VERISIGN INC/CA
Form 10-Q
April 28, 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 March 31, 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** | **(I.R.S. Employer** |
| **incorporation or organization)** | **Identification No.)** |
| **487 East Middlefield Road, Mountain View, CA** | **94043** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code: (650) 961-7500**

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

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

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

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

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

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

| **Class** | **Shares Outstanding April 23, 2010** |
|---|---|
| Common stock, $.001 par value | 182,497,307 |

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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)**

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,090,030 | $ 1,477,166 |
| Marketable securities | 460,401 | 185 |
| Accounts receivable, net | 58,528 | 63,133 |
| Prepaid expenses and other current assets | 134,481 | 168,574 |
| Total current assets | 1,743,440 | 1,709,058 |
| Property and equipment, net | 398,563 | 403,821 |
| Goodwill | 288,399 | 289,980 |
| Other intangible assets, net | 19,671 | 22,420 |
| Other assets | 42,115 | 44,865 |
| Total long-term assets | 748,748 | 761,086 |
| Total assets | $ 2,492,188 | $ 2,470,144 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 180,259 | $ 243,967 |
| Deferred revenues | 668,582 | 642,507 |
| Total current liabilities | 848,841 | 886,474 |
| Long-term deferred revenues | 255,374 | 245,734 |
| Convertible debentures, including contingent interest derivative | 575,545 | 574,378 |
| Other long-term liabilities | 179,982 | 164,894 |
| Total long-term liabilities | 1,010,901 | 985,006 |
| Total liabilities | 1,859,742 | 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: 182,410,456, excluding 126,679,737 held in treasury, at March 31, 2010; and 183,299,463, excluding 124,434,684 held in treasury, at December 31, 2009 | 309 | 308 |
| Additional paid-in capital | 21,719,214 | 21,736,209 |
| Accumulated deficit | (21,143,079) | (21,194,435) |

| | | |
|---|---|---|
| Accumulated other comprehensive income | 7,038 | 7,659 |
| Total VeriSign, Inc. stockholders equity | 583,482 | 549,741 |
| Noncontrolling interest in subsidiary | 48,964 | 48,923 |
| Total stockholders equity | 632,446 | 598,664 |
| Total liabilities and stockholders equity | $ 2,492,188 | $ 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 March 31, 2010 | Three Months Ended March 31, 2009 |
|---|---|---|
| Revenues | $ 264,402 | $ 253,557 |
| Costs and expenses | | |
| Cost of revenues | 59,729 | 62,879 |
| Sales and marketing | 48,699 | 38,189 |
| Research and development | 20,382 | 21,783 |
| General and administrative | 43,755 | 48,630 |
| Restructuring and other charges, net | 363 | 3,998 |
| Amortization of other intangible assets | 2,749 | 3,221 |
| Total costs and expenses | 175,677 | 178,700 |
| Operating income | 88,725 | 74,857 |
| Other loss, net | (6,933) | (4,340) |
| Income from continuing operations before income taxes | 81,792 | 70,517 |
| Income tax expense | (27,798) | (23,200) |
| Income from continuing operations, net of tax | 53,994 | 47,317 |
| (Loss) income from discontinued operations, net of tax | (1,554) | 18,198 |
| Net income | 52,440 | 65,515 |
| Less: Net income attributable to noncontrolling interest in subsidiary | (1,084) | (495) |
| Net income attributable to VeriSign, Inc. stockholders | $ 51,356 | $ 65,020 |
| Basic income per share attributable to VeriSign, Inc. stockholders from: | | |
| Continuing operations | $ 0.29 | $ 0.24 |
| Discontinued operations | (0.01) | 0.10 |
| Net income | $ 0.28 | $ 0.34 |
| Diluted income per share attributable to VeriSign, Inc. stockholders from: | | |
| Continuing operations | $ 0.29 | $ 0.24 |
| Discontinued operations | (0.01) | 0.10 |
| Net income | $ 0.28 | $ 0.34 |
| Shares used to compute net income per share attributable to VeriSign, Inc. stockholders: | | |
| Basic | 183,174 | 192,311 |

| | | |
|---|---|---|
| Diluted | 184,259 | 192,804 |
| | | |
| Amounts attributable to VeriSign, Inc. stockholders: | | |
| Income from continuing operations, net of tax | $ 52,910 | $ 46,822 |
| (Loss) Income from discontinued operations, net of tax | (1,554) | 18,198 |
| | | |
| Net income attributable to VeriSign, Inc. stockholders | $ 51,356 | $ 65,020 |

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)**

| | Three Months Ended March, 31 | |
|---|---|---|
| | **2010** | **2009** |
| Cash flows from operating activities: | | |
| Net income | $ 52,440 | $ 65,515 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property and equipment and amortization of other intangible assets | 21,905 | 20,530 |
| Stock-based compensation | 12,085 | 13,928 |
| Excess tax benefit associated with stock-based compensation | (8,097) | (27,293) |
| Other, net | 6,270 | (6,943) |
| Changes in operating assets and liabilities, excluding the effects of acquisitions and divestitures: | | |
| Accounts receivable | 4,579 | 8,464 |
| Prepaid expenses and other assets | 9,689 | (29,380) |
| Accounts payable and accrued liabilities | (33,734) | (32,175) |
| Deferred revenues | 35,983 | 25,792 |
| Net cash provided by operating activities | 101,120 | 38,438 |
| Cash flows from investing activities: | | |
| Proceeds from maturities and sales of marketable securities and investments | 95,909 | 94,016 |
| Purchases of marketable securities and investments | (549,087) | (750) |
| Purchases of property and equipment | (19,898) | (20,994) |
| Proceeds received from divestiture of businesses, net of cash contributed | 15,583 | 2,372 |
| Other investing activities | | 3,485 |
| Net cash (used in) provided by investing activities | (457,493) | 78,129 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock from option exercises and employee stock purchase plans | 17,393 | 17,133 |
| Repurchases of common stock | (53,753) | (1,361) |
| Excess tax benefit associated with stock-based compensation | 8,097 | 27,293 |
| Other financing activities | (346) | |
| Net cash (used in) provided by financing activities | (28,609) | 43,065 |
| Effect of exchange rate changes on cash and cash equivalents | (2,154) | (6,314) |
| Net (decrease) increase in cash and cash equivalents | (387,136) | 153,318 |
| Cash and cash equivalents at beginning of period | 1,477,166 | 789,068 |
| Cash and cash equivalents at end of period | $ 1,090,030 | $ 942,386 |
| Supplemental cash flow disclosures: | | |
| Cash paid for interest, net of capitalized interest | $ 19,811 | $ 19,521 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**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.

*Reclassifications*

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

*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. Currently, the Company is evaluating the impact adoption will have 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. Currently, the Company is evaluating the impact adoption will have on its financial condition and results of operations.

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

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Cash | $ 248,028 | $ 227,547 |
| Money market funds | 300,333 | 736,459 |
| Time deposits | 506,549 | 514,938 |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | 258,927 | |
| Corporate debt securities | 238,020 | |
| Equity securities of a public company | 352 | 185 |
| Total | $ 1,552,209 | $ 1,479,129 |
| Included in Cash and cash equivalents | $ 1,090,030 | $ 1,477,166 |
| Included in Marketable securities | $ 460,401 | $ 185 |
| Included in Other assets (1) | $ 1,778 | $ 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.

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 March 31, 2010** | | | | |
| Fixed income securities: | | | | |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | $ 259,196 | $ 70 | $ (339) | $ 258,927 |
| Corporate debt securities | 238,138 | 98 | (216) | 238,020 |
| Total fixed income securities | 497,334 | 168 | (555) | 496,947 |
| Equity securities of a public company | 255 | 97 | | 352 |
| Total available-for-sale investments | $ 497,589 | $ 265 | $ (555) | $ 497,299 |
| Included in Cash and cash equivalents | | | | $ 36,898 |
| Included in Marketable securities | | | | $ 460,401 |
| **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 March 31, 2010:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (In thousands) | | |
| Due within one year | $ 90,029 | $ 7 | $ (35) | $ 90,001 |
| Due after one year through five years | 407,305 | 161 | (520) | 406,946 |
| Total | $ 497,334 | $ 168 | $ (555) | $ 496,947 |

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The following table presents the fair value and unrealized losses of the Company s available-for-sale investments that have been in a continuous unrealized loss position for less than twelve months as of March 31, 2010, for which an other-than-temporary impairment has not been recognized. There are no available-for-sale investments that are in a continuous unrealized loss position for more than twelve months.

| | Fair Value | Unrealized Losses |
|---|---|---|
| | (In thousands) | |
| Fixed income securities: | | |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | $ 199,964 | $ (339) |
| Corporate debt securities | 145,562 | (216) |
| Total | $ 345,526 | $ (555) |

The Company anticipates that it will recover the entire amortized cost basis of the fixed income securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three months ended March 31, 2010. The Company does not have the intent to sell any of these investments and it is more likely than not that it will not be required to sell any of these investments, before recovery of the entire amortized cost basis.

Net gains or losses recognized during the three months ended March 31, 2010 and 2009 related to sales of investments 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 March 31, 2010 and December 31, 2009:

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | Total Fair Value as of March 31, 2010 | 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 | $ 300,333 | $ 300,333 | $ | $ |
| Investments in fixed income securities: | | | | |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | 258,927 | | 258,927 | |
| Corporate debt securities | 238,020 | | 238,020 | |
| Equity securities of a public company | 352 | 352 | | |
| Foreign currency forward contracts | 1,145 | | 1,145 | |
| Total | $ 798,777 | $ 300,685 | $ 498,092 | $ |
| Liabilities: | | | | |
| Contingent interest derivative on convertible debentures | $ 9,531 | $ | $ | $ 9,531 |
| Total | $ 9,531 | $ | $ | $ 9,531 |

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| | 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 | 185 | 185 | | |
| Foreign currency forward contracts | 932 | | 932 | |
| Total | $ 737,576 | $ 736,644 | $ 932 | $ |
| Liabilities: | | | | |
| Contingent interest derivative on convertible debentures | $ 10,000 | $ | $ | $ 10,000 |
| Total | $ 10,000 | $ | $ | $ 10,000 |

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. Such instruments are included in Prepaid expenses and other current assets.

The fair value of the equity securities of a public company is based on the quoted market price of the underlying shares. This investment is included in Marketable securities.

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 months ended March 31, 2010 and 2009:

| | Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| | (In thousands) | |
| Beginning balance | $ 10,000 | $ 10,549 |
| Unrealized gain on contingent interest derivative on convertible debentures | (469) | (1,174) |
| Ending balance | $ 9,531 | $ 9,375 |

*Other*

The fair value of other financial instruments including accounts receivable, restricted cash and investments, and accounts payable, approximates their carrying amount, which is the amount for which the instrument could

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be exchanged in a current transaction between willing parties. The fair value of the Company s convertible debentures at March 31, 2010, is $1.1 billion, and is based on quoted market prices.

