shares based on the average share price during the fourth quarter compared with 20.6 million for the same quarter in 2016 and 24 million shares last quarter. The share count was reduced by the full effect of third quarter 2017 repurchase activity and the weighted effect of the 1.3 million shares repurchased during the fourth quarter. Operating cash flow for the fourth quarter was $199 million and free cash flow was $190 million compared with $205 million and $198 million, respectively, for the fourth quarter last year.

Now I'd like to provide an update on implications to the company of the Tax Cuts and Jobs Act enacted in December 2017, which I will refer to as the Tax Act. As stated in today's earnings release, fourth quarter and full year 2017 GAAP financial results include a net $9 million tax expense increase resulting from the Tax Act. This increase is comprised of a provisional income tax expense of $196 million, consisting of onetime U.S. taxes on accumulated foreign earnings triggered by the Tax Act and related foreign withholding taxes, both net of applying previously unrecognized foreign tax credits. This expense is offset by an income tax benefit of $187 million resulting from the revaluation of our net deferred tax liabilities from 35% to the 21% U.S. federal income tax rate in the Tax Act.

As a result of the onetime U.S. taxes on accumulated foreign earnings, we also intend to repatriate by early in the second quarter of 2018 approximately $1.1 billion of cash held by foreign subsidiaries, net of foreign withholding taxes and based on current exchange rates. Additionally, on a go-forward basis, due to the Tax Act, annual earnings of our foreign subsidiaries will be taxed by the U.S. This allows for annual repatriation without further U.S. taxation of distributable capital reserves from foreign entities. The taxation of foreign earnings and withholding taxes associated with ongoing repatriations will increase cash taxes over the amount the company has historically paid.

Also the lower corporate tax rates and limitations under deductibility of interest implemented by the Tax Act decreases the value of future interest expense deductions. In light of the Tax Act, we are presently evaluating our capital structure, including a possible redemption of our convertible debentures.

Finally, since mid-2017, we have used a tax rate of 25% to calculate our non-GAAP net income and non-GAAP earnings per share. Looking ahead, we believe a more reasonable estimate of the tax rate to calculate our non-GAAP net income and non-GAAP earnings per share is 22%. As a result, we will begin to use 22% non-GAAP tax rate when reporting first quarter 2018 non-GAAP results.

With respect to full year 2018 guidance, revenue is expected to be in the range of $1,195,000,000 to $1,215,000,000. Non-GAAP operating margin is expected to be between 65.5% and 66.5%. Our non-GAAP interest expense and non-GAAP nonoperating income net is expected to be an expense of between $115 million and $122 million. Capital expenditures are expected to be between $45 million and $55 million. And finally, cash taxes are expected to be between $70 million and $90 million. This 2018 cash tax guidance reflects our best estimate of the various impacts of the Tax Act, including the impacts of our intended repatriation.

In summary, the company continued to demonstrate sound financial performance during the fourth quarter and the full year 2017. Now I'll turn the call back to Jim for his closing remarks.

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO & Executive Chairman***

Thank you, George. 2017 was another solid year for VeriSign. There was further expansion of the domain name base and revenues. We generated an efficiently returned value to shareholders. We renewed the .net registry agreement for another 6 years until 2023. And we marked more than 20 years of uninterrupted availability of the VeriSign DNS for .com and .net.

Finally, earlier this year, we disclosed that the U.S. Department of Justice notified us that it closed its investigation regarding the .web top level domain. We continued our work to protect, grow and manage the business while continuing our focus on providing long-term value to our shareholders. We think our focus on profitable growth and disciplined execution will extend the long trend lines of growth in our top and bottom line and allow us to continue our consistent track record of generating and returning value to our shareholders in the most efficient manner.

We will now take your questions. Operator, we're ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Gregg Moskowitz with Cowen and Company.

Gregg Steven Moskowitz ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***

Jim, in the third quarter, the top 5 keyword searches for .com involved some form of cryptocurrency and/or blockchain. How instrumental do you think crypto has been in driving .com gross adds over the past several months or so?

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO & Executive Chairman***

I don't think I have at the tip of my fingers the precise numbers. But I don't believe that they're material. I have seen a lot of activity in the secondary markets of trading in .com registrations that have crypto in them. But I don't think that there any meaningful direct contributions to new .net registrations in the numbers that we reported. And there's just a huge amount of interest in cryptocurrencies and Bitcoin, as you know, now that it's hit the exchanges. And what we've seen, I would say specifically, is a spike in value in the secondary market of .com names with any multiple keyword names with crypto in them.

