VERISIGN INC/CA
Form 10-Q
October 29, 2010
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# 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 September 30, 2010

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 incorporation or organization)** | **(I.R.S. Employer 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 October 25, 2010** |
|---|---|
| Common stock, $.001 par value | 171,987,671 |

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## PART I FINANCIAL INFORMATION

### ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As required under Item 1 Condensed Consolidated Financial Statements (Unaudited) included in this section are as follows:

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**VERISIGN, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share and per share data)**

**(Unaudited)**

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,060,195 | $ 1,477,166 |
| Marketable securities | 488,948 | 185 |
| Accounts receivable, net | 16,826 | 63,133 |
| Prepaid expenses and other current assets | 90,935 | 168,574 |
| Total current assets | 2,656,904 | 1,709,058 |
| Property and equipment, net | 191,426 | 403,821 |
| Goodwill | 52,527 | 289,980 |
| Other intangible assets, net | 2,943 | 22,420 |
| Other assets | 20,282 | 44,865 |
| Total long-term assets | 267,178 | 761,086 |
| Total assets | $ 2,924,082 | $ 2,470,144 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 162,997 | $ 243,967 |
| Deferred revenues | 448,759 | 642,507 |
| Total current liabilities | 611,756 | 886,474 |
| Long-term deferred revenues | 205,003 | 245,734 |
| Convertible debentures, including contingent interest derivative | 578,262 | 574,378 |
| Other long-term liabilities | 283,605 | 164,894 |
| Total long-term liabilities | 1,066,870 | 985,006 |
| Total liabilities | 1,678,626 | 1,871,480 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| VeriSign, Inc. 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: 171,746,536 excluding 140,119,856 held in treasury, at September 30, 2010; and 183,299,463, excluding 124,434,684 held in treasury, at December 31, 2009 | 312 | 308 |

| | | |
|---|---|---|
| Additional paid-in capital | 21,566,531 | 21,736,209 |
| Accumulated deficit | (20,322,963) | (21,194,435) |
| Accumulated other comprehensive income | 1,576 | 7,659 |
| Total VeriSign, Inc. stockholders equity | 1,245,456 | 549,741 |
| Noncontrolling interest in subsidiary | | 48,923 |
| Total stockholders equity | 1,245,456 | 598,664 |
| Total liabilities and stockholders equity | $ 2,924,082 | $ 2,470,144 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**VERISIGN, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except per share data)**

**(Unaudited)**

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|---|---|---|---|
| Revenues | $ 172,649 | $ 156,807 | $ 503,827 | $ 460,797 |
| Costs and expenses: | | | | |
| Cost of revenues | 40,266 | 42,159 | 120,588 | 130,380 |
| Sales and marketing | 18,450 | 20,545 | 63,080 | 54,620 |
| Research and development | 14,537 | 13,245 | 40,731 | 40,050 |
| General and administrative | 33,644 | 35,315 | 101,624 | 111,196 |
| Restructuring, impairment and other charges, net | 6,303 | 11,455 | 14,141 | 14,269 |
| Total costs and expenses | 113,200 | 122,719 | 340,164 | 350,515 |
| Operating income | 59,449 | 34,088 | 163,663 | 110,282 |
| Other loss, net | (7,500) | (9,056) | (22,776) | (24,489) |
| Income from continuing operations before income taxes | 51,949 | 25,032 | 140,887 | 85,793 |
| Income tax expense | (7,193) | (4,132) | (40,098) | (26,944) |
| Income from continuing operations, net of tax | 44,756 | 20,900 | 100,789 | 58,849 |
| Income from discontinued operations, net of tax | 740,789 | 33,699 | 773,570 | 97,037 |
| Net income | 785,545 | 54,599 | 874,359 | 155,886 |
| Less: Income from discontinued operations, net of tax, attributable to noncontrolling interest in subsidiary | (642) | (988) | (2,887) | (2,381) |
| Net income attributable to VeriSign, Inc. stockholders | $ 784,903 | $ 53,611 | $ 871,472 | $ 153,505 |
| Basic income per share attributable to VeriSign, Inc. stockholders from: | | | | |
| Continuing operations | $ 0.26 | $ 0.11 | $ 0.56 | $ 0.31 |
| Discontinued operations | 4.26 | 0.17 | 4.30 | 0.49 |
| Net income | $ 4.52 | $ 0.28 | $ 4.86 | $ 0.80 |
| Diluted income per share attributable to VeriSign, Inc. stockholders from: | | | | |
| Continuing operations | $ 0.26 | $ 0.11 | $ 0.56 | $ 0.30 |
| Discontinued operations | 4.22 | 0.17 | 4.26 | 0.49 |
| Net income | $ 4.48 | $ 0.28 | $ 4.82 | $ 0.79 |

| | | | | |
|---|---|---|---|---|
| Shares used to compute net income per share attributable to VeriSign, Inc. stockholders: | | | | |
| Basic | 173,572 | 192,619 | 179,240 | 192,527 |
| Diluted | 175,034 | 193,472 | 180,634 | 193,235 |
| Amounts attributable to VeriSign, Inc. stockholders: | | | | |
| Income from continuing operations, net of tax | $ 44,756 | $ 20,900 | $ 100,789 | $ 58,849 |
| Income from discontinued operations, net of tax | 740,147 | 32,711 | 770,683 | 94,656 |
| Net income attributable to VeriSign, Inc. stockholders | $ 784,903 | $ 53,611 | $ 871,472 | $ 153,505 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**VERISIGN, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

| | Nine Months Ended September | |
|---|---|---|
| | **2010** | **2009** |
| Cash flows from operating activities: | | |
| Net income | $ 874,359 | $ 155,886 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net (gain) loss on sale of discontinued operations, net of tax | (735,491) | 12,707 |
| Depreciation of property and equipment and amortization of other intangible assets | 53,379 | 61,715 |
| Stock-based compensation | 42,201 | 39,405 |
| Excess tax benefit associated with stock-based compensation | (167,194) | (100,583) |
| Other, net | 8,435 | 8,286 |
| Changes in operating assets and liabilities, excluding the effects of acquisitions and divestitures: | | |
| Accounts receivable | 11,154 | 14,519 |
| Prepaid expenses and other assets | 2,074 | (7,271) |
| Accounts payable and accrued liabilities | 8,607 | 5,368 |
| Deferred revenues | 70,955 | 32,010 |
| Net cash provided by operating activities | 168,479 | 222,042 |
| Cash flows from investing activities: | | |
| Proceeds from maturities and sales of marketable securities and investments | 239,680 | 117,901 |
| Purchases of marketable securities and investments | (714,592) | (750) |
| Purchases of property and equipment | (68,646) | (66,067) |
| Proceeds received from divestiture of businesses, net of cash contributed and transaction costs | 1,165,030 | 282,178 |
| Other investing activities | (4,688) | (2,550) |
| Net cash provided by investing activities | 616,784 | 330,712 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock from option exercises and employee stock purchase plans | 56,442 | 32,906 |
| Repurchases of common stock | (434,234) | (51,682) |
| Excess tax benefit associated with stock-based compensation | 167,194 | 100,583 |
| Other financing activities | (736) | (113) |
| Net cash (used in) provided by financing activities | (211,334) | 81,694 |
| Effect of exchange rate changes on cash and cash equivalents | 9,100 | 8,790 |
| Net increase in cash and cash equivalents | 583,029 | 643,238 |
| Cash and cash equivalents at beginning of period | 1,477,166 | 789,068 |
| Cash and cash equivalents at end of period | $ 2,060,195 | $ 1,432,306 |

| | | |
|---|---|---|
| Supplemental cash flow disclosures: | | |
| Cash paid for interest, net of capitalized interest | $ 39,628 | $ 39,256 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**VERISIGN, INC. AND SUBSIDIARIES**

**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. and its subsidiaries (collectively, 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 2009 Annual Report on Form 10-K (the 2009 Form 10-K ) filed with the SEC on February 26, 2010.

On July 27, 2010, the Board of Directors authorized a change of the Company s principal place of business from 487 East Middlefield Road, Mountain View, California 94043, to 21355 Ridgetop Circle, Dulles, Virginia 20166, effective upon the sale of the Authentication Services business.

On August 9, 2010, the Company sold its Authentication Services business, including outstanding shares of capital stock of its majority-owned subsidiary VeriSign Japan K.K. ( VeriSign Japan ) and trademarks and certain intellectual property used in the Authentication Services business (including the Company s checkmark logo and the Geotrust and thawte brand names), to Symantec Corporation ( Symantec ) for cash consideration of approximately $1.14 billion, net of cash held by transferred subsidiaries of $127.5 million and transaction costs of $10.8 million. The Authentication Services business included Business Authentication Services and User Authentication Services. Business Authentication Services enable enterprises and Internet merchants to implement and operate secure networks and websites that utilize Secure Sockets Layer, or SSL, protocol. User Authentication Services include identity protection services, fraud detection services, and managed public key infrastructure, or PKI, services. Also, included with the sale of the Authentication Services business were real and personal property owned by the Company at its Mountain View, California facility ( Mountain View facility ) and other locations. Current and historical results of operations of the Authentication Services business have been classified as discontinued operations.

