VERISIGN INC/CA
Form 10-Q
April 29, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 000-23593

VERISIGN, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3221585**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
21355 Ridgetop Circle, Dulles, Virginia	**20166**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (703) 948-3200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): YES ¨ NO x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	**Shares Outstanding April 22, 2011**
Common stock, $.001 par value	168,471,815

Table of Contents

TABLE OF CONTENTS

		Page
	PART I FINANCIAL INFORMATION	
Item 1.	Financial Statements	3
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	27
	PART II OTHER INFORMATION	
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 6.	Exhibits	45
Signatures		46

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

As required under Item 1 Financial Statements included in this section are as follows:

Financial Statement Description	Page
Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010	4
Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and 2010	5
Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010	6
Notes to Condensed Consolidated Financial Statements	7

3

Table of Contents

VERISIGN, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,440,826	$ 1,559,628
Marketable securities	506,014	501,238
Accounts receivable, net	15,852	14,874
Prepaid expenses and other current assets	97,406	102,217
Total current assets	2,060,098	2,177,957
Property and equipment, net	193,145	190,319
Goodwill and other intangible assets, net	54,823	55,146
Other assets	22,537	20,584
Total long-term assets	270,505	266,049
Total assets	$ 2,330,603	$ 2,444,006
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 159,627	$ 195,235
Deferred revenues	485,462	457,478
Total current liabilities	645,089	652,713
Long-term deferred revenues	213,484	205,560
Convertible debentures, including contingent interest derivative	583,852	581,626
Long-term deferred tax liabilities	317,944	309,696
Other long-term liabilities	24,906	17,981
Total long-term liabilities	1,140,186	1,114,863
Total liabilities	1,785,275	1,767,576
Commitments and contingencies		
Stockholders equity:		
Preferred stock par value $.001 per share; Authorized shares: 5,000,000; Issued and outstanding shares: none		
Common stock par value $.001 per share; Authorized shares: 1,000,000,000; Issued and outstanding shares: 168,413,107, excluding 146,420,438 held in treasury, at March 31, 2011; and 172,736,281, excluding 140,576,600 held in treasury, at December 31, 2010	315	313
Additional paid-in capital	20,869,501	21,040,919
Accumulated deficit	(20,322,697)	(20,363,468)
Accumulated other comprehensive loss	(1,791)	(1,334)

Total stockholders equity	545,328	676,430
Total liabilities and stockholders equity	$ 2,330,603	$ 2,444,006

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

VERISIGN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2011	2010
Revenues	$ 181,523	$ 161,582
Costs and expenses		
Cost of revenues	40,869	38,814
Sales and marketing	22,391	21,310
Research and development	13,594	12,277
General and administrative	33,629	34,844
Restructuring charges	5,530	234
Total costs and expenses	116,013	107,479
Operating income	65,510	54,103
Interest expense	(11,820)	(11,998)
Non-operating income, net	5,478	4,828
Income from continuing operations before income taxes	59,168	46,933
Income tax expense	(16,875)	(16,924)
Income from continuing operations, net of tax	42,293	30,009
(Loss) income from discontinued operations, net of tax	(1,522)	22,431
Net income	40,771	52,440
Less: Net income from discontinued operations, net of tax, attributable to noncontrolling interest in subsidiary		(1,084)
Net income attributable to Verisign stockholders	$ 40,771	$ 51,356
Basic income per share attributable to Verisign stockholders from:		
Continuing operations	$ 0.25	$ 0.16
Discontinued operations	(0.01)	0.12
Net income	$ 0.24	$ 0.28
Diluted income per share attributable to Verisign stockholders from:		
Continuing operations	$ 0.25	$ 0.16
Discontinued operations	(0.01)	0.12
Net income	$ 0.24	$ 0.28
Shares used to compute net income per share attributable to Verisign stockholders:		
Basic	170,193	183,174

Diluted	171,979	184,259
Amounts attributable to Verisign stockholders:		
Income from continuing operations, net of tax	$ 42,293	$ 30,009
(Loss) income from discontinued operations, net of tax	(1,522)	21,347
Net income attributable to Verisign stockholders	$ 40,771	$ 51,356

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

VERISIGN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income	$ 40,771	$ 52,440
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment and amortization of other intangible assets	13,968	21,905
Stock-based compensation	14,950	12,085
Excess tax benefit associated with stock-based compensation	(3,615)	(8,097)
Other, net	2,129	6,270
Changes in operating assets and liabilities, excluding the effects of acquisitions and divestitures:		
Accounts receivable	(985)	4,579
Prepaid expenses and other assets	3,975	9,689
Accounts payable and accrued liabilities	(16,814)	(33,734)
Deferred revenues	35,908	35,983
Net cash provided by operating activities	90,287	101,120
Cash flows from investing activities:		
Proceeds from maturities and sales of marketable securities and investments	11,238	95,909
Proceeds received from divestiture of businesses, net of cash contributed		15,583
Purchases of marketable securities and investments	(18,008)	(549,087)
Purchases of property and equipment	(15,565)	(19,898)
Other investing activities	(1,181)	
Net cash used in investing activities	(23,516)	(457,493)
Cash flows from financing activities:		
Proceeds from issuance of common stock from option exercises and employee stock purchase plans	16,550	17,393
Repurchases of common stock	(207,428)	(53,753)
Excess tax benefit associated with stock-based compensation	3,615	8,097
Other financing activities		(346)
Net cash used in financing activities	(187,263)	(28,609)
Effect of exchange rate changes on cash and cash equivalents	1,690	(2,154)
Net decrease in cash and cash equivalents	(118,802)	(387,136)
Cash and cash equivalents at beginning of period	1,559,628	1,477,166
Cash and cash equivalents at end of period	$ 1,440,826	$ 1,090,030
Supplemental cash flow disclosures:		
Cash paid for interest, net of capitalized interest	$ 20,062	$ 19,811

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

VERISIGN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

Interim Financial Statements

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by VeriSign, Inc. (Verisign or the Company) in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, do not include all information and notes normally provided in audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for any other interim period or for a full fiscal year. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes contained in Verisign s fiscal 2010 Annual Report on Form 10-K (the 2010 Form 10-K) filed with the SEC on February 24, 2011.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to current period presentation. Such reclassifications have no effect on net income as previously reported.

Note 2. Cash, Cash Equivalents, and Marketable Securities

The following table summarizes the Company s cash, cash equivalents, and marketable securities:

	March 31, 2011	December 31, 2010
	(In thousands)	
Cash	$ 109,065	$ 106,270
Money market funds	433,051	648,054
Time deposits	902,685	803,797
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	364,312	359,160
Corporate debt securities	136,689	141,338
Debt securities issued by foreign governments	5,013	5,040
Total	$ 1,950,815	$ 2,063,659
Included in Cash and cash equivalents	$ 1,440,826	$ 1,559,628
Included in Marketable securities	$ 506,014	$ 501,238
Included in Other assets (Restricted cash)	$ 3,975	$ 2,793

Table of Contents

The following tables summarize the Company s unrealized gains and losses, and fair value of debt and equity securities designated as available-for-sale investments. There were no investments classified as either held-to-maturity or trading as of March 31, 2011.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
As of March 31, 2011:				
Fixed income securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	$ 363,083	$ 1,994	$ (765)	$ 364,312
Corporate debt securities	135,368	1,321		136,689
Debt securities issued by foreign governments	5,013			5,013
Total fixed income securities	$ 503,464	$ 3,315	$ (765)	$ 506,014
Included in Marketable securities				$ 506,014
As of December 31, 2010:				
Fixed income securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	$ 357,135	$ 2,524	$ (499)	$ 359,160
Corporate debt securities	140,009	1,329		141,338
Debt securities issued by foreign governments	5,038	2		5,040
Total fixed income securities	$ 502,182	$ 3,855	$ (499)	$ 505,538
Included in Cash and cash equivalents				$ 4,300
Included in Marketable securities				$ 501,238

The unrealized losses as of March 31, 2011, relate to debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies with an aggregate fair value of $121.3 million that have been in a continuous unrealized loss position for less than twelve months. The Company anticipates that it will recover the entire amortized cost basis of these debt securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three months ended March 31, 2011. The Company does not have the intent to sell any of these debt securities and it is more likely than not that it will not be required to sell them, before recovery of the entire amortized cost basis.