Gregg Steven Moskowitz ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***

Okay. And then George, you had told us that you would spend more on marketing in Q4 and you did. And I know I'm dating myself here, but I would have go all the way back to 2007 to find another quarter where sales and marketing expense grew this much in absolute dollars on a sequential basis. So can you maybe just sort of give a little bit more color on the activities that you undertook in Q4 as well as what the sales and marketing strategy is for 2018?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Sure. I mean, keep in mind though on an annual basis, our total marketing expense is pretty flat year-over-year. As I talked about a few quarters ago, we clearly look to execute our marketing programs that we think drive the best return for the company. And sometimes those programs we have to pivot during the year. And we had lighter marketing expenses, as we talked about, in the middle of 2017. And we finally got some programs coming out. We did make a little bit of a shift away from some registrar marketing programs to more direct marketing programs. We did do some of our advertising for our brands, both .com and .net, both domestically and abroad. And so we've been doing a little bit more direct marketing as a result of that. And those programs came out in the fourth quarter and will continue to run in the first half of 2018 here.

Gregg Steven Moskowitz ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***

Okay, great. And then just one last question for me. Can you expand on why your cash taxes are so much higher in 2018? And as part of that, is the (inaudible) tax shield associated with the convert, is that less valuable going forward under the tax reform?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Yes. So as mentioned in my prepared remarks, from a GAAP perspective, we made an accrual for the onetime transition tax. And that was partially offset by the reevaluation of our DTLs. So from a GAAP perspective, that was about $9 million. From a cash tax perspective, as you mentioned, we're guiding to $70 million to $90 million in 2018. And that's up from about $28 million this year. As mentioned, this reflects a variety of the impacts from the Tax Act, including the impacts of our intended repatriation. And while I don't think it makes sense to go through all the puts and takes of the tax calculation, I think the big items impacting the company from a cash tax perspective going forward are really the tax on foreign earnings, the U.S. tax on foreign earnings, and then the U.S. limitations on interest deductions, partially offset by the U.S. tax rate. But that amount does include impacts as well from our repatriation. As far as interest limitations, yes, tax reform clearly has diminished benefits for interest expense. There are some limitations there. And as a result, as I've mentioned, we are looking at our entire capital structure. We're looking at it. We'll be evaluating it. And as our converts are part of that capital structure, we look at them as well.

Operator

We'll go next to Rob Oliver with Baird.

Matthew Steven Lemenager ***Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst***

This is Matt Lemenager on for Rob. I realize it might be early, but just looking to see if there's any plan around .web, maybe things around go-to-market, how that might look any different than .com. And would you be doing extra marketing just to get that brand up and going? Any early thoughts? I realize no expectation on the guidance or anything. But any early thoughts?

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO & Executive Chairman***

Yes, I think it's just too early at this point to discuss any details about go-to-market or launch plans for .web. There's an ICANN process that we're now engaged in with the Department of Justice having closed their investigation of .web. And when that process completes, I'm sure we'll have a lot more to say. But at this point, it would just be premature.

Matthew Steven Lemenager ***Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst***

Got it. And on the expectations for domain growth 2% to 3% for this year, any difference in the expectations for U.S. versus international? I know you've talked about strength in the economy in the United States and that the China phenomenon has kind of rolled off. I didn't know if any of the international markets were starting to come back.

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

So in 2017, we absolutely have seen a good U.S. market. But having said that, European markets have also done well for us. Our expectation is that we'll see good growth in both U.S. and international markets next year. But we don't guide to the specific markets or their performances.

Matthew Steven Lemenager ***Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst***

Got it. And the last question I had on the repatriation. Would it be fair to assume that the primary use case would be for share repurchases? Or do you think there would be other avenues that you would look to deploy the repatriated cash?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Well, I think in general, I don't think there will be a change in how we approach capital allocation. As always, we look at the needs of the business using our strategic framework of protect, grow and manage. And we do what we think is best for the business. As you may recall, our strategic framework includes making sure we maintain an adequate amount of liquidity for the business, both today and for tomorrow, what we think the needs are to continue to invest in our protect mission for the network and our business for today and tomorrow, to invest in technology and innovation that we think will drive profitable growth of the business. And then once we accomplish those goals, we then evaluate how much excess capital we think is appropriate to return to shareholders and in what form. So we think that framework, which we've been using for the past 6 years, has served us well. And we'll continue to use that framework as it relates to the capital of the corporation.

Operator

And we'll go next to Sterling Auty with JPMorgan.

Ugam Kamat ***JP Morgan Chase & Co, Research Division - Analyst***

This is Ugam Kamat on for Sterling Auty. So Jim, you mentioned that the renewal rate out of China was disappointing, especially the second-time renewal rate. So just wondering what was the renewal rate especially in China? Like you gave the blended renewal rate, but just wondering, what was the renewal rate in China? And how many names are left? And what would be the future renewal rates that you expect to come out from this region?