**Note 4. Other Balance Sheet Items**

*Prepaid Expenses and Other Current Assets*

Prepaid expenses and other current assets consist of the following:

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Prepaid expenses | $ 20,042 | $ 18,868 |
| Deferred tax assets | 66,062 | 65,984 |
| Non-trade receivables | 29,090 | 25,467 |
| Receivables from buyers | 4,678 | 34,365 |
| Funds held by the Reserve | 12,506 | 20,867 |
| Other | 2,103 | 3,023 |
| Total prepaid expenses and other current assets | $ 134,481 | $ 168,574 |

During the three months ended, March 31, 2010, the Company received $2.5 million held in escrow for a divested business, $13.3 million for services performed on behalf of buyers under transition service agreements and $13.1 million of working capital receivables from the buyers of certain divested businesses, all of which were included in receivables from buyers as of December 31, 2009.

During the three months ended March 31, 2010, the Company received distributions of $8.4 million from the funds held by the Reserve.

*Accounts Payable and Accrued Liabilities*

Accounts payable and accrued liabilities consist of the following:

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Accounts payable | $ 14,862 | $ 16,228 |
| Accrued employee compensation | 53,109 | 81,782 |
| Customer deposits, net | 19,658 | 23,213 |
| Payables to buyers | 10,171 | 21,122 |
| Taxes payable, deferred and other tax liabilities | 23,616 | 27,206 |
| Other accrued liabilities | 58,843 | 74,416 |
| Total accounts payable and accrued liabilities | $ 180,259 | $ 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. During the three months ended March 31, 2010, the Company paid annual bonuses to its employees. Payables to buyers consist of payables for collections received on behalf of buyers of certain divested businesses under transition services agreements.

Other accrued liabilities consist primarily of interest on convertible debentures, accrued restructuring costs, accrued litigation, and accruals for products and services. Interest on convertible debentures is paid semiannually in arrears on August 15 and February 15. During the three months ended March 31, 2010, the Company paid interest on convertible debentures of $20.3 million.

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*Other Long-term Liabilities*

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Deferred tax liabilities | $ 158,611 | $ 144,777 |
| Long-term tax liabilities | 14,791 | 12,949 |
| Other | 6,580 | 7,168 |
| Total other long-term liabilities | $ 179,982 | $ 164,894 |

**Note 5. Stockholders Equity**

*Comprehensive Income*

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

| | Three months ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Net income | $ 52,440 | $ 65,515 |
| Foreign currency translation adjustments | (526) | (9,954) |
| Change in unrealized loss on investments, net of tax | (286) | 158 |
| Comprehensive income | 51,628 | 55,719 |
| Less: Comprehensive income (loss) attributable to noncontrolling interest in subsidiary | 893 | (4,114) |
| Comprehensive income attributable to VeriSign, Inc. stockholders | $ 50,735 | $ 59,833 |

*Repurchase of Common Stock*

On August 5, 2008, the Board of Directors authorized the repurchase of up to $680.0 million of VeriSign s common stock, in addition to the $320.0 million of its common stock remaining available for repurchase under the previous 2006 stock repurchase program, for a total repurchase of up to $1 billion of its common stock (collectively, the 2008 Share Buyback Program ). The 2008 Share Buyback Program has no expiration date.

During the three months ended March 31, 2010, the Company repurchased 2.1 million shares of its common stock at an average stock price of $23.93 for an aggregate of $50.5 million under the 2008 Share Buyback Program. As of March 31, 2010, $646.7 million is available under the 2008 Share Buyback Program.

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**Note 6. 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 March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Weighted-average shares of common stock outstanding | 183,174 | 192,311 |
| Weighted-average potential shares of common stock outstanding: | | |
| Stock options | 336 | 236 |
| Unvested restricted stock units | 749 | 257 |
| Shares used to compute diluted net income per share attributable to VeriSign, Inc. stockholders | 184,259 | 192,804 |

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 March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands, except per share data) | |
| Weighted-average stock options outstanding | 4,436 | 8,289 |
| Weighted-average exercise price | $ 30.63 | $ 28.13 |
| Weighted-average restricted stock units outstanding | 56 | 2,355 |
| Employee stock purchase plans | 1,387 | 3,098 |

There was no positive conversion spread relating to the convertible debentures during the three months ended March 31, 2010 and 2009 and therefore is not included in the calculation of diluted net income per share attributable to VeriSign, Inc. stockholders.

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**Note 7. Segment Information**

The Company operates in two reportable segments: (1) Internet Infrastructure and Identity Services ( 3IS ) and (2) Other Services. The following tables present the results of the Company s reportable segments:

| | 3IS | Other Services (In thousands) | Total |
|---|---|---|---|
| Three months ended March 31, 2010 | | | |
| Revenues: | | | |
| Naming Services | $ 161,583 | $ | $ 161,583 |
| Authentication Services | 101,908 | | 101,908 |
| Other Services | | 911 | 911 |
| Total revenues | 263,491 | 911 | 264,402 |
| Cost of revenues | 50,141 | 1,560 | 51,701 |
| | $ 213,350 | $ (649) | $ 212,701 |
| Three months ended March 31, 2009 | | | |
| Revenues: | | | |
| Naming Services | $ 148,308 | $ | $ 148,308 |
| Authentication Services | 103,904 | | 103,904 |
| Other Services | | 1,345 | 1,345 |
| Total revenues | 252,212 | 1,345 | 253,557 |
| Cost of revenues | 49,747 | 1,302 | 51,049 |
| | $ 202,465 | $ 43 | $ 202,508 |

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 March 31, 2010 | 2009 |
|---|---|---|
| | (In thousands) | |
| Total revenues from reportable segments | $ 264,402 | $ 253,557 |
| Total cost of revenues from reportable segments | 51,701 | 51,049 |
| Unallocated operating expenses (1) | 123,976 | 127,651 |
| Operating income | 88,725 | 74,857 |
| Other loss, net | (6,933) | (4,340) |
| Income from continuing operations before income taxes | $ 81,792 | $ 70,517 |

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

*Geographic Information*

The Company operates in the United States ( U.S. ); Australia, Japan and other Asia Pacific countries ( APAC ); Europe, the Middle East and Africa ( EMEA ); and certain other countries, including Canada and Latin American countries.

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The following table represents a comparison of the Company s geographic revenues:

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 |
|---|---|---|
| | (In thousands) | |
| U.S. | $ 150,047 | $ 147,132 |
| APAC | 50,755 | 48,167 |
| EMEA | 44,211 | 40,524 |
| Other | 19,389 | 17,734 |
| Total revenues | $ 264,402 | $ 253,557 |

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:

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| U.S. | $ 376,812 | $ 380,732 |
| APAC | 12,258 | 13,154 |
| EMEA | 9,464 | 9,898 |
| Other | 29 | 37 |
| Total property and equipment, net | $ 398,563 | $ 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 17% and 14% of the Company s revenues from continuing operations during the three months ended March 31, 2010 and 2009, respectively. No customer accounted for 10% or more of accounts receivable at March 31, 2010, and December 31, 2009.

**Note 8. Stock-Based Compensation**

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

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Stock-based compensation: | | |
| Cost of revenues | $ 1,793 | $ 1,658 |
| Sales and marketing | 2,811 | 2,427 |
| Research and development | 1,873 | 1,481 |
| General and administrative | 5,527 | 5,277 |
| Restructuring and other charges, net | 202 | 723 |
| Stock-based compensation for continuing operations | 12,206 | 11,566 |
| Discontinued operations | (121) | 2,362 |

| | | |
|---|---|---|
| Total stock-based compensation | $ 12,085 | $ 13,928 |

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

| | Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| | (In thousands) | |
| Stock-based compensation: | | |
| Stock options | $ 2,316 | $ 3,511 |
| Employee stock purchase plan | 2,729 | 2,721 |
| Restricted stock units | 6,949 | 7,481 |
| Stock options/awards acceleration | 570 | 932 |
| Capitalization (1) | (479) | (717) |
| Total stock-based compensation | $ 12,085 | $ 13,928 |

(1) Included in Property and equipment, net.

**Note 9. Other Loss, Net**

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

| | Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| | (In thousands) | |
| Interest and dividend income | $ 1,294 | $ 1,649 |
| Interest expense | (11,998) | (11,805) |
| Unrealized gain on contingent interest derivative on convertible debentures | 469 | 1,174 |
| Income from transition services agreements | 3,020 | 782 |
| Other, net | 282 | 3,860 |
| Total other loss, net | $ (6,933) | $ (4,340) |

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 three months ended March 31, 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 10. Discontinued Operations**

The Company has completed the divestitures of its non-core businesses. 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 completed divestitures. The activities that will give rise to these impacts are transitional in nature and generally result from agreements that ensure and facilitate the orderly transfer of business operations. The nature, magnitude and duration of the agreements will vary depending on the specific circumstances of the service, location and/or business need. The agreements can include the following: logistics, customer service, support of financial processes, procurement, human resources, facilities management, data collection and information services. Existing agreements generally extend for periods less than 12 months.

Income from discontinued operations for the three months ended March 31, 2010, represents adjustments to gains or losses on sale of discontinued operations reported in 2009, as a result of certain one-time employment termination benefits and settlement of certain retained litigation of the divested businesses.

**Note 11. Income Taxes**

During the three months ended March 31, 2010 and 2009, the Company recorded income tax expense for continuing operations of $27.8 million and $23.2 million, respectively. The effective tax rates for the three months ended March 31, 2010 and 2009 were 34% and 33%, respectively. The effective tax rate for the three months ended March 31, 2010 differs from the statutory federal rate of 35% due to state taxes, the effect of non-U.S. operations and non-deductible stock-based compensation expense. The effective tax rate for the three months ended March 31, 2009 differs from the statutory federal rate of 35% due to state taxes, non-deductible stock-based compensation 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.

As of March 31, 2010 and December 31, 2009, the Company had gross unrecognized tax benefits for income taxes associated with uncertain tax positions of $32.0 million and $30.0 million, respectively. During the three months ended March 31, 2010, the Company recorded an increase in unrecognized tax benefits of $2.0 million. As of March 31, 2010 and December 31, 2009, $30.9 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 months ended March 31, 2010 and 2009, the Company expensed $0.1 million and $0.3 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, Japan and the states of California and Virginia. 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 Company s income tax returns are not currently under income tax examination by the Japan National Tax Agency. The years remaining subject to examination by the Japan National Tax Agency are those ended on December 31, 2007 and forward.

**Note 12. Contingencies**

*Legal Proceedings*

On July 6, 2006, a stockholder derivative complaint (Parnes v. Bidzos, et al., and VeriSign) was filed against VeriSign in the U.S. District Court for the Northern District of California, as a nominal defendant, and certain of its current and former directors and executive officers related to certain historical stock option grants. The complaint seeks unspecified damages on behalf of VeriSign, constructive trust and other equitable relief. Two other derivative actions were filed, one in the U.S. District Court for the Northern District of California (Port Authority v. Bidzos, et al., and VeriSign), and one in the Superior Court of the State of California, Santa Clara County (Port Authority v. Bidzos, et al., and VeriSign) on August 14, 2006. The state court derivative action is stayed pending resolution of the federal actions. The current directors and officers named in this state action are D. James Bidzos, William L. Chenevich, Roger H. Moore and Louis A. Simpson. The Company is named as a nominal defendant in these actions. The federal actions have been consolidated and plaintiffs filed a consolidated complaint on November 20, 2006 ( Federal Action ). The current directors and officers named in this consolidated Federal Action are D. James Bidzos, William L. Chenevich, Roger H. Moore, Louis A. Simpson and Timothy Tomlinson. Motions to dismiss the consolidated federal court complaint were heard on May 23, 2007. Those motions were granted on September 14, 2007. On November 16, 2007, a second amended stockholder derivative complaint was filed in the Federal Action wherein the Company was again named as a nominal defendant. By stipulation and Court order, defendants obligation to respond to the second amended stockholder derivative complaint has been continued pending informal efforts by the parties to resolve the Federal Action. The parties have reached an agreement to resolve the option grant related matters. The Federal Action is subject to approval of the U.S. District Court for the Northern District of California. On March 5, 2010, the United States District Court for the Northern District of California issued an order granting preliminary approval of the settlement of the Federal Action. A hearing for final approval is scheduled for June 2, 2010. The parties have agreed that upon final approval of the settlement and dismissal of the Federal Action the parallel state court proceedings will be dismissed. The settlement amount is not significant.