The Company s remaining business consists of the following two reportable segments: (1) Naming Services, which consists of Registry Services and Network Intelligence and Availability ( NIA ) Services; and (2) Other Services which consists of the continuing operations of the Content Portal Services ( CPS ).

Registry Services operates the authoritative directory of all *.com, .net, .cc, .tv,* and *.name* domain names and the back-end systems for all *.jobs* and *.edu* domain names. NIA Services provides infrastructure assurance to organizations and is comprised of VeriSign iDefense Security Intelligence Service ( iDefense ), Managed Domain Name System ( Managed DNS ) Services and Distributed Denial of Service ( DDoS ) mitigation. Revenues from NIA Services are not significant.

*Reclassifications*

The Condensed Consolidated Statements of Operations have been reclassified for all periods presented to reflect the discontinued operations treatment of the Authentication Services business. Unless noted otherwise, discussions in the Notes to Condensed Consolidated Financial Statements pertain to continuing operations. Certain other 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.

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*Recent Accounting Pronouncements*

In October 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2009-13 *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* ( ASU 2009-13 ). ASU 2009-13 addresses how to measure and allocate arrangement consideration to one or more units of accounting within certain multiple-deliverable arrangements. ASU 2009-13 modifies the requirements for determining whether a deliverable can be treated as a separate unit of accounting by removing the criterion that objective evidence of fair value must exist for the undelivered elements. ASU 2009-13 is effective for the Company prospectively for revenue arrangements entered into or materially modified beginning January 1, 2011. Early adoption is permitted. The Company has determined that the adoption of ASU 2009-13 will not have a material impact on its financial condition and results of operations.

In October 2009, the FASB issued ASU No. 2009-14 *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force* ( ASU 2009-14 ). ASU 2009-14 modifies the scope of the software revenue recognition guidance to exclude arrangements that contain tangible products for which the software element is essential to the functionality of the tangible products. ASU 2009-14 is effective for the Company prospectively for revenue arrangements entered into or materially modified beginning January 1, 2011. Early adoption is permitted. The Company has determined that the adoption of ASU 2009-14 will not have a material impact on its financial condition and results of operations.

**Note 2. Cash, Cash Equivalents, and Marketable Securities**

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

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Cash | $ 92,130 | $ 227,547 |
| Money market funds | 1,150,388 | 736,459 |
| Time deposits | 804,131 | 514,938 |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | 321,957 | |
| Corporate debt securities | 178,160 | |
| Debt securities issued by foreign governments | 5,070 | |
| Equity securities of a public company | | 185 |
| Total | $ 2,551,836 | $ 1,479,129 |
| Included in Cash and cash equivalents | $ 2,060,195 | $ 1,477,166 |
| Included in Marketable securities | $ 488,948 | $ 185 |
| Included in Other assets (1) | $ 2,693 | $ 1,778 |

(1) Represents restricted cash related to employee payroll withholdings, net of claims paid, for the short-term disability program under the State of California Employment Development Department s Voluntary Plan Fund guidelines.

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The following table summarizes 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.

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (In thousands) | | |
| **As of September 30, 2010** | | | | |
| Fixed income securities: | | | | |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | $ 318,391 | $ 3,568 | $ (2) | $ 321,957 |
| Corporate debt securities | 176,449 | 1,715 | (4) | 178,160 |
| Debt securities issued by foreign governments | 5,063 | 7 | | 5,070 |
| Total fixed income securities | $ 499,903 | $ 5,290 | $ (6) | $ 505,187 |
| Included in Cash and cash equivalents | | | | $ 16,239 |
| Included in Marketable securities | | | | $ 488,948 |
| **As of December 31, 2009** | | | | |
| Equity securities of a public company (1) | $ 290 | $ | $ (105) | $ 185 |

(1) Included in Marketable Securities

The following table presents the contractual maturities of the fixed income securities as of September 30, 2010:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (In thousands) | | |
| Due within one year | $ 85,765 | $ 96 | $ | $ 85,861 |
| Due after one year through three years | 414,138 | 5,194 | (6) | 419,326 |
| Total | $ 499,903 | $ 5,290 | $ (6) | $ 505,187 |

Net gains or losses recognized during the three and nine months ended September 30, 2010 and 2009 related to sales of marketable securities were not material.

**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 September 30, 2010 and December 31, 2009:

| | Total Fair Value as of September 30, 2010 | Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | (In thousands) | | | |
| Assets: | | | | |
| Investments in money market funds | $ 1,150,388 | $ 1,150,388 | $ | $ |
| Investments in fixed income securities: | | | | |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | 321,957 | | 321,957 | |
| Corporate debt securities | 178,160 | | 178,160 | |
| Debt securities issued by foreign governments | 5,070 | | 5,070 | |
| Total | $ 1,655,575 | $ 1,150,388 | $ 505,187 | $ |
| Liabilities: | | | | |
| Contingent interest derivative on convertible debentures | $ 8,875 | $ | $ | $ 8,875 |
| Foreign currency forward contracts (1) | 1,626 | | 1,626 | |
| Total | $ 10,501 | $ | $ 1,626 | $ 8,875 |

(1) Included in Accounts payable and accrued liabilities

| | Total Fair Value as of December 31, 2009 | Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | (In thousands) | | | |
| Assets: | | | | |
| Investments in money market funds | $ 736,459 | $ 736,459 | $ | $ |
| Equity securities of a public company (1) | 185 | 185 | | |
| Foreign currency forward contracts (2) | 932 | | 932 | |
| Total | $ 737,576 | $ 736,644 | $ 932 | $ |

| | | | | |
|---|---|---|---|---|
| Liabilities: | | | | |
| Contingent interest derivative on convertible debentures | $ 10,000 | $ | $ | $ 10,000 |
| Total | $ 10,000 | $ | $ | $ 10,000 |

(1) Included in Marketable securities
(2) Included in Prepaid expenses and other current assets

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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.

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. 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 fair value of the equity securities of a public company is based on the quoted market price of the underlying shares.

The Company s convertible debentures have contingent interest payments that are required to be accounted for separately from the debt instrument, at fair value at the end of each reporting period, with gains and losses reported in Other loss, net. 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 derivative. The inputs to the model include risk adjusted interest rates, volatility and 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 and nine months ended September 30, 2010 and 2009:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Beginning balance | $ 8,250 | $ 9,500 | $ 10,000 | $ 10,549 |
| Unrealized loss (gain) on the contingent interest derivative on convertible debentures | 625 | (750) | (1,125) | (1,799) |
| Ending balance | $ 8,875 | $ 8,750 | $ 8,875 | $ 8,750 |

*Other*

The fair value of other financial instruments including accounts receivable, restricted cash and investments, and accounts payable, approximates their carrying amount. The fair value of the Company s convertible debentures at September 30, 2010, is $1.3 billion, and is based on quoted market prices.

**Note 4. Discontinued Operations**

On August 9, 2010, the Company sold its Authentication Services business, including outstanding shares of capital stock of VeriSign Japan and trademarks and certain intellectual property used in the Authentication Services business (including the Company s checkmark logo and the Geotrust and thawte brand names), to Symantec for cash consideration of approximately $1.14 billion, net of cash held by transferred subsidiaries of $127.5 million and transaction costs of $10.8 million. Also included with the sale of the Authentication Services business were certain corporate assets, namely real and personal property owned by the Company at its Mountain View facility and other locations, which were transferred to the Authentication Services reporting unit before the sale. The Company recorded a gain on sale of $736.5 million, net of tax of $243.8 million. The divestiture transaction is subject to definitive adjustment to reflect the actual working capital as of the closing date. The gain on sale also reflects the realization of currency translation adjustments of $15.3 million previously included in Accumulated other comprehensive income and the recognition of non-controlling interest in VeriSign Japan of $54.3 million.

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The following table presents the carrying amount of the major classes of assets and liabilities of the Authentication Services business as of August 9, 2010:

| | | Aug 9, 2010 (In thousands) |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ | 127,517 |
| Accounts receivable, net | | 35,816 |
| Prepaid expenses and other assets | | 58,861 |
| Property and equipment, net | | 225,348 |
| Goodwill | | 235,698 |
| Other intangible assets, net | | 19,201 |
| Total assets | $ | 702,441 |
| **Liabilities:** | | |
| Accounts payable and accrued liabilities | $ | 19,271 |
| Deferred revenues | | 308,772 |
| Other liabilities | | 15,443 |
| Total liabilities | $ | 343,486 |

Current and historical results of operations of the Authentication Services business have been classified as discontinued operations. Income from discontinued operations for the three and nine months ended September 30, 2010, represents the results of operations of the Authentication Services business, the gain on sale of the Authentication Services business, and adjustments to gains or losses on divestitures completed in fiscal 2009, as a result of certain one-time employment termination costs and settlement of certain retained litigation of the divested businesses. Income from discontinued operations for the three and nine months ended September 30, 2009, represents the results of operations of the Authentication Services business, results of operations of businesses divested in fiscal 2009, and gains or losses on completed divestitures.