The following table presents the contractual maturities of the fixed income securities as of March 31, 2011:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Due within one year	$ 116,472	$ 490	$	$ 116,962
Due after one year through three years	386,992	2,825	(765)	389,052
Total	$ 503,464	$ 3,315	$ (765)	$ 506,014

Net gains or losses recognized during the three months ended March 31, 2011 and 2010 related to sales of marketable securities were not material.

8

Table of Contents

Note 3. Fair Value of Financial Instruments

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes the Company s financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010:

		Fair Value Measurement Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
As of March 31, 2011:				
Assets:				
Investments in money market funds	$ 433,051	$ 433,051	$	$
Investments in fixed income securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	364,312		364,312	
Corporate debt securities	136,689		136,689	
Debt securities issued by foreign governments	5,013		5,013	
Total	$ 939,065	$ 433,051	$ 506,014	$
Liabilities:				
Contingent interest derivative on Convertible Debentures	$ 10,950	$	$	$ 10,950
Foreign currency forward contracts (1)	121		121	
Total	$ 11,071	$	$ 121	$ 10,950
As of December 31, 2010:				
Assets:				
Investments in money market funds	$ 648,054	$ 648,054	$	$
Investments in fixed income securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	359,160	2,700	356,460	
Corporate debt securities	141,338		141,338	
Debt securities issued by foreign governments	5,040		5,040	
Total	$ 1,153,592	$ 650,754	$ 502,838	$
Liabilities:				
Contingent interest derivative on Convertible Debentures	$ 10,500	$	$	$ 10,500
Foreign currency forward contracts (1)	282		282	
Total	$ 10,782	$	$ 282	$ 10,500

(1) Included in Accounts payable and accrued liabilities

The fair value of the Company s investments in certain money market funds approximates their face value. Such instruments are classified as Level 1 and are included in Cash and cash equivalents.

9

Table of Contents

The fair value of the Company s investments in fixed income securities are obtained using the weighted-average price of available market prices for the underlying securities from various industry standard data providers, large financial institutions and other third-party sources. The fair value of U.S. Treasury bills is based on their quoted market prices. Such instruments are included in either Cash and cash equivalents or Marketable securities.

The fair value of the Company s foreign currency forward contracts is based on foreign currency rates quoted by banks or foreign currency dealers and other public data sources.

The Company has utilized a valuation model based on simulations of stock prices, interest rates, credit ratings and bond prices to estimate the value of the contingent interest derivative. The inputs to the model include risk adjusted interest rates, volatility, average yield curve observations and stock price. As several significant inputs are not observable, the overall fair value measurement of the derivative is classified as Level 3.

The following table summarizes the change in the fair value of the Company s Level 3 contingent interest derivative on Convertible Debentures during the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Beginning balance	$ 10,500	$ 10,000
Unrealized loss (gain) on contingent interest derivative on Convertible Debentures	450	(469)
Ending balance	$ 10,950	$ 9,531

Other

The Company s other financial instruments include accounts receivable, restricted cash, and accounts payable. As of March 31, 2011, the carrying value of these financial instruments approximated their fair value. The fair value of the Company s Convertible Debentures as of March 31, 2011, is $1.5 billion, and is based on quoted market prices.

Note 4. Other Balance Sheet Items

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	March 31, 2011	December 31, 2010
	(In thousands)	
Accounts payable	$ 15,990	$ 16,727
Accrued employee compensation	33,664	52,628
Customer deposits, net	16,101	18,681
Payables to buyers	10,513	11,337
Taxes payable, deferred and other tax liabilities	37,546	38,168
Accrued restructuring costs	16,349	17,460
Other accrued liabilities	29,464	40,234
Total accounts payable and accrued liabilities	$ 159,627	$ 195,235

Accrued employee compensation primarily consists of employee accrued vacation, accrued payroll and taxes, accruals for employee contributions to the employee stock purchase plan, and accrued bonus. Payables to buyers primarily consists of amounts due to Symantec for certain post-closing purchase price adjustments related to the sale of the Authentication Services business and accrued bonus for employees associated with the

10

Table of Contents

Authentication Services business. Accrued bonus as of December 31, 2010, included in Accrued employee compensation was paid during the three months ended March 31, 2011. As of March 31, 2011, Accrued restructuring costs primarily represents restructuring costs related to the sale of the Authentication Services business. Other accrued liabilities consist primarily of interest on the Convertible Debentures, and accruals for products and services. Interest on the Convertible Debentures is paid semi-annually in arrears on August 15 and February 15.

Note 5. Restructuring Charges

2010 Restructuring Plan

In connection with the sale of the Authentication Services business and the migration of its corporate functions from its Mountain View, California facility to its facility in Dulles, Virginia, the Company initiated a restructuring plan in 2010, including workforce reductions, abandonment of excess facilities and other exit costs (the 2010 Restructuring Plan).

Under the 2010 Restructuring Plan, the Company expects to incur total estimated pre-tax cash charges for severance costs and other related employee termination costs of $22.5 million, and excess facility exit costs of $11.5 million, of which the Company has recorded a total of $21.5 million, and $1.0 million, respectively, through March 31, 2011. Additionally, the Company recognized stock-based compensation expenses of $13.4 million, inclusive of amounts for discontinued operations, through March 31, 2011, upon acceleration of stock-based awards for employees notified of termination.

The following table presents the nature of the restructuring charges:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Workforce reduction	$ 4,723	$ 1,711
Excess facilities	807	116
Total consolidated restructuring charges	$ 5,530	$ 1,827
Amounts classified as continuing operations	$ 5,530	$ 234
Amounts classified as discontinued operations	$	$ 1,593

Amounts for the three months ended March 31, 2011 were incurred under the 2010 Restructuring Plan. Amounts for the three months ended March 31, 2010 were incurred under the previous 2008 Restructuring Plan.