On May 15, 2007, a putative class action (Mykityshyn v. Bidzos, et al., and VeriSign) was filed in Superior Court for the State of California, Santa Clara County, naming VeriSign and certain current and former officers and directors, alleging false representations and disclosure failures regarding certain historical stock option grants. The plaintiff purports to represent all individuals who owned VeriSign s common stock between April 3, 2002, and August 9, 2006. The complaint seeks rescission of amendments to the 1998 and 2006 Option Plans and the cancellation of shares added to the 1998 Option Plan. The complaint also seeks to enjoin the Company from granting any stock options and from allowing the exercise of any currently outstanding options granted under the 1998 and 2006 Option Plans. The complaint seeks an unspecified amount of compensatory damages, costs and attorneys fees. The identical case was filed in the Superior Court for the State of California, Santa Clara County under a separate name (Pace. v. Bidzos, et al., and VeriSign) on June 19, 2007, and on October 3, 2007 (Mehdian v. Bidzos, et al.). On December 3, 2007, a consolidated complaint was filed in Superior Court for the State of California, Santa Clara County. The current directors and officers named in this consolidated class action are D. James Bidzos, William L. Chenevich, Roger H. Moore and Louis A. Simpson. VeriSign and the individual defendants dispute all of these claims. Defendants collective pleading challenges to the putative consolidated class action complaint were granted with leave to amend in August 2008. By stipulation and Court order, plaintiff s obligation to file an amended consolidated class action complaint has been continued pending informal efforts by the parties to resolve the action. The parties have reached an agreement to resolve all of the option grant related matters. The Federal Action is subject to approval of the U.S. District Court for the Northern District of California. On March 5, 2010, the United States District Court for the Northern District of California issued an order granting preliminary approval of the settlement of the Federal Action. A hearing for final approval is scheduled for June 2, 2010. The parties have agreed that upon final approval of the settlement and dismissal of the Federal Action the parallel state court proceedings will be dismissed. The settlement amount is not significant.

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 is on appeal in the U.S. Court of Appeals for the Ninth Circuit.

On September 12, 2008, Leon Stambler filed a declaratory judgment complaint against VeriSign in the U.S. District Court for the Eastern District of Texas. The complaint seeks an order permitting Stambler to proceed

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with patent infringement actions against VeriSign SSL certificate customers in actions in which VeriSign is not a party in view of Stambler s prior unsuccessful action in 2003 against VeriSign on the same patents in which a verdict was returned against Stambler and a judgment was entered thereon. VeriSign has received requests to indemnify certain SSL certificate customers in the patent infringement actions brought by Stambler. VeriSign and Stambler entered into a confidential settlement agreement on June 1, 2009. Certain indemnity requests from customers are still pending. The declaratory judgment complaint against VeriSign was dismissed on June 8, 2009.

On June 5, 2009, the U.S. Court of Appeals for the Ninth Circuit reversed and remanded a district court order dismissing a second amended complaint filed by plaintiff Coalition for ICANN Transparency, Inc. ( CFIT ). CFIT filed its initial complaint and an application for a temporary restraining order against VeriSign and ICANN in the U.S. District Court for the Northern District of California on November 28, 2005, asserting claims under Sections 1 and 2 of the Sherman Antitrust Act (the Sherman Act ), the Cartwright Act, and Cal. Bus. & Prof. Code § 17200. The district court denied CFIT s application for a temporary restraining order on November 30, 2005. Shortly after the action was initiated and CFIT s application was denied, the district court granted defendants Motion for Judgment on the Pleadings on February 28, 2006, with leave to amend. CFIT filed a First Amended Complaint on March 14, 2006. The Court granted defendants Motion to Dismiss the First Amended Complaint, with leave to amend, on December 8, 2006. CFIT filed a Second Amended Complaint on December 28, 2006; ICANN was not included as a defendant in the Second Amended Complaint. The Second Amended Complaint, which VeriSign has not yet answered, asserted claims, among others, under Sections 1 and 2 of the Sherman Act against VeriSign, challenging in part VeriSign s conduct in entering into, and the pricing, renewal and certain other terms of, the *.com* and *.net* registry agreements with ICANN. The same renewal and pricing terms in the *.com* registry agreement are incorporated by reference in the Cooperative Agreement between VeriSign and the U.S. Department of Commerce, which approved the *.com* Registry Agreement as in the public interest. The Court granted VeriSign s Motion to Dismiss the Second Amended Complaint on May 14, 2007, without leave to amend, and entered judgment for VeriSign. CFIT filed a Notice of Appeal to the U.S. Court of Appeals for the Ninth Circuit on June 13, 2007. After briefing, the appeal was argued on December 8, 2008. The Ninth Circuit filed its Opinion reversing and remanding the dismissal of the Second Amended Complaint on June 5, 2009. VeriSign filed a motion for rehearing in the Ninth Circuit on July 2, 2009.

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.

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.

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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 offers a comprehensive spectrum of products and services that promote trust of Internet transactions and activities among Internet users, website owners and operators of digital networks. VeriSign s Naming Services capabilities enable domain name registration through our registrar partners and provide network availability for registrars and Internet users alike. VeriSign s Authentication Services capabilities make it easier for consumers to identify websites that are authentic, safe and secure, thereby enhancing business reputations, security and website uptime resulting in improved online traffic, sales conversion and customer loyalty for websites.

We have the following two reportable segments: (1) Internet Infrastructure and Identity Services ( 3IS ), which consists of Naming Services and Authentication Services; and (2) Other Services, which consists of the continuing operations of our Content Portal Services ( CPS ), our remaining non-core business, and legacy products and services from divested businesses.

Naming 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 March 31, 2010, we had approximately 99.3 million domain names registered under the *.com* and *.net* registries, which are 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. ) and Western Europe, growth on an annual percentage basis is expected to be greatest in markets outside of the U.S. and Western Europe where Internet penetration has demonstrated the greatest potential for growth. VeriSign Internet Defense Services provide infrastructure assurance to organizations and are comprised of VeriSign iDefense Security Intelligence Service ( iDefense ) and VeriSign Internet Defense Network ( VIDN ). Revenues from VeriSign Internet Defense Services are not significant.

Authentication Services is comprised of Business Authentication Services and User Authentication Services.

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Business Authentication Services enable enterprises and Internet merchants to implement and operate secure networks and websites utilizing Secure Socket Layer ( SSL ) protocol. Business Authentication Services provide customers the means to authenticate themselves to their end users and website visitors and to encrypt transactions and communications between client browsers and Web servers. We currently offer the following Business Authentication Services: VeriSign®, thawte®, and GeoTrust® branded SSL certificates. As of March 31, 2010, we had an installed base of SSL certificates of approximately 1.3 million. The major factors impacting the growth and performance of our Business Authentication Services are the penetration and adoption of the Internet, especially through broadband services, the spread of e-commerce, the utilization of electronic means for executing financial transactions (such as credit card payments), and the extent to which advertising through search engines encourages consumers to engage in e-commerce. As a result of the growing impact of the Internet on global commercial transactions and the current economic environment, we expect continued but slowing revenue growth in our business, primarily in markets outside of the U.S. where e-commerce has the largest growth potential.

User Authentication Services are intended to help enterprises secure intranets, extranets and other applications and devices, and provide authentication credentials. We currently offer the following User Authentication Services: VeriSign Identity Protection ( VIP ), managed public key infrastructure ( PKI ), and fraud detection services. As with our Business Authentication Services, the major factors impacting the growth and performance of our User Authentication Services are the penetration and adoption of the Internet, especially through broadband services, the spread of e-commerce, the utilization of electronic means for executing financial transactions (such as credit card payments), and the extent to which advertising through search engines encourages consumers to engage in e-commerce.

We are working to expand our Business Authentication Services business offerings and solutions through the development of new services, including the recently released VeriSign Trust Seal, which will build on or complement current offerings. The VeriSign Trust Seal authenticates that a customer is a legitimate business entity that owns and operates a website domain as well as provides assurance to website users that the website is free from malware. We expect that revenues from the VeriSign Trust Seal will not be significant in 2010.

***Business Highlights and Trends Three months ended March 31, 2010***

- We recorded revenues of $264.4 million during the three months ended March 31, 2010, an increase of 4% as compared to the same period last year. The increase was primarily due to an increase in revenues from our Naming Services primarily resulting from a 7% increase in active domain names ending in *.com* and *.net* as compared to the same period last year.

- We recorded income from continuing operations attributable to VeriSign, Inc. stockholders of $52.9 million during the three months ended March 31, 2010, an increase of 13% as compared to the same period last year. The increase was primarily due to an increase in revenues from our Naming Services.

- We purchased marketable securities of $549.1 million and sold marketable securities of $87.5 million. We also received $8.4 million from the funds held by the Reserve.

- We repurchased 2.1 million shares of our common stock for an aggregate cost of $50.5 million under the 2008 Share Buyback Program.

- We generated cash flows from operating activities of $101.1 million during the three months ended March 31, 2010, an increase of 163% as compared to the same period last year.

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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 March 31, 2010 | Three Months Ended March 31, 2009 |
|---|---|---|
| Revenues | 100% | 100% |
| Costs and expenses | | |
| Cost of revenues | 23 | 25 |
| Sales and marketing | 18 | 15 |
| Research and development | 8 | 9 |
| General and administrative | 16 | 19 |
| Restructuring and other charges, net | | 1 |
| Amortization of other intangible assets | 1 | 1 |
| Total costs and expenses | 66 | 70 |
| Operating income | 34 | 30 |
| Other loss, net | (3) | (2) |
| Income from continuing operations before income taxes | 31 | 28 |
| Income tax expense | (11) | (9) |
| Income from continuing operations, net of tax | 20 | 19 |
| (Loss) income from discontinued operations, net of tax | (1) | 7 |
| Net income | 19 | 26 |
| Less: Net income attributable to noncontrolling interest in subsidiary | | |
| Net income attributable to VeriSign, Inc. stockholders | 19% | 26% |

***Revenues***

We have two reportable segments: 3IS and Other Services. A comparison of revenues is presented below:

| | Three Months Ended March 31, 2010 | % Change | 2009 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| 3IS: | | | |
| Naming Services | $ 161,583 | 9% | $ 148,308 |
| Authentication Services | 101,908 | (2%) | 103,904 |
| Total 3IS | 263,491 | 4% | 252,212 |
| Other Services | 911 | (32%) | 1,345 |
| Total revenues | $ 264,402 | 4% | $ 253,557 |

The following section describes the changes in revenues for 3IS during the periods presented.