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 agreements can include the following: data center hosting, logistics, customer service, support of financial processes, procurement, human resources, facilities management, data collection and information services. The existing agreements typically have terms from 1 to 24 months in length and are currently at various stages within their original term.

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

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Revenues | $ 42,971 | $ 141,732 | $ 246,663 | $ 521,793 |
| Income from discontinued operations before income taxes | $ 4,666 | $ 34,443 | $ 63,916 | $ 152,164 |
| Net gains on sale of discontinued operations before income taxes | 980,255 | 18,307 | 979,292 | 43,828 |
| Income tax expense | (244,132) | (19,051) | (269,638) | (98,955) |
| Income from discontinued operations, net of tax | 740,789 | 33,699 | 773,570 | 97,037 |
| Less: Income from discontinued operations, net of tax, attributable to noncontrolling interest in subsidiary | (642) | (988) | (2,887) | (2,381) |
| Total income from discontinued operations, net of tax, attributable to VeriSign stockholders | $ 740,147 | $ 32,711 | $ 770,683 | $ 94,656 |

**Note 5. Other Balance Sheet Items**

*Prepaid Expenses and Other Current Assets*

Prepaid expenses and other current assets consist of the following:

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Prepaid expenses | $ 11,696 | $ 18,868 |
| Deferred tax assets | 34,606 | 65,984 |
| Non-trade receivables | 20,641 | 25,467 |
| Receivables from buyers | 11,385 | 34,365 |
| Funds held by the Reserve | 12,003 | 20,867 |
| Other | 604 | 3,023 |
| Total prepaid expenses and other current assets | $ 90,935 | $ 168,574 |

During the nine months ended, September 30, 2010, the Company received from buyers of the divested businesses substantially the entire amount included in Receivables from buyers as of December 31, 2009. As of September 30, 2010, Receivables from buyers primarily represents amounts due from Symantec for services performed on their behalf under transition services agreements.

During the nine months ended September 30, 2010, the Company received distributions of $8.9 million from the funds held by the Reserve.

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*Property and Equipment, Net*

Property and equipment, net, consist of the following:

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Land | $ 4,681 | $ 138,194 |
| Buildings and building improvements | 131,047 | 181,113 |
| Computer equipment and software | 248,353 | 362,475 |
| Capital work in progress | 5,599 | 7,067 |
| Office equipment and furniture | 7,634 | 14,292 |
| Leasehold improvements | 13,640 | 28,054 |
| Total cost | 410,954 | 731,195 |
| Less: accumulated depreciation and amortization | (219,528) | (327,374) |
| Total property and equipment, net | $ 191,426 | $ 403,821 |

*Accounts Payable and Accrued Liabilities*

Accounts payable and accrued liabilities consist of the following:

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Accounts payable | $ 5,975 | $ 16,228 |
| Accrued employee compensation | 45,162 | 75,855 |
| Customer deposits, net | 16,793 | 23,213 |
| Payables to buyers | 16,690 | 27,049 |
| Taxes payable, deferred and other tax liabilities | 23,265 | 27,206 |
| Accrued restructuring costs | 19,214 | 6,605 |
| Other accrued liabilities | 35,898 | 67,811 |
| Total accounts payable and accrued liabilities | $ 162,997 | $ 243,967 |

Accrued employee compensation primarily consists of employee accrued vacation, accrued payroll and taxes, accruals for employee contribution to the employee stock purchase plan, and bonus payable. 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 for collections received on behalf of buyers of certain divested businesses under transition services agreements. As of September 30, 2010, Accrued restructuring costs primarily represents restructuring costs related to the sale of the Authentication Services business.

Other accrued liabilities consist primarily of interest on convertible debentures, accrued litigation, and accruals for products and services. During the nine months ended September 30, 2010, the Company paid $8.6 million for certain litigation settlements, net of insurance reimbursements. Interest on convertible debentures is paid semi-annually in arrears on August 15 and February 15.

*Other Long-term Liabilities*

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Deferred tax liabilities | $ 271,284 | $ 144,777 |
| Long-term tax liabilities | 9,672 | 12,949 |
| Long-term accrued restructuring costs | 1,523 | 3,204 |
| Other | 1,126 | 3,964 |
| Total other long-term liabilities | $ 283,605 | $ 164,894 |

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Deferred tax liabilities reflect the tax effects of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and are net of deferred tax assets from the same tax jurisdiction. During the nine months ended September 30, 2010, the Company utilized deferred tax assets related to tax deductible goodwill to offset income tax payable upon the gain on the sale of the Authentication Services business and recorded additional deferred tax liabilities, primarily attributable to the gain on sale of the Authentication Services business, and temporary differences related to convertible debentures and property and equipment.

**Note 6. Restructuring Charges**

*2010 Restructuring Plan*

In connection with the sale of the Authentication Services business, the Company initiated a restructuring plan in the second quarter of 2010 (the 2010 Restructuring Plan ) including workforce reductions, abandonment of excess facilities and other exit costs. Under the 2010 Restructuring Plan, the Company expects to incur cash and non-cash charges related to employee termination costs and excess facility exit costs. In July 2010, the Company expanded the 2010 Restructuring Plan to include migration of its corporate functions from its Mountain View facility to its facility in Dulles, Virginia, including further workforce reductions, abandonment of excess facilities and other exit costs.

Under the expanded 2010 Restructuring Plan, the Company will incur total estimated pre-tax cash charges of $22.3 million in severance costs and other related employee termination costs. Through September 30, 2010, the Company has recorded a total of $17.9 million in cash restructuring charges, inclusive of amounts for discontinued operations, under its 2010 Restructuring Plan, related to employee terminations. The Company expects to recognize excess facility exit costs in the range of $14.2 million to $16.9 million. Additionally, the Company recognized stock-based compensation expenses of $9.1 million, inclusive of amounts for discontinued operations, during the three months ended September 30, 2010, upon acceleration of stock-based awards for employees notified of termination.

*2008 Restructuring Plan*

As part of its divestiture strategy announced in 2007, the Company had initiated a restructuring plan in the first quarter of 2008 (the 2008 Restructuring Plan ) including workforce reductions, abandonment of excess facilities and other exit costs. Through September 30, 2010, the Company recorded a total of $87.6 million in restructuring charges, inclusive of amounts for discontinued operations, under its 2008 Restructuring Plan. The 2008 Restructuring Plan was substantially completed as of June 30, 2010.

The following table presents the nature of the restructuring charges under the 2010 and 2008 Restructuring Plans:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Workforce reduction | $ 15,295 | $ 2,648 | $ 28,846 | $ 9,351 |
| Excess facilities | 374 | 142 | 482 | 1,535 |
| Total consolidated restructuring charges | $ 15,669 | $ 2,790 | $ 29,328 | $ 10,886 |
| Amounts classified as continuing operations | $ 6,303 | $ 341 | $ 14,141 | $ 3,643 |
| Amounts classified as discontinued operations | $ 9,366 | $ 2,449 | $ 15,187 | $ 7,243 |

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As of September 30, 2010, the consolidated accrued restructuring costs are $20.7 million and consist of the following:

| | Accrued Restructuring Costs at December 31, 2009 | Costs Incurred | Costs Paid or Settled | Stock-Based Compensation | Accrued Restructuring Costs at September 30, 2010 |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Workforce reduction | $ 4,079 | $ 28,846 | $ (7,074) | $ (9,693) | $ 16,158 |
| Excess facilities | 5,730 | 482 | (1,634) | | 4,578 |
| Total accrued restructuring costs | $ 9,809 | $ 29,328 | $ (8,708) | $ (9,693) | $ 20,736 |
| Included in current portion of accrued restructuring costs | | | | | $ 19,213 |
| Included in long-term portion of accrued restructuring costs | | | | | $ 1,523 |

**Note 7. 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Net income | $ 785,545 | $ 54,599 | $ 874,359 | $ 155,886 |
| Foreign currency translation adjustments | 3,160 | 5,820 | 7,251 | (9,039) |
| Realized foreign currency translation adjustments attributable to the sale of the Authentication Services business, included in net income | (29,357) | | (29,357) | |
| Change in unrealized gain on investments, net of tax | 2,886 | (82) | 5,628 | (74) |
| Realized (gain) loss on investments, net of tax, included in net income | (87) | | (239) | 281 |
| Comprehensive income | 762,147 | 60,337 | 857,642 | 147,054 |
| Less: Comprehensive (loss) income attributable to noncontrolling interest in subsidiary | (11,928) | 3,645 | (7,747) | 1,621 |
| Comprehensive income attributable to VeriSign, Inc. stockholders | $ 774,075 | $ 56,692 | $ 865,389 | $ 145,433 |

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*Repurchase of Common Stock*

On July 27, 2010, the Board of Directors 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 and nine months ended September 30, 2010, the Company repurchased 5.1 million and 15.3 million shares, respectively, of its common stock at an average stock price of $28.62 and $27.76, respectively, for an aggregate of $145.5 million and $423.5 million, respectively, under the 2008 Share Buyback Program and 2010 Share Buyback Program combined. As of September 30, 2010, $1.38 billion remained available for further repurchase under the 2010 Share Buyback Program.