Table of Contents

The following table presents a rollforward of the accrued restructuring costs:

	Accrued Restructuring Costs at December 31, 2010	Costs Incurred	Costs Paid or Settled	Stock-Based Compensation	Accrued Restructuring Costs at March 31, 2011
			(In thousands)		
Workforce reduction	$ 15,120	$ 4,723	$ (3,080)	$ (2,989)	$ 13,774
Excess facilities	3,098	807	(594)		3,311
Total accrued restructuring costs	$ 18,218	$ 5,530	$ (3,674)	$ (2,989)	$ 17,085
Current portion of accrued restructuring costs					$ 16,349
Long-term portion of accrued restructuring costs					$ 736

Note 6. Stockholders Equity

Comprehensive Income

Comprehensive income consists of Net income adjusted for unrealized gains and losses on marketable securities classified as available-for-sale and foreign currency translation adjustments. The following table presents the components of comprehensive income:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Net income	$ 40,771	$ 52,440
Foreign currency translation adjustments	28	(526)
Change in unrealized gain on investments, net of tax	(458)	(240)
Realized gain on investments, net of tax, included in net income	(27)	(46)
Comprehensive income	40,314	51,628
Less: Comprehensive income attributable to noncontrolling interest in subsidiary		893
Comprehensive income attributable to Verisign stockholders	$ 40,314	$ 50,735

Repurchase of Common Stock

On July 27, 2010, the Board authorized the repurchase of up to approximately $1.1 billion of Verisign s common stock, in addition to the $393.6 million of its common stock remaining available for repurchase under the previous 2008 Share Buyback Program, for a total repurchase of up to $1.5 billion of its common stock (collectively, the 2010 Share Buyback Program). The 2010 Share Buyback Program has no expiration date. During the three months ended March 31, 2011, the Company repurchased 5.6 million shares of its common stock at an average stock price of $35.54 for an aggregate cost of $199.6 million under the 2010 Share Buyback Program. As of March 31, 2011, $1.2 billion remained available for further repurchase under the 2010 Share Buyback Program.

During the three months ended March 31, 2011, the Company placed 0.2 million shares at an average stock price of $34.47 for an aggregate cost of $7.8 million into treasury stock to cover tax withholdings upon vesting of RSUs.

Table of Contents

Note 7. Calculation of Net Income per Share Attributable to Verisign Stockholders

The Company computes basic net income per share attributable to Verisign stockholders by dividing net income attributable to Verisign stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share attributable to Verisign stockholders gives effect to dilutive potential common shares, including outstanding stock options, unvested RSUs, conversion spread relating to the Convertible Debentures, and employee stock purchases using the treasury stock method. The following table presents the computation of weighted-average shares used in the calculation of basic and diluted net income per share attributable to Verisign stockholders:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Weighted-average number of common shares outstanding	170,193	183,174
Weighted-average potential shares of common stock outstanding:		
Stock options	445	336
Unvested restricted stock units	814	749
Conversion spread related to Convertible Debentures	506	
Employee stock purchase plan	21	
Shares used to compute diluted net income per share attributable to Verisign stockholders	171,979	184,259

The following table presents the weighted-average potential shares of common stock that were excluded from the above calculation because their effect was anti-dilutive, and the respective weighted-average exercise prices of the weighted-average stock options outstanding:

	Three Months Ended March 31,	
	2011	2010
	(In thousands, except per share data)	
Weighted-average stock options outstanding	301	4,436
Weighted-average exercise price	$ 38.24	$ 30.63
Weighted-average restricted stock units outstanding	32	56
Employee stock purchase plan	510	1,387

Note 8. Stock-based Compensation

Stock-based compensation is classified in the Condensed Consolidated Statements of Operations in the same expense line items as cash compensation. The following table presents the classification of stock-based compensation:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Stock-based compensation:		
Cost of revenues	$ 1,990	$ 921
Sales and marketing	1,854	1,120
Research and development	1,518	1,070
General and administrative	6,599	5,229
Restructuring charges	2,989	112
Stock-based compensation for continuing operations	14,950	8,452

Discontinued operations		3,633
Total stock-based compensation expense	$ 14,950	$ 12,085

13

Table of Contents

The following table presents the nature of the Company s total stock-based compensation, inclusive of amounts for discontinued operations:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Stock-based compensation:		
Stock options	$ 1,463	$ 2,316
Employee stock purchase plan	1,180	2,729
Restricted stock units	10,215	6,949
RSUs/Stock options acceleration	2,989	570
Capitalization (Included in Property and equipment, net)	(897)	(479)
Total stock-based compensation expense	$ 14,950	$ 12,085

Note 9. Non-operating Income, Net

The following table presents the components of Non-operating income, net:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Interest and dividend income	$ 2,091	$ 1,093
Unrealized (loss) gain on contingent interest derivative on Convertible Debentures	(450)	469
Income from transition services agreements	3,462	3,020
Other, net	375	246
Total non-operating income, net	$ 5,478	$ 4,828

Interest and dividend income is earned principally from Verisign s surplus cash balances and marketable securities. Income from transition services agreements includes fees generated from services provided to the purchasers of divested businesses for a certain period of time to ensure and facilitate the transfer of business operations.

Note 10. Discontinued Operations

For a period of time, the Company will continue to generate cash flows and will report income statement activity in continuing operations that are associated with the Authentication Services business and certain other completed divestitures. These activities are transitional in nature and generally result from agreements ensuring and facilitating the orderly transfer of business operations. The nature, magnitude and duration of the agreements vary depending on the specific circumstances of the service, location or business need. The existing agreements include the following: data center hosting and information services. As of March 31, 2011, the existing agreements have remaining terms from 1 to 28 months in length.

Table of Contents

The following table presents the revenues and the components of discontinued operations, net of tax, attributable to Verisign stockholders:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Revenues	$ 44	$ 102,821
Income from discontinued operations before income taxes	$ 3,206	$ 32,660
Income tax expense	(4,728)	(10,229)
(Loss) income from discontinued operations	(1,522)	22,431
Less: Income from discontinued operations, net of tax, attributable to noncontrolling interest in subsidiary		(1,084)
Total (loss) income from discontinued operations, net of tax, attributable to Verisign stockholders	$ (1,522)	$ 21,347

Income from discontinued operations before income taxes for the three months ended March 31, 2011 primarily represents adjustments to gains or losses on divestitures completed in 2009, as a result of the resolution of certain retained litigation of a divested business. Income tax expense for discontinued operations for the three months ended March 31, 2011 includes a $2.9 million discrete charge attributable to a change in the purchase price allocation prepared for income tax purposes related to the divestiture of the Authentication Services business as agreed by the parties in April 2011. Income from discontinued operations before income taxes for the three months ended March 31, 2010, represents the results of operations of the Authentication Services business, and adjustments to gains and losses on divestitures completed in 2009, as a result of certain one-time employee termination costs and settlement of certain retained litigation of the divested businesses.

Note 11. Income Taxes

The following table presents the income tax expense from continuing operations and the effective tax rate:

	Three Months Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Income tax expense from continuing operations	$ 16,875	$ 16,924
Effective tax rate	29%	36%

The effective tax rate for the three months ended March 31, 2011 differs from the statutory federal rate of 35% due to state taxes, the effect of non-US operations, and tax benefits from foreign income taxed at lower rates. The effective tax rate for the three months ended March 31, 2010 differs from the statutory federal rate of 35% due to state taxes, the effect of non-US operations, non-deductible stock-based compensation expense, and tax benefits from foreign income taxed at lower rates.

The Company applies a valuation allowance to certain deferred tax assets when management does not believe that it is more likely than not that they will be realized. Deferred tax assets offset by a valuation allowance relate primarily to investments with differing book and tax bases and net operating losses in certain foreign jurisdictions.