*Naming Services*

Revenues related to our Naming Services are 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 our promotional programs, as well as fee increases as permitted under our agreements with ICANN. In December 2009, we announced a fee increase for *.com* domain name registration fees of 7% from $6.86 to $7.34 effective July 1, 2010. 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. In December 2009, we also announced a fee increase for *.net* domain name registration fees of 10% from $4.23 to $4.65 effective July 1, 2010. 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 compares domain names ending in *.com* and *.net* managed by our Naming Services business:

| | **March 31, 2010** | **% Change** | **March 31, 2009** |
|---|---|---|---|
| Active domain names ending in *.com* and *.net* | 99.3 million | 7% | 92.4 million |

The growth in the number of domain names registered was primarily driven by continued Internet growth and new domain name promotional programs. We expect to see continued growth 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 domain names ending in *.com* and *.net* and implementation of the fee increase that will be in effect in July 2010.

Our Naming Services revenues increased by $13.3 million during the three months ended March 31, 2010, as compared to the same period last year, primarily due to a 7% 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 of 7% (from $6.42 to $6.86) and 10% (from $3.85 to $4.23), respectively, as per our agreements with ICANN, offset by a $4.3 million decrease in revenues from a one-time project associated with our Naming Services business in 2009. Revenues from VeriSign Internet Defense Services, comprised of iDefense and VIDN, were not significant for the periods presented.

*Authentication Services*

Our Authentication Services revenues are derived from our Business Authentication Services and User Authentication Services.

*Business Authentication Services*

Revenues related to our Business Authentication Services are derived from licensing and service fees charged to our customers for the issuance of SSL certificates that authenticate their identity to the third parties with whom they carry out secured transactions. Revenues in Business Authentication Services are related to fees charged per certificate, which are based upon a number of factors, including: (i) the brand name under which the certificate is issued, which determines the level of encryption and rigor of authentication; (ii) the number of servers authenticated, and (iii) the duration of the certification. We issue SSL certificates for periods ranging from one to five years.

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The following table compares the approximate installed base of SSL certificates in our Business Authentication Services and annualized average-unit revenue ( AUR ) for the installed base of SSL certificates:

| | March 31, 2010 | % Change | March 31, 2009 |
|---|---|---|---|
| Installed base of SSL certificates | 1,255,000 | 9% | 1,153,000 |
| Annualized average-unit-revenue (1) | $ 222 | (9%) | $ 244 |

(1) Annualized AUR represents Business Authentication Services revenues recorded for the period, excluding revenues from our affiliates and our majority owned subsidiary VeriSign Japan, over the installed base of SSL certificates as of the end of the corresponding period. The installed base includes all SSL certificates (including our affiliates and VeriSign Japan).

During the three months ended March 31, 2010, the growth in the installed base of SSL certificates was primarily driven by continued growth in e-commerce and online communications. Our installed base of SSL certificates from our GeoTrust® and thawte® brands increased at a higher rate than our higher-priced VeriSign® brand, and as a result, our annualized AUR decreased compared to prior periods. We expect that the number of our SSL certificates issued will continue to increase at a higher rate than the revenues recognized from our Business Authentication Services in 2010 as compared to 2009. As we have a market share leadership position at the high end of the SSL certificates market, our unit growth rate for the high end is limited by the overall segment growth. In the mid and low segments, we expect to see good growth opportunities for market share gains as these markets are growing faster than the high end market. We expect Business Authentication Services revenues to remain consistent in fiscal 2010 as compared to fiscal 2009.

*User Authentication Services*

Revenues related to our User Authentication Services are derived from one-time credential sales to customers seeking network services and one-time set-up fees. We also charge an annual service fee based upon the number of individual users authorized by the customer to access its network and a customer support fee. We expect User Authentication Services revenues to remain consistent in fiscal 2010 as compared to fiscal 2009.

Our Authentication Services revenues decreased by $2.0 million during the three months ended March 31, 2010, as compared to the same period last year, primarily as a result of discounts offered in 2009 in response to pricing pressures due to the weakening of the economy.

Our expectations and trends are based on what we are observing and can project about 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, Japan and other Asia Pacific countries ( APAC ); Europe, the Middle East and Africa ( EMEA ); and certain other countries including Canada and Latin American countries.

The following table presents a comparison of our geographic revenues:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2010 | % Change | 2009 |
| | (Dollars in thousands) | | |
| U.S. | $ 150,047 | 2% | $ 147,132 |
| APAC | 50,755 | 5% | 48,167 |
| EMEA | 44,211 | 9% | 40,524 |
| Other | 19,389 | 9% | 17,734 |
| Total revenues | $ 264,402 | | $ 253,557 |

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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 months ended March 31, 2010, as compared to the same period last year, primarily due to increases in revenues from our Naming Services 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. 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. Our Naming Services revenues from the U.S. increased primarily due to the increase in the number of domain names ending in *.com* and *.net* by $8.6 million. This increase was partially offset by a decrease of $1.4 million in revenues from our Authentication Services business and by $4.3 million related to a one-time project associated with our Naming Services business in the three months ending March 31, 2009. The decrease in our Authentication Services revenues from the U.S. was primarily as a result of discounts offered in 2009 in response to pricing pressures due to the weakening of the economy.

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

***Cost of revenues***

Cost of revenues consist primarily of costs related to providing digital certificate enrollment and issuance services, billing services, operational costs associated with the delivery of our services, registry fees, customer support and training, consulting and development services, labor costs to provide security, costs of facilities and computer equipment used in these activities and allocations of indirect costs such as corporate overhead. All allocations of indirect costs are included in continuing operations.

A comparison of cost of revenues is presented below:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2010 | % Change | 2009 |
| | (Dollars in thousands) | | |
| Cost of revenues | $ 59,729 | (5%) | $ 62,879 |

Cost of revenues decreased during the three months ended March 31, 2010, as compared to the same period last year, primarily due to decreases in allocated overhead expenses, contract and professional services expenses, and direct cost of revenues, partially offset by increases in salary and employee benefits expenses and depreciation expenses. Allocated overhead expenses decreased by $4.0 million, primarily due to a decrease in allocable indirect costs and a decrease in proportional headcount within the cost of revenues function. Contract and professional services expenses decreased by $1.1 million, primarily due to a decrease in services of outside contractors as a result of management s cost-saving initiatives. Direct cost of revenues decreased by $1.4 million, primarily due to a decrease in expenses associated with a one-time project associated with our Naming Services business in 2009, partially offset by increases in ICANN registry fees effective July 2009. Salary and employee benefits expenses increased by $1.8 million, primarily due to an increase in headcount within the Authentication Services business to support new services such as VeriSign Trust Seal. Depreciation expenses increased by $1.5 million primarily due to an increase in capitalized hardware and software to support investments in infrastructure in the Naming and Authentication Services businesses and additional hardware to support the migration of certain services to the Delaware data center.

We expect cost of revenues as a percentage of revenues to remain consistent during the remainder of fiscal 2010 as compared to the three months ended March 31, 2010.

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***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 March 31, | | |
|---|---|---|---|
| | **2010** | **% Change** | **2009** |
| | | **(Dollars in thousands)** | |
| Sales and marketing | $ 48,699 | 28% | $ 38,189 |

Sales and marketing expenses increased during the three months ended March 31, 2010, as compared to the same period last year, primarily due to increases in salary and employee benefits expenses, advertising and marketing expenses and contract and professional services expenses. Salary and employee benefits expenses increased by $4.7 million, primarily due to higher average headcount and higher commission payouts. Advertising and marketing expenses increased by $3.5 million, primarily due to an increase in marketing efforts for both our Naming Services and Authentication Services businesses. Contract and professional services expenses increased by $1.7 million, primarily to support sales and marketing campaigns for our Naming Services business.

We expect sales and marketing expenses as a percentage of revenues to remain consistent during the remainder of fiscal 2010 as compared to the three months ended March 31, 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 and the costs of facilities, computer and communications equipment, support services used in service and technology development and allocations of indirect costs such as corporate overhead. All allocations of indirect costs are included in continuing operations.

A comparison of research and development is presented below:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | **2010** | **% Change** | **2009** |
| | | **(Dollars in thousands)** | |
| Research and development | $ 20,382 | (6%) | $ 21,783 |

Research and development expenses decreased during the three months ended March 31, 2010, as compared to the same period last year, primarily due to decreases in allocated overhead expenses and an increase in capitalized labor, partially offset by an increase in salary and benefits expenses. Allocated overhead expenses decreased by $1.3 million, primarily due to a decrease in allocable indirect costs. Capitalized labor increased by $1.1 million, primarily due to an increase in capitalized internally developed software for both our Naming Services and Authentication Services businesses. Salary and benefits expenses increased by $2.5 million, primarily due to an increase in headcount to support both our Naming Services and Authentication Services businesses.

We expect research and development expenses as a percentage of revenues to remain consistent during the remainder of fiscal 2010 as compared to the three months ended March 31, 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, bad debt expense and allocations of indirect costs such as corporate overhead. All allocations of indirect costs are included in continuing operations.

A comparison of general and administrative expenses is presented below:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2010 | % Change | 2009 |
| | (Dollars in thousands) | | |
| General and administrative | $ 43,755 | (10%) | $ 48,630 |

General and administrative expenses decreased during the three months ended March 31, 2010, as compared to the same period last year, primarily due to decreases in contract and professional services expenses, legal expenses, telecommunication expenses and salary and benefits expenses, partially offset by a decrease in overhead expenses allocated to other cost types. Contract and professional services expenses decreased by $4.1 million, primarily due to a decrease in professional services costs incurred for accounting and auditing services related to our divestiture strategy which was completed at the end of 2009 as well as a reduction in the use of outside contractors. Legal expenses decreased by $2.3 million, primarily due to an insurance reimbursement received during the three months ended March 31, 2010 and additional legal fees incurred for certain pre-acquisition due-diligence activities during the three months ended March 31, 2009. Telecommunication expenses decreased by $2.0 million, primarily due to a one-time minimum commitment short-fall expense recorded during the three months ended March 31, 2009. Salary and benefits expenses decreased by $2.0 million, primarily due to a decrease in average headcount. Overhead expenses allocated to other cost types decreased by $5.7 million, primarily due to a reduction 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 three months ended March 31, 2010.

***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 March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Interest and dividend income | $ 1,294 | $ 1,649 |
| Interest expense | (11,998) | (11,805) |
| Unrealized gain on contingent interest derivative on convertible debentures | 469 | 1,174 |
| Income from transition services agreements | 3,020 | 782 |
| Other, net | 282 | 3,860 |
| Total other loss, net | $ (6,933) | $ (4,340) |

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Other loss, net increased during the three months ended March 31, 2010, as compared to the same period last year primarily due to decreases in interest income, unrealized gain on contingent interest derivative on convertible debentures and Other, net, partially offset by an increase in income from transition services agreements. Income from transition services agreements includes fees generated from services provided to the buyers of the divested businesses for a certain period of time to ensure and facilitate the transfer of business operations for those businesses. During the three months ended March 31, 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***

During the three months ended March 31, 2010 and 2009, we recorded income tax expense for continuing operations of $27.8 million and $23.2 million, respectively. The effective tax rates for the three months ended March 31, 2010 and 2009 were 34% and 33%, respectively. The effective tax rate for the three months ended March 31, 2010 differs from the statutory federal rate of 35% due to state taxes, the effect of non-U.S. operations and non-deductible stock-based compensation expense. The effective tax rate for the three months ended March 31, 2009 differs from the statutory federal rate of 35% due to state taxes, non-deductible stock-based compensation and a one-time discrete income tax benefit related to a California tax law change.