**Note 8. Calculation of Net Income Per Share Attributable to VeriSign, Inc. Stockholders**

The Company computes basic net income per share attributable to VeriSign, Inc. stockholders by dividing net income attributable to VeriSign, Inc. stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share attributable to VeriSign, Inc. stockholders gives effect to dilutive potential common shares, including outstanding stock options, unvested restricted stock units, 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, Inc. stockholders:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Weighted-average shares of common stock outstanding | 173,572 | 192,619 | 179,240 | 192,527 |
| Weighted-average potential shares of common stock outstanding: | | | | |
| Stock options | 424 | 266 | 397 | 269 |
| Unvested restricted stock units | 962 | 587 | 888 | 439 |
| Employee stock purchase plan | 76 | | 108 | |
| Shares used to compute diluted net income per share attributable to VeriSign, Inc. stockholders | 175,034 | 193,472 | 180,634 | 193,235 |

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 weighted-average exercise price of the weighted-average stock options outstanding:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands, except per share data) | | | |
| Weighted-average stock options outstanding | 2,969 | 6,630 | 3,654 | 7,398 |
| Weighted-average exercise price | $ 31.33 | $ 28.24 | $ 31.06 | $ 28.25 |
| Weighted-average restricted stock units outstanding | 33 | 307 | 70 | 1,302 |
| Employee stock purchase plan | 73 | 338 | 486 | 398 |

There was no positive conversion spread relating to the convertible debentures during the three and nine months ended September 30, 2010 and 2009 and therefore there are no shares of common stock to be included in the calculation of diluted net income per share attributable to VeriSign, Inc. stockholders.

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**Note 9. Segment Information**

As a result of the sale of the Authentication Services business, included in the former Internet, Infrastructure and Identity Services segment, the Company now operates in two reportable segments: (1) Naming Services and (2) Other Services.

Naming Services consists of Registry Services and 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 *.jobs* and *.edu* domain names. NIA Services provides infrastructure assurance to organizations and is comprised of iDefense, Managed DNS, and DDoS mitigation. Revenues from NIA Services are not significant.

The following tables present the results of the Company s reportable segments:

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Naming Services | Other Services | Total | Naming Services | Other Services | Total |
| | (In thousands) | | | | | |
| Revenues | $ 172,286 | $ 363 | $ 172,649 | $ 155,480 | $ 1,327 | $ 156,807 |
| Cost of revenues | 33,173 | 472 | 33,645 | 30,948 | 1,307 | 32,255 |
| | $ 139,113 | $ (109) | $ 139,004 | $ 124,532 | $ 20 | $ 124,552 |

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Naming Services | Other Services | Total | Naming Services | Other Services | Total |
| | (In thousands) | | | | | |
| Revenues | $ 501,750 | $ 2,077 | $ 503,827 | $ 457,206 | $ 3,591 | $ 460,797 |
| Cost of revenues | 93,738 | 2,758 | 96,496 | 92,270 | 3,719 | 95,989 |
| | $ 408,012 | $ (681) | $ 407,331 | $ 364,936 | $ (128) | $ 364,808 |

A reconciliation of the totals reported for the reportable segments to the applicable line items in the Condensed Consolidated Statements of Operations is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Total revenues from reportable segments | $ 172,649 | $ 156,807 | $ 503,827 | $ 460,797 |
| Total cost of revenues from reportable segments | 33,645 | 32,255 | 96,496 | 95,989 |
| Unallocated operating expenses (1) | 79,555 | 90,464 | 243,668 | 254,526 |
| Operating income | 59,449 | 34,088 | 163,663 | 110,282 |
| Other loss, net | (7,500) | (9,056) | (22,776) | (24,489) |
| Income from continuing operations before income taxes | $ 51,949 | $ 25,032 | $ 140,887 | $ 85,793 |

(1) Unallocated operating expenses include unallocated cost of revenues, sales and marketing, research and development, general and administrative, and restructuring and other charges, net.

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*Geographic Information*

The Company operates 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 represents a comparison of the Company s geographic revenues:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| U.S. | $ 105,654 | $ 97,975 | $ 309,224 | $ 293,918 |
| APAC | 26,500 | 22,629 | 76,359 | 64,083 |
| EMEA | 23,420 | 20,585 | 68,147 | 57,869 |
| Other | 17,075 | 15,618 | 50,097 | 44,927 |
| Total revenues | $ 172,649 | $ 156,807 | $ 503,827 | $ 460,797 |

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

The following table presents a comparison of property and equipment, net of accumulated depreciation, by geographic region:

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| U.S. | $ 183,358 | $ 380,732 |
| EMEA | 7,377 | 9,898 |
| APAC | 691 | 13,154 |
| Other | | 37 |
| Total property and equipment, net | $ 191,426 | $ 403,821 |

Assets are not tracked by segment and the chief operating decision maker does not evaluate segment performance based on asset utilization.

*Major Customers*

One customer accounted for 28% of revenues for both the three and nine months ended September 30, 2010. One customer accounted for 26% and 25% of revenues during the three and nine months ended September 30, 2009, respectively. The Company does not believe that the loss of this customer would have a material adverse effect on the Company s business because, in that event, end-users of this customer would transfer to the Company s other existing customers. Three customers accounted for 24%, 17%, and 10%, respectively, of accounts receivable, net at September 30, 2010. No customer accounted for 10% or more of accounts receivable, net at December 31, 2009.

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**Note 10. 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Stock-based compensation: | | | | |
| Cost of revenues | $ 1,010 | $ 1,000 | $ 3,321 | $ 2,887 |
| Sales and marketing | 360 | 272 | 2,984 | 2,374 |
| Research and development | 1,508 | 852 | 3,824 | 2,384 |
| General and administrative | 4,944 | 3,946 | 15,438 | 14,638 |
| Restructuring, impairment and other charges, net | 932 | 33 | 1,065 | 581 |
| Stock-based compensation for continuing operations | 8,754 | 6,103 | 26,632 | 22,864 |
| Discontinued operations | 8,137 | 5,206 | 15,569 | 16,541 |
| Total stock-based compensation | $ 16,891 | $ 11,309 | $ 42,201 | $ 39,405 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Stock-based compensation: | | | | |
| Stock options | $ 1,307 | $ 2,897 | $ 5,952 | $ 9,688 |
| Employee stock purchase plan | 1,960 | 2,468 | 7,687 | 7,856 |
| Restricted stock units | 4,943 | 6,044 | 20,375 | 22,010 |
| Stock options/awards acceleration | 9,123 | 596 | 9,693 | 1,985 |
| Capitalization (1) | (442) | (696) | (1,506) | (2,134) |
| Total stock-based compensation | $ 16,891 | $ 11,309 | $ 42,201 | $ 39,405 |

(1) Included in Property and equipment, net.

**Note 11. Other Loss, Net**

The following table presents the components of Other loss, net:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |

| | | | | |
|---|---|---|---|---|
| Interest and dividend income | $ 1,908 | $ 533 | $ 5,047 | $ 2,108 |
| Interest expense | (12,140) | (11,867) | (36,104) | (35,477) |
| Unrealized (loss) gain on the contingent interest derivative on convertible debentures | (625) | 750 | 1,125 | 1,799 |
| Income from transition services agreements | 3,020 | 1,230 | 6,898 | 3,068 |
| Other, net | 337 | 298 | 258 | 4,013 |
| Total other loss, net | $ (7,500) | $ (9,056) | $ (22,776) | $ (24,489) |

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Interest and dividend income is earned principally from the investment of VeriSign s surplus cash balances and marketable securities. Interest expense is principally incurred on convertible debentures. Income from transition services agreements includes fees generated from services provided to the purchasers of the divested businesses for a certain period of time to ensure and facilitate the transfer of business operations for those businesses. During the nine months ended September 30, 2009, Other, net, primarily includes $3.3 million received from Certicom Corporation ( Certicom ) due to the termination of the acquisition agreement entered into with Certicom.