As of March 31, 2011 and December 31, 2010, the Company had gross unrecognized tax benefits for income taxes associated with uncertain tax positions of $36.2 million and $28.8 million, respectively. During the three months ended March 31, 2011, the Company recorded an increase in unrecognized tax benefits of $7.4 million related to current period activities. As of March 31, 2011 and December 31, 2010, $31.0 million and

$24.9 million, respectively, of unrecognized tax benefits, including penalties and interest, would affect the Company s effective tax rate if realized. The balance of the gross unrecognized tax benefits is expected to increase in the next 12 months.

In accordance with its accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. Interest and penalties related to income tax liabilities, recognized through income tax expense during the three months ended March 31, 2011 and 2010, were not material.

The Company s major taxing jurisdictions are the U.S., the states of California and Virginia, and Switzerland. The Company s tax returns are not currently under examination by these taxing jurisdictions. Because the Company uses historic net operating loss carryforwards and other tax attributes to offset its taxable income in current and future years income tax returns for the U.S., California and Virginia, such attributes can be adjusted by these taxing authorities until the statute closes on the year in which such attributes were utilized. The open years in Switzerland are the 2006 tax year and forward.

Note 12. Contingencies

Legal Proceedings

On May 31, 2007, plaintiffs Karen Herbert, et al., on behalf of themselves and a nationwide class of consumers (*Herbert*), filed a complaint against Verisign, m-Qube, Inc., and other defendants alleging that defendants collectively operated an illegal lottery under the laws of multiple states by allowing viewers of the NBC television show Deal or No Deal to incur premium text message charges in order to participate in an interactive television promotion called Lucky Case Game. The lawsuit is pending in the U.S. District Court for the Central District of California, Western Division. On June 5, 2007, plaintiffs Cheryl Bentley, et al., on behalf of themselves and a nationwide class of consumers (*Bentley*), filed a complaint against Verisign, m-Qube, Inc., and other defendants alleging that defendants collectively operated an illegal lottery under the laws of multiple states by allowing viewers of the NBC television show The Apprentice to incur premium text message charges in order to participate in an interactive television promotion called Get Rich With Trump. The defendants motion to dismiss the *Herbert* matter was denied by the district court on December 3, 2007 and that ruling was appealed. On July 8, 2010, the Court of Appeals for the Ninth Circuit dismissed the appeal for lack of jurisdiction and remanded the case to the district court. The *Bentley* and *Herbert* cases, although not consolidated, are proceeding on a coordinated basis before the same judge in the District Court. Certain defendants have asserted indemnity claims against Verisign in connection with these matters.

Verisign has been named as a defendant in litigation brought by the plaintiff Coalition for Internet Corporation for Assigned Names and Numbers Transparency, Inc. (CFIT) asserting claims, among others, under Sections 1 and 2 of the Sherman Antitrust Act (the Sherman Act) in connection with the *.com* and *.net* Registry Agreements. Following the dismissal with prejudice of CFIT s second amended complaint by the United States District Court for the Northern District of California on May 14, 2007, and CFIT s appeal to the U.S. Court of Appeals for the Ninth Circuit, the case was remanded to the U.S. District Court for the Northern District of California by an Order and Amended Opinion issued on July 9, 2010. Upon remand, the District Court scheduled (i) a trial to begin December 5, 2011, (ii) a summary judgment hearing on threshold issues (including standing, the role of the U.S. government and ICANN, immunity, as well as CFIT s right to a jury trial) for March 2011 and (iii) a final summary judgment hearing for October 2011. On December 16, 2010, the District Court granted CFIT s unopposed motion for leave to file a third amended complaint. The third amended complaint contained new allegations regarding the *.net* Registry Agreement, sought disgorgement of profits, eliminated all claims for damages and removed all claims regarding the alleged expiring names registration services market. Verisign filed a motion to dismiss CFIT s third amended complaint on December 30, 2010. A hearing on Verisign s motion to dismiss was held on February 4, 2011, whereupon the District Court took the matter under advisement. On February 11, 2011, the District Court issued an order granting Verisign s motion to dismiss CFIT s third amended complaint (the Order). The Order dismissed the complaint in its entirety, with

leave, in part, to amend the complaint again. First, the Order dismissed the complaint in its entirety on the grounds that the third amended complaint failed to identify members of CFIT or their continuous standing to assert the claims in the complaint against Verisign. The Order granted CFIT leave to amend the complaint to the extent CFIT can sufficiently allege standing from the commencement of the action. Second, the Order dismissed the claims concerning the *.net* Registry Agreement on the grounds that CFIT s allegations were too conclusory to plausibly state a claim for relief. The Order granted CFIT leave to amend its claims concerning the *.net* Registry Agreement to the extent it could allege specific facts sufficient to state a claim for relief. Third, the Order dismissed without leave to amend CFIT s claim for disgorgement of domain name registration fees CFIT alleges were improperly collected. Finally, the Order denied CFIT s request for a jury trial. Thus, any claims in the case should be tried to the District Court rather than a jury. Verisign filed a motion for summary judgment on February 4, 2011 on certain threshold issues as discussed above. The district court heard oral argument on the motion on March 11, 2011 and thereafter took the matter under advisement. CFIT filed a Fourth Amended Complaint on February 22, 2011. The Fourth Amended Complaint again asserts claims under Sections 1 and 2 of the Sherman Act with respect to the *.com* Registry Agreement. It does not assert any claims, however, for damages or disgorgement with respect to the *.com* Registry Agreement. The Fourth Amended Complaint also does not assert any claims with respect to the *.net* Registry Agreement. Verisign filed an Answer to the Fourth Amended Complaint on March 8, 2011.

Indemnifications

In connection with the sale of the Authentication Services business to Symantec, the Company has agreed to indemnify Symantec for certain potential legal claims arising from the operation of the Authentication Services business for a period of sixty months after the closing of the sale transaction. The Company s indemnification obligations in this regard are triggered only when indemnifiable claims exceed in the aggregate $4 million. Thereafter, the Company is obligated to indemnify Symantec for 50% of all indemnifiable claims. The Company s maximum indemnification obligation with respect to these claims is capped at $125 million.

While certain legal proceedings and related indemnification obligations to which the Company is a party specify the amounts claimed, such claims may not represent reasonably possible losses. Given the inherent uncertainties of the litigation, the ultimate outcome of these matters cannot be predicted at this time, nor can the amount of possible loss or range of loss, if any, be reasonably estimated, except in circumstances where an aggregate litigation accrual has been recorded for probable and reasonably estimable loss contingencies. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

Verisign is involved in various other investigations, claims and lawsuits arising in the normal conduct of its business, none of which, in its opinion, will have a material effect on its business. The Company cannot assure you that it will prevail in any litigation. Regardless of the outcome, any litigation may require the Company to incur significant litigation expense and may result in significant diversion of management attention.