***(Loss) Income from Discontinued operations, net of tax***

We have completed the divestiture of our non-core businesses. 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 completed divestitures. The activities that will give rise to these impacts are transitional in nature and generally result from agreements that ensure and facilitate the orderly transfer of business operations. The nature, magnitude and duration of the agreements will vary depending on the specific circumstances of the service, location and/or business need. The agreements can include the following: logistics, customer service, support of financial processes, procurement, human resources, facilities management, data collection and information services. Existing agreements generally extend for periods less than 12 months.

The following table presents the revenues and the components of (Loss) income from discontinued operations, net of tax:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Revenues | $ | $ 104,093 |
| (Loss) income from discontinued operations before income taxes | $ (1,234) | $ 23,346 |
| (Losses) gains on sale of discontinued operations and estimated losses on assets held for sale, before income taxes | (963) | 3,434 |
| Income tax benefit (expense) | 643 | (8,582) |
| Total (loss) income from discontinued operations, net of tax | $ (1,554) | $ 18,198 |

Loss from discontinued operations for the three months ended March 31, 2010, represents adjustments to gains or losses on sale of discontinued operations reported in fiscal 2009, as a result of certain one-time employment termination benefits and settlement of certain retained litigation of our divested businesses.

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**Liquidity and Capital Resources**

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Cash and cash equivalents | $ 1,090,030 | $ 1,477,166 |
| Marketable securities | 460,401 | 185 |
| Total | $ 1,550,431 | $ 1,477,351 |

As of March 31, 2010, our principal source of liquidity was $1.1 billion of cash and cash equivalents and $460.4 million of marketable securities. In summary, our cash flows for three months ended March 31, 2010 and 2009 are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Net cash provided by operating activities | $ 101,120 | $ 38,438 |
| Net cash (used in) provided by investing activities | (457,493) | 78,129 |
| Net cash (used in) provided by financing activities | (28,609) | 43,065 |
| Effect of exchange rate changes on cash and cash equivalents | (2,154) | (6,314) |
| Net (decrease) increase in cash and cash equivalents | $ (387,136) | $ 153,318 |

*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 increased primarily due to a decrease in cash payments to suppliers and employees primarily resulting from lower headcount during the three months ended March 31, 2010 as we completed our divestitures in 2009 and a decrease in excess tax benefits on stock-based compensation. The increase is partially offset by a decrease in cash received from customers resulting from a decrease in consolidated revenues, inclusive of revenues from discontinued operations, coupled with the timing of receipts from customers and an increase in income tax payments during the three months ended March 31, 2010.

*Cash flows from investing activities*

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

Net cash used in investing activities increased primarily due to purchases of marketable securities during the three months ended March 31, 2010, partially offset by an increase in proceeds received from the buyers of businesses divested in 2009.

*Cash flows from financing activities*

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

Net cash used in financing activities increased primarily due to stock repurchases during the three months ended March 31, 2010 and a decrease in excess tax benefits on stock-based compensation.

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*Other Liquidity and Capital Resources Information*

Our credit facility is available for cash borrowings up to a maximum of $500.0 million and for the issuance of letters of credit up to a maximum limit of $50.0 million. As of March 31, 2010, we had no outstanding borrowings under our credit facility and we had utilized $0.9 million for outstanding letters of credit.

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.

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

There have been no significant changes in our market risk exposures during the three months ended March 31, 2010, 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. Credit ratings of the marketable fixed income securities in which we have invested meet or exceed AA rating.

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 March 31, 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 March 31, 2010 | Valuation of Securities Given an Interest Rate Increase of X Basis Points | | |
|---|---|---|---|---|---|---|---|
| | (150 BPS) | (100 BPS) | (50 BPS) | | 50 BPS | 100 BPS | 150 BPS |
| | | | | (In thousands) | | | |
| Fixed income securities | $ 508,905 | $ 504,919 | $ 500,933 | $ 496,947 | $ 492,960 | $ 488,974 | $ 484,988 |

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## ITEM 4. CONTROLS AND PROCEDURES

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

### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 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 12, Contingencies, of our Notes to Condensed Consolidated Financial Statements in Part I, Item 1, of this Quarterly Report on Form 10-Q is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

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

**Risks relating to our business**

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

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

- the current global economic environment as well as its impact on e-commerce, financial services, and the communications and Internet industries;
- volume of new domain name registrations and customer renewals in our Naming Services business;
- the long sales and implementation cycles for, and potentially large order sizes of, some of our Authentication 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 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 channel partners and resellers and registrars to offer competing products or modify or cease their marketing practices;

the mix of all our services sold during a period;

seasonal fluctuations in business activity;

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

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

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- changes in the level of spending for information technology-related products and services by enterprise customers; and
- the uncertainties, costs and risks following the completion of our divestiture plan, including any income statement charges we incur in connection therewith and costs related to our transition services agreements and any retained litigation.

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

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

***Our operating results may continue to be adversely affected by the current economic environment, unfavorable market and economic conditions.***

The current global economic environment may continue to have a negative impact on demand for our services, our business and our foreign operations. The economic environment has or may negatively impact, among other things:

- current and future demand for our services, including decreases as a result of reduced spending on information technology and communications by our customers;
- our customers continued growth and development of their businesses and our customers ability to continue as going concerns;
- the ability of our customers to maintain their business;
- price competition for our products and services;
- the ability of our suppliers to continue to fill our orders;
- the price of our common stock;
- our liquidity;
- our ability to service our debt, to obtain financing or assume new debt obligations;
- our ability to obtain payment for outstanding debts owed to us by our customers or other parties with whom we do business; and
- our ability to execute on any stock repurchase plans.

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

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***We may experience significant fluctuations in our financial results.***

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

- the use of the Internet and other IP networks, and the extent to which digital certificates and domain names are used for e-commerce and communications;
- growth in demand for our services;
- the competition for any of our services;
- the perceived security of e-commerce and communications over the Internet and other IP networks;
- the perceived security of our services, technology, infrastructure and practices;
- the loss of customers through industry consolidation or customer decisions to deploy in-house or competitor technology and services;
- our continued ability to maintain our current, and enter into additional, strategic relationships;
- our ability to successfully market our services to new and existing customers;
- our success in attracting, integrating, training, retaining and motivating qualified personnel;
- our response to competitive developments;
- the successful introduction, and acceptance by our customers, of new products and services, including our VeriSign Trust Seal services;
- seasonal fluctuations in business activity; and
- the successful introduction of enhancements to our services to address new technologies and standards and changing market conditions.

***Our international operations subject our business to additional economic risks that could have an adverse impact on our revenues and business.***

As of March 31, 2010, we had 736, or 34%, of our employees outside the U.S. Expansion into international markets has required and will continue to require significant management attention and resources. We may also need to tailor some of our services for a particular market and to enter into international distribution and operating relationships. We have limited experience in localizing our services and in developing international distribution or operating relationships. We may not succeed in expanding our services into international markets. Failure to do so could harm our business. Moreover, local laws and customs in many countries differ significantly from those in the U.S. In many foreign countries, particularly in those with developing economies, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. law or regulations applicable to us. There can be no assurance that all of our employees, contractors and agents will not take actions in violation of such policies, procedures, laws and/or regulations. Violations of laws, regulations or key control policies by our employees, contractors or agents could result in financial reporting problems, fines, penalties, or prohibition on the importation or exportation of our products and could have a material adverse effect on our business. In addition, we face risks inherent in doing business on an international basis, including, among others:

- competition with foreign companies or other domestic companies entering the foreign markets in which we operate;
- differing and uncertain regulatory requirements;
- legal uncertainty regarding liability, enforcing our contracts and compliance with foreign laws;
- export and import restrictions on cryptographic technology and products incorporating that technology;
- tariffs and other trade barriers and restrictions;

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- difficulties in staffing and managing foreign operations;
- longer sales and payment cycles;
- problems in collecting accounts receivable;
- currency fluctuations, as our international revenues are not always denominated in U.S. dollars and some of our costs are denominated in foreign currencies;
- difficulty in repatriating profits to the U.S.;
- potential problems associated with adapting our services to technical conditions existing in different countries;
- the necessity of developing foreign language portals and products for our services;
- difficulty of authenticating customer information for digital certificates and other purposes;
- political instability;
- failure of foreign laws to protect our U.S. proprietary rights adequately;
- more stringent privacy policies in some foreign countries;
- additional vulnerability from terrorist groups targeting U.S. interests abroad;
- seasonal reductions in business activity; and
- potentially adverse tax consequences.

***We are exposed to risks faced by financial institutions.***

We have entered into hedging transactions with counterparties in the financial services industry which have been adversely impacted by the current economic environment. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. The hedging transactions we have entered into expose us to credit risk in the event of default by one of our counterparties. Despite the risk control measures we have in place, a default by one of our counterparties, or liquidity problems in the financial services industry in general, could have a material adverse effect on our business, financial condition and results of operations.

***Our marketable securities portfolio could experience a decline in market value which could materially and adversely affect our financial results.***

At March 31, 2010, we had $1.552 billion in cash, cash equivalents, marketable securities and restricted cash, of which $460.4 million was invested in 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 the investment in investment grade securities. We currently do not use derivative financial instruments to adjust our investment portfolio risk or income profile.

These investments are subject to general credit, liquidity, market and interest rate risks, which may be exacerbated by unusual events, such as the sub-prime mortgage crisis in the United States, which has affected various sectors of the financial markets and led to global credit and liquidity issues. Over the past several years, the volatility and disruption in the global credit market have reached unprecedented levels. If the global credit market continues to deteriorate or does not improve, our investment portfolio may be impacted and we could determine that some of our investments have experienced an other-than-temporary decline in fair value, requiring an impairment charge which could adversely impact our financial results.

***Governmental regulation and the application of existing laws may slow business growth, increase our costs of doing business, create potential liability and have an adverse effect on our business.***

Application of new and existing laws and regulations to the Internet and communications industry can be unclear. The costs of complying or failing to comply with these laws and regulations could limit our ability to operate in our current markets, expose us to compliance costs and substantial liability and result in costly and time-consuming litigation.

Foreign, federal or state laws could have an adverse impact on our business, financial condition, results of operations, and our ability to conduct business in certain foreign countries. For example, laws designed to restrict who can register domain names, the on-line distribution of certain materials deemed harmful to children, on-line gambling and cyber squatting, and laws designed to promote cyber security may impose significant additional costs on our business or subject us to additional liabilities.

Due to the nature of the Internet, it is possible that state or foreign governments might attempt to regulate Internet transmissions or prosecute us for violations of their laws. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments could increase the costs of regulatory compliance for us, affect our reputation, force us to change our business practices or otherwise materially harm our business.

In addition, we are required to comply with state laws and regulations regarding certification authorities and if we fail to do so, we could lose the statutory benefits and protections that would otherwise be afforded to us.

***We may be exposed to potential risks if we were to determine we do not have an effective system of disclosure controls or internal controls over financial reporting.***

As a public company, the Company is subject to the rules and regulations of the SEC, including those that require the Company to report on and receive an attestation from its independent registered public accounting firm regarding the Company s internal control over financial reporting. Compliance with these requirements causes the Company to incur additional expenses and causes management to divert time from the day-to-day operations of the Company.