**Note 12. Income Taxes**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (Dollars in thousands) | | | |
| Income tax expense from continuing operations | $ 7,193 | $ 4,132 | $ 40,098 | $ 26,944 |
| Effective tax rate | 14% | 17% | 28% | 31% |

The effective tax rate for the three and nine months ended September 30, 2010, differs from the statutory federal rate of 35% due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense, tax benefits from foreign income taxed at lower rates, discrete tax benefits related to lapses of statutes of limitation, and a one-time discrete tax expense related to a change in tax status in a foreign jurisdiction due to the sale of the Authentication Services business. The effective tax rate for the three and nine months ended September 30, 2009, differs from the statutory federal rate of 35% due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense, discrete tax benefits related to lapses of statutes of limitation, and a one-time discrete income tax benefit related to a California tax law change.

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. During the three months ended September 30, 2010, the Company utilized all net operating loss carryforwards not limited by applicable tax laws in the U.S Federal jurisdiction to offset the tax gain from the sale of the Authentication Services business.

As of September 30, 2010, and December 31, 2009, the Company had gross unrecognized tax benefits for income taxes associated with uncertain tax positions of $27.1 million and $30.0 million, respectively. During the three and nine months ended September 30, 2010, the Company recorded a decrease in unrecognized tax benefits of $6.8 million and $2.9 million, respectively. Of the net decrease of $6.8 million for the three months ended September 30, 2010, a decrease of $3.2 million related to lapses in the applicable statutes of limitation, an increase of $1.7 million related to current period activities, and a decrease of $5.3 million related to tax positions taken during a prior period. Of the net decrease of $2.9 million for the nine months ended September, 30, 2010, a decrease of $3.2 million related to lapses in the applicable statutes of limitation, an increase of $5.2 million related to current period activities, and a decrease of $4.9 million related to tax positions taken during a prior period. The prior period positions are decreased for the three and nine month periods ended September 30, 2010 due to the tax gain from the sale of the Authentication Services business. As of September 30, 2010, and December 31, 2009, $24.3 million and $29.0 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 not expected to materially change in the next 12 months.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. During the three and nine months ended September 30, 2010, the Company recognized a net benefit of $1.4 million and $1.1 million, respectively, for interest and penalties through Income tax expense

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as a result of lapses of statutes of limitation during the year. During the three and nine months ended September 30, 2009, the Company expensed $0.1 million and $0.7 million, respectively, for interest and penalties related to income tax liabilities through Income tax expense.

The Company s major taxing jurisdictions are U.S. Federal, the states of California and Virginia, and Switzerland. The Company s income tax returns are not currently under tax examination by the Internal Revenue Service or the Virginia Department of Revenue. The Company s income tax return for the year ended December 31, 2005 is currently under examination by the California Franchise Tax Board. 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 U.S. Federal, 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 13. Commitments and Contingencies**

*Commitments*

On September 15, 2010, the Company entered into a lease agreement for an office building containing approximately 221,326 square feet in Reston, Virginia. The lease agreement is expected to commence in July 2011 commensurate with taking control of the premises. The lease term is for 15 years and 5 months. The lease includes a five month rent holiday followed by 18 months of a 50% rent concession. The minimum lease payments under the lease agreement as of September 30, 2010, are as follows:

| | Operating Lease Payments (In thousands) |
|---|---|
| 2011 | $ 251 |
| 2012 | 3,022 |
| 2013 | 4,920 |
| 2014 | 6,382 |
| 2015 | 6,557 |
| Thereafter | 84,443 |
| Total | $ 105,575 |

*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 operate 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 operate 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 Bentley matter is currently stayed. A motion to dismiss the ruling in Herbert 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. Certain defendants have asserted indemnity claims against VeriSign in connection with these matters.

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As described in the VeriSign Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Annual Report ), filed with the SEC on February 26, 2010, VeriSign has been named as a defendant in litigation brought by the plaintiff Coalition for ICANN 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. The Second Amended Complaint, which was filed on December 28, 2006 and remains unanswered, includes a prayer for relief that the 2005 *.net* and 2006 *.com* agreements, and their renewal, be enjoined, and for damages, and for such other relief as the court may consider necessary. The claims with respect to the *.net* agreement have been dismissed by the court, and it is uncertain whether CFIT will further amend the complaint with respect to the dismissed claims based on the *.net* agreement or with respect to the requested relief. For a history of these proceedings, see the 2009 Annual Report under the heading entitled Legal Proceedings . On July 9, 2010, the U.S. Court of Appeals for the Ninth Circuit issued an order (the Amended Order ) amending its June 5, 2009 order (the Original Order ). The Original Order had reversed and remanded the district court s dismissal of the second amended complaint filed by CFIT. The Amended Order denied VeriSign s motion for rehearing and rehearing en banc and stated that CFIT s complaint, assuming its material allegations to be true, plead plausible claims against VeriSign under Sections 1 and 2 of the Sherman Act in connection with the 2006 *.com* registry agreement. The U.S. Court of Appeals was reviewing matters of law at that stage in the pleadings, and was required to assume that all material allegations were true for purposes of assessing whether a valid claim had been plead. The amended opinion changed in two respects the U.S. Court of Appeal s earlier decision. First, the U.S. Court of Appeals amended its opinion by explaining that, for purposes of reviewing the sufficiency of the complaint, it was not considering the role of the U.S. government in the 2006 *.com* registry agreement. Second, the amended opinion changed the earlier decision by explaining that competitive bidding is not required as a predicate to complying with the antitrust laws. The case has been remanded to the U.S. District Court for the Northern District of California. The District Court has scheduled a trial to begin December 5, 2011, a summary judgment hearing on threshold issues, including standing, the role of the United States government and ICANN, and immunity, as well as CFIT s right to a jury trial, for March 2011 and a final summary judgment hearing for October 2011.

While certain matters to which the Company is a party specify the damages 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 ultimate loss contingencies, 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.

*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. A loss related to this indemnification obligation is neither probable nor reasonably estimable.

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**Note 14. Subsequent Events**

The Company has a credit facility, maturing on June 7, 2011, which permits cash borrowings up to a maximum of $500.0 million. On October 27, 2010, the Company notified the Administrative Agent under the credit facility of its intention to terminate the credit facility, effective November 3, 2010.

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**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 2010 and our 2009 Form 10-K, which was filed on February 26, 2010, 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**

VeriSign is one of the world s leading providers of Internet infrastructure services. By leveraging its world-class global infrastructure, VeriSign delivers network confidence and availability for mission-critical Internet services. VeriSign s Naming Services capabilities enable domain name registration through our registrar partners and provide network availability for registrars and Internet users alike.

As a result of the sale of our Authentication Services business, included in our former Internet, Infrastructure and Identity Services segment, we now have the following two reportable segments: (1) Naming Services, which consists of Registry Services and Network Intelligence and Availability ( NIA ) Services; and (2) Other Services, which consists of the continuing operations of Content Portal Services ( CPS ), our remaining non-core business.

Registry Services operates the authoritative directory of all *.com, .net, .cc, .tv,* and *.name* domain names and the back-end systems for all *.jobs* and *.edu* domain names. As of September 30, 2010, we had approximately 103.5 million domain names registered under the *.com* and *.net* registries, our principal registries. The number of domain names registered is largely driven by Internet usage and broadband penetration rates, 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 United States ( 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.

On August 9, 2010, we sold our Authentication Services business, including outstanding shares of capital stock of VeriSign Japan and trademarks and certain intellectual property used in the Authentication Services business (including our checkmark logo and the Geotrust and thawte brand names), to Symantec for a cash consideration of approximately $1.14 billion, net of cash held by transferred subsidiaries of $127.5 million and transaction costs of $10.8 million. Also included with the sale of the Authentication Services business were real and personal property owned by the Company at our Mountain View facility and other locations. We recorded a

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gain on sale of $736.5 million, net of tax of $243.8 million. The divestiture transaction is subject to definitive adjustment to reflect the actual working capital as of the closing date. Current and historical results of operations of the Authentication Services business have been classified as discontinued operations. As a result of the sale of the checkmark logo, VeriSign is in the process of selecting, clearing and adopting a new logo for the Company.

***Business Highlights and Trends Three and nine months ended September 30, 2010***

We recorded revenues of $172.7 million and $503.8 million during the three and nine months ended September 30, 2010, an increase of 10% and 9%, respectively, as compared to the same periods last year. The increase was primarily due to a 9% year-over-year increase in active domain names ending in *.com* and *.net* and fee increases in our *.com* and *.net* registry fees in October 2008 and July 2010.

We recorded income from continuing operations attributable to VeriSign, Inc. stockholders of $44.8 million and $100.8 million during the three and nine months ended September 30, 2010, respectively, an increase of 114% and 71%, respectively, as compared to the same periods last year.

On August 9, 2010, we sold our Authentication Services business to Symantec for cash consideration of approximately $1.14 billion, net of cash held by transferred subsidiaries of $127.5 million and transaction costs of $10.8 million. We recorded a gain on sale of $736.5 million, net of tax of $243.8 million.