Note 13. Subsequent Events

On April 27, 2011, the Board declared a special dividend of $2.75 per share of the Company s common stock, totaling approximately $463.3 million. The special dividend will be paid on May 18, 2011 to shareholders of record as of the close of business on May 9, 2011. Further, the Board has designated the special dividend as an extraordinary dividend for the purposes of the indenture governing the Convertible Debentures. As a result, contingent interest of $100.0 million will also be paid on May 18, 2011 to the holders of record of the Convertible Debentures at the close of business on May 9, 2011.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the interim unaudited Condensed Consolidated Financial Statements and related notes.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements involve risks and uncertainties, including, among other things, statements regarding our anticipated costs and expenses and revenue mix. Forward-looking statements include, among others, those statements including the words expects, anticipates, intends, believes and similar language. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q. You should also carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q or Current Reports on Form 8-K that we file in 2011 and our 2010 Form 10-K, which was filed on February 24, 2011, which discuss our business in greater detail. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Overview

We are a provider of Internet infrastructure services. By leveraging our global infrastructure, we provide network confidence and availability for mission-critical Internet services, such as domain name registry services and infrastructure assurance services. Our service capabilities enable domain name registration through our registrar partners and provide network availability for registrars and Internet users alike.

Our business consists of one reportable segment, namely Naming Services, which consists of Registry Services and Network Intelligence and Availability (NIA) Services. Registry Services operates the authoritative directory of all *.com, .net, .cc, .tv,* and *.name* domain names and the back-end systems for all *.gov*, *.jobs* and *.edu* domain names. As of March 31, 2011, we had approximately 108.0 million domain names registered under the *.com* and *.net* registries, our principal registries. The number of domain names registered is largely driven by continued growth in online advertising, e-commerce, and the number of Internet users, which is partially driven by greater availability of broadband, as well as advertising and promotional activities carried out by us and third-party registrars. Although growth in absolute number of registrations remains greatest in mature markets such as the U.S., growth on an annual percentage basis is expected to be greatest in markets outside of the U.S. over the long-term. NIA Services provides infrastructure assurance to organizations and is comprised of Verisign iDefense Security Intelligence Services, Managed Domain Name System Services, and Distributed Denial of Service mitigation. Revenues from NIA Services are not significant.

Business Highlights and Trends Three months ended March 31, 2011

- We recorded revenues of $181.5 million during the three months ended March 31, 2011, an increase of 12%, as compared to the same period last year. The increase was primarily due to a 9% year-over-year increase in active domain names ending in *.com* and *.net* and increases in our *.com* and *.net* registry fees in July 2010.

- We recorded operating income of $65.5 million during the three months ended March 31, 2011, an increase of 21%, as compared to the same period last year. The increase was primarily due to an increase in our revenues.

- We repurchased 5.6 million shares of our common stock under the 2010 Share Buyback Program for an aggregate cost of $199.6 million during the three months ended March 31, 2011.

Table of Contents

We generated cash flows from operating activities of $90.3 million during the three months ended March 31, 2011, a decrease of 11% as compared to the same period last year. The decrease was primarily due to the elimination of cash flows from the divested Authentication Services business.

Results of Operations

The following table presents information regarding our results of operations as a percentage of revenues:

	Three Months Ended March 31,	
	2011	2010
Revenues	100%	100%
Costs and expenses		
Cost of revenues	23	24
Sales and marketing	12	13
Research and development	7	8
General and administrative	19	22
Restructuring charges	3	
Total costs and expenses	64	67
Operating income	36	33
Interest expense	(7)	(7)
Non-operating income, net	3	3
Income from continuing operations before income taxes	32	29
Income tax expense	(9)	(10)
Income from continuing operations, net of tax	23	19
(Loss) income from discontinued operations, net of tax	(1)	14
Net income	22	33
Less: Net income from discontinued operations attributable to noncontrolling interest in subsidiary		(1)
Net income attributable to Verisign stockholders	22%	32%

Revenues

Revenues related to our Registry Services are primarily derived from registrations for domain names in the *.com, .net, .cc, .tv*, *.name, .gov,* and *.jobs* domain name registries. Revenues from *.cc, .tv, .name, .gov,* and *.jobs* are not significant. For domain names registered with the *.com* and *.net* registries, we receive a fee from third-party registrars per annual registration that is fixed pursuant to our agreements with ICANN. Individual customers, called registrants, contract directly with third-party registrars or their resellers, and the third-party registrars in turn register the *.com*, *.net*, *.cc*, *.tv*, *.name* and *.jobs* domain names with Verisign. Changes in revenues are driven largely by increases in the number of new domain name registrations and the renewal rate for existing registrations, in each case as impacted by continued growth in online advertising, e-commerce, and the number of Internet users, which is partially driven by greater availability of broadband, as well as advertising and promotional activities carried out by us and third-party registrars. On July 1, 2010, we increased our *.com* domain name registration fees by 7% from $6.86 to $7.34. We have the contractual right to increase the fees for *.com* domain name registrations by up to 7% either in 2011 or in 2012 prior to the end of the current agreement with ICANN on November 30, 2012. On July 1, 2010, we increased our *.net* domain name registration fees by 10% from $4.23 to $4.65. We have the contractual right to increase the fees for *.net* domain name registrations by up to 10% in 2011. We offer promotional marketing programs for our registrars based upon market conditions and the business environment in which the registrars operate. We are largely insulated from the risk posed by fluctuations in exchange rates due to the fact that all revenues paid to us for *.com* and *.net* registrations are in U.S. dollars. Revenues from NIA Services are not significant.

19

Table of Contents

A comparison of revenues is presented below:

	Three Months Ended March 31,		
	2011	% Change	2010
	(Dollars in thousands)		
Revenues	$ 181,523	12%	$ 161,582

The following table compares domain names ending in *.com* and *.net* managed by our Registry Services business:

	March 31, 2011	% Change	March 31, 2010
Active domain names ending in *.com* and *.net*	108.0 million	9%	99.3 million

Our revenues increased by $19.9 million during the three months ended March 31, 2011, as compared to the same period last year, primarily due to a 9% year-over-year increase in the number of domain names ending in *.com* and *.net* and increases in our *.com* and *.net* registry fees in July 2010 as per our agreements with ICANN.

The growth in the number of active domain names was primarily driven by continued Internet growth and domain name promotional programs. We expect to see continued growth in the number of active domain names in 2011 as a result of further Internet growth. In addition, we expect to see continued growth internationally in both *.com* and *.net* domain name bases, especially in markets that we have targeted through our marketing programs. We expect revenues to increase in fiscal 2011 as compared to fiscal 2010 as a result of continued growth in the number of active domain names ending in *.com* and *.net* and implementation of the fee increase which became effective in July 2010 as domain names are renewed at the increased price.

New TLDs may be introduced by ICANN, including new IDN TLDs and ccTLDs in 2011 and new gTLDs in 2012. We cannot assess the impact, if any, the introduction of these new TLDs will have on our revenues and results of operations. See Item 1A. Risk Factors The business environment is highly competitive and, if we do not compete effectively, we may suffer price reductions, reduced gross margins and loss of market share*,* of this Form 10-Q.

Geographic revenues

We operate in the U.S.; Australia, China, India and other Asia Pacific countries (APAC); Europe, the Middle East and Africa (EMEA); and certain other countries including Canada and Latin American countries.

The following table presents a comparison of our geographic revenues:

	Three Months Ended March 31,		
	2011	% Change	2010
	(Dollars in thousands)		
U.S.	$ 111,383	11%	$ 100,589
APAC	27,601	15%	23,903
EMEA	25,059	14%	21,899
Other	17,480	15%	15,191
Total revenues	$ 181,523		$ 161,582

Revenues are generally attributed to the country of domicile and the respective regions in which our customers are located.