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO & Executive Chairman***

Yes. So we don't guide renewal rates by country. As mentioned, the cohort that was originally from the 2015 China surge, that cohort was about 1.4 million names coming into the year. And that renewal rate was probably, on a blended basis, maybe about 40% for that cohort. So we did have a portion of those names come out. However, we were anticipating that. We did comment on that last quarter. And that was in the guidance that we gave and we fell within the range of the guidance. But most of that cohort now is, I would say, through the system for many material names. And I would expect renewal rates to go back to more normalized rates.

Ugam Kamat ***JP Morgan Chase & Co, Research Division - Analyst***

All right, perfect. That's helpful. And secondly, since we are coming closer to the Cooperative Agreement date in October, any particular update that you can give us on the process that you're having with the Department of Commerce? Or any particular survey that they might have done to allow the renewal of Cooperative Agreement or just allow it to expire?

D. James Bidzos ***VeriSign, Inc. - Founder, President, CEO & Executive Chairman***

Well, so first of all, I guess just to remind everybody on the call, in late September 2016, NTIA approved the .com Registry Agreement to be extended to November 30, 2024. At that time, NTIA chose not to extend the Cooperative Agreement. So it is currently scheduled to terminate on November 30 in 2018. Whether to extend that Cooperative Agreement or not is NTIA's decision and their process, and so can't comment on that. They do have the right to conduct a public interest review for the sole purpose of determining whether or not they'll exercise their right to extend the term of the Cooperative Agreement. Now one update that is new since the last time we talked is that David Redl was confirmed as the Assistant Secretary and Administrator of the NTIA in November of 2017. Unfortunately, that's all the update I can give you there. We can't comment on Mr. Redl's appointment or the NTIA in regard to their process related to the Cooperative Agreement. That's theirs, not ours. As soon as we can, we'll share whatever information we do have though.

Operator

And we'll take our last question from Walter Pritchard with Citi.

Walter H Pritchard ***Citigroup Inc, Research Division - MD and U.S. Software Analyst***

I think all my questions have been answered. Just one I wanted to make sure I clarified. On the tax scenario that you've outlined, the $70 million to $90 million and the tax rate going down to 22%, does that contemplate redeeming the convert? And if not, does the redeeming of the convert potentially have additional tax impact beyond what you talked about?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

So Walter, as I mentioned, we're just evaluating our convertible debentures in conjunction with evaluating our capital structure. So we're still looking at that. So our guidance is really based on where we see it today of what we're doing. It doesn't involve looking at any changes from that fact. We're still evaluating it.

Walter H Pritchard ***Citigroup Inc, Research Division - MD and U.S. Software Analyst***

And then does that $70 million to $90 million cash tax rate, it sounds like that doesn't mean most companies are talking about having an 8-year (inaudible)

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Yes. So if you're referring to -- so I think you're referring to the transition tax. The Tax Act allows you to look at your taxes, what they would have been with the Tax Act or without. So it's a with-or-without calculation. And for us, when we do that calculation, we expect to actually defer that amount of tax over the 8 years allowed by the Tax Act.

Walter H Pritchard ***Citigroup Inc, Research Division - MD and U.S. Software Analyst***

Okay. So the $70 million to $90 million, would that be a pretty good number for the next, say, several years that would include that 8-year period, too?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

So as we mentioned previously, we don't guide to a long-term cash tax rate. However, I would say in the short term, we expect that, that rate to still be below our GAAP tax rate as we use up foreign tax credits. At the end of 2017, we had about $122 million of foreign tax credits. And we now expect to utilize those over the next 2 to 3 years.

Walter H Pritchard ***Citigroup Inc, Research Division - MD and U.S. Software Analyst***

Okay. So sorry to be -- just to keep going on this. But the $70 million to $90 million does include still the benefits of some of those foreign tax credits. And then those would expire at some point here?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

That's correct.

Walter H Pritchard ***Citigroup Inc, Research Division - MD and U.S. Software Analyst***

Okay. Any just detail on how much per year you can use up that $122 million?

George E. Kilguss ***VeriSign, Inc. - Executive VP & CFO***

Like I said, they'll be probably fully utilized over the next 3 years. So obviously, you'll use them up -- use more of them up in year 1 and 2 and probably less in year 3. But the utilization of FTCs, to be perfectly candid, is somewhat complex and is dependent on a variety of factors. So it's a little bit -- clearly, I have an idea of what they'd be. But it's probably premature to give that number because they can change over time depending on how foreign income is recognized overseas.

Operator

And at this time, I would like to turn the call back over to David Atchley for any additional or closing remarks.

David Atchley ***VeriSign, Inc. - VP & Corporate Treasurer***

Thank you, operator. Please call the Investor Relations department with any follow-up questions from this call. Thank you for your participation. This concludes our call. Have a good evening.

Operator

And again, this does conclude today's call. You may now disconnect.