On July 27, 2010, the Board of Directors authorized the repurchase of up to approximately $1.1 billion of our common stock, in addition to the $393.6 million of our common stock remaining available for repurchase under the previous 2008 Share Buyback Program, for a total repurchase of up to $1.5 billion of our common stock (collectively, the 2010 Share Buyback Program ). We repurchased 5.1 million and 15.3 million shares of our common stock for an aggregate cost of $145.5 million and $423.5 million during the three and nine months ended September 30, 2010, respectively.

We purchased marketable securities of $52.3 million and $714.6 million and sold marketable securities of $39.1 million and $226.7 million during the three and nine months ended September 30, 2010, respectively.

We generated cash flows from operating activities of $168.5 million during the nine months ended September 30, 2010, a decrease of 24% as compared to the same period last year. The decrease was primarily due to a decrease in income tax payable upon the gain resulting from the sale of the Authentication Services business, by utilizing carried forward excess tax benefits from exercises of stock options and other employee stock purchases.

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**Results of Operations**

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

| | Three Months Ended September 30, 2010 | 2009 | Nine Months Ended September 30, 2010 | 2009 |
|---|---|---|---|---|
| Revenues | 100% | 100% | 100% | 100% |
| Costs and expenses: | | | | |
| Cost of revenues | 23 | 27 | 24 | 28 |
| Sales and marketing | 11 | 13 | 13 | 12 |
| Research and development | 8 | 8 | 8 | 9 |
| General and administrative | 20 | 23 | 20 | 24 |
| Restructuring, impairment and other charges, net | 4 | 7 | 3 | 3 |
| Total costs and expenses | 66 | 78 | 68 | 76 |
| Operating income | 34 | 22 | 32 | 24 |
| Other loss, net | (4) | (6) | (4) | (5) |
| Income from continuing operations before income taxes | 30 | 16 | 28 | 19 |
| Income tax expense | (4) | (3) | (8) | (6) |
| Income from continuing operations, net of tax | 26 | 13 | 20 | 13 |
| Income from discontinued operations, net of tax | 429 | 21 | 154 | 21 |
| Net income | 455 | 34 | 174 | 34 |
| Less: Income from discontinued operations, net of tax, attributable to noncontrolling interest in subsidiary | | | (1) | (1) |
| Net income attributable to VeriSign, Inc. stockholders | 455% | 34% | 173% | 33% |

***Revenues***

We have two reportable segments: Naming Services and Other Services. A comparison of revenues is presented below:

| | Three Months Ended September 30, 2010 | % Change | 2009 | Nine Months Ended September 30, 2010 | % Change | 2009 |
|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | (Dollars in thousands) | | |
| Naming Services | $ 172,286 | 11% | $ 155,480 | $ 501,750 | 10% | $ 457,206 |
| Other Services | 363 | (73%) | 1,327 | 2,077 | (42%) | 3,591 |
| Total revenues | $ 172,649 | 10% | $ 156,807 | $ 503,827 | 9% | $ 460,797 |

*Naming Services*

Revenues related to our Naming Services are primarily derived from registrations for domain names in the *.com, .net, .cc, .tv*, *.name* and *.jobs* domain name registries. Revenues from *.cc, .tv, .name* 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 Internet Corporation for Assigned Names and Numbers ( 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 Internet growth, promotional programs, marketing expenditure by third-party registrars, as well as fee increases as permitted under our agreements with ICANN. On July 1, 2010, we increased our *.com* domain name registration

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fees by 7% from $6.86 to $7.34. We have the contractual right to increase the fees for *.com* domain name registrations 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 up to 10% in 2011 prior to the end of the current agreement with ICANN on June 30, 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.

The following table presents the year-over-year change in active domain names ending in *.com* and *.net* managed by our Naming Services business:

| | September 30, 2010 | % Change | September 30, 2009 |
|---|---|---|---|
| Active domain names ending in *.com* and *.net* | 103.5 million | 9% | 94.9 million |

The growth in the number of active domain names was primarily driven by continued Internet growth and new domain name promotional programs. We expect to see continued growth in the number of active domain names in 2010 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 promotional programs. We expect Naming Services revenues to increase in fiscal 2010 as compared to fiscal 2009 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.

Our Naming Services revenues increased by $16.8 million and $44.5 million during the three and nine months ended September 30, 2010, respectively, as compared to the same periods 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 October 2008 and July 2010 as per our agreements with ICANN. The increase in Naming Services revenues for the nine months ended September 30, 2010, was partially offset by a $7.6 million decrease in revenues from a one-time project completed during the nine months ended September 30, 2009.

Our expectations and trends are based on what we observe and can project with regard to the current macro-economic environment. Our outlook is subject to broader changes in the market and could change significantly over time.

***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 September 30, (Dollars in thousands) | | | Nine Months Ended September 30, (Dollars in thousands) | | |
|---|---|---|---|---|---|---|
| | 2010 | % Change | 2009 | 2010 | % Change | 2009 |
| U.S. | $ 105,654 | 8% | $ 97,975 | $ 309,224 | 5% | $ 293,918 |
| APAC | 26,500 | 17% | 22,629 | 76,359 | 19% | 64,083 |
| EMEA | 23,420 | 14% | 20,585 | 68,147 | 18% | 57,869 |
| Other | 17,075 | 9% | 15,618 | 50,097 | 12% | 44,927 |
| Total revenues | $ 172,649 | | $ 156,807 | $ 503,827 | | $ 460,797 |

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

Revenues from each of the respective regions increased during the three and nine months ended September 30, 2010, as compared to the same periods 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 October 2008 and July 2010. The increase in the number of domain names ending in *.com* and *.net* was driven by continued Internet growth and new domain name promotional programs. During the nine months ended September 30, 2010, the increase in U.S. revenues was partially offset by a decrease of $7.6 million related to a one-time project completed during the nine months ended September 30, 2009.

Mature markets such as the U.S., where broadband and e-commerce have seen strong market penetration, are expected to see decreasing incremental growth rates reflecting the maturing of these markets. We expect to see larger increases in certain other international regions, resulting from greater broadband and Internet penetration and expanding e-commerce.

***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, registry fees, 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 September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2010 | % Change | 2009 | 2010 | % Change | 2009 |
| | (Dollars in thousands) | | | | | |
| Cost of revenues | $ 40,266 | (4%) | $ 42,159 | $ 120,588 | (8%) | $ 130,380 |

Cost of revenues decreased during the three months ended September 30, 2010, as compared to the same period last year, primarily due to decreases in allocated overhead expenses and occupancy expenses, partially offset by an increase in telecommunication expenses. Allocated overhead expenses decreased by $3.0 million, primarily due to a decrease in allocable indirect costs and a decrease in proportional headcount within the cost of revenues function. Occupancy expenses decreased by $1.0 million, primarily due to the purchase in December 2009 of a previously leased facility, management s cost-saving initiatives to reduce overall utility expenses, and the elimination of certain shared services utility expenses as a result of the sale of the Authentication Services business. Telecommunication expenses increased by $1.6 million, primarily due to an increase in colocation expenses and additional circuits required to support the increase in our network infrastructure.

Cost of revenues decreased during the nine months ended September 30, 2010, as compared to the same period last year, primarily due to decreases in allocated overhead expenses, occupancy expenses, direct cost of revenues, expenses related to the CPS business, and contract and professional services expenses, partially offset by increases in telecommunication expenses, salary and employee benefits expenses and depreciation expenses. Allocated overhead expenses decreased by $11.0 million, primarily due to a decrease in allocable indirect costs and a decrease in proportional headcount within the cost of revenues function. Occupancy expenses decreased by $1.8 million, primarily due to the purchase in December 2009 of a previously leased facility, management s cost-saving initiatives to reduce overall utility expenses, and the elimination of certain shared services utility expenses as a result of the sale of the Authentication Services business. Direct cost of revenues decreased by $1.7 million, primarily due to a decrease associated with a one-time revenue project completed during the nine months ended September 30, 2009, partially offset by an increase in ICANN registry fees resulting from a fee increase effective

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July 2009. Expenses related to our CPS business decreased by $1.4 million, primarily as a result of winding down the business. Contract and professional services expenses decreased by $1.4 million, primarily due to a decrease in services of outside contractors and the conversion of contractors to employees. Telecommunication expenses increased by $3.0 million, primarily due to an increase in colocation expenses and additional circuits required to support the increase in our network infrastructure. Salary and employee benefits expenses increased by $2.7 million, primarily due to an increase in average headcount. Depreciation expenses increased by $2.0 million, primarily due to an increase in capitalized hardware and software to support investments in our infrastructure.

We expect cost of revenues as a percentage of revenues to remain consistent during the remainder of fiscal 2010 and in 2011 as compared to the nine months ended September 30, 2010.