Table of Contents

Revenues from each of the respective regions increased during the three months ended March 31, 2011, as compared to the same period last year, primarily driven by an increase in the number of domain names ending in *.com* and *.net* and increases in our *.com* and *.net* registry fees in July 2010. The increase in the number of domain names ending in *.com* and *.net* was driven by continued Internet growth and domain name promotional programs.

We expect to continue to see strong growth in certain international regions, resulting from greater broadband and Internet penetration and expanding e-commerce as electronic means of payments are increasingly adopted.

Cost of revenues

Cost of revenues consist primarily of salaries and employee benefits expenses for our personnel that manage the operational systems, depreciation expenses, operational costs associated with the delivery of our services, fees paid to ICANN, customer support and training, consulting and development services, costs of facilities and computer equipment used in these activities, and allocations of indirect costs such as corporate overhead. All allocations of indirect costs are included in continuing operations.

A comparison of cost of revenues is presented below:

	Three Months Ended March 31,		
	2011	% Change	2010
	(Dollars in thousands)		
Cost of revenues	$ 40,869	5%	$ 38,814

Cost of revenues increased during the three months ended March 31, 2011, as compared to the same period last year, primarily due to increases in salary and employee benefits expenses, and depreciation expenses, partially offset by a decrease in allocated overhead expenses. Salary and employee benefits expenses increased by $2.0 million, primarily due to an increase in average headcount to support Registry Services, and an increase in stock-based compensation expenses due to additional vested RSUs granted during the three months ended March 31, 2011, to option holders, as they did not participate in the December 2010 special cash dividend. Depreciation expenses increased by $1.2 million, primarily due an increase in capitalized hardware and software to support investments in infrastructure projects, and accelerated depreciation on an abandoned software project. Allocated overhead expenses decreased by $2.2 million, primarily due to a decrease in allocable indirect costs and a decrease in proportional headcount within the cost of revenues function as a result of the divestiture of the Authentication Services business.

We expect cost of revenues as a percentage of revenues to remain consistent during the remainder of 2011 as compared to the three months ended March 31, 2011.

Sales and marketing

Sales and marketing expenses consist primarily of salaries and employee benefits expenses, sales commissions, sales operations, travel and related expenses, trade shows, costs of lead generation, costs of computer and communications equipment and support services, facilities costs, consulting fees, costs of marketing programs, such as the Internet, television, radio, print and direct mail advertising costs, and allocations of indirect costs such as corporate overhead. All allocations of indirect costs are included in continuing operations.

A comparison of sales and marketing expenses is presented below:

	Three Months Ended March 31,		
	2011	% Change	2010
	(Dollars in thousands)		
Sales and marketing	$ 22,391	5%	$ 21,310

Table of Contents

Sales and marketing expenses increased during the three months ended March 31, 2011, as compared to the same period last year, primarily due to an increase in salary and employee benefits expenses, partially offset by a decrease in allocated overhead expenses. Salary and employee benefits expenses increased by $2.5 million, primarily due to an increase in average headcount to support our sales force, and an increase in stock-based compensation expenses due to additional vested RSUs granted during the three months ended March 31, 2011, to option holders, as they did not participate in the December 2010 special cash dividend. Allocated overhead expenses decreased by $1.7 million, primarily due to a decrease in allocable indirect costs and a decrease in proportional headcount within the sales and marketing function as a result of the divestiture of the Authentication Services business.

We expect sales and marketing expenses as a percentage of revenues to increase slightly during the remainder of 2011 as compared to the three months ended March 31, 2011, as a result of investments in our sales force and certain marketing initiatives.

Research and development

Research and development expenses consist primarily of costs related to research and development personnel, including salaries and employee benefits expenses, consulting fees, the cost of facilities, computer and communications equipment, support services used in our service and technology development, and allocations of indirect costs such as corporate overhead. All allocations of indirect costs are included in continuing operations.

A comparison of research and development expenses is presented below:

	Three Months Ended March 31,		
	2011	% Change	2010
	(Dollars in thousands)		
Research and development	$ 13,594	11%	$ 12,277

Research and development expenses increased during the three months ended March 31, 2011, as compared to the same period last year, primarily due to an increase in salary and employee benefits expenses. Salary and employee benefits expenses increased by $1.7 million, primarily due to an increase in average headcount to support the development of our DNS infrastructure and new services, and an increase in stock-based compensation expenses due to additional vested RSUs granted during the three months ended March 31, 2011, to option holders, as they did not participate in the December 2010 special cash dividend.

We expect research and development expenses as a percentage of revenues to remain consistent during the remainder of 2011 as compared to the three months ended March 31, 2011.

General and administrative

General and administrative expenses consist primarily of salaries and employee benefits expenses for our executive, administrative, legal, finance, information technology and human resources personnel, facilities, computer and communications equipment, management information systems, support services, professional services fees, certain tax and license fees, and bad debt expense, offset by allocations of indirect costs such as facilities and shared services expenses to other cost types. All allocations of indirect costs are included in continuing operations.

A comparison of general and administrative expenses is presented below:

	Three Months Ended March 31,		
	2011	% Change	2010
	(Dollars in thousands)		
General and administrative	$ 33,629	(3%)	$ 34,844

Table of Contents

General and administrative expenses decreased during the three months ended March 31, 2011, as compared to the same period last year, primarily due to decreases in occupancy expenses and depreciation expenses, partially offset by a decrease in corporate overhead expenses allocated to other cost-types. Occupancy expenses decreased by $2.1 million, primarily due to lower rent expenses as the lease for certain office buildings expired in 2010. Depreciation expenses decreased by $1.9 million, primarily due to accelerated depreciation on an abandoned software project during the three months ended March 31, 2010, and ceasing further depreciation on corporate assets held for sale in May 2010, the results of operations of which were classified as continuing operations until the third quarter of 2010. Corporate overhead expenses allocated to other cost types decreased by $4.6 million, primarily due to a decrease in allocable indirect costs and proportionately higher headcount in the general and administrative function as a result of the divestiture of the Authentication Services business. Salary and employee benefits expenses remained consistent primarily due to a decrease in average headcount due to the divestiture of the Authentication Services business, offset by a $3.2 million increase in stock-based compensation expenses due to additional vested RSUs granted during the three months ended March 31, 2011, to option holders, as they did not participate in the December 2010 special cash dividend.

We expect general and administrative expenses as a percentage of revenues to decrease during the remainder of 2011 as compared to the three months ended March 31, 2011, as we continue to realize post-divestiture cost reductions in our general and administrative function.

Restructuring charges

2010 Restructuring Plan

In connection with the sale of the Authentication Services business and the migration of our corporate functions from our Mountain View, California facility to our facility in Dulles, Virginia, we initiated a restructuring plan in 2010, including workforce reductions, abandonment of excess facilities and other exit costs (the 2010 Restructuring Plan).

Under the 2010 Restructuring Plan, we expect to incur total estimated pre-tax cash charges for severance costs and other related employee termination costs of $22.5 million, and excess facility exit costs of $11.5 million, of which we have recorded a total of $21.5 million, and $1.0 million, respectively, through March 31, 2011. Additionally, we recognized stock-based compensation expenses of $13.4 million, inclusive of amounts for discontinued operations, through March 31, 2011, upon acceleration of stock-based awards for employees notified of termination and expect to recognize further expenses for employees to be terminated in the future. However, at this time, we are not able, in good faith, to make a determination of the estimated amount or range of amounts thereon. We expect to recognize all remaining cash and stock-based restructuring charges over the next several quarters through the end of fiscal 2011.