Despite our efforts, if we were to fail to maintain an effective system of disclosure controls or internal control over financial reporting, including satisfaction of the requirements of the Sarbanes-Oxley Act of 2002, we may not be able to accurately or timely report on our financial results or adequately identify and reduce fraud. As a result, the financial position of the Company could be harmed and current and potential future stockholders could lose confidence in us and/or our reported financial results, which may cause a negative effect on our stock price; and we could be exposed to litigation or regulatory proceedings, which may be costly or divert management attention.

***Issues arising from our agreements with ICANN and the DOC could harm our registry business.***

The DOC has adopted a plan for the phased transition of its responsibilities for the DNS to ICANN. As part of this transition, we are parties to agreements with ICANN and the DOC as the exclusive registry of domain names within the *.com* gTLD and with ICANN with respect to being the exclusive registry for the *.name* and *.net* gTLDs.

We face risks arising from our agreements with ICANN and the DOC and from the planned transition of the DOC s responsibilities for the DNS to ICANN, including the following:

- ICANN could adopt or promote policies, procedures or programs that are unfavorable to us as the registry operator of the *.com*, *.net* and *.name* gTLDs, that are inconsistent with our current or future plans, or that affect our competitive position;

- under the Affirmation of Commitments entered into between ICANN and the DOC effective October 1, 2009 (the Affirmation of Commitments ), the DOC became one of several parties working together with other representative constituency members in providing an on-going review of ICANN s performance and accountability. The Affirmation of Commitments provides for more defined international participation in this review. It is not known what, if any, role these review committees will play in the oversight of ICANN s contracting process with various gTLD providers including VeriSign, and they could make recommendations that are adverse to our business;

one or more of the *.com, .net,* or *.name* Registry Agreements may not renew when they expire in 2011 (*.net*) and 2012 (*.com* and *.name*), which in the case of *.com* or *.net*, could have a material adverse effect on our business;

under certain circumstances, ICANN could terminate one or more of our agreements to be the registry for the *.com*, *.net* or *.name* gTLDs and the DOC could refuse to grant its approval to the renewal of the *.com* Registry Agreement, in which case terminations of the *.com* or *.net* Registry Agreements could have a material adverse impact on our business;

the DOC s or ICANN s interpretation of provisions of our agreements with either of them could differ from ours; and

our registry business could face legal or other challenges resulting from our activities or the activities of registrars and registrants.

In addition, under the *.com*, *.net* and *.name* Registry Agreements, we are prohibited from holding a greater than 15% ownership interest in an ICANN accredited registrar. This prohibition on cross-ownership currently applies to all sixteen ICANN gTLDs, but does not apply to ccTLDs. The Generic Names Supporting Organization, the policy recommendation organization within ICANN, is currently conducting a Policy Development Process ( PDP ) with respect to allowing vertical integration of registries and registrars in terms of partner and owners in the upcoming round of new gTLD registries. This PDP focuses directly on new gTLDs but in the future could extend to existing gTLD contracts. If vertical integration is permitted, the impact to the distribution channel is uncertain but could have a material adverse effect on our business.

***Challenges to ongoing privatization of Internet administration could harm our Naming Services business.***

Risks we face from challenges by third parties, including governmental authorities in the U.S. and other countries, to our role in the ongoing privatization of the Internet include:

legal, regulatory or other challenges could be brought, including challenges to the agreements governing our relationship with the DOC or ICANN, or to the legal authority underlying the roles and actions of the DOC, ICANN or us;

the U.S. Congress could take action that is unfavorable to us;

ICANN could fail to maintain its role, potentially resulting in instability in DNS administration; and

some governments and governmental authorities outside the U.S. have in the past disagreed, and may in the future disagree, with the actions, policies or programs of ICANN, the U.S. Government and us relating to the DNS. The Affirmation of Commitments, which calls for the establishment of multi-party review panels, contemplates a greater involvement by foreign governments and governmental authorities in the oversight of ICANN. These periodic review panels may take positions that are unfavorable to VeriSign.

As a result of these and other risks, it may be difficult for us to introduce new services in our domain name registry business and we could also be subject to additional restrictions, which may not also apply to our competitors, on how this business is conducted.

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***We rely on third parties who maintain and control root zone servers and route Internet communications.***

We currently administer and operate only two of the thirteen root zone servers. The others are administered and operated by independent operators on a non-regulated basis. Root zone servers are name servers that contain authoritative data for the very top of the DNS hierarchy. These servers have the software and data needed to locate name servers that contain authoritative data for the top-level domains. These root zone servers are critical to the functioning of the Internet. Consequently, our Naming Services business could be harmed if these independent operators fail to maintain these servers properly or abandon these servers, which would place additional capacity demands on the two root zone servers we operate.

Further, our Naming Services business could be harmed if any of the independent operators fails to include or provide accessibility to the data that it maintains in the root zone servers that it controls. In the event and to the extent that ICANN is authorized to set policy with regard to an authoritative root zone server system, as provided in our registry agreement with ICANN, it is required to ensure that the authoritative root will point to the top-level domain zone servers designated by us. If ICANN does not do this, our business could be harmed.

***Changes in customer behavior, either as a result of evolving technologies or user practices, may impact the demand for domain names.***

Currently, Internet users navigate to a website either by directly typing in its domain name into a web browser or through the use of a search engine. If (i) web browser or Internet search technologies were to change significantly; (ii) Internet search engines changed the value of their algorithms on the use of a domain for finding a website; (iii) Internet users were to shift away from direct navigation, or (iv) Internet users increase the use of second or third level domains or alternate identifiers, the demand for domain names could decrease.

***Changes in the level of spending on on-line advertising and/or the way that on-line networks compensate owners of websites, could impact the demand for domain names.***

Some domain name registrars and registrants seek to generate revenue through advertising on their websites; changes in the way these registrars and registrants are compensated (including changes in methodologies and metrics) by advertisers and advertisement placement networks, such as Google and Yahoo!, could adversely affect the market for those domain names favored by such registrars and registrants resulting in a decrease in demand and/or the renewal rate for those domain names. As a result of the general economic environment, spending on on-line advertising and marketing may not increase or may be reduced, which in turn, may result in a further decline in the demand for those domain names.

***Services offered by our 3IS segment rely on the continued integrity of public key cryptography technology and various hashing algorithms that may be compromised or proven obsolete over time.***

Services offered by our 3IS segment depend on public key cryptography technology. With public key cryptography technology, a user possesses a public key and a private key, both of which are required to perform encryption and decryption operations. The security afforded by this technology depends on the integrity of a user s private key and ensuring that it is not lost, stolen or otherwise compromised. The integrity of private keys also depends in part on the application of specific mathematical principles known as factoring. This integrity is predicated on the assumption that the factoring of large numbers into their prime number components is difficult. Should an easy factoring method or other method be developed making currently used asymmetric key sizes such as 1024, 2048 and 4096 bits inadequate, the security of encryption products utilizing public key cryptography technology may require significant modifications or would be reduced or eliminated. Furthermore, any significant advance in techniques for attacking cryptographic systems could also render some or all of our existing PKI Services obsolete or unmarketable. Likewise, hashing algorithms, such as SHA1 or SHA2, are also utilized in public key cryptography technology and as new methods of attacking these algorithms are created, they could render our PKI Services obsolete or unmarketable. If improved techniques for attacking cryptographic

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systems were ever developed that make attacks practical, we would likely have to reissue digital certificates to some or all of our customers, which could damage our reputation and brand or otherwise harm our business. In the past there have been public announcements of the successful attack upon cryptographic keys of certain kinds and lengths and of the potential misappropriation of private keys and other activation data. This type of publicity could also hurt the public perception as to the safety of the public key cryptography technology included in our digital certificates. This negative public perception could harm our business.

***Undetected or unknown defects in our services could harm our business and future operating results.***

Services as complex as those we offer or develop could contain undetected defects or errors. Despite testing, defects or errors may occur in our existing or new services, which could result in compromised customer data, loss of or delay in revenues, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to our reputation, tort or warranty claims, increased insurance costs or increased service and warranty costs, any of which could harm our business. The performance of our services could have unforeseen or unknown adverse effects on the networks over which they are delivered as well as on third-party applications and services that utilize our services, which could result in legal claims against us, harming our business. Furthermore, we often provide implementation, customization, consulting and other technical services in connection with the implementation and ongoing maintenance of our services, which typically involves working with sophisticated software, computing and communications systems. Our failure or inability to meet customer expectations in a timely manner could also result in loss of or delay in revenues, loss of market share, failure to achieve market acceptance, injury to our reputation and increased costs.

***If we encounter system interruptions, we could be exposed to liability and our reputation and business could suffer.***

We depend on the uninterrupted operation of our various systems, secure data centers and other computer and communication networks. Our systems and operations are vulnerable to damage or interruption from:

- power loss, transmission cable cuts and other telecommunications failures;
- damage or interruption caused by fire, earthquake, and other natural disasters;
- attacks by hackers;
- computer viruses or software defects; and
- physical or electronic break-ins, sabotage, intentional acts of vandalism, terrorist attacks and other events beyond our control.

Most of our systems are located at, and most of our customer information is stored in, our facilities in Mountain View, California and Kawasaki, Japan (both of which are susceptible to earthquakes); New Castle, Delaware; Dulles, Virginia; Melbourne, Australia; London, England; and Fribourg, Switzerland. To the extent we are unable to partially or completely switch over to secondary or tertiary sites, any damage or failure that causes interruptions in any of these facilities or our other computer and communications systems could materially harm our business. Although we carry insurance for property damage and business interruption, we do not carry insurance or financial reserves for interruptions or potential losses arising from earthquakes or terrorism.

In addition, our ability to issue SSL certificates, our domain name registry services and certain of our other services depend on the efficient operation of the Internet connections from customers to our secure data centers and from our customers to the Shared Registration System. These connections depend upon the efficient operation of Internet service providers and Internet backbone service providers, all of which have had periodic operational problems or experienced outages in the past.

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A failure in the operation of our top-level domain name zone servers, the domain name root zone servers, or other events could result in the deletion of one or more domain names from the Internet for a period of time. A failure in the operation of our Shared Registration System could result in the inability of one or more other registrars to register and maintain domain names for a period of time. A failure in the operation or update of the master database that we maintain could result in the deletion of one or more top-level domains from the Internet and the discontinuation of second-level domain names in those top-level domains for a period of time. Any of these problems or outages could decrease customer satisfaction, harming our business or resulting in adverse publicity that could adversely affect the market s perception of the security of e-commerce and communications over IP networks as well as of the security or reliability of our services.

***If we experience security breaches, we could be exposed to liability and our reputation and business could suffer.***

We retain certain confidential customer information in our secure data centers and various registration systems. It is critical to our business strategy that our facilities and infrastructure remain secure and are perceived by the marketplace to be secure. Our domain name registry operations also depend on our ability to maintain our computer and telecommunications equipment in effective working order and to reasonably protect our systems against interruption, and potentially depend on protection by other registrars in the Shared Registration System. The domain name root zone servers and top-level domain name zone servers that we operate are critical hardware to our registry services operations. Therefore, we may have to expend significant time and money to maintain or increase the security of our facilities and infrastructure. Despite our security measures, our infrastructure may be vulnerable to physical break-ins, computer viruses, attacks by hackers or similar disruptive problems. It is possible that we may have to expend additional financial and other resources to address such problems. Any physical or electronic break-in or other security breach or compromise of the information stored at our secure data centers and domain name registration systems may jeopardize the security of information stored on our premises or in the computer systems and networks of our customers. In such an event, we could face significant liability, customers could be reluctant to use our services and we could be at risk for loss of various security and standards-based compliance certifications needed for certain of our businesses. Such an occurrence could also result in adverse publicity and therefore adversely affect the market s perception of the security of e-commerce and communications over IP networks as well as of the security or reliability of our services.