***Sales and marketing***

Sales and marketing expenses consist primarily of salaries, sales commissions, sales operations and other personnel-related expenses, 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 September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2010 | % Change | 2009 | 2010 | % Change | 2009 |
| | (Dollars in thousands) | | | | | |
| Sales and marketing | $ 18,450 | (10%) | $ 20,545 | $ 63,080 | 15% | $ 54,620 |

Sales and marketing expenses decreased during the three months ended September 30, 2010, as compared to the same period last year, primarily due to decreases in contract and professional services expenses and allocated overhead expenses. Contract and professional services expenses decreased by $1.8 million, primarily due to certain market strategy and international marketing initiatives costs during the three months ended September 30, 2009. Allocated overhead expenses decreased $1.6 million, primarily due to a decrease in allocable indirect costs and a decrease in proportional headcount within the sales and marketing function.

Sales and marketing expenses increased during the nine months ended September 30, 2010, as compared to the same period last year, primarily due to increases in advertising and marketing expenses and salary and employee benefits expenses, partially offset by a decrease in allocated overhead expenses. Advertising and marketing expenses increased by $7.7 million, primarily due to certain corporate and Registry Services related advertising and marketing campaigns in 2010. Salary and employee benefits expenses increased by $3.1 million, primarily due to an increase in average headcount which will primarily support the expansion of the NIA business. Allocated overhead expenses decreased by $2.9 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 sale of the Authentication Services business and other divestitures in 2009.

We expect sales and marketing expenses as a percentage of revenues to remain consistent during the remainder of fiscal 2010 as compared to the nine months ended September 30, 2010.

***Research and development***

Research and development expenses consist primarily of costs related to research and development personnel, including salaries and other personnel-related 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.

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A comparison of research and development expenses is presented below:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2010 | % Change | 2009 | 2010 | % Change | 2009 |
| | | | (Dollars in thousands) | | | |
| Research and development | $ 14,537 | 10% | $ 13,245 | $ 40,731 | 2% | $ 40,050 |

Research and development expenses increased during the three months ended September 30, 2010, 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 $1.8 million, primarily due to an increase in average headcount to support new projects within our Registry and NIA Services.

Research and development expenses increased during the nine months ended September 30, 2010, as compared to the same period last year, primarily due to increases in salary and employee benefits expenses, and stock-based compensation expenses, partially offset by a decrease in allocated overhead expenses and an increase in capitalized labor. Salary and employee benefits expenses increased by $5.2 million, primarily due to an increase in average headcount to support new projects within our Registry and NIA Services. Stock-based compensation expenses increased by $1.4 million, primarily due to new grants of stock awards in 2010, an increase in average headcount and increases in Employee Stock Purchase Plan contributions in 2010. Allocated expenses decreased by $2.7 million, primarily due to a decrease in allocable indirect costs. Capitalized labor increased by $1.7 million, primarily due to an increase in internally developed software projects.

We expect research and development expenses as a percentage of revenues to remain consistent during the remainder of fiscal 2010 and in 2011 as compared to the nine months ended September 30, 2010.

***General and administrative***

General and administrative expenses consist primarily of salaries and other personnel-related 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 September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2010 | % Change | 2009 | 2010 | % Change | 2009 |
| | | | (Dollars in thousands) | | | |
| General and administrative | $ 33,644 | (5%) | $ 35,315 | $ 101,624 | (9%) | $ 111,196 |

General and administrative expenses decreased during the three months ended September 30, 2010, as compared to the same period last year, primarily due to decreases in contract and professional services expenses, depreciation expenses, legal expenses, telecommunication expenses, and miscellaneous general and administrative expenses, partially offset by a decrease in overhead expenses allocated to other cost types and an increase in stock-based compensation expenses. Contract and professional services expenses decreased by $2.5 million, primarily due to a decrease in professional services costs incurred in 2009 for accounting and auditing services related to our divestiture strategy, as well as a reduction in the use of outside contractors. Depreciation expenses decreased by $1.6 million, primarily due to certain capital software projects being fully depreciated prior to 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. Legal expenses decreased by $1.5 million, primarily as a result of receiving insurance reimbursements in excess of litigation expenses related to a certain legal matter. Telecommunication expenses decreased by $1.4 million, primarily due

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to a reduction in circuits required to support the business as a result of the divestitures of certain businesses. Miscellaneous general and administrative expenses decreased by $1.2 million, primarily due to a release of an accrual for certain non-income tax contingencies during the three months ended September 30, 2010 when the statute of limitations expired. Overhead expenses allocated to other cost types decreased by $5.0 million, primarily due to a decrease in allocable indirect costs and proportionately higher headcount in the general and administrative function. Stock-based compensation expenses increased by $1.0 million, primarily due to a forfeiture true-up related expense reversal adjustment during the three months ended September 30, 2009.

General and administrative expenses decreased during the nine months ended September 30, 2010, as compared to the same period last year, primarily due to decreases in contract and professional services expenses, telecommunication expenses, miscellaneous general and administrative expenses, salary and employee benefits expenses, depreciation expenses, legal expenses, and equipment and software expenses, partially offset by a decrease in overhead expenses allocated to other cost types. Contract and professional services expenses decreased by $7.8 million, primarily due to a decrease in professional services costs incurred in 2009 for accounting and auditing services related to our divestiture strategy, as well as a reduction in the use of outside contractors. Telecommunication expenses decreased by $4.9 million, primarily due to reduction in circuits required to support the business as a result of the divestitures and a one-time minimum commitment short-fall expense recorded during the three months ended March 31, 2009. Miscellaneous general and administrative expenses decreased by $4.1 million, primarily due to a refund during the three months ended March 31, 2010 of previously expensed non-income tax payment, an adjustment of certain expense accruals during the three months ended June 30, 2010, a release of an accrual for certain non-income tax contingencies during the three months ended September 30, 2010, when the statute of limitations expired, and certain asset write-offs during the three months ended June 30, 2009. Salary and employee benefits expenses decreased by $3.5 million, primarily due to a decrease in average headcount. Depreciation expenses decreased by $3.3 million, primarily due to certain capital software projects being fully depreciated prior to 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. Legal expenses decreased by $2.1 million, primarily as a result of receiving insurance reimbursements in excess of litigation expenses related to a certain legal matter and a reduction in overall legal fees. Equipment and software expenses decreased by $1.7 million, primarily due to management s cost savings initiatives and a reduction in overall equipment and software to support continuing operations. Overhead expenses allocated to other cost types decreased by $16.0 million, primarily due to a decrease in allocable indirect costs and proportionately higher headcount in the general and administrative function.

We expect general and administrative expenses as a percentage of revenues to remain consistent during the remainder of fiscal 2010 as compared to the nine months ended September 30, 2010, primarily as a result of our obligation to support the transition services related to the sale of the Authentication Services business. We expect general and administrative expenses as a percentage of revenues to decrease in 2011 as compared to the nine months ended September 30, 2010, as these transition services are completed in 2011.

***Restructuring Charges***

The following table presents the nature of our restructuring charges:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Workforce reduction | $ 15,295 | $ 2,648 | $ 28,846 | $ 9,351 |
| Excess facilities | 374 | 142 | 482 | 1,535 |
| Total consolidated restructuring charges | $ 15,669 | $ 2,790 | $ 29,328 | $ 10,886 |
| Amounts classified as continuing operations | $ 6,303 | $ 341 | $ 14,141 | $ 3,643 |
| Amounts classified as discontinued operations | $ 9,366 | $ 2,449 | $ 15,187 | $ 7,243 |

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

Under the expanded 2010 Restructuring Plan, we will incur total estimated pre-tax cash charges of $22.3 million in severance costs and other related employee termination costs. Through September 30, 2010, we recorded a total of $17.9 million in cash restructuring charges, inclusive of amounts for discontinued operations, under our 2010 Restructuring Plan, related to employee terminations. We expect to recognize excess facility exit costs in the range of $14.2 million to $16.9 million. Additionally we recognized stock-based compensation expenses of $9.1 million, inclusive of amounts for discontinued operations, during the three months ended September 30, 2010, 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.

***Impairments and Other Charges***

In 2009, we recorded an impairment charge of $9.7 million related to our *.name* generic top level domain ( gTLD ) intangible asset and a reversal of impairment charges of $0.8 million related to property and equipment of our CPS business that was previously classified as a disposal group held for sale and subsequently reclassified as held and used in 2009.

***Other loss, net***

Other loss, net, consists primarily of interest and dividend income earned on our cash, cash equivalents, and investments, interest expense related to our borrowings, net gains or losses on the sale and impairment of investments, net gains or losses on the divestiture of certain businesses, 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. Net gains or losses on the sale and impairment of investments, net gains or losses on the divestiture of certain businesses and the net effect of foreign currency gains and losses are included in Other, net, in the table below.