The following table presents the nature of our restructuring charges:

	Three Months Ended March 31,	
	2011	**2010**
	(In thousands)	
Workforce reduction	$ 4,723	$ 1,711
Excess facilities	807	116
Total consolidated restructuring charges	$ 5,530	$ 1,827
Amounts classified as continuing operations	$ 5,530	$ 234
Amounts classified as discontinued operations	$	$ 1,593

Amounts for the three months ended March 31, 2011 were incurred under the 2010 Restructuring Plan. Amounts for the three months ended March 31, 2010 were incurred under the previous 2008 Restructuring Plan.

Table of Contents

Non-operating income, net

Non-operating income, net, consists primarily of interest earned on our cash, cash equivalents, and marketable securities, net gains or losses on the sale and impairment of investments, net gains or losses on the divestiture of certain businesses, realized and unrealized gains and losses on the contingent interest derivative on the Convertible Debentures, income from transition services agreements, and the net effect of foreign currency gains and losses.

A comparison of non-operating income, net, is presented below:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Interest and dividend income	$ 2,091	$ 1,093
Unrealized (loss) gain on contingent interest derivative on Convertible Debentures	(450)	469
Income from transition services agreements	3,462	3,020
Other, net	375	246
Total non-operating income, net	$ 5,478	$ 4,828

Non-operating income, net, increased during the three months ended March 31, 2011, as compared to the same period last year, primarily due to an increase in interest and dividend income, partially offset by unrealized losses on the contingent interest derivative on Convertible Debentures. Interest and dividend income increased due to investing in marketable securities, which have higher interest rates as compared to money market funds, and higher cash and cash equivalents, as a result of the proceeds from the sale of the Authentication Services business.

Income taxes

The following table presents the income tax expense from continuing operations and the effective tax rates:

	Three Months Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Income tax expense from continuing operations	$ 16,875	$ 16,924
Effective tax rate	29%	36%

The effective tax rate for the three months ended March 31, 2011 differs from the statutory federal rate of 35% due to state taxes, the effect of non-US operations, and tax benefits from foreign income taxed at lower rates. The effective tax rate for the three months ended March 31, 2010 differs from the statutory federal rate of 35% due to state taxes, the effect of non-US operations, non-deductible stock-based compensation expense, and tax benefits from foreign income taxed at lower rates. As of March 31, 2011, we plan to continue with our policy of permanently reinvesting all foreign earnings. The difference in effective tax rates for the three months ended March 31, 2011 and the three months ended March 31, 2010 primarily relates to the ratio of foreign income, taxed at lower rates, to domestic income.

Income from discontinued operations, net of tax

For a period of time, we will continue to generate cash flows and will report income statement activity in continuing operations that are associated with the Authentication Services business and certain other completed divestitures. These activities are transitional in nature and generally result from agreements ensuring and

facilitating the orderly transfer of business operations. The nature, magnitude and duration of the agreements vary depending on the specific circumstances of the service, location or business need. The existing agreements include the following: data center hosting and information services. As of March 31, 2011, the existing agreements have remaining terms from 1 to 28 months in length.

The following table presents the revenues and the components of income from discontinued operations, net of tax, attributable to Verisign stockholders:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Revenues	$ 44	$ 102,821
Income from discontinued operations before income taxes	$ 3,206	$ 32,660
Income tax expense	(4,728)	(10,229)
(Loss) income from discontinued operations	(1,522)	22,431
Less: Income from discontinued operations, net of tax, attributable to noncontrolling interest in subsidiary		(1,084)
Total (loss) income from discontinued operations, net of tax, attributable to Verisign stockholders	$ (1,522)	$ 21,347

Income from discontinued operations before income taxes for the three months ended March 31, 2011 primarily represents adjustments to gains or losses on divestitures completed in 2009, as a result of the resolution of certain retained litigation of a divested business. Income tax expense for discontinued operations for the three months ended March 31, 2011 includes a $2.9 million discrete charge attributable to a change in the purchase price allocation prepared for income tax purposes related to the divestiture of the Authentication Services business as agreed by the parties in April 2011. Income from discontinued operations before income taxes for the three months ended March 31, 2010, represents the results of operations of the Authentication Services business, and adjustments to gains and losses on divestitures completed in 2009, as a result of certain one-time employee termination costs and settlement of certain retained litigation of the divested businesses.

Liquidity and Capital Resources

	March 31, 2011	December 31, 2010
	(In thousands)	
Cash and cash equivalents	$ 1,440,826	$ 1,559,628
Marketable securities	506,014	501,238
Total	$ 1,946,840	$ 2,060,866

As of March 31, 2011, our principal source of liquidity was $1.4 billion of cash and cash equivalents and $506.0 million of marketable securities. In summary, our cash flows for the three months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Net cash provided by operating activities	$ 90,287	$ 101,120
Net cash used in investing activities	(23,516)	(457,493)

Net cash used in financing activities	(187,263)	(28,609)
Effect of exchange rate changes on cash and cash equivalents	1,690	(2,154)
Net decrease in cash and cash equivalents	$ (118,802)	$ (387,136)

A significant amount of our cash and cash equivalents are held by our foreign subsidiaries. Our intent is to permanently reinvest a significant portion of our earnings from foreign operations, and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. In the event funds from foreign operations are needed to fund operations in the U.S. and if U.S. tax has not already been previously provided, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

Cash flows from operating activities

Our largest source of operating cash flows is cash collections from our customers. Our primary uses of cash from operating activities are for personnel-related expenditures and other general operating expenses, including payments related to taxes and facilities.

Net cash provided by operating activities decreased primarily due to a decrease in cash received from customers resulting from a decrease in consolidated revenues due to the divestiture of the Authentication Services business in 2010, coupled with the timing of receipts from customers. The decrease is partially offset by a decrease in cash payments to suppliers and employees, primarily resulting from the divestiture of the Authentication Services business in 2010 and lower average headcount in 2011; an increase in interest income resulting from investments in higher interest rate marketable securities; and lower income taxes payable before consideration of excess tax benefits from exercises of stock options and other employee stock purchases.

Cash flows from investing activities

The changes in cash flows from investing activities primarily relate to the divestiture of businesses, timing of purchases, maturities and sales of investments, and purchases of property and equipment.

Net cash used in investing activities decreased primarily due to decreases in purchases of marketable securities and investments, and property and equipment, partially offset by a decrease in proceeds from maturities and sales of marketable securities and investments, and proceeds received during the three months ended March 31, 2010 for businesses divested in 2009.

Cash flows from financing activities

The changes in cash flows from financing activities primarily relate to stock repurchases and stock option exercise activities.

Net cash used in financing activities increased primarily due to an increase in stock repurchases and a decrease in realized excess tax benefits from exercises of stock options and the employee stock purchase plan.