***We rely on our intellectual property, and any failure by us to protect, or any misappropriation of, our intellectual property could harm our business.***

Our success depends in part on our internally developed technologies and intellectual property. Despite our precautions, it may be possible for a third party to copy or otherwise obtain and use our trade secrets or other forms of our intellectual property without authorization. Furthermore, the laws of foreign countries may not protect our proprietary rights in those countries to the same extent U.S. law protects these rights in the U.S. In addition, it is possible that others may independently develop substantially equivalent intellectual property. If we do not effectively protect our intellectual property, our business could suffer. Additionally, we have filed patent applications with respect to certain of our technology in the U.S. Patent and Trademark Office and patent offices outside the U.S. Patents may not be awarded with respect to these applications and even if such patents are awarded, such patents may not provide us with sufficient protection of our intellectual property. In the future, we may have to resort to litigation to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This type of litigation, regardless of its outcome, could result in substantial costs and diversion of management attention and technical resources.

We also license third-party technology that is used in our products and services to perform key functions. These third-party technology licenses may not continue to be available to us on commercially reasonable terms or at all. Our business would suffer if we lost the rights to use certain of these technologies. Additionally, another party could claim that the licensed software infringes a patent or other proprietary right. Litigation between the licensor and a third-party or between us and a third-party could lead to royalty obligations for which we are not

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indemnified or for which indemnification is insufficient, or we may not be able to obtain any additional license on commercially reasonable terms or at all. The loss of or our inability to obtain or maintain, any of these technology licenses could harm our business.

We rely on the strength of our VeriSign brand to differentiate ourselves in the marketing of our products, particularly with respect to our SSL certificates. Dilution of the strength of our brand could harm our business.

***We could become subject to claims of infringement of intellectual property of others, which could be costly to defend and could harm our business.***

Claims relating to infringement of intellectual property of others or other similar claims have been made against us in the past and could be made against us in the future. It is possible that we could become subject to additional claims for infringement of the intellectual property of third parties. Any claims, with or without merit, could be time consuming, result in costly litigation and diversion of technical and management personnel attention, cause delays or require us to develop non-infringing technology or enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on acceptable terms or at all. If a successful claim of infringement was made against us, we could be required to pay damages or have portions of our business enjoined. If we could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our business could be harmed.

In addition, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights in Internet-related businesses are uncertain and still evolving. Because of the growth of the Internet and Internet-related businesses, patent applications are continuously being filed in connection with Internet-related technology. There are a significant number of U.S. and foreign patents and patent applications in our areas of interest, and we believe that there has been, and is likely to continue to be, significant litigation in the industry regarding patent and other intellectual property rights.

***We are involved in a number of investigations, claims and lawsuits against us that may result in adverse outcomes.***

In addition to intellectual property litigation and infringement claims, we are involved in a number of investigations, claims and lawsuits. Litigation is inherently unpredictable, and excessive verdicts do occur. Adverse outcomes in some or all of these investigations, claims and lawsuits may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business and may have a material adverse effect on our financial condition and results of operations. Additionally, these investigations, claims and lawsuits may involve significant expense and diversion of management s attention and resources from other matters.

***We must establish and maintain strategic, channel and other relationships.***

One of our significant business strategies has been to enter into strategic or other similar collaborative relationships in order to reach a larger customer base than we could reach through our direct sales and marketing efforts. We may need to enter into additional relationships to execute our business plan. We may not be able to enter into additional, or maintain our existing, strategic relationships on commercially reasonable terms. If we fail to enter into additional relationships, we would have to devote substantially more resources to the distribution, sale and marketing of our Internet infrastructure and security services than we would otherwise.

Our success in obtaining results from these relationships will depend both on the ultimate success of the other parties to these relationships and on the ability of these parties to market our services successfully.

Furthermore, our ability to achieve future growth also depends on our ability to continue to establish direct seller channels and to develop multiple distribution channels. In addition, any changes by our channel partners to their existing marketing strategies could have a material adverse effect on our business. Similarly, if one or more

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of our channel partners were to encounter financial difficulties, it could have a material adverse effect on our business. Failure of one or more of our strategic or channel relationships to result in the development and maintenance of a market for our services could harm our business. If we are unable to maintain our relationships or to enter into additional relationships, this could harm our business.

***Failure of VeriSign Affiliates to follow our security and trust practices or to maintain the privacy or security of confidential customer information could have an adverse impact on our revenues and business.***

We have licensed to VeriSign Affiliates our Processing Center platform, which is designed to replicate our own secure data centers and allows the VeriSign Affiliate to offer back-end processing of PKI Services for enterprises in the regions in which the VeriSign Affiliate operates. The VeriSign Processing Center platform provides a VeriSign Affiliate with the knowledge and technology to offer PKI Services similar to those offered by us. It is critical to our business strategy that the facilities and infrastructure used in issuing and marketing digital certificates remain secure and we are perceived by the marketplace to be secure. Although we provide the VeriSign Affiliate with training in security and trust practices, network management and customer service and support, these practices are performed by the VeriSign Affiliate and are outside of our control. Any failure of a VeriSign Affiliate to maintain the privacy or security of confidential customer information could result in negative publicity and therefore adversely affect the market s perception of the security of our services as well as the security of e-commerce and telecommunication over IP networks generally.

***Our VeriSign Identity Protection and VeriSign Trust Seal Services depend in part on the acceptance of our services.***

We are investing in our VeriSign Identity Protection ( VIP ) Services and VeriSign Trust Seal Services, which form a part of Authentication Services, and the future growth of these services depends in part on the commercial success and acceptance, and reliability of our VIP Services and VeriSign Trust Seal Services. Our VIP Services and VeriSign Trust Seal Services will suffer if our target customers do not use our VIP Services and VeriSign Trust Seal Services. Our future financial performance will also depend on the successful development, introduction and customer acceptance of new and enhanced VIP Services and VeriSign Trust Seal Services. We are not certain that our target customers will choose our VIP Services and VeriSign Trust Seal Services or continue to use our VIP Services or VeriSign Trust Seal Services even after adoption.

***Many of our target markets are evolving, and if these markets fail to develop or if our products and services are not widely accepted in these markets, our business could be harmed.***

We target our 3IS segment at the market for trusted and secure e-commerce and communications over IP and other networks. Our Naming Services business is developing managed services in emerging markets that involve naming and directory services other than registry and related infrastructure services. Our Authentication Services business is working to expand our portfolio of business and consumer based authentication solutions through the development of new services that build on or complement current offerings. These emerging markets are rapidly evolving, may never gain wide acceptance and may not grow. Even if these markets grow, our services may not be widely accepted. Accordingly, the demand for our services in these markets is very uncertain. The factors that may affect market acceptance of our services in these markets include the following:

- market acceptance of products and services based upon technologies other than those we use;
- public perception of the security of our technologies and of IP and other networks;
- the introduction and consumer acceptance of new generations of mobile handsets;
- the ability of the Internet infrastructure to accommodate increased levels of usage; and
- government regulations affecting e-commerce and telecommunications over IP networks.

If the market for e-commerce and communications over IP and other networks does not grow or these services are not widely accepted in the market, our business could be materially harmed.

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***We depend on key personnel to manage our business effectively and may not be successful in attracting and retaining such personnel.***

We depend on the performance of our senior management team and other key employees. Our success also depends on our ability to attract, integrate, train, retain and motivate these individuals and additional highly skilled technical and sales and marketing personnel, both in the U.S. and abroad.

All of the members of our senior management team and other key employees are at-will employees and we do not maintain key person life insurance for any of our senior management team members or key employees. The loss of the services of any of our senior management team or other key employees, or failure to attract, integrate, train, retain and motivate additional key employees could harm our business.

***We have anti-takeover protections that may discourage, delay or prevent a change in control that could benefit our stockholders.***

Our amended and restated Certificate of Incorporation and Bylaws contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions include:

- our stockholders may take action only at a duly called meeting and not by written consent;
- special meetings of our stockholders may be called only by the chief executive officer, the president or our Board of Directors, and cannot be called by our stockholders;
- our board must be given advance notice regarding stockholder-sponsored proposals for consideration at annual meetings and for stockholder nominations for the election of directors;
- vacancies on our Board of Directors can be filled until the next annual meeting of stockholders by majority vote of the members of the Corporate Governance and Nominating Committee, or a majority of directors then in office if no such committee exists, or a sole remaining director; and
- our Board of Directors has the ability to designate the terms of and issue new series of preferred stock without stockholder approval.

VeriSign has also adopted a stockholder rights plan that may discourage, delay or prevent a change of control or the acquisition of a substantial block of our common stock and may make any future unsolicited acquisition attempt more difficult. Under the rights plan:

- The rights will generally become exercisable if a person or group acquires 20% or more of VeriSign s outstanding common stock (unless such transaction is approved by our Board of Directors) and thus becomes an acquiring person.
- Each right, when exercisable, will entitle the holder, other than the acquiring person, to acquire shares of VeriSign s common stock at a 50% discount to the then-prevailing market price.
- As a result, the rights plan will cause substantial dilution to a person or group that becomes an acquiring person on terms that our Board of Directors does not believe are in our best interests and those of our stockholders and may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares.

In addition, Section 203 of the General Corporation Law of Delaware prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns or within the last three years has owned 15% or more of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless in the same transaction the interested stockholder acquired 85% ownership of our voting stock (excluding certain shares) or the business combination is approved in a prescribed manner. Section 203 therefore may impact the ability of an acquirer to complete an acquisition of us after a successful tender offer and accordingly could discourage, delay or prevent an acquirer from making an unsolicited offer without the approval of our Board of Directors.

***Changes in, or interpretations of, tax rules and regulations may adversely affect our effective tax rates.***

We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. There are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. Should additional taxes be assessed as a result of an audit or litigation, an adverse effect on our income tax provision and net income in the period or periods for which that determination is made could result.

In February 2010, the U.S. Executive branch announced various legislative proposals that could change the U.S. international tax laws. We are unable to predict whether these and other proposals will be implemented. We have not yet determined whether or the extent to which these proposals will ultimately impact VeriSign.

**Risks relating to the competitive environment in which we operate**

***The business environment is highly competitive and, if we do not compete effectively, we may suffer price reductions, reduced gross margins and loss of market share.***

*General:* Several of our current and potential competitors have longer operating histories and/or significantly greater financial, technical, marketing and other resources than we do and therefore may be able to respond more quickly than we can to new or changing opportunities, technologies, standards and customer requirements. Many of these competitors also have broader and more established distribution channels that may be used to deliver competing products or services directly to customers through bundling or other means. If such competitors were to bundle competing products or services for their customers, the demand for our products and services might be substantially reduced and the ability to distribute our products successfully and the utilization of our services would be substantially diminished.

New technologies and the expansion of existing technologies may increase competitive pressure. We cannot assure you that competing technologies developed by others or the emergence of new industry standards will not adversely affect our competitive position or render our services or technologies noncompetitive or obsolete. In addition, our markets are characterized by announcements of collaborative relationships involving our competitors. The existence or announcement of any such relationships could adversely affect our ability to attract and retain customers. As a result of the foregoing and other factors, we may not be able to compete effectively with current or future competitors, and competitive pressures that we face could materially harm our business.

*Competition in Naming Services:* We face competition in the domain name registry space from other gTLD and ccTLD registries that are competing for the business of entities and individuals that are seeking to establish a Web presence, including registries offering services related to the *.info, .org, .mobi, .biz, .pro, .aero, .museum* and *.coop* gTLDs and registries offering services related to ccTLDs. ICANN currently has registry agreements with 14 registries for the operation of 16 gTLDs. In addition, there are over 240 ccTLD registries. Furthermore, under our agreements with ICANN, we are subject to certain restrictions in the operation of *.com*, *.net* and *.name* on pricing, bundling and use of registrars that do not apply to ccTLDs and therefore may create a competitive disadvantage.

We also face competition from service providers that offer outsourced domain name registration, resolutions and other DNS services to organizations that require a reliable and scalable infrastructure. Among the competitors are Neustar Inc., Afilias Limited and Nominum, Inc.

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In addition, to the extent end-users navigate using search engines as opposed to direct navigation, we may face competition from search engine operators such as Google Inc., Microsoft Corporation, and Yahoo! Inc.

Additional competition to our business may arise from the upcoming introduction of new IDN TLDs and new gTLDs by ICANN. On October 30, 2009, ICANN approved a fast track process for awarding of new IDN TLDs by the first half of 2010. Other new domain extensions (including ones for which we could apply) could become available by the end of 2011. We do not yet know the impact, if any, that these new domain extensions may have on our business. While we may apply for one or more of these new domain extensions, there is no certainty that we will ultimately be successful and even if we are successful in obtaining one or more of these new domain extensions, there is no guarantee that such extensions will be any more successful than the domain name extensions obtained by our competitors.

*Competition in Authentication Services:* Our Business Authentication Services and User Authentication Services are targeted at the rapidly evolving market for Internet security services, including network security, authentication and validation, which enable secure e-commerce and telecommunications over wireline and wireless IP networks. Principal competitors generally fall within one of the following categories: (1) companies such as RSA, the information security division of EMC Corporation, and Entrust, Inc., which offer software applications and related digital certificate products that customers operate themselves; (2) companies such as IdenTrust, Inc. which primarily offer digital certificate and certification authority-related services; (3) companies focused on providing a bundled offering of products and services; and (4) companies offering competing SSL certificate and other security services, including domain name registrars.

The market for Business Authentication Services and User Authentication Services is intensely competitive, subject to rapid change and significantly affected by new product and service introductions and other market activities of industry participants. We also experience competition from a number of smaller companies, and we believe that our primary long-term competitors may not yet have entered the market. Furthermore, AOL Inc. and Microsoft Corporation have introduced software products that enable the issuance and management of digital certificates, and we believe that other companies could introduce similar products. If these or other companies introduce new products or services that compete with our Authentication Services, our business could be materially harmed.

In addition, browser companies that embed our interface technologies or otherwise feature them as a provider of digital certificate products and services in their Web browsers or on their websites could also promote products and services of our competitors or charge us substantial fees for promotions in the future.

***Our inability to react to changes in our industry and successfully introduce new products and services could harm our business.***

The Internet and communications network services industries are characterized by rapid technological change and frequent new product and service announcements which require us continually to improve the performance, features and reliability of our services, particularly in response to competitive offerings. In order to remain competitive and retain our market share, we must continually improve our access technology and software, support the latest transmission technologies, and adapt our products and services to changing market conditions and customer preferences, or launch entirely new products and services in anticipation of market trends. We cannot assure you that we will be able to adapt to these challenges or respond successfully or in a cost effective way to adequately meet them. Our failure to do so would adversely affect our ability to compete and retain customers or market share.

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**Risks related to our business resulting from the completion of our divestiture plan**

***We continue to be responsible for certain liabilities and transition services following the divestiture of certain businesses.***

Under the agreements reached with the buyers of certain businesses divested under the divestiture plan, we remain liable for certain liabilities related to the divested businesses. In addition, we have entered into, and may in the future amend or extend, transition services agreements with buyers in connection with the divestiture of certain businesses. These transition services may be required for a longer period of time than anticipated by management. In addition, we have agreed to perform certain transition services for a fixed price or for fixed hourly rates, but our actual costs to provide such services may exceed the fees buyers are contractually obligated to pay us under the relevant transition services agreements.

There is a possibility that we will incur costs and expenses associated with the management of liabilities related to the businesses we have divested, including requests for indemnification by buyers. These liabilities could potentially relate to (i) breaches of contractual representations and warranties we gave to buyers of the divested businesses, or (ii) certain liabilities relating to the divested businesses which we retained under the agreements reached with buyers of the divested businesses. Such liabilities include certain litigation matters, including actions brought by third parties. Where responsibility for such liabilities is to be contractually allocated to the buyer or shared with the buyer or another party, it is possible that the buyer or the other party may be in default for payments for which they are responsible, obligating us to pay amounts in excess of our agreed-upon share of those obligations.

***Following the divestiture of certain businesses, our ability to compete in certain market sectors is restricted.***

Under the agreements reached with buyers for certain businesses divested under the divestiture plan, we are restricted from competing, either directly or indirectly, with those businesses or from entering certain market sectors for a defined period of time pursuant to negotiated non-compete arrangements.

**Risks related to our securities**

***We have a considerable number of common shares subject to future issuance.***

As of March 31, 2010, we had one billion authorized common shares, of which 182.4 million shares were outstanding. In addition, of our authorized common shares, 27.7 million common shares were reserved for issuance pursuant to outstanding employee stock option and employee stock purchase plans ( Equity Plans ), and 36.4 million shares were reserved for issuance upon conversion of the 3.25% junior subordinated convertible debentures due 2037 (the Convertible Debentures ). As a result, we keep substantial amounts of our common stock available for issuance upon exercise or settlement of equity awards outstanding under our Equity Plans and/or the conversion of Convertible Debentures into our common stock. Issuance of all or a large portion of such shares would be dilutive to existing security holders, could adversely affect the prevailing market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities.

***Our financial condition and results of operations could be adversely affected if we do not effectively manage our liabilities.***

As a result of the sale of the Convertible Debentures, we have a substantial amount of long term debt outstanding. In addition to the Convertible Debentures, we have a credit facility ( Facility ) with a borrowing capacity of $500.0 million. As of March 31, 2010, we had no outstanding borrowings under the Facility and we had utilized $0.9 million of the $50.0 million limit for outstanding letters of credit. The availability of borrowing capacity under the Facility allows us immediate access to working capital if we identify opportunities for the use of this cash. Our maintenance of substantial levels of debt could adversely affect our flexibility to take advantage of corporate opportunities.

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***We may not have the ability to repurchase the Convertible Debentures in cash upon the occurrence of a fundamental change, or to pay cash upon the conversion of Convertible Debentures, as required by the indenture governing the Convertible Debentures.***

Holders of our outstanding Convertible Debentures will have the right to require us to repurchase the Convertible Debentures upon the occurrence of a fundamental change as defined in the Indenture dated as of August 20, 2007 (the Indenture ) between the Company and U.S. Bank National Association, as Trustee. Although we currently intend to settle the principal amount of the Convertible Debentures in cash as required under the Indenture, we may not have sufficient funds to repurchase the Convertible Debentures in cash or have the ability to arrange necessary financing on acceptable terms or at all. In addition, upon conversion of the Convertible Debentures, we will be required to make cash payments to the holders of the Convertible Debentures equal to the lesser of the principal amount of the Convertible Debentures being converted and the conversion value (as defined in the Indenture) of those debentures. Such payments could be significant, and we may not have sufficient funds to make them at such time.

A fundamental change may also constitute an event of default or prepayment under, or result in the acceleration of the maturity of, our then-existing indebtedness. Our ability to repurchase the Convertible Debentures in cash or make any other required payments may be limited by law or the terms of other agreements relating to our indebtedness outstanding at the time. Our failure to repurchase the Convertible Debentures or pay cash in respect of conversions when required would result in an event of default with respect to the Convertible Debentures.

While we currently have the intent and ability to settle the principal in cash, if we conclude that we no longer have the ability, in the future, we will be required to change our accounting policy for earnings per share from the treasury stock method to the if-converted method.

***There may be potential new accounting pronouncements or regulatory rulings which may have an impact on our future financial position and results of operations.***

New accounting pronouncements could, when adopted, require us to implement different accounting methods which could have a material adverse impact on future or past results of operations, which could in turn materially adversely affect the trading price of our common stock.

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**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On August 5, 2008, the Board of Directors authorized the repurchase of up to $680.0 million of our common stock, in addition to the $320.0 million of our common stock remaining available for repurchase under the previous 2006 stock repurchase program, for a total repurchase of up to $1 billion of our common stock (collectively, the 2008 Share Buyback Program ). The 2008 Share Buyback Program has no expiration date. As of March 31, 2010, $646.7 million remained available for further repurchases under the 2008 Share Buyback Program.

The following table presents the stock repurchase activity during the three months ended March 31, 2010:

| | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (2) |
|---|---|---|---|---|
| January 1 31, 2010 | | $ | | $ 697.2 million |
| February 1 28, 2010 | 612,459 | 21.93 | 612,459 | 683.8 million |
| March 1 31, 2010 | 1,500,000 | $ 24.74 | 1,500,000 | $ 646.7 million |
| | 2,112,459 | | 2,112,459 | |

(1) Represents shares repurchased under the 2008 Share Buyback Program.

(2) Represents the remaining amount available for further share repurchases under the 2008 Share Buyback Program.

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**ITEM 6. EXHIBITS**

(a) Index to Exhibits

| Exhibit Number | Exhibit Description |
|---|---|
| 10.01 | Form of Indemnity Agreement entered into by the Registrant with each of its directors and executive officers. |
| 31.01 | Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a). |
| 31.02 | Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a). |
| 32.01 | Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350). * |
| 32.02 | Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350). * |
| 101.INS | XBRL Instance Document ** |
| 101.SCH | XBRL Taxonomy Extension Schema** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase** |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase** |

* As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the SEC and are not incorporated by reference in any filing of VeriSign, Inc. under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.

** Furnished herewith.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | | |
|---|---|---|
| | VeriSign, Inc. | |
| Date: April 28, 2010 | By: | /s/ Mark D. McLaughlin<br>**Mark D. McLaughlin**<br>**Chief Executive Officer**<br>**(Principal Executive Officer)** |
| Date: April 28, 2010 | By: | /s/ Brian G. Robins<br>**Brian G. Robins**<br>**Chief Financial Officer**<br>**(Principal Accounting Officer)** |

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## EXHIBITS

As required under Item 6 Exhibits, the exhibits filed as part of this report are provided in this separate section. The exhibits included in this section are as follows:

| Exhibit Number | Exhibit Description |
|---|---|
| 10.01 | Form of Indemnity Agreement entered into by the Registrant with each of its directors and executive officers. |
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** Furnished herewith.