A comparison of other loss, net is presented below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Interest and dividend income | $ 1,908 | $ 533 | $ 5,047 | $ 2,108 |
| Interest expense | (12,140) | (11,867) | (36,104) | (35,477) |
| Unrealized (loss) gain on the contingent interest derivative on convertible debentures | (625) | 750 | 1,125 | 1,799 |
| Income from transition services agreements | 3,020 | 1,230 | 6,898 | 3,068 |
| Other, net | 337 | 298 | 258 | 4,013 |
| Total other loss, net | $ (7,500) | $ (9,056) | $ (22,776) | $ (24,489) |

Other loss, net, decreased during the three months ended September 30, 2010, as compared to the same period last year, primarily due to increases in interest and dividend income and income from transition services agreements, partially offset by an unrealized loss recorded on the contingent interest derivative. Interest and dividend income increased, primarily as a result of investing in marketable securities which have higher interest rates in 2010 as compared to money market funds. Income from transition services agreements increased primarily due to transition services provided to the buyer of the Authentication Services business.

Other loss, net, decreased during the nine months ended September 30, 2010, as compared to the same period last year, primarily due to increases in interest and dividend income and income from transition services agreements, partially offset by decreases in Other, net. Interest and dividend income increased, primarily as a result of investing in marketable securities which have higher interest rates in 2010 as compared to money market funds. Income from transition services agreements increased, primarily due to transition services provided to the buyers of certain divested businesses. During the nine months ended September 30, 2009, Other, net, includes $3.3 million received from Certicom Corporation ( Certicom ) due to the termination of the acquisition agreement entered into with Certicom.

***Income taxes***

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

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | **(Dollars in thousands)** | | | |
| Income tax expense from continuing operations | $ 7,193 | $ 4,132 | $ 40,098 | $ 26,944 |
| Effective tax rate | 14% | 17% | 28% | 31% |

The effective tax rate for the three and nine months ended September 30, 2010, differs from the statutory federal rate of 35% due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense, tax benefits from foreign income taxed at lower rates, discrete tax benefits related to lapses of statutes of limitation, and a one-time discrete tax expense related to a change in tax status in a foreign jurisdiction due to the sale of the Authentication Services business. The effective tax rate for the three and nine months ended September 30, 2009, differs from the statutory federal rate of 35% due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense, discrete tax benefits related to lapses of statutes of limitation, and a one-time discrete income tax benefit related to a California tax law change. As of September 30, 2010, we plan to continue with our policy of permanently reinvesting all foreign earnings.

***Income from Discontinued operations, net of tax***

Income from discontinued operations for the three and nine months ended September 30, 2010, represents the results of operations of the Authentication Services business, the gain on sale of the Authentication Services business, and adjustments to gains or losses on divestitures completed in fiscal 2009, as a result of certain one-time employment termination costs and settlement of certain retained litigation of the divested businesses. Income from discontinued operations for the three and nine months ended September 30, 2009, represents the results of operations of the Authentication Services business, results of operations of businesses divested in fiscal 2009, and gains or losses on completed divestitures.

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 agreements can include the following: data center hosting, logistics, customer service, support of financial processes, procurement, human resources, facilities management, data collection and information services. The existing agreements typically have terms from 1 to 24 months in length and are currently at various stages within their original term.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Revenues | $ 42,971 | $ 141,732 | $ 246,663 | $ 521,793 |
| Income from discontinued operations before income taxes | $ 4,666 | $ 34,443 | $ 63,916 | $ 152,164 |
| Net gains on sale of discontinued operations before income taxes | 980,255 | 18,307 | 979,292 | 43,828 |
| Income tax expense | (244,132) | (19,051) | (269,638) | (98,955) |
| Income from discontinued operations, net of tax | 740,789 | 33,699 | 773,570 | 97,037 |
| Less: Income from discontinued operations, net of tax, attributable to noncontrolling interest in subsidiary | (642) | (988) | (2,887) | (2,381) |
| Total income from discontinued operations, net of tax, attributable to VeriSign stockholders | $ 740,147 | $ 32,711 | $ 770,683 | $ 94,656 |

We recognized carried forward excess tax benefits from exercises of stock options and other employee stock purchases of $154.1 million during the three months ended September 30, 2010, to reduce income tax payable upon the gain resulting from the sale of the Authentication Services business.

**Liquidity and Capital Resources**

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Cash and cash equivalents | $ 2,060,195 | $ 1,477,166 |
| Marketable securities | 488,948 | 185 |
| Total | $ 2,549,143 | $ 1,477,351 |

As of September 30, 2010, our principal source of liquidity was $2.1 billion of cash and cash equivalents and $488.9 million of marketable securities. In summary, our cash flows for the nine months ended September 30, 2010 and 2009 are as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Net cash provided by operating activities | $ 168,479 | $ 222,042 |
| Net cash provided by investing activities | 616,784 | 330,712 |
| Net cash (used in) provided by financing activities | (211,334) | 81,694 |
| Effect of exchange rate changes on cash and cash equivalents | 9,100 | 8,790 |
| Net increase in cash and cash equivalents | $ 583,029 | $ 643,238 |

*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, inclusive of revenues from discontinued operations, timing of receipts from customers during the nine months ended September 30, 2010 and a decrease in income tax payable upon the gain resulting from the sale of the Authentication Services business, by utilizing carried forward excess tax benefits from exercises of stock options and other employee stock purchases. The decrease is partially offset by a decrease in cash payments to suppliers and employees, primarily resulting from the completion of our divestitures in 2009, the divestiture of the Authentication Services business in August 2010 and lower average headcount.

*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 provided by investing activities increased, primarily due to net proceeds received from the divestiture of the Authentication Services business in August 2010 and maturities and sales of marketable securities during the nine months ended September 30, 2010, partially offset by purchases of marketable securities during the nine months ended September 30, 2010.

*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 during the nine months ended September 30, 2010. The increase is partially offset by an increase in excess tax benefits from exercises of stock options and employee stock purchases and an increase in proceeds received from issuance of common stock from stock option exercises and employee stock purchase plan.

*Other Liquidity and Capital Resources Information*

Our credit facility, which matures on June 7, 2011, permits cash borrowings up to a maximum of $500.0 million. As of September 30, 2010, we had no outstanding borrowings under our credit facility. On October 27, 2010, the Company notified the Administrative Agent under the credit facility of its intention to terminate the credit facility, effective November 3, 2010.

As of September 30, 2010, our principal source of liquidity was $2.1 billion of cash and cash equivalents, including $1.14 billion in net cash we received from the sale of the Authentication Services business, and $488.9 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 September 30, 2010, $505.2 million of marketable securities were invested in fixed income securities, of which $85.9 million had maturities within one year and $419.3 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, and for a discussion of market risk associated with our investment portfolio, see Item 3, Quantitative and Qualitative Disclosures about Market Risk, *Interest Rate Sensitivity*, in this Quarterly Report on Form 10-Q.

We believe existing cash and cash equivalents, together with funds generated from operations should be sufficient to meet our working capital, capital expenditure requirements 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.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes in our market risk exposures since December 31, 2009, except as noted below:

**Interest rate sensitivity**

We invest in a variety of securities, including money market funds, debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies, and corporate debt securities. The primary objective of our short-term investment management activities is to preserve principal with the additional goals of maintaining appropriate liquidity and earning an after-tax return commensurate with the risks associated in each portfolio. We manage our interest rate risk by maintaining an investment portfolio generally consisting of debt instruments of high credit quality. We monitor our interest rate and credit risks, including our credit exposures to specific rating categories and to individual issuers. We invest in investment grade marketable fixed income securities.

In general, money market funds are not considered to be subject to interest rate risk because the interest paid on such funds fluctuates with the prevailing interest rate. Notwithstanding our efforts to manage interest rate risks, there can be no assurance that we will be adequately protected against risks associated with interest rate fluctuations. At any time, a sharp change in interest rates could have a significant impact on the fair value of our investment portfolio. The following table presents the hypothetical changes in fair value of our fixed income securities in our short-term investment portfolio as of September 30, 2010, arising from potential changes in interest rates. The modeling technique estimates the change in fair value from immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points ( BPS ), 100 BPS, and 150 BPS.

| | **Valuation of Securities Given an Interest Rate Decrease of X Basis Points** | | | **Fair Value As of September 30, 2010 (In thousands)** | **Valuation of Securities Given an Interest Rate Increase of X Basis Points** | | |
|---|---|---|---|---|---|---|---|
| | **(150 BPS)** | **(100 BPS)** | **(50 BPS)** | | **50 BPS** | **100 BPS** | **150 BPS** |
| Fixed income securities | $ 517,824 | $ 513,612 | $ 509,399 | $ 505,187 | $ 500,975 | $ 496,763 | $ 492,551 |

**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 September 30, 2010 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.

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## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The information set forth under Legal Proceedings in Note 13, 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 business;
- 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;
- changes in the payment structures of on-line advertising network providers and compensation levels, as well as policies proposed and implemented by ICANN, which could impact the number of domain name registrations;
- our success in direct marketing, and the scope and success of marketing efforts by third-party registrars in the case of our Naming Services business, and market acceptance of our services by our existing customers and by new customers;
- customer renewal rates and turnover of customers of our services;
- continued development of our direct and indirect 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;