Other Liquidity and Capital Resources Information

As of March 31, 2011, our principal source of liquidity was $1.4 billion of cash and cash equivalents and $506.0 million of marketable securities. The marketable securities consist of debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies, and corporate debt securities meeting the criteria of our investment policy, which is focused on the preservation of our capital through investment in investment grade securities. The cash equivalents consist mainly of time deposits and amounts deposited in money market funds. As of March 31, 2011, $506.0 million of marketable securities were invested in fixed income securities, of which $117.0 million had maturities within one year and $389.0 million had maturities between one and three years. Our cash and cash equivalents are readily accessible. For additional information on our investment portfolio, see Note 2, Cash, Cash Equivalents, and Marketable Securities, of our Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

On April 27, 2011, our Board declared a special dividend of $2.75 per share of our common stock, totaling approximately $463.3 million. The special dividend will be paid on May 18, 2011 to shareholders of record as of the close of business on May 9, 2011. Further, our Board has designated the special dividend as an extraordinary dividend for the purposes of the indenture governing the Convertible Debentures. As a result, contingent interest of $100.0 million will also be paid on May 18, 2011 to the holders of record of the Convertible Debentures at the close of business on May 9, 2011.

We believe existing cash, cash equivalents and marketable securities, together with funds generated from operations should be sufficient to meet our working capital, capital expenditure requirements, declared dividend and resulting contingent interest payments of $463.3 million and $100.0 million, respectively, and to service our debt for the next 12 months. We regularly assess our cash management approach and activities in view of our current and potential future needs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in our market risk exposures since December 31, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Based on our management s evaluation, with the participation of our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer), as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Inherent Limitations of Disclosure Controls and Internal Control over Financial Reporting

Because of its inherent limitations, our internal control over financial reporting may not prevent material errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The continued effectiveness of our internal control over financial reporting is subject to risks, including that the control may become inadequate because of changes in conditions or that the degree of compliance with our policies or procedures may deteriorate.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under Legal Proceedings in Note 12, Contingencies, of our Notes to Condensed Consolidated Financial Statements in Part I, Item 1, of this Quarterly Report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

In addition to other information in this Form 10-Q, the following risk factors should be carefully considered in evaluating us and our business because these factors currently have a significant impact or may have a significant impact on our business, operating results or financial condition. Actual results could differ materially from those projected in the forward-looking statements contained in this Form 10-Q as a result of the risk factors discussed below and elsewhere in this Form 10-Q and in other filings we make with the SEC.

Risks relating to our business

Our operating results may fluctuate and our future revenues and profitability are uncertain.

Our operating results have varied in the past and may fluctuate significantly in the future as a result of a variety of factors, many of which are outside our control. These factors include the following:

- the current global economic environment as well as its impact on e-commerce, financial services, and the communications and Internet industries;

- volume of new domain name registrations and customer renewals in our Naming Services businesses;

- the long sales and implementation cycles for, and potentially large order sizes of, some of our services and the timing and execution of individual customer contracts;

- our success in direct marketing, and, in the case of our Registry Services business, the scope and success of marketing efforts by third-party registrars, and market acceptance of our services by our existing customers and by new customers;

- customer renewal rates and turnover of customers of our services, and in the case of our Registry Services business, the customers of the distributors of our services;

- continued development of our distribution channels for our products and services, both in the U.S. and abroad;

- the impact of price changes in our products and services or our competitors products and services;

- the impact of decisions by distributors to offer competing products or modify or cease their marketing practices;

seasonal fluctuations in business activity;

changes in marketing expenses related to promoting and distributing our services or changes in marketing expenses related to promoting and distributing services provided by third-party registrars or their resellers;

potential attacks by nefarious actors, which could threaten the perceived reliability of our products and services;

potential attacks on the service offerings of our distributors, such as distributed denial-of-service (DDoS) attacks, which could limit the availability of their service offerings and their ability to offer our products and services;

potential disruptions in regional registration behaviors due to catastrophic natural events or armed conflict;

- changes in the level of spending for information technology-related products and services by our customers; and

- the uncertainties, costs and risks as a result of the sale of our Authentication Services business, including any income statement charges we incur in connection therewith and costs related to our transition services agreements and any retained liability related to existing and future claims or retained litigation.

Our operating expenses may increase. If an increase in our expenses is not accompanied by a corresponding increase in our revenues, our operating results will suffer, particularly as revenues from some of our services are recognized ratably over the term of the service, rather than immediately when the customer pays for them, unlike our sales and marketing expenditures, which are expensed in full when incurred.

Due to all of the above factors, our revenues and operating results are difficult to forecast. Therefore, we believe that period-to-period comparisons of our operating results will not necessarily be meaningful, and you should not rely upon them as an indication of future performance. Also, operating results may fall below our expectations and the expectations of securities analysts or investors in one or more future periods. If this were to occur, the market price of our common stock would likely decline.

Our operating results may continue to be adversely affected as a result of the sluggish economic recovery, unfavorable market and economic, social and political conditions.

An unstable global economic, social and political environment may have a negative impact on demand for our services, our business and our foreign operations, including in particular the recent hostilities in the Middle East and natural disasters in Japan and elsewhere. The economic, social and political environment has or may negatively impact, among other things:

- our customers continued growth and development of their businesses and our customers ability to continue as going concerns or maintain their businesses, which could affect demand for our products and services;

- current and future demand for our services, including decreases as a result of reduced spending on information technology and communications by our customers;

- price competition for our products and services;

- the price of our common stock;

- our liquidity;

- our ability to service our debt, to obtain financing or assume new debt obligations;

- our ability to obtain payment for outstanding debts owed to us by our customers or other parties with whom we do business; and

- our ability to execute on any stock repurchase plans.

In addition, to the extent that the economic, social and political environment impacts specific industry and geographic sectors in which many of our customers are concentrated, that may further negatively impact our business. If the economic, social, political and market conditions in the U.S. and globally do not improve, or if they further deteriorate, we may experience material adverse impacts on our business, operating results and financial position as a consequence of the above factors or otherwise.

We may experience significant fluctuations in our financial results.

The successful operation of our business depends on numerous factors, many of which are not entirely under our control, including, but not limited to, the following:

- the use of the Internet and other Internet Protocol (IP) networks, and the extent to which domain names are used for e-commerce and communications;

changes in customer behavior, Internet platforms and web-browsing patterns;

growth in demand for our services;

the competition for any of our services;

the perceived security of e-commerce and communications over the Internet and other IP networks;

the perceived security of our services, technology, infrastructure and practices;

the loss of customers through industry consolidation or customer decisions to deploy in-house or competitor technology and services;

our continued ability to maintain our current, and enter into additional, strategic relationships;

our ability to successfully market our services to new and existing distributors and customers;

our success in attracting, integrating, training, retaining and motivating qualified personnel;

our response to competitive developments;

the successful introduction, and acceptance by our customers, of new products and services, including our NIA Services;

potential disruptions in regional registration behaviors due to catastrophic natural events and armed conflict;

seasonal fluctuations in business activity; and

the successful introduction of enhancements to our services to address new technologies and standards and changing market conditions.

Issues arising from our agreements with the Internet Corporation for Assigned Names and Numbers (ICANN), the U.S. Department of Commerce (DOC) and the U.S. General Services Administration (GSA) could harm our Registry Services business.

We are parties to agreements (i) with the DOC with respect to certain aspects of the DNS, (ii) with ICANN and the DOC as the exclusive registry of domain names within the *.com* gTLD and (iii) with ICANN with respect to being the exclusive registry for the *.net* and *.name* gTLDs.

We face risks arising from our agreements with ICANN and the DOC, including the following:

there can be no assurance that the terms of the *.net* Registry Agreement will be approved substantially in the form as posted by ICANN on April 11, 2011 or at all, or that the renewal will occur by July 1, 2011, which could have a material adverse effect on